مصرف الإنماء
alinma bank
إنماء لنا

# Annual Report 2015


بسم الله الرحمن الرحيم

The Custodian of the Two Holy Mosques
**King Salman bin Abdulaziz Al Saud**

**Crown Prince Mohammed bin Naif bin Abdulaziz Al Saud**
Deputy Premier and Minister of Interior

**Deputy Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud**
Second Deputy Premier and Minister of Defense

# Contents

# Greetings

## Greetings

We, at Alinma Bank, begin the 2016 operational year with pride in our record of achievements over the past years; and we look forward to even greater achievements in the years to come. This will be accomplished through the sincere efforts of Alinma staff and their commitment to apply the bank's principles and values in all their dealings with Alinma partners.

We, at Alinma Bank, always strive to achieve the bank's vision "to be your preferred financial partner" and to be the leading bank in providing distinct, Shariah-compliant services through the best working environment and up-to-date technologies.

Thank you, Alinma partners, for your trust. We welcome you to more progress, growth and prosperity 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-UIa 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

# 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 annual report for the fiscal year that ended on December 31, 2015, which highlights the results of key activities of the bank as well as its operational and financial results.

Since its establishment, Alinma Bank has provided its partners with innovative banking services and products; and it continues its successful march to prominence, both locally and regionally, through Shariah-compliant banking.

Alinma Bank achieved positive financial and operational results during the 2015 fiscal year. The bank's net profit rose by 16%, amounting to SAR 1,470 million, an increase of SAR 206 million over the previous year. The financing portfolio in 2015 grew to SAR 56,570 million, compared to SAR 53,637 in 2014, an increase of 5%. Partner deposits rose to SAR 65,542 million at the end of 2015, compared to 59,428 million in 2014, an increase of 10%. The bank's assets increased by 10% and reached SAR 88,725 million, compared to SAR 80,862 million in 2014.

I would like to take this opportunity to extend my thanks and appreciation to my colleagues on the board of directors, the managing director/CEO and Alinma Staff, for their great efforts and contributions to the achievements made in 2015. Teamwork and unity of purpose are key attributes of the bank and the most prominent elements of its success.

Last, but not least, I would like to extend my thanks and appreciation to the Custodian of the Two Holy Mosques, King Salman Ibn Abdulaziz Al Saud; HRH the Crown Prince and Minister of Interior, Prince Mohammed Ibn Naif Ibn Abdulaziz Al Saud; and HRH the Deputy Crown Prince and Minister of Defense, Prince Mohammed Ibn Salman Ibn Abdulaziz Al Saud, for their unfailing support of the economy and, in particular, the banking sector. I also would like to thank the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, the Capital Market Authority and other related authorities for their sincere efforts and their support to the Saudi banking sector and the national economy.

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

# Message from the Managing Director/CEO

During the 2015 fiscal year, Alinma Bank continued upon its path of success and achievement, which included the growth of its partner base and financial indicators, as well as expansion of the branch network and e-channels, which the bank leverages to provide innovative, distinctive, comprehensive products and services such as investment and savings accounts.

For this progress we are grateful; and we thank Alinma's partners and shareholders for their trust, which has always been appreciated and has helped motivate us onwards and upwards in our pursuit of noteworthy accomplishments and the highest service standards.

Among the most important achievements of the 2015 fiscal year, were a number of key agreements concluded by the bank. A partnership agreement was signed with the KAFALA program to support KAFALA-sponsored projects, especially in the SME sector. Alinma also concluded a financing agreement with the Holy Quran Memorization Society in Riyadh, in the form of Musharaka and Ijara vehicles that will enable the organization to fund its endowments in Riyadh and Makkah. Additionally, the bank signed a financing agreement with the Alinma/Jeddah Economic City Fund, which is developing an economic city with the highest tower in the world, with the intent to make the project an urban and economic landmark and a quality addition to the city of Jeddah.

Lastly and perhaps most importantly, Alinma Bank and King Abdullah Economic City (KAEC) entered into an agreement for the financing of KAEC's industrial valley development on the Red Sea coast. KAEC represents one of the most important global models for urban and industrial development and includes one of the ten largest international ports in addition to a transportation network that benefits travel via land routes, sea, air and rail. The project plans to establish some 200 factories in the coming years.

Thanks to our ongoing commitment to excellence, Alinma was fortunate to receive a number of accolades in 2015. The Banker Middle East magazine recognized the bank with awards for Best Debit Card and Fastest Growing Bank in the Kingdom. The latter award was third time in its short history that Alinma was honored for its growth and development through analysis of the quantitative aspects of its financial performance compared to its competitors. Alinma also received the award for Best MENA Petrochemical Project Finance Deal from IJGlobal magazine for its participation in the financing of the Jazan Gas Projects Company. And lastly, but perhaps most importantly, The Banker magazine in London (a Financial Times publication), named Alinma the Islamic Bank of the Year for Saudi Arabia, an accolade that truly reflects Alinma's commitment to excellence.

2015 also saw Alinma's strength and stability reaffirmed by Fitch Ratings, one of the most respected global credit rating agencies, which affirmed the bank's IDR rating at "A-" and upgraded its Viability Rating. Additionally, the Alinma brand was recognized as being among the top 100 brands in Saudi Arabia by Al-Watn newspaper at a special ceremony hosted by HRH Prince Faisal Ibn Bandar Ibn Abdulaziz Al Saud, the Governor of Riyadh. This recognition of the brand was reflective of the bank's financial performance, rapid growth and ability to compete in the marketplace.

2015 was also an important year for Alinma in terms of its ongoing communications with its partners. The bank launched a new marketing campaign under the slogan "We Care" as a way to express the level commitment Alinma has to its partners. Always attempting meet and exceed partner expectations, Alinma used "We Care" to communicate, more fully, the values and principles upon which the bank was established. Alinma will, of course, redouble its efforts in this regard moving forward and will continue to strive to provide partners with only the best, innovative, Shariah-compliant products and services that address their needs and aspirations.

It should also be remembered that Alinma Bank is more than just bank; but also a group of companies that synergistically function to return value and service to its partners. These include Alinma Investment Company, Al Tanweer Real Estate Company, Alinma Agency for Cooperative Insurance, Alinma Tokio Marine insurance company, which provides Takaful insurance services, and Ersal Company, which provides remittance services. Alinma Bank aims to attain a leading position in the banking industry in the Kingdom.

The bank's successes have been achieved with the strong support of the chairman and members of the board of directors, Shariah board members, executive managers and the bank's staff, who have spared no effort in performing their duties and meeting their responsibilities. I thank everyone for their efforts exerted on behalf of Alinma's partners and shareholders. And I would be remiss if I did not thank the government, led by the Custodian of the Two Holy Mosques, King Salman Ibn Abdulaziz Al Saud, HRH the Crown Prince, and HRH the Deputy Crown Prince for their great efforts to serve our country and its economic sectors. We look forward to continued achievement.

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

# Key Accomplishments of 2015

## Alinma Partners: Growth and Confidence

The bank achieved rapid growth in 2015 as indicated by the following:

- The number of partners increased by 33%.
- Retail deposits increased by 10%.
- The number of partners who took out retail financing increased by 35%.
- Total retail financing increased by 5%.
- ATM cards issued rose by 42%.
- Transactions executed through ATMs rose by 33%.
- The number of partners registered with Alinma Phone increased by 321%.
- The number of registered Alinma Internet users increased by 41%.
- Transactions executed via Alinma Internet increased by 34%.
- The number of registered Alinma Mobile users increased by 41%.
- The number of registered Alinma smartphone application users rose by 41% and the number of transactions executed through the application increased by 35%.
- Growth in asset size increased by 10% and the affluent base rose by 52%.

## Branch Network and ATMs: Serving Alinma Partners

Alinma launched several new branches and ATMs in 2015. The number of branches launched amounted to 16 (11 for men and 5 for ladies), an increase of 15%. The number of ATMs rose from 1,022 in 2014 to 1,166 by the end of 2015, an increase of 14%.

### Human Capital: Promising Programs for Staff Development & Measurement

As part of the Alinma Bank Human Capital (HC) Group's ongoing effort to provide training and development to nurture promising talent within the bank, Alinma launch its Wa'ed talent development program this year. Wa'ed focuses on identifying and then supporting talented staff members as they continue along their career trajectory with the bank. The program was an outgrowth of the bank's recently initiated Development Center for managerial staff, which itself was launched in early 2015 and is supervised by dedicated advisory and administrative bodies. The center aids in the implementation of Alinma's performance and talent management policies.

2015 also saw Alinma take other important steps towards developing leadership competencies among staff. In specific, the bank provided for the coaching of 60 Alinma managers through a special international partnership program in the United Kingdom run by specialists with more than 25 years of experience. The program focused on key leadership skills such as listening, critical thinking, and interpersonal communication. It was the goal of the program to improve staff effectiveness and connection. The program included both practical training as well as assessments.

With regard to overall training efforts made by Alinma in 2015, the bank conducted 8,682 training days for a total of 1,803 participants. The training delivered was related to cognitive, behavioral, legal, administrative and information systems competencies. Other courses were also provided on products and services offered by the bank.

### Innovative Solutions and Enhanced Systems Performance and Stability

The bank continued, in 2015, to develop advanced, secure systems as part of its vision to be the preferred financial partner for all. It also improved the performance and availability of current systems in order to accommodate the increased number of branch and ATM operations from the rapidly growing Alinma partner base. This approach positively impacted the achievements made in the following areas:

**Infrastructure and Technical Support:**
Many systems were upgraded in 2015 in order to improve performance and to ensure that the bank continued to reflect the latest technological developments in the banking sector.

**New Systems and Services:**
Many business-related processes were automated in order to ensure transactional accuracy, speed and convenience. Also, several new products and services were developed during 2015, including the "Top Up" product and the "Enterprise Data Warehouse" system, the latter of which provides comprehensiveness and convenience in report generation. This, in turn, improves departmental performance.

**Other systems developed included the following:**
- Support for "non-contact" mada cards
- Support for mada cash-back purchases
- Support for card procurements without a direct connection
- Providing support for ATM and POS operations using the Chinese "Union Pay" system for the first time in the Kingdom Saudi Arabia.

## Striving for Leadership in Serving Corporate Partners

Alinma Bank continued, in 2015, to extend its exemplary array of products and services to its corporate partners. These included current and investment accounts, checking services, trade services, guarantees, documentary credits and collections, deposit/withdrawal/transfer services, domestic 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.

## Retail Banking: Modern Products and Services

During 2015, the Retail Banking group introduced several new products and services in an effort to provide comprehensive banking solutions that enhance partner potential, such as the Savings Account, which gives partners a Shariah-compliant, Mudaraba option for utilizing and increasing savings.

Several services were also launched including the "Top Up" service (which gives partners the option to take out new financing in addition to current financing) and the "Additional Mortgage Financing" program developed in collaboration with the Real Estate Development Fund.

As part of its ongoing effort to ensure a safe and secure banking environment for it partners, Alinma launched a verification service for smart devices that allows partners to execute banking transactions easily and conveniently at any time and in any place around the world through the use of an activation code sent by SMS. This added layer of authentication gives partners peace of mind.

2015 also saw Alinma implement its own credit-rating system in order to assess partner credit worthiness and risk. By doing so, the bank has been able to assess financing requests quicker and more accurately. The system also brings Alinma in line with best international practices with regard to credit risk and assessment.

The bank additionally introduced underwriting and trading services as an extension of existing IPO services, and launched the Alinma Insurance Agency, a wholly owned subsidiary of the bank that provides both savings and protection programs for partners.

## Treasury: Stable Results Despite Extreme Volatility

Due to declining oil prices, 2015 was a highly volatile year for Saudi Arabia, financial speaking, with a declining stock market and rising interest rates. The conservative model adopted internally by the Treasury group, played a significant role in achieving objectives and exploiting available investment opportunities.

Also in 2015, the bank established the Treasury Sales Desk, which focuses on expanding the overall partner base with a commitment to offering better products & services that meet partner needs.

**Seminars and Training Courses for Alinma Partners**

A number of training and marketing courses were held for Alinma partners during 2015 that covered the following topics related to trade operations: documentary credits and guarantees, e-services, cash management, corporate sector products, Shariah-compliance, and Alinma Tokio Marine insurance services.

Alinma's seminars and courses were held in the Central, Western and Eastern regions of the Kingdom and were well attended by Alinma Bank partners.

## Alinma Bank - "We Care"

In 2015, Alinma Bank launched a new, comprehensive marketing campaign under the slogan, "We Care." Designed to be the next phase in the bank's strategic communication plan, "We Care" was chosen as an extension of the bank's earlier "Aspire" campaign in which Alinma focused on rapid expansion, innovation, and unique product and service offerings.

With "We Care," Alinma explores the nature of its relationships with its partners, communicating the bank's commitment to an unparalleled level of attention and respect for partners, as well as an interest in their hopes and aspirations. Like previous campaigns, "We Care" was derived from the values and principles upon which Alinma was founded, and was designed to aid in Alinma's ongoing, unceasing pursuit of its vision – to be your preferred financial partner.

## Alinma Investment: Fruitful Partnership

Alinma Investment Company (Alinma Bank's investment subsidiary) continued to offer its investment services to partners through its exemplary, Shariah-compliant investment funds as well as through its advisory services related to restructuring and acquisition deals.

Major accomplishments in 2015 were numerous.  In the third quarter of the fiscal year, Alinma Investment Company (AIC) launched the Alinma/Jeddah Economic City Real Estate Fund, an entity designed to manage SAR 8.4 billion in assets. The fund was established to facilitate the development of Jeddah Economic City, which will include a 1,000+ meter tower and will cover an area of nearly 5.3 million square meters. The project is expected to be a major driver of business, commerce and tourism in Jeddah.

AIC also successfully launched two other real estate funds with total assets of SAR 260 million. Additionally, the company launched the Alinma IPO Fund, which aims to achieve capital growth over the long term by investing primarily in IPOs of Saudi joint stock companies, rights issues and IPOs of other listed companies.

Lastly, AIC managed the Alinma Tokio Marine rights issue and provided underwriting and arrangement services to a major construction company with a total value of SAR 1,400 million. The company also enhanced its brokerage and trading products for local and GCC markets through the introduction of a Shariah-compliant portfolio financing product (Margin Finance).

## Social Responsibility

Social responsibility is a core feature at all levels of any healthy, cohesive society. Values, principles, customs and traditions all drive a sense of broader communal responsibility, both at individual and organizational levels. Alinma Bank is keenly aware of its responsibility towards Saudi society and works diligently on a number of fronts through various projects and initiatives, to give back to the communities that have made it possible for Alinma achieve success.

**I am Alinma Bank...**

**Community service is my duty:** Alinma employees are part of society and we give everything we can (expertise, information and work) to serve it. We leave a good impression both inside and outside the bank.

**Community aspirations are my objectives:** The success of Alinma Bank hinges on employees delivering best-in-class service and anticipating the needs, wants, goals and aspirations of bank partners.  Towards this end, Alinma staff focus on internalizing community aspirations and adopting those aspirations as their own so that in their delivery of service, they will consistently meet and exceed expectations.

**I am a representative of the bank:** People look at me as a representative of the bank; so it is imperative for the me to exercise and maintain good manners and behavior at all times.

**Alinma Bank Social Programs, Activities and Sponsorships**

Since its establishment, Alinma Bank has strived to play an active role in community service. Below is a summary of some contributions made by the bank:

- **Education Financing**

Alinma Bank was the pioneer in providing its partners with Education Financing, which allows them to pay educational fees in installments without incurring administrative fees or profit margins. This was one of the first services that distinguished Alinma in the market.

- **Participation in Employment and Career Day Exhibitions**

Alinma Bank continues its active participation in numerous employment and career day exhibitions. Of special note have been those held at the following institutions: King Saud University, Institute of Public Administration, Yamama College, King Fahad University for Petroleum and Minerals and Dammam University.

- **National Entrepreneurship Institute (www.riyadah.com.sa)**

Alinma Bank was a founding member of the Riyadah National Entrepreneurship Institute, which provides assistance to Saudis in the SME sector, aiming to address employment needs in the Kingdom.

- **Training**

Alinma Bank has collaborated with a number of Saudi universities to implement the specialized UP TRAINING-CO program. To date, more than 430 students (194 males and 237 females) have availed themselves of this opportunity.

- **Disabled Children's Association**

Alinma Bank has always had a special commitment to the children of the Kingdom, and through its work on behalf of the Disabled Children's Association, the bank is able to work hand in hand with Saudi society to ensure that those most in need of assistance have their needs met.

- **Charitable Society for Orphan Care (Insan)**

As yet another avenue to assist the children and youth of the Kingdom, Alinma Bank has been proud to have Insan on the bank's official list of charities to which partners may generously donate.

- **Banking Awareness Programs**

Alinma Bank has contributed administratively, technically and financially, through its participation in the Banking Information and Awareness Committee, to numerous awareness campaigns related to all aspects of the banking industry. Most recently Alinma participated in the "Check without Balance" awareness campaign in collaboration with the Ministry of Commerce.

- **Services for Sight-Impaired Partners**

As the first bank in the Kingdom to address the special needs of sight-impaired individuals, Alinma has a strong track record in this regard and is proud of its accomplishments and services, which include:

1. The Alinma Internet service (www.alinma.com), which is uniquely and fully accessible to the sight-impaired.
2. Branch ATMs, which use audio cues and special security features (such as the blackened ATM screen) to ensure transactions are accessible.
3. Current accounts, which may be opened by sight-impaired partners without the need to bring a personal reference to the branch.
4. The Alinma smartphone application, which provides sight-impaired partners with ease, convenience and security in the execution of transactions and the accessing of account information and services.

- **"Zed Raseedak" Television Program**

Alinma Bank continued to play a role in promoting banking awareness through its participation in "Zed Raseedak 4," a reality television program that featured a mock-up of an Alinma Bank branch for participants. Bank staff were on hand to assist participants with their banking needs and to answer questions about products and services, especially as they related to the importance of saving and consumer financing.

- **Financing for the Holy Quran Memorization Society**

Alinma Bank signed a SAR 377 million Musharaka/Ijara financing agreement with the Holy Quran Memorization Society in Riyadh to fund the organization's endowments in Riyadh and Makkah.

**Awards & Recognitions**

| Year | Awards/Recognitions |
|---|---|
| 2015 | Islamic Bank of the Year - KSA (The Banker) |
| 2015 | Best Debit Card - KSA (Banker Middle East) |
| 2015 | Fastest Growing Bank – KSA (Banker Middle East) |
| 2015 | Best MENA Petrochemical Project Finance (IJGlobal) |
| 2015 | Top 100 Saudi Brands |
| 2015 | Fitch Ratings - Credit Rating of A- and Viability Rating Upgrade |
| 2015 | Best Islamic Banking Performance (International Conference of Islamic Banks) |
| 2015 | Institute of Finance - 6 Alinma Staff Recognized for Retail Banking Certification Excellence |

# Directors' Report

The Board of Directors of Alinma Bank ("the Bank") is pleased to present the Seventh Annual Report for the year ended December 31, 2015. This report provides information about the Bank's operations, financial results and future plans together with information about the Board of Directors, its committees and other supplementary information designed to meet the needs of users of this report.

## Principal Activities of the Bank

Alinma provides a comprehensive range of Shariah-compliant banking services. It takes care of the needs of its partners and strives to provide the best possible services through (119) locations (69 for men and 50 for women) as of end of 2015, 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 with 1,166 ATMs by end of the year 2015.

## Subsidiaries and Associates

## Alinma Investment Company:

The Company is based in Riyadh which also happens to be its principal place of business. It 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:

The Company is based in Riyadh which also happens to be its principal place of business. It has been formed to facilitate mortgage financing and to hold on behalf of the Bank, the title to real-estate pledged as collateral against financing extended by the Bank. The company's Capital is SAR 100,000 wholly subscribed by the Bank.

## Alinma Insurance Agency for Cooperative Insurance:

The Company is based in Riyadh which also happens to be its principal place of business. The company operates in accordance with the SAMA and the Shariah guidelines and provisions. It acts as an insurance agency for Alinma Tokio Marine (associate company). The Company capital is SAR 3 million wholly subscribed by the Bank.

## Alinma Tokio Marine:

An associate company, based in Riyadh which also happens to be its principal place of business. The company operates under the relevant regulations and the Shariah provisions. The Bank holds 28.75% stake in the company's capital of SAR 450 million.

## ERSAL Financial Remittance Company:

It is a joint venture between Alinma Bank and Saudi Post. The company operates under the relevant regulations from SAMA and the Shariah provisions. The Bank holds 50% stake in the company's capital of SAR 50 million.

## AlBayan Company for Credit Information:

A Saudi Closed Joint Stock Company for which the Bank owns 15% of its total authorized capital of SAR 100 million. The Company's principle operating location is Riyadh – Saudi Arabia. The company is authorized to provide the credit information services, credit ratings and credit consultancies to corporate sector.

## Credit Rating of the Bank

Fitch Rating has reaffirmed the credit rating for Alinma Bank as (A -) with a stable outlook. Such a high rating together with an upgrade in Viability Rating distinguishes Alinma, despite its relatively short operational history.

## Financial Highlights

Financial highlights for the last five years are given below: (SAR Million)

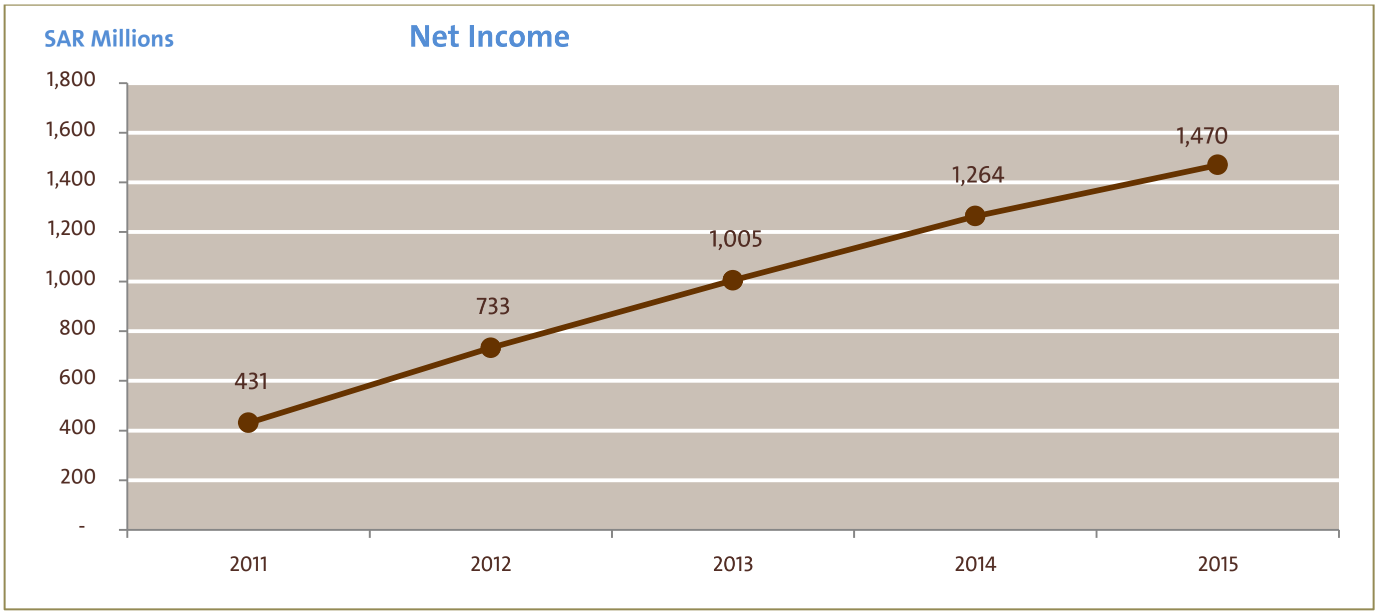
| Financial Position | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Financing, net | **56,570** | 53,637 | 44,924 | 37,187 | 25,260 |
| Investments ( including due from banks and FIs) | **23,483** | 18,354 | 10,372 | 10,968 | 7,431 |
| Total Assets | **88,725** | 80,862 | 63,001 | 54,014 | 36,783 |
| Customers' Deposits | **65,542** | 59,428 | 42,763 | 32,214 | 17,776 |
| Total Liabilities | **70,372** | 62,923 | 46,169 | 37,350 | 20,889 |
| Shareholders' Equity | **18,352** | 17,939 | 16,832 | 16,664 | 15,894 |

(SAR Million)

| Operating Results | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Income from investment and financing activities, net | **2,279** | 2,075 | 1,835 | 1,517 | 1,112 |
| Fee from banking and other services | **784** | 545 | 444 | 309 | 276 |
| Total operating income | **3,063** | 2,620 | 2,279 | 1,826 | 1,388 |
| Total operating expenses | **(1,274)** | (1,185) | (990) | (925) | (832) |
| Net income before provisions | **1,789** | 1,435 | 1,289 | 901 | 556 |
| Provision for financing and other assets | **(308)** | (162) | (274) | (154) | (125) |
| Share of loss from associate | **(11)** | (9) | (10) | (14) | - |
| Net Income | **1,470** | 1,264 | 1,005 | 733 | 431 |

## Operating Results

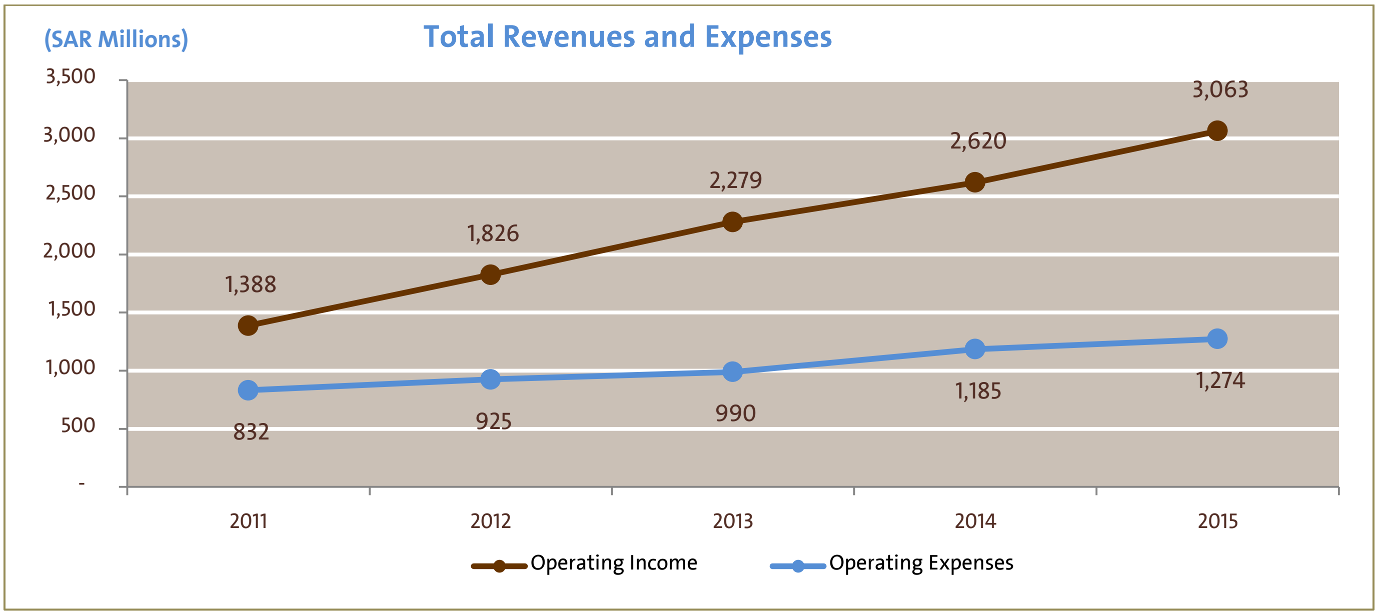
The Bank registered a net income of SAR 1,470 million for the financial year ended December 31, 2015 compared to SAR 1,264 million earned during corresponding period last year .



Total operating income for the year ended December 31, 2015 amounted to SAR 3,063 million compared to SAR 2,620 million last year, reflected a growth of 17%. Income from investment and financing activities during the year 2015 increased to SAR 2,279 million reflecting a growth of 10% over SAR 2,075 million earned last year. The above growth is directly attributable to a significant increase in the core banking activities during the year under review.

On the other hand, the Operating expenses increased by 7.5% to reach SAR 1,274 million compared to SAR 1,185 million for previous year. The Bank also made additional provision against Financing and other assets at SAR 308 million compared to SAR 162 million for the year 2014.

The Bank continued with its strategic expansion plan by adding 11 new locations for men and 5 for women; 144 new ATMs were also installed to reach total 1,166 by December 31, 2015.

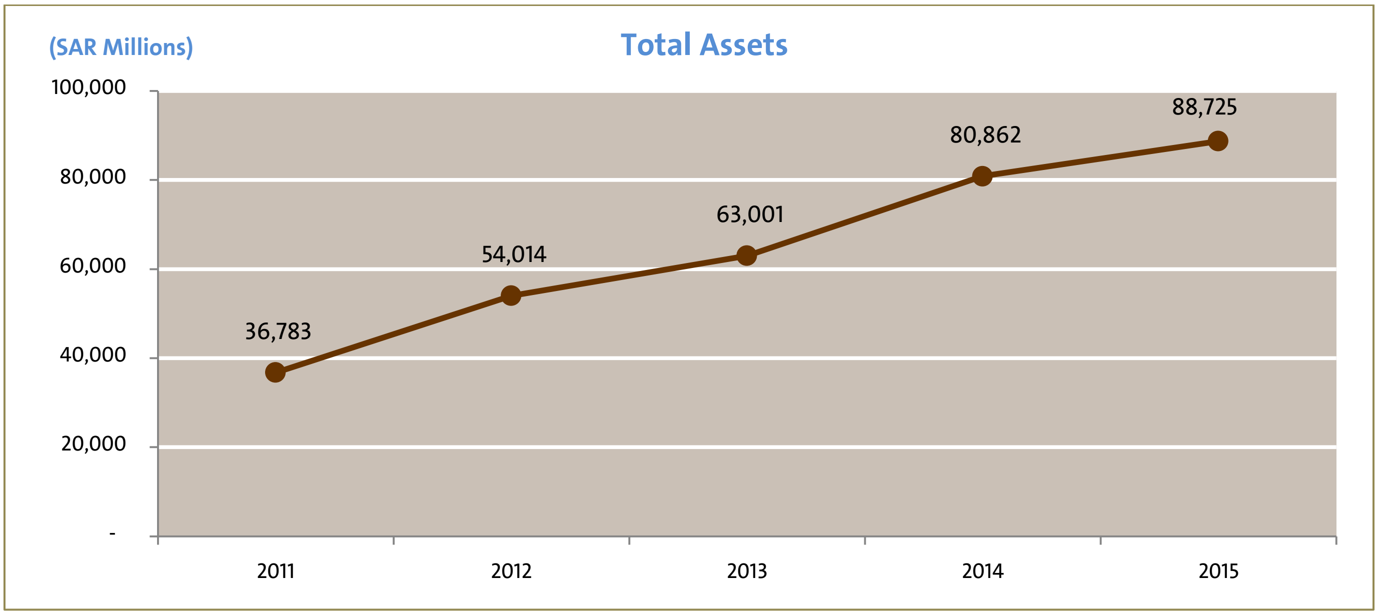


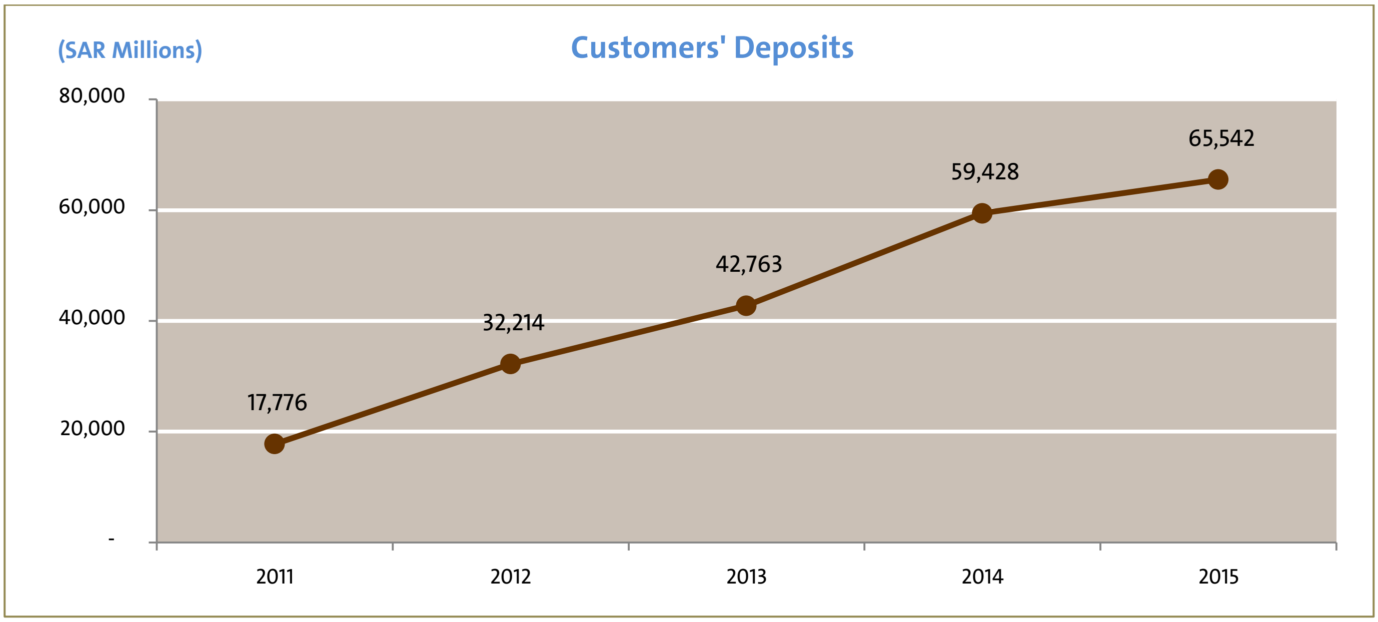

## Earnings per Share

Earnings per share for the year 2015 amounted to SAR 0.99 compared to SAR 0.85 for the year 2014.

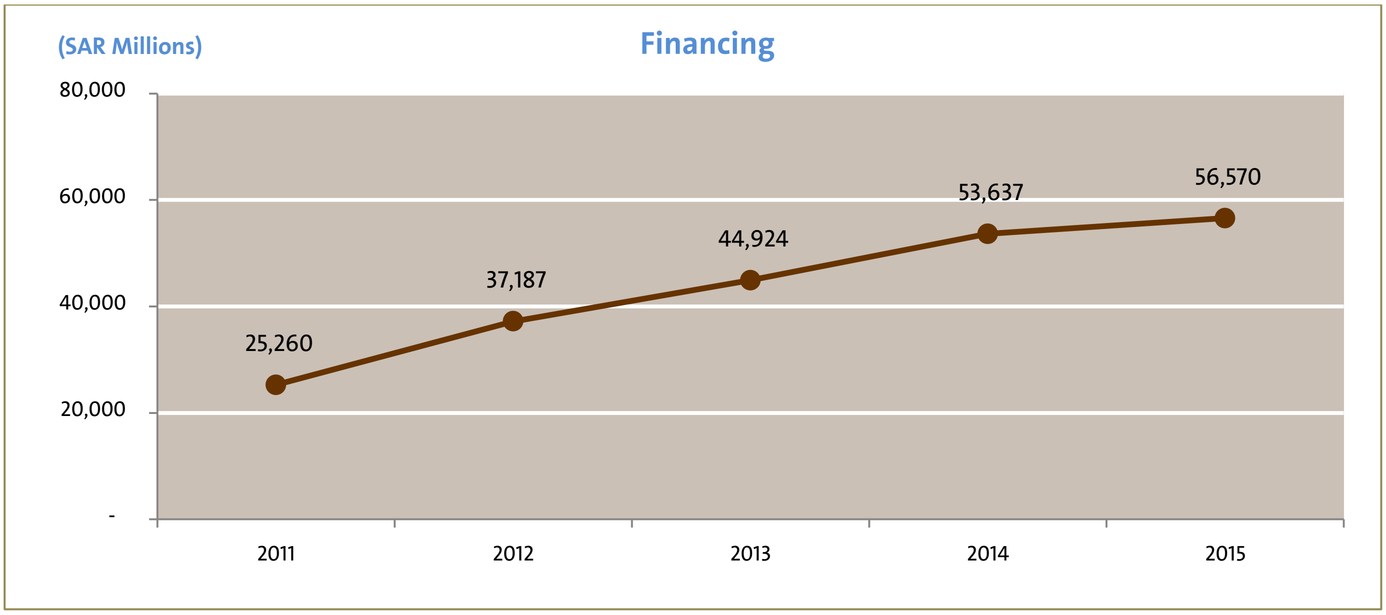
## Financial Position

The bank's assets grew by 10% to SAR 88,725 million as of the year ended Dec 31, 2015 compared to SAR 80,862 million last year. Such growth was mainly attributable to the 10% growth in deposits from SAR 59,428 million at the end of year 2014 to SAR 65,542 million as of December 31, 2015.






On the other hand, the financing portfolio also grew by 5% from SAR 53,637 by end of year 2014 to SAR 56,570 million by December 31, 2015.




## Shareholder's equity and Capital Adequacy

The shareholders' equity stood at SAR 18,352 million at end of year 2015 compared to SAR 17,939 million as at December 31, 2014. With the growth in financing portfolio, the Capital Adequacy ratio slightly diluted to 23% at the end of 2015 compared to 26% at the end of 2014. The Capital Adequacy ratio of Alinma continues to be highest in the industry and has significant edge over the minimum SAMA/Basel requirement of 8%.

## Financial Position by Segments

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

**2015 - (SAR Million)**

| Particulars | Retail | Corporate | Treasury | Investment & Brokerage | Total |
|---|---|---|---|---|---|
| Total Assets | **15,467** | **45,380** | **27,554** | **324** | **88,725** |
| Total Liabilities | **41,941** | **6,656** | **21,736** | **39** | **70,372** |
| Total Operating Income | **1,042** | **1,435** | **453** | **133** | **3,063** |

2014 - (SAR Million)

| Particulars | Retail | Corporate | Treasury | Investment & Brokerage | Total |
|---|---|---|---|---|---|
| Total Assets | 13,551 | 42,999 | 23,428 | 884 | 80,862 |
| Total Liabilities | 37,452 | 6,875 | 17,965 | 631 | 62,923 |
| Total Operating Income | 840 | 1,195 | 496 | 89 | 2,620 |

## 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 five regions, and the following table shows the bank's revenue allocation according to regions:

(SAR Million)

| Total revenue | Western Region | Eastern Region | Northern Region | Southern Region | Central Region | Total |
|---|---|---|---|---|---|---|
| Financial year ended December 31, 2015 | 703 | 302 | 39 | 27 | 1,992 | 3,063 |
| Financial year ended December 31, 2014 | 719 | 240 | 32 | 23 | 1,606 | 2,620 |

## Branches and ATM networks

The Bank during the year 2015 opened 11 locations for men and 5 locations for women, bringing the total number of locations to 69 for men and 50 for women. In addition, the Bank also added 144 new ATMs bringing the total to 1,166 ATMs by end of the year 2015.

## Borrowing by the Bank

Total outstanding funding from banks as of December 31, 2015 amounted to SAR 2,264 million and are maturing maximum by January 11th 2016. The aggregate maximum exposure during the year was SAR 2,781 million. These borrowing represent the short term interbank deposits that are used to manage the day-to-day liquidity management. Neither the Bank nor any of its subsidiaries has loans maturing upon demand.

## 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 | 2015 | 2014 |
|---|---|---|
| | SAR Millions | |
| Net income for the year | **1,470** | 1,264 |
| Transfer to statutory reserve(25% of net income) | **(367)** | (316) |
| Transfer to general reserve | **-** | - |
| Zakat (estimated) | **(271)** | (68) |
| Dividends | **(787)** | (810) |
| Retained earnings-brought forward | **1,268** | 1,198 |
| Retained earnings-carried forward | **1,313** | 1,268 |

## 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 Board has held five (5) meetings during the financial year 2014 as shown in the table below:

| Name | Membership Status | Other Directorship | Meeting Date | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 26/01/2015 | 16/03/2015 | 01/06/2015 | 02/11/2015 | 21/12/2015 | Total |
| Eng. AbdulAziz Abdullah Al-Zamil (Chairman) | Independent | Al-Sahara Company, Sipchem Company , & Al-Zamil Group | √ | √ | √ | √ | √ | 5 |
| Mr. AbdulMohsen Abdul Aziz Al-Fares (Managing Director/CEO) | Executive | NTCC, Deyaar Al Khozama, Alinma Investment Company, Alinma Tokio Marine Company | √ | √ | √ | √ | √ | 5 |
| Dr. Suliman Mohammed Al-Turki | Non- executive | National Water Company* | √ | √ | - | √ | √ | 4 |
| Mr. Saad Ali Al-Kathiry | Non- executive | Saudi Industrial Investment Group | √ | √ | √ | √ | √ | 5 |
| Mr. AbdulMuhsin Abdul Aziz Al-Hussein | Non- executive | - | √ | √ | √ | √ | √ | 5 |
| Dr. Saad Attia Al-Ghamdi | Independent | - | √ | √ | √ | √ | √ | 5 |
| Dr. Ibrahim Fahad Al- Ghufaili | Independent | - | √ | √ | √ | √ | √ | 5 |
| Mr. Hamoud Abdullah Al Twijri | Independent | Tabuk Cement Co<br>Tawuniya Insurance Company<br>Etihad Etisalat Co** | √ | √ | √ | √ | √ | 5 |
| Mr. Mohammed Sulaiman Abanumay | Independent | Malath Cooperative Insurance & Reinsurance Co. | - | √ | √ | √ | - | 3 |

* Membership ended on 01/03/2015

** Membership started on 01/12/2015

## Change in Major Shareholding

Following are the change in the composition of the shareholders holding more than 5% of the shares:

| Shareholder | Beginning of the year | | End of the year | |
|---|---|---|---|---|
| | Number of shares | Ownership % | Number of shares | Ownership % |
| Public Pension Agency | 160,700,000 | 10.71% | 160,700,000 | 10.71% |
| Public Investments Fund | 150,000,000 | 10.00% | 150,000,000 | 10.00% |
| General Organization for Social Insurance | 150,000,000 | 10.00% | 76,500,000 | 5.10% |

## Committees of the Board of Directors

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

## Executive Committee

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

The committee has held ten (10) meetings during the financial year 2015 as shown in the table below:

| Name | Meeting Date | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 09/02/2015 | 24/02/2015 | 09/03/2015 | 13/04/2015 | 25/05/2015 | 01/06/2015 | 29/06/2015 | 14/09/2015 | 30/11/2015 | 21/12/2015 | Total |
| Eng. AbdulAziz Abdullah Al-Zamil (Chairman) | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 10 |
| Mr. AbdulMohsen Abdul Aziz Al-Fares | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 10 |
| Dr. Suliman Mohammed Al-Turki | - | - | √ | - | √ | - | - | √ | √ | √ | 5 |
| Mr. Saad Ali Al-Kathiry | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 10 |
| Mr. Mohammed Sulaiman Abanumay | √ | √ | - | √ | √ | √ | - | √ | √ | - | 7 |

## 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 nominating Board members and ensuring their independence. They are also responsible to formulate policies for benefits and compensation of Board members and senior executives.

Two meetings were held during the financial year 2015, and were attended by members as shown in the table below:

| Name | Meeting Date | | Total |
|---|---|---|---|
| | 09/03/2015 | 15/12/2015 | |
| Mr. Hamoud Abdullah AlTwijri (Chairman) | √ | √ | 2 |
| Mr. AbdulMohsen AbdulAziz Al-Hussain | √ | √ | 2 |
| Dr. Ibrahim Fahad Al-Ghufaili | √ | √ | 2 |
| Mr. Mohammed Sulaiman Abanumay | √ | √ | 2 |

## 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 five (5) meetings during the financial year 2015 as shown in the following table:

| Name | Meeting Date | | | | | Total |
|---|---|---|---|---|---|---|
| | 11/01/2015 | 07/04/2015 | 19/05/2015 | 06/07/2015 | 05/10/2015 | |
| Dr. Saad Attia Al-Ghamdi (Chairman) | √ | √ | √ | √ | √ | 5 |
| Dr. Saud Muhammad Al Nemer * | √ | √ | √ | √ | √ | 5 |
| Mr. Khalid Muhammad Al Obudi * | √ | √ | √ | √ | √ | 5 |

* Not a member of the Board of Directors.

## Risk Management Committee

Risk Management Committee was formed to assist the Board in overseeing the overall risk management process and to discharge such other related responsibilities. The Risk Management Committee is composed of four (4) members. It has held two (2) meeting during the financial year 2015 as shown in the following table:

| Name | Meeting Date | | Total |
|---|---|---|---|
| | 18/02/2015 | 07/12/2015 | |
| Dr. Suliman Mohammed Al-Turki (Chairman) | √ | √ | 2 |
| Mr. AbdulMohsen Abdul Aziz Al-Fares | √ | √ | 2 |
| Dr. Saad Attia Al-Ghamdi | √ | √ | 2 |
| Dr. Ibrahim Fahad Al-Ghufaili | √ | √ | 2 |

## 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 | - | - | 11,691,929 |
| Allowances | 15,000 | 116,000 | 2,393,390 |
| Annual & Periodic remuneration schemes | 300,000 | 2,400,000 | 5,599,057 |
| Incentive Plans | - | - | 1,470,768 |
| 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
- Dr. Yousef Ben Abdullah Al-Shubaily – 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 imposed on Alinma bank during 2015:

By Saudi Arabian Monetary Agency (SAMA) SAR. 5,000

By Municipalities and others SAR. 234,000

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, 2015 amounted to SAR 42 million while the withholding tax payable at the end of financial year 2015 amounted to SAR 325,413.

## Staff Benefits

Benefits and compensation of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2015, the accumulated balance for the end of service benefits amounted to SAR 90 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 in 2014 two types of Share-Based payments programs as detailed in note 31 to 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 | 990,572 | - | 990,572 | - | - | - |
| 2 | Mr. AbdulMohsen AbdulAziz Al-Fares | 400,000 | - | 250,000 | - | (150,000) | (37.5%) |
| 3 | Dr. Suliman Mohammed Al-Turki | 51,145 | - | 51,145 | - | - | - |
| 4 | Mr. Saad Ali Al-Kathiry | 1,290 | - | 1,290 | - | - | - |
| 5 | Dr. Saad Attia Al-Ghamdi | 10,286 | - | 10,143 | - | (143) | (1.39%) |
| 6 | Dr. Ibrahim Fahad Al- Ghufaili | 193,570 | - | 249,707 | - | 56,137 | 29% |
| 7 | Mr. Hamoud Abdullah AlTwijri | 266,000 | - | 267,500 | - | 1,500 | 0.56% |
| 8 | Mr. Mohammed Sulaiman Abanumay | 39,002 | - | 120,859 | - | 81,857 | 209.87% |

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 | - | - | - |
| 2 | Mr. Abdullah Jamaan Al Zahrani * | - | - | 2,859 | - | - | - |
| 3 | Mr. Saad AbdulMohsin AlYaqoub | 276,407 | - | 358,407 | - | 82,000 | 29.66% |
| 4 | Mr. Haidar Ali Rashed ** | 20,000 | - | - | - | - | - |
| 5 | Dr. Mohammed Sultan Alsehali | 1,200 | - | 1,200 | - | - | - |

* Appointment started on 29-08-2015

** Appointment ended on 15-06-2015

## 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.

## Accounting Standards

The 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.

## 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. Proper books of accounts have been maintained as required by law.
3. 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.
4. The system of internal control is sound in design and has been effectively implemented.
5. There are no doubts about the Bank's ability to continue as a going concern.
6. 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 the expansion in the SME Business in addition to the remittance business through ERSAL a joint venture with the Saudi Post company.

## Risk identification and Management:

During normal course of business, the Bank is exposed to various risks. Systems and procedures are in place in Alinma to identify, control and report the major risks that could be encountered by the bank. The major risk types that might be encountered by the bank are as follows:

**Credit risk:**

Credit risk is the risk that counterparty may fail to meet its obligations to the Bank and, therefore, could result in a financial loss for the Bank. The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies and procedures which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, review and approval process, concentration limits in addition to the day to day account management.

**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.

**Liquidity risk:**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity into consideration, maintaining an adequate balance of cash and cash equivalents. The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the liquidity risk of the bank.

Exposure to above described risks is monitored by various committees of directors and other management committees. The Board of Directors has also constituted a Risk Management Committee to assist the Board in overseeing the overall risk management process and to discharge other related responsibilities. A detailed discussion on significant risks and mitigation strategies is included in notes 24 to 29 of the audited consolidated financial statements for 2015.

## Gratitude:

The Board of Directors is pleased to express its pride on the bank's performance during the year 2015 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 Salman bin Abdulaziz Al Saud, to his Royal Highness the Deputy Prime Minister and the Minister of Interior Prince Mohamed Bin Naif Bin Abdulaziz Al Saud and to his Royal Highness the Second Deputy Prime Minister and Minister of Defense Prince Mohamed Bin Salman Bin Abdulaziz 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**

# Internal Control System

Management is responsible for establishing and maintaining an adequate and effective internal control system. An internal control system includes the policies, procedures and processes, which are designed under the supervision of the Board to achieve the strategic objectives of the Bank.

The scope of the Internal Audit department, independent from line management, includes the assessment of the adequacy and the effectiveness of the internal control system across the Bank, as well as to assess compliance with prescribed policies and procedures. All significant and material findings of Internal Audit assessments are reported to the Audit Committee. Bank's internal audit function forms an opinion on the adequacy and effectiveness of the control processes and reports to the Audit Committee and senior management at least once a year. The opinion is based on sufficient audit evidence obtained through completion of audits and, where appropriate, reliance on the work of other assurance providers.

Concerted and integrated efforts are made by all functions of the Bank to improve the Control Environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The compliance function, through centrally automated applications, self-assessment and compliance testing ensures adherence to regulatory requirements and the Bank's internal policies and procedures.

The Bank's Internal controls system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on internal controls.

The Audit Committee also reviews the assessment report on the effectives of the internal control system, as prepared by the Internal Audit Department of the Bank. The report on assessment of Internal controls does not contain material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

Based on the results of the ongoing evaluation of internal controls carried out by Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the management continuously endeavors to enhance and further strengthen the internal control system of the bank. Based on the above, the Board of Directors has duly endorsed Management's evaluation of the internal control system, as prescribed by SAMA.

# Auditors' Report & Financial Statements

KPMG Al Fozan & Partners
Certified Public Accountants

**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, 2015, and 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 is not required to be within the scope of our audit.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia, the Bank's Articles of Association and certain capital adequacy disclosure requirements issued by SAMA. In addition, management is responsible for such internal controls as management determines are 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 the 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 auditors' 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 auditors consider 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.

pwc

KPMG Al Fozan & Partners
Certified Public Accountants

**Independent Auditors' report to the shareholders of**
**Alinma Bank**
**(A Saudi Joint Stock Company) (continued)**

## Opinion

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; 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.

**PricewaterhouseCoopers**
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Mohammed A. Al Obaidi
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Khalil Ibrahim Al Sedais
Certified Public Accountant
Registration No. 371

9 Jumada Al Awwal 1437H
(February 18, 2016)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 1010371622

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION<br>As at December 31, 2015 and 2014 | Notes | 2015<br>SAR'000 | 2014<br>SAR'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Saudi Arabian Monetary Agency | 4 | 5,132,787 | 6,065,881 |
| Due from banks and other financial institutions | 5 | 17,014,688 | 10,317,854 |
| Investments | 6 | 6,468,138 | 8,036,151 |
| Financing, net | 7 | 56,570,051 | 53,636,981 |
| Property and equipment, net | 8 | 1,629,004 | 1,543,578 |
| Other assets | 9 | 1,909,862 | 1,261,414 |
| **TOTAL ASSETS** | | 88,724,530 | 80,861,859 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to banks and other financial institutions | 10 | 2,263,674 | 32,657 |
| Customers' deposits | 11 | 65,541,656 | 59,427,825 |
| Other liabilities | 12 | 2,567,039 | 3,462,145 |
| **TOTAL LIABILITIES** | | 70,372,369 | 62,922,627 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 13 | 15,000,000 | 15,000,000 |
| Statutory reserve | 14 | 1,381,050 | 1,013,556 |
| Fair value reserve for available for sale investments | | (10,477) | (21,094) |
| Other reserves | | 36,450 | 23,006 |
| Retained earnings | | 1,312,702 | 1,268,285 |
| Proposed dividend | 21 | 787,057 | 810,100 |
| Treasury shares | 15 | (154,621) | (154,621) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 18,352,161 | 17,939,232 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 88,724,530 | 80,861,859 |

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

| CONSOLIDATED STATEMENT OF INCOME<br>For the years ended December 31, 2015 and 2014 | Notes | 2015<br>SAR'000 | 2014<br>SAR'000 |
|---|---|---|---|
| Income from investments and financing | 17 | 2,547,138 | 2,285,724 |
| Return on time investments | 17 | (268,452) | (210,776) |
| **Income from investments and financing activities, net** | 17 | 2,278,686 | 2,074,948 |
| Fees from banking services, net | 18 | 620,009 | 396,213 |
| Exchange income, net | | 94,223 | 57,487 |
| Loss from FVIS financial instruments, net | | (17,704) | (3,084) |
| Gain on sale of available for sale investments, net | | 64,890 | 75,152 |
| Dividend income | | 22,172 | 17,531 |
| Other operating income | | 465 | 1,592 |
| **Total operating income** | | 3,062,741 | 2,619,839 |
| Salaries and employee related expenses | 19 | 669,975 | 637,027 |
| Rent and premises related expenses | | 127,841 | 108,492 |
| Depreciation and amortization | 8 | 160,659 | 153,552 |
| Other general and administrative expenses | | 315,625 | 285,866 |
| Charge for impairment of financing | 7.1 | 196,173 | 144,600 |
| Charge for impairment of financial assets | | 111,592 | 17,073 |
| **Total operating expenses** | | 1,581,865 | 1,346,610 |
| **Net operating income** | | 1,480,876 | 1,273,229 |
| Share of loss from associate and joint venture | 6.4,6.5 | (10,900) | (8,798) |
| **Net income for the year** | | 1,469,976 | 1,264,431 |
| **Basic and diluted earnings per share (SAR)** | 20 | 0.99 | 0.85 |

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

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME<br>For the years ended December 31, 2015 and 2014 | **2015**<br>**SAR'000** | 2014<br>SAR'000 |
|---|---|---|
| **Net income for the year** | **1,469,976** | 1,264,431 |
| **Other comprehensive income to be reclassified to consolidated statements of income in subsequent periods:** | | |
| Net change in fair value of available for sale investments | **(19,012)** | (26,804) |
| Net loss/(gain) realized on available for sale investments | **29,629** | (75,152) |
| **Total comprehensive income for the year** | **1,480,593** | 1,162,475 |

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 years ended December 31, 2015 and 2014

SAR'000

| 2015 | Notes | Share capital | Statutory reserve | Fair value reserve for available for sale investments | Other reserves | Retained earnings | Proposed dividend | Treasury shares | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at the beginning of the year** | | **15,000,000** | **1,013,556** | **(21,094)** | **23,006** | **1,268,285** | **810,100** | **(154,621)** | **17,939,232** |
| Net income for the year | | - | - | - | - | 1,469,976 | - | - | 1,469,976 |
| Net change in fair value of available for sale investments | | - | - | (19,012) | - | - | - | - | (19,012) |
| Net amount realized on available for sale investments | | - | - | 29,629 | - | - | - | - | 29,629 |
| Total comprehensive income | | - | - | 10,617 | - | 1,469,976 | - | - | 1,480,593 |
| Transfer to statutory reserve | 14 | - | 367,494 | - | - | (367,494) | - | - | - |
| Transfer to accrued zakat under other liabilities | 21 | - | - | - | - | (271,008) | - | - | (271,008) |
| Proposed dividend | 21 | - | - | - | - | (787,057) | 787,057 | - | - |
| Final dividend paid for 2014 | | - | - | - | - | - | (810,100) | | (810,100) |
| Employee share based plan reserve | 31 | - | - | - | 13,444 | - | - | - | 13,444 |
| **Balance at the end of the year** | | **15,000,000** | **1,381,050** | **(10,477)** | **36,450** | **1,312,702** | **787,057** | **(154,621)** | **18,352,161** |

SAR'000

| 2014 | Notes | Share capital | Statutory reserve | Fair value reserve for available for sale investments | Other reserves | Retained earnings | Proposed dividend | Treasury shares | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at the beginning of the year** | | 15,000,000 | 697,448 | 80,862 | 10,250 | 1,197,992 | - | (154,621) | 16,831,931 |
| Net income for the year | | - | - | - | - | 1,264,431 | - | - | 1,264,431 |
| Net change in fair value of available for sale investments | | - | - | (26,804) | - | - | - | - | (26,804) |
| Net amount realized on available for sale investments | | - | - | (75,152) | - | - | - | - | (75,152) |
| Total comprehensive income | | - | - | (101,956) | - | 1,264,431 | - | - | 1,162,475 |
| Transfer to statutory reserve | 14 | - | 316,108 | - | - | (316,108) | - | - | - |
| Zakat | 21 | - | - | - | - | (67,930) | - | - | (67,930) |
| Proposed dividend | 21 | - | - | - | - | (810,100) | 810,100 | - | - |
| Employee share based plan reserve | 31 | - | - | - | 12,756 | - | | - | 12,756 |
| **Balance at the end of the year** | | **15,000,000** | **1,013,556** | **(21,094)** | **23,006** | **1,268,285** | **810,100** | **(154,621)** | **17,939,232** |

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

| CONSOLIDATED STATEMENT OF CASH FLOWS<br>For the years ended December 31, 2015 and 2014 | Notes | 2015<br>SAR' 000 | 2014<br>SAR' 000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income for the year | | **1,469,976** | 1,264,431 |
| **Adjustments to reconcile net income to net cash from/ (used in) operating activities:** | | | |
| Depreciation and amortization | 8 | **160,659** | 153,552 |
| (Gain) on disposal of property and equipment, net | | **(54)** | (455) |
| Unrealised loss /(gain) from FVSI financial instruments, net | | **18,491** | 1,908 |
| Dividend income | | **(22,172)** | (17,531) |
| Charge for impairment of financing | | **196,173** | 144,600 |
| Charge for impairment of other financial assets | | **111,592** | 17,073 |
| Employees share based plan reserve | 31 | **13,444** | 12,756 |
| Share of loss from associate and joint venture | 6.4,6.5 | **10,900** | 8,798 |
| | | **1,959,009** | 1,585,132 |
| **Net (increase)/decrease in operating assets:** | | | |
| Statutory deposit with SAMA | 4 | **(487,489)** | (721,122) |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | **(4,234,807)** | (1,692,594) |
| Investments | | **1,454,720** | (2,749,346) |
| Financing | | **(3,129,243)** | (8,857,957) |
| Other assets | | **(648,448)** | (762) |
| **Net increase/(decrease) in operating liabilities:** | | | |
| Due to banks and other financial institutions | | **2,231,017** | (168,079) |
| Customers' deposits | | **6,096,758** | 16,648,128 |
| Other liabilities | | **(895,106)** | 256,203 |
| **Net cash from /(used) in operating activities** | | **2,346,411** | 4,299,603 |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of property and equipment | 8 | **(246,149)** | (225,437) |
| Proceeds from disposal of property and equipment | | **118** | 3,674 |
| Dividends received | | **22,172** | 17,531 |
| **Net cash used in investing activities** | | **(223,859)** | (204,232) |
| **FINANCING ACTIVITY** | | | |
| Dividend and zakat Paid | 21 | **(1,081,108)** | (70,000) |
| **Net cash used in financing activity** | | **(1,081,108)** | (70,000) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,041,444** | 4,025,371 |
| Cash and cash equivalents at the beginning of the year | | **10,066,103** | 6,040,732 |
| **Cash and cash equivalents at end of the year** | 22 | **11,107,547** | 10,066,103 |
| Income received from investments and financing | | **2,377,400** | 2,357,735 |
| Return paid on time investments | | **213,815** | 180,357 |
| **Supplemental non-cash information:**<br>Net changes in fair value of available for sale investments | | **(19,013)** | (26,804) |

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). It 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 69 branches (2014: 58) 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 Alinma Bank and its following subsidiaries (the Bank):

| Subsidiary | Bank ownership | Establishment date | Main Activities |
|---|---|---|---|
| Alinma Investment Company | 100% | 07 Jumada II 1430H (corresponding to May 31, 2009) | Asset management, custodianship, advisory, underwriting and brokerage services |
| Al-Tanweer Real Estate Company | 100% | 24 Sha'aban 1430H (corresponding to August 15, 2009) | Formed principally to hold legal title of properties financed by the Bank. |
| Alinma Cooperative Insurance Agency | 100% | 29 Rabi Awaal 1435H (corresponding to January 30,2014) | Insurance agent for Alinma Tokio Marine (an associated company) |

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Shariah, its Articles of Association and within the provisions of laws and regulations applicable to banks in the Kingdom of Saudi Arabia.

### 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 the 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 and presentation

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 statement of income ("FVSI"), available for sale (AFS) investments and employees share based plans.

### c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals ("SAR") which is the Bank's functional currency. Except where 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 valuation of investments (note 3f), impairment of financial assets (3h), actuarial valuation (3s) and assessment of control over investees (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 intention and 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, 2014, except for the adoption of the following relevant new standards and amendments to the existing standards that are applicable to the Bank during 2015:

| Standards and amendments | Effective date | Brief description of changes |
|---|---|---|
| IFRS 2 "Share base payments" | July 01, 2014 | It clarifies the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. |
| IFRS 8 – "Operating segments" | July 01, 2014 | It requires disclosure of judgments made by management in applying aggregation criteria and reconciliation of segment assets to the entities' assets. |
| IFRS 13 "Fair value measurements" | July 01, 2014 | It allows measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32. |
| IAS 16 "Property, plant and equipment" and IAS 38 – "intangible assets": | July 01, 2014 | The amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. |
| IAS 24 – "Related party disclosures" | July 01, 2014 | The definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly. |
| IAS 40 "Investment property" | July 01, 2014 | Clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination. |

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, 2016 (note 36).

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

Subsidiaries are the entities that are controlled by Alinma Bank. Alinma Bank controls an entity when, it has power over the investee entity, 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 granted by equity instruments such as shares

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. The functional currency of all subsidiaries is Saudi Arabian Riyal ("SAR").

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 initially recognized and derecognized on the trade date (i.e. the date on which the Bank becomes a party to the contractual provision of the instrument). 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 currently 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 as and when services are rendered.
Fees and commission expense relate mainly to transaction and service fees, and are expensed as the transaction is completed or the services are received.

### Dividend income

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

### Income / (Loss) from FVSI financial instruments, net

Net income /(loss) from FVSI financial instruments relates to financial assets designated as FVSI 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 as FVSI, available for sale or other investments held at amortized cost. Except for investments held as FVSI, incremental direct transaction cost is also added to the fair value of investment upon initial recognition. Premiums are amortized and discounts accreted using the effective yield basis and charged to consolidated statement of 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 FVSI

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

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

### Available for sale

These are investments neither classified as held to maturity nor designated as FVSI and 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.

### Held to Maturity

Investments having fixed or determinable payments and fixed maturity and the Bank has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis.

### Investments in associates and joint ventures

An associate is an entity where the Bank has 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.
A Joint venture is a joint arrangement whereby the Bank has a joint control and therefore, rights to the net assets of the entity. Investment in joint ventures is accounted for under equity method.

### 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 substantially all risk and rewards of ownership.
All financing are initially measured at fair value including any incremental 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 at an agreed amount or by termination of lease and re-possession 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 event(s) (loss event) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. An assessment for impairment is made on regular basis.

### Impairment of financial assets held at amortised cost

A specific 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 as they fall 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 future 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 and /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 of 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 statement of income under charge for impairment of other financial assets 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 statement of income.

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 consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

## i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. 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 realizable 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, is 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 amounts 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) Financial guarantees

In the ordinary course of business, the Bank issues 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 settling 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 of other financial assets", in the consolidated statement of income.
The premium 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 embodying economic benefit 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 or the asset is transferred and the transfer qualifies for de-recognition.

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 to the extent of its continuing involvement.

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 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 a mutual fund usually depends on the assessment of the aggregate economic interests of the Bank in the fund (comprising its investments, any carried profit and expected management fees) and the investor's 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)

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Cash in hand | 1,612,612 | 1,287,943 |
| Statutory deposit | 3,384,223 | 2,896,734 |
| Cash management account with SAMA | - | 1,734,000 |
| Current accounts | 497 | 221 |
| Others | 135,455 | 146,983 |
| Total | 5,132,787 | 6,065,881 |

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposits 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

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Current accounts | 204,710 | 114,661 |
| Murabahas with banks and other financial institutions | 16,809,978 | 10,203,193 |
| **Total** | 17,014,688 | 10,317,854 |

**5.1** It represents Murabaha and Wakala with banks having sound credit ratings.

## 6. Investments

| | Notes | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|---|
| Murabahas with SAMA (at amortized cost) | | 4,250,000 | 6,000,000 |
| Available for sale investments | 6.1 | 1,920,674 | 1,897,758 |
| Held as FVSI investments | 6.2 | 89,167 | 113,640 |
| Held to maturity investments | 6.3 | 97,568 | - |
| Investment in associate | 6.4 | 87,629 | 24,753 |
| Investment in a joint venture | 6.5 | 23,100 | - |
| **Total** | | 6,468,138 | 8,036,151 |

### 6.1 Available for sale investments

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Sukuks | **1,071,088** | 1,087,086 |
| Equities | **369,997** | 534,937 |
| Others | **479,589** | 275,735 |
| **Total** | **1,920,674** | 1,897,758 |

The above investments are mainly in quoted securities and include investment amounting to SAR 37.7 million (2014: SAR 38.2 million) in funds operating outside the Kingdom of Saudi Arabia. During the year, the Bank recorded an impairment of SAR 94.5 million (2014: Nil) against certain equity investments under charge for impairment of other financial assets.

### 6.2 Held as FVIS investments

These are held for trading investments in quoted equities of domestic market.

### 6.3 Held to maturity investments

This represents a fixed rate short term investment in sukuk with fair value not significantly different from its carrying value.

### 6.4 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 450 million. It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Opening balance | **24,753** | **33,551** |
| Investment during the year | **71,876** | **-** |
| Share of undistributed loss | **(9,000)** | **(8,798)** |
| | **87,629** | **24,753** |

### 6.5 Investment in joint venture

During the year, the Bank has invested SAR 25 million in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company is in startup phase and has been established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of loss for the year is SAR 1.9 million (2014: Nil).

### 6.6 Analysis of investments by type

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Fixed-rate investments | **4,250,000** | 6,000,000 |
| Floating-rate investments | **1,168,655** | 1,087,086 |
| Equities | **454,271** | 648,576 |
| Others | **595,212** | 300,489 |
| **Total** | **6,468,138** | 8,036,151 |

### 6.7 Analysis of investments by counter-parties

| | 2015<br>SAR'000 | 2014<br>SAR'000 |
|---|---|---|
| Government and quasi government | **4,389,129** | 6,234,884 |
| Corporate | **2,079,009** | 1,801,267 |
| **Total** | **6,468,138** | 8,036,151 |

### 6.8 Analysis of investments by credit quality

| | 2015<br>SAR'000 | 2014<br>SAR'000 |
|---|---|---|
| Sovereign exposure | **4,250,000** | 6,000,000 |
| Investment grade | **1,168,655** | 1,087,086 |
| Equities and others | **1,049,483** | 949,065 |
| **Total** | **6,468,138** | 8,036,151 |

Investment grade includes exposures in the range of "substantially credit risk free to very good credit risk quality".

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

| SAR'000 | | | | | |
|---|---|---|---|---|---|
| **2015** | **Performing** | **Non-performing** | **Total** | **Allowance for impairment** | **Net** |
| Retail | **13,064,669** | **334,092** | **13,398,761** | **(221,077)** | **13,177,684** |
| Corporate | **43,827,194** | **94,698** | **43,921,892** | **(47,349)** | **43,874,543** |
| **Total** | **56,891,863** | **428,790** | **57,320,653** | **(268,426)** | **57,052,227** |
| Collective provision | | | | | **(482,176)** |
| **Financing, net** | | | | | **56,570,051** |

| **SAR'000** | | | | | |
|---|---|---|---|---|---|
| 2014 | Performing | Non-performing | Total | Allowance for impairment | Net |
| Retail | 11,907,369 | 238,146 | 12,145,515 | (166,405) | 11,979,110 |
| Corporate | 42,038,020 | 112,174 | 42,150,194 | (112,174) | 42,038,020 |
| **Total** | 53,945,389 | 350,320 | 54,295,709 | (278,579) | 54,017,130 |
| Collective provision | | | | | (380,149) |
| Financing, net | | | | | 53,636,981 |

### 7.1 Movement in allowance for impairment of financing:

| 2015 | SAR'000 | | |
|---|---|---|---|
| | **Retail** | **Corporate** | **Total** |
| Balance at the beginning of the year | **166,405** | **112,174** | **278,579** |
| Provided during the year | **63,532** | **47,349** | **110,881** |
| Bad debts written off | **-** | **(104,299)** | **(104,299)** |
| Recoveries of amounts previously provided | **(8,860)** | **(7,875)** | **(16,735)** |
| Balance at the end of the year | **221,077** | **47,349** | **268,426** |
| Collective provision | **46,863** | **435,313** | **482,176** |
| **Total** | **267,940** | **482,662** | **750,602** |

| 2014 | SAR'000 | | |
|---|---|---|---|
| | Retail | Corporate | Total |
| Balance at the beginning of the year | 129,818 | 55,915 | 185,733 |
| Provided during the year | 38,625 | 56,259 | 94,884 |
| Bad debts written off | (91) | - | (91) |
| Recoveries of amounts previously provided | (1,947) | - | (1,947) |
| Balance at the end of the year | 166,405 | 112,174 | 278,579 |
| Collective provision | 46,863 | 333,286 | 380,149 |
| **Total** | 213,268 | 445,460 | 658,728 |

### 7.2 Credit quality of financing portfolio:

The Bank follows a robust credit evaluation process anchored on strong credit policies, extensive due diligence and credit review/approval process combined with stringent credit administration and limit monitoring.

For the purpose of the internal risk rating, the Bank has implemented the Moody's Risk Analyst Tool (MRA). The MRA 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 (PDs).

The Credit Risk 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. The Bank has reviewed and validated the MRA rating system; and as an outcome, calibrated the score range with rating grades and associated PDs.

Credit risks of the retail portfolio is estimated based on personal credit worthiness scores, and is not subject to the MRA tool rating.

#### 7.2.1 Neither past due nor impaired:

| Bank's internal risk rating scale | Credit risk quality rating definition | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|---|
| 1 - 4 | Investment Grade | **24,119,743** | 23,830,755 |
| 5 - 6 | Below Investment Grade | **19,433,471** | 17,950,459 |
| 7 | Watch list | **-** | - |
| | | **43,553,214** | 41,781,214 |
| | Unrated exposure (Retail) | **13,046,220** | 11,891,999 |
| Total | | **56,599,434** | 53,673,213 |

| | |
|---|---|
| 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):

| **2015** | | | **SAR'000** |
|---|---|---|---|
| | **Retail** | **Corporate** | **Total** |
| From 1 day to 30 days | 11,783 | 191,597 | 203,380 |
| From 31 days to 90 days | 6,666 | 82,383 | 89,049 |
| From 91 days to 180 days | - | - | - |
| More than 180 days | - | - | - |
| **Total** | 18,449 | 273,980 | 292,429 |

| 2014 | | | SAR'000 |
|---|---|---|---|
| | Retail | Corporate | Total |
| From 1 day to 30 days | 9,112 | 237,355 | 246,467 |
| From 31 days to 90 days | 6,258 | 19,451 | 25,709 |
| From 91 days to 180 days | - | - | - |
| More than 180 days | - | - | - |
| **Total** | 15,370 | 256,806 | 272,176 |

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

| **2015** | | | | **SAR'000** |
|---|---|---|---|---|
| | **Performing** | **Non-Performing** | **Allowance for impairment** | **Financing, net** |
| Government and quasi government | **5,932,679** | **-** | **-** | **5,932,679** |
| Manufacturing | **7,151,161** | **-** | **-** | **7,151,161** |
| Electricity, water, gas & health services | **121,410** | **-** | **-** | **121,410** |
| Building, construction and real estate | **12,838,086** | **94,698** | **(47,349)** | **12,885,435** |
| Services | **3,059,086** | **-** | **-** | **3,059,086** |
| Mining | **281,244** | **-** | **-** | **281,244** |
| Agriculture | **260,000** | **-** | **-** | **260,000** |
| Consumer financing | **13,064,669** | **334,092** | **(221,077)** | **13,177,684** |
| Commerce | **7,948,544** | **-** | **-** | **7,948,544** |
| Others | **6,234,984** | **-** | **-** | **6,234,984** |
| | **56,891,863** | **428,790** | **(268,426)** | **57,052,227** |
| **Collective provision** | | | | **(482,176)** |
| **Financing, net** | | | | **56,570,051** |

| 2014 | SAR'000 | | | |
|---|---|---|---|---|
| | Performing | Non-Performing | Allowance for impairment | Financing, net |
| Government and quasi government | 9,657,454 | - | - | 9,657,454 |
| Manufacturing | 5,817,486 | - | - | 5,817,486 |
| Electricity, water, gas & health services | 108,510 | - | - | 108,510 |
| Building, construction and real estate | 15,696,933 | - | - | 15,696,933 |
| Services | 807,494 | - | - | 807,494 |
| Consumer financing | 11,907,369 | 238,146 | (166,405) | 11,979,110 |
| Commerce | 6,242,422 | 112,174 | (112,174) | 6,242,422 |
| Others | 3,707,721 | | | 3,707,721 |
| | 53,945,389 | 350,320 | (278,579) | 54,017,130 |
| **Collective provision** | | | | (380,149) |
| **Financing, net** | | | | 53,636,981 |

### 7.4 Collateral

The Bank, in the ordinary course of business holds collateral as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. The Bank held collateral of SAR 73,590 million (2014: SAR 53,616 million) against its secured financing.

### 7.5 Financing includes Ijarah as follows:

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Less than 1 year | **1,263,165** | 1,356,279 |
| 1 to 5 years | **7,569,033** | 6,825,126 |
| Over 5 years | **19,476,295** | 17,409,870 |
| Gross receivables from Ijarah | **28,308,493** | 25,591,275 |
| Unearned future finance income on Ijarah | **(7,559,847)** | (6,435,237) |
| Specific provision | **(11,425)** | (609) |
| **Net receivables from Ijarah** | **20,737,221** | 19,155,429 |

## 8. Property and equipment, net

| | SAR'000 | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Leasehold improvements | Furniture and equipment | **Total 2015** | Total 2014 |
| **Cost:** | | | | | |
| Balance at beginning of the year | 825,304 | 280,207 | 1,158,307 | 2,263,818 | 2,043,315 |
| Additions | 116,682 | 40,523 | 88,944 | 246,149 | 225,437 |
| Disposals | - | (89) | (1) | (90) | (4,934) |
| **Balance at end of the year** | **941,986** | **320,641** | **1,247,250** | **2,509,877** | **2,263,818** |
| **Accumulated depreciation:** | | | | | |
| Balance at beginning of the year | 32,631 | 107,504 | 580,105 | 720,240 | 568,403 |
| Charge for the year | 10,508 | 28,363 | 121,788 | 160,659 | 153,552 |
| Disposals | - | (26) | - | (26) | (1,715) |
| Balance at end of the year | 43,139 | 135,841 | 701,893 | 880,873 | 720,240 |
| **Net book value as at December 31, 2015** | **898,847** | **184,800** | **545,357** | **1,629,004** | |
| Net book value as at December 31, 2014 | 792,673 | 172,703 | 578,202 | | 1,543,578 |

Property and equipment includes work in progress as at December 31, 2015 amounting to SAR 172 million (2014: SAR 103 million). Furniture and equipment includes information technology related assets as follows:

| | SAR'000 | | |
|---|---|---|---|
| **Information technology related assets:** | **Tangible** | **Intangible** | **Total** |
| Cost | **473,202** | **643,501** | **1,116,703** |
| Accumulated depreciation/amortization | **(253,186)** | **(340,567)** | **(593,753)** |
| **Net book value as at December 31, 2015** | **220,016** | **302,934** | **522,950** |
| Net book value as at December 31, 2014 | 229,991 | 320,489 | 550,480 |

## 9. Other assets

| | Note | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|---|
| Accrued income receivable on: | | | |
| - Due from banks and financial institutions | | **77,396** | 24,159 |
| - Investments | | **20,004** | 18,365 |
| - Financing | | **554,893** | 440,031 |
| Total | | **652,293** | 482,555 |
| Prepaid rental | | **42,251** | 32,283 |
| Advances to suppliers | | **14,130** | 7,947 |
| Other real estate | **9.1** | **255,914** | 80,300 |
| Other prepayments | | **51,467** | 41,026 |
| Others | | **893,807** | 617,303 |
| Total | | **1,909,862** | 1,261,414 |

**9.1.** This represents the properties held for sale which were acquired in settlement of financing due from a customer.

## 10. Due to banks and other financial institutions

| | Note | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|---|
| Cash management account with SAMA | | **11,000** | - |
| Time investments from banks and other financial institutions | **10.1** | **2,213,397** | 29,959 |
| Others | | **39,277** | 2,698 |
| **Total** | | **2,263,674** | **32,657** |

**10.1** It represents Murabaha, Mudaraba and Wakala with banks.

## 11. Customers' deposits

i) Customers' deposits include the following:

| | Note | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|---|
| Demand | | **35,770,209** | 32,013,183 |
| Customers' time investments | **11.1** | **29,109,235** | 26,822,730 |
| Others | **11.2** | **662,212** | 591,912 |
| **Total** | | **65,541,656** | 59,427,825 |

**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:

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Demand | **2,604,774** | 2,339,091 |
| Customers' time investments | **1,678,568** | 4,078,346 |
| Other | **140,824** | 168,574 |
| **Total** | **4,424,166** | 6,586,011 |

## 12. Other liabilities

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Accrued profit payable on: | | |
| - Customers' time investments | **152,868** | 98,641 |
| - Time investments from banks and other financial institutions | **414** | 3 |
| **Total** | **153,282** | 98,644 |
| Accrued expenses | **230,447** | 217,137 |
| Outward drafts payable | **938,265** | 2,333,072 |
| Accounts payable | **173,027** | 221,443 |
| Advance rentals | **746,109** | 559,965 |
| Others | **325,909** | 31,884 |
| **Total** | **2,567,039** | 3,462,145 |

## 13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2014: 1,500 million shares) of SAR 10 each.

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

| | 2015 | 2014 |
|---|---|---|
| | Percentage | |
| Public Pension Agency ("PPA") | 10.71 | 10.71 |
| Public Investment Fund ("PIF") | 10.00 | 10.00 |
| General Organization for Social Insurance ("GOSI") | 5.10 | 10.00 |
| General public and others | 74.19 | 69.29 |
| **Total** | 100 | 100 |

## 14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, 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 367.5 million (2014: SAR 316.1million) 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, 2015 and 2014, there were no significant legal proceedings outstanding against the Bank.

**b) Capital commitments**

As at December 31, 2015, the Bank had capital commitments of SAR 110.3 million (2014: SAR 88.6 million) relating to property and equipment.

**c) Credit related commitments and contingencies**

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

Documentary letters of credit are generally collaterized by the underlying assets to which they relate, and therefore have significantly 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:

| **2015** | | | | | **SAR'000** |
|---|---|---|---|---|---|
| | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
| Letters of credit | **1,345,840** | **783,078** | **51,606** | **-** | **2,180,524** |
| Letters of guarantee | **502,056** | **2,092,343** | **6,789,306** | **35,893** | **9,419,598** |
| Acceptances | **576,505** | **74,861** | **-** | **-** | **651,366** |
| Irrevocable commitments to extend credit | **-** | **566,249** | **-** | **-** | **566,249** |
| **Total** | **2,424,401** | **3,516,531** | **6,840,912** | **35,893** | **12,817,737** |

| 2014 | | | | | SAR'000 |
|---|---|---|---|---|---|
| | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Letters of credit | 892,421 | 605,805 | 22,636 | - | 1,520,862 |
| Letters of guarantee | 471,747 | 1,026,383 | 2,867,323 | 21,579 | 4,387,032 |
| Acceptances | 309,664 | 9,976 | - | - | 319,640 |
| Irrevocable commitments to extend credit | 1,948,122 | - | - | - | 1,948,122 |
| Total | 3,621,954 | 1,642,164 | 2,889,959 | 21,579 | 8,175,656 |

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

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Government and quasi government | **14,958** | 1,901,210 |
| Corporate | **11,507,890** | 5,196,058 |
| Banks and other financial institutions | **1,294,889** | 1,078,388 |
| Total | **12,817,737** | 8,175,656 |

iii) The outstanding unused portion of commitments as at December 31, 2015, which can be revoked unilaterally at any time by the Bank, amounts to SAR 23,950 million (2014: SAR 16,425 million).

**d) Operating lease commitments**

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

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Less than one year | **2,226** | 101 |
| One year to five years | **146,698** | 153,877 |
| Over five years | **260,181** | 212,427 |
| Total | **409,105** | 366,405 |

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

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| **Income from investments and financing:** | | |
| Investments (Murabaha with SAMA) | **26,112** | 29,142 |
| Investments in Sukuk | **21,444** | 21,374 |
| Murabaha with banks and other financial institutions | **96,419** | 46,916 |
| Financing | **2,403,163** | 2,188,292 |
| **Total** | **2,547,138** | 2,285,724 |
| **Return on time investments:** | | |
| Customers' time investments | **(262,111)** | (209,074) |
| Time investments from banks and other financial institutions | **(6,341)** | (1,702) |
| **Total** | **(268,452)** | (210,776) |
| **Income from investments and financing activities, net** | **2,278,686** | 2,074,948 |

## 18. Fees from banking services, net

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| **Income on:** | | |
| Corporate finance and advisory | **231,934** | 157,571 |
| Trade services | **76,219** | 49,196 |
| Card services | **253,585** | 154,352 |
| Fund management and other banking services | **173,168** | 113,242 |
| | **734,906** | 474,361 |
| **Expense on:** | | |
| Card services | **(112,106)** | (74,405) |
| Other fees | **(2,791)** | (3,743) |
| **Fee from banking services, net** | **620,009** | 396,213 |

## 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 | |
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Senior executives requiring SAMA no objections | **15** | 15 | **28,405** | 30,284 | **9,048** | 10,470 | - | - | **9,048** | 10,470 |
| Employees engaged in risk taking activities | **477** | 450 | **155,744** | 135,261 | **35,218** | 22,880 | - | - | **35,218** | 22,880 |
| Employees engaged in control functions | **131** | 114 | **48,530** | 40,328 | **9,779** | 6,389 | - | - | **9,779** | 6,389 |
| Other employees | **1,327** | 1,199 | **287,404** | 256,545 | **54,703** | 31,628 | - | - | **54,703** | 31,628 |
| Outsourcing employees (engaged in risk taking activities) | - | - | - | - | - | - | - | - | - | - |
| | **1,950** | 1,778 | **520,083** | 462,418 | **108,748** | 71,367 | - | - | **108,748** | 71,367 |
| Variable compensation accrued | | | **93,158** | 119,339 | | | | | | |
| Other employee related benefits | | | **56,734** | 55,270 | | | | | | |
| **Total** | **1,950** | 1,778 | **669,975** | 637,027 | **108,748** | 71,367 | - | - | **108,748** | 71,367 |

### 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 (Basic:1,485 million, diluted 1,490 million) shares at the end of the year, after accounting for treasury shares.

## 21. Proposed dividend and zakat

| | **2015 SAR'000** | 2014 SAR'000 | **2015** | **2014** |
|---|---|---|---|---|
| | | | SAR per share | |
| Proposed net of zakat dividend (5%) | **745,033** | 745,148 | **0.50** | 0.50 |
| Estimated zakat for the year | **42,024** | 64,952 | **0.03** | 0.04 |
| Proposed gross dividend | **787,057** | 810,100 | **0.53** | 0.54 |

The Bank has filed its Zakat returns for the years up to and including the financial year 2014 with the Department of Zakat and Income Tax (DZIT). The bank has received Zakat assessment for the year 2009 to 2011 raising additional demands of SAR 271 million. The additional exposure is mainly on account of disallowances of certain assets. The Bank intends to appeal against the above assessments.

The estimated zakat for the year ended December 31, 2015 amounting to SAR 42 million (2014: 64.95 million) has been deducted from the proposed gross dividend for the year.

## 22. Cash and cash equivalents

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

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Cash in hand | **1,612,612** | 1,287,943 |
| Balances with SAMA excluding statutory deposit | **135,952** | 1,881,204 |
| Due from banks and other financial institutions maturing within ninety days of acquisition | **9,358,983** | 6,896,956 |
| **Total** | **11,107,547** | 10,066,103 |

## 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:

| 2015 | | | | | SAR '000 |
|---|---|---|---|---|---|
| | Retail | Corporate | Treasury | Investment & brokerage | Total |
| **Total assets** | **15,466,259** | **45,380,329** | **27,554,100** | **323,842** | **88,724,530** |
| **Total liabilities** | **41,940,849** | **6,656,017** | **21,736,056** | **39,447** | **70,372,369** |
| Income from investments and financing, net | **861,282** | **1,085,253** | **330,683** | **1,468** | **2,278,686** |
| Fees from banking services and other income | **180,423** | **349,763** | **122,186** | **131,683** | **784,055** |
| **Total operating income** | **1,041,705** | **1,435,016** | **452,869** | **133,151** | **3,062,741** |
| Charge for impairment of financing | **55,780** | **140,393** | **-** | **-** | **196,173** |
| Charge for impairment of other financial assets | **-** | **17,074** | **94,519** | **-** | **111,593** |
| Depreciation and amortization | **80,890** | **49,103** | **29,903** | **763** | **160,659** |
| Other operating expenses | **617,261** | **275,554** | **155,357** | **65,268** | **1,113,440** |
| **Total operating expenses** | **753,931** | **482,124** | **279,779** | **66,031** | **1,581,865** |
| **Net operating income** | **287,774** | **952,892** | **173,090** | **67,120** | **1,480,876** |
| Share of loss from associate | **-** | **-** | **(10,900)** | **-** | **(10,900)** |
| **Net income** | **287,774** | **952,892** | **162,190** | **67,120** | **1,469,976** |

| 2014 | | | | | SAR '000 |
|---|---|---|---|---|---|
| | Retail | Corporate | Treasury | Investment & brokerage | Total |
| **Total assets** | 13,550,763 | 42,998,935 | 23,983,126 | 329,035 | 80,861,859 |
| **Total liabilities** | 38,006,617 | 6,874,566 | 17,964,879 | 76,565 | 62,922,627 |
| Income from investments and financing, net | 740,407 | 969,924 | 361,851 | 2,766 | 2,074,948 |
| Fees from banking services and other income | 99,915 | 225,057 | 133,482 | 86,437 | 544,891 |
| **Total operating income** | 840,322 | 1,194,981 | 495,333 | 89,203 | 2,619,839 |
| Charge for impairment of financing | 36,678 | 107,922 | - | - | 144,600 |
| Charge for impairment of other financial assets | - | 17,073 | - | - | 17,073 |
| Depreciation and amortization | 77,104 | 48,767 | 26,681 | 1,000 | 153,552 |
| Other operating expenses | 567,560 | 271,042 | 140,240 | 52,543 | 1,031,385 |
| **Total operating expenses** | 681,342 | 444,804 | 166,921 | 53,543 | 1,346,610 |
| **Net operating income** | 158,980 | 750,177 | 328,412 | 35,660 | 1,273,229 |
| Share of loss from associate | - | - | (8,798) | - | (8,798) |
| **Net income** | 158,980 | 750,177 | 319,614 | 35,660 | 1,264,431 |

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

| 2015 | | | | | SAR '000 |
|---|---|---|---|---|---|
| | Retail | Corporate | Treasury | Investment & brokerage | Total |
| On balance sheet assets | **13,101,711** | **43,441,293** | **26,680,108** | **371,326** | **83,594,438** |
| Commitments and contingencies | **-** | **12,817,737** | **-** | **-** | **12,817,737** |
| **Total** | **13,101,711** | **56,259,030** | **26,680,108** | **371,326** | **96,412,175** |

| 2014 | | | | | SAR '000 |
|---|---|---|---|---|---|
| | Retail | Corporate | Treasury | Investment & brokerage | Total |
| On balance sheet assets | 11,932,247 | 41,704,734 | 17,387,211 | 166,052 | 71,190,244 |
| Commitments and contingencies | - | 8,175,656 | - | - | 8,175,656 |
| **Total** | 11,932,247 | 49,880,390 | 17,387,211 | 166,052 | 79,365,900 |

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 and procedures 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. The Bank has a robust Credit Risk Stress Testing process, used to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

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.

| 2015 | Kingdom of Saudi Arabia | Other GCC and Middle East countries | Europe | Other countries | Total |
|---|---|---|---|---|---|
| | | | | | SAR'000 |
| **Financial assets** | | | | | |
| Cash and balances with SAMA | 5,132,787 | - | - | - | 5,132,787 |
| Due from banks and other financial institutions | 5,375,425 | 10,693,277 | 938,385 | 7,601 | 17,014,688 |
| Investments | 6,430,405 | - | 13,302 | 24,431 | 6,468,138 |
| Financing, net | 56,570,051 | - | - | - | 56,570,051 |
| Other assets | 1,802,014 | - | - | - | 1,802,014 |
| **Total financial assets** | 75,310,682 | 10,693,277 | 951,687 | 32,032 | 86,987,678 |
| **Financial liabilities** | | | | | |
| Due to banks and other financial institutions | 811,000 | 1,413,397 | 211 | 39,066 | 2,263,674 |
| Customers' deposits | 65,541,656 | - | - | - | 65,541,656 |
| Other liabilities | 1,820,930 | - | - | - | 1,820,930 |
| **Total financial liabilities** | 68,173,586 | 1,413,397 | 211 | 39,066 | 69,626,260 |
| **Commitments and contingencies** | 12,817,737 | - | - | - | 12,817,737 |
| **Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies** | 5,910,519 | - | - | - | 5,910,519 |

| 2014 | Kingdom of Saudi Arabia | Other GCC and Middle East countries | Europe | Other countries | Total |
|---|---|---|---|---|---|
| | | | | | SAR'000 |
| **Financial assets** | | | | | |
| Cash and balances with SAMA | 6,065,881 | - | - | - | 6,065,881 |
| Due from banks and other financial institutions | 4,397,903 | 4,443,967 | 1,452,876 | 23,108 | 10,317,854 |
| Investments | 7,997,901 | - | 13,200 | 25,050 | 8,036,151 |
| Financing, net | 53,636,981 | - | - | - | 53,636,981 |
| Other assets | 1,180,158 | - | - | - | 1,180,158 |
| **Total financial assets** | 73,278,824 | 4,443,967 | 1,466,076 | 48,158 | 79,237,025 |
| **Financial liabilities** | | | | | |
| Due to banks and other financial institutions | 2,698 | 29,959 | - | - | 32,657 |
| Customers' deposits | 59,427,825 | - | - | - | 59,427,825 |
| Other liabilities | 2,902,180 | - | - | - | 2,902,180 |
| **Total financial liabilities** | 62,332,703 | 29,959 | - | - | 62,362,662 |
| **Commitments and contingencies** | 8,175,656 | - | - | - | 8,175,656 |
| **Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies** | 3,206,953 | - | - | - | 3,206,953 |

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

| 2015 | | | | | SAR'000 |
|---|---|---|---|---|---|
| | Kingdom of Saudi Arabia | Other GCC and Middle East countries | Europe | Other countries | Total |
| Non performing financing, net | 428,790 | - | - | - | 428,790 |
| Allowances charge for impairment on financing | 750,602 | - | - | - | 750,602 |

| 2014 | | | | | SAR'000 |
|---|---|---|---|---|---|
| | Kingdom of Saudi Arabia | Other GCC and Middle East countries | Europe | Other countries | Total |
| Non performing financing, net | 350,320 | - | - | - | 350,320 |
| Allowances charge for impairment on financing | 658,728 | - | - | - | 658,728 |

## 25. Market risk

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. 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 statement of income.

### ii. Market Risk – Non Trading Book

Market risks on non-trading book mainly arise from profit rate movements and to a minor extent from currency fluctuations. The Bank also faces price risks on 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. The Board has established profit rate gap limits which are regularly monitored by (ALCO). Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

Following table depicts the sensitivity on the Bank's consolidated statement of income or equity due to reasonably possible changes in profit rates, with other variables held constant. The sensitivity is the effect of the assumed changes in profit rates on the net income or equity, based on profit bearing non-trading financial assets and financial liabilities as of the reporting date after taking in to account their respective maturities and re-pricing structure. Due to insignificant foreign currency exposures of profit bearing financial assets and liabilities in banking book, all the banking book exposures are monitored only in reporting currency.

| 2015 | | | Sensitivity of equity | | | | |
|---|---|---|---|---|---|---|---|
| | Increase/decrease in basis points | Sensitivity of net income | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| | **+10** | **17,190** | **(1,407)** | **(12,230)** | **(45,090)** | **(8,057)** | **(66,784)** |
| | **-10** | **(17,190)** | **1,407** | **12,230** | **45,090** | **8,057** | **66,784** |

| 2014 | | | Sensitivity of equity | | | | |
|---|---|---|---|---|---|---|---|
| | Increase/decrease in basis points | Sensitivity of net income | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| | +10 | 19,682 | (2,172) | (7,467) | (38,686) | (9,297) | (57,622) |
| | -10 | (19,682) | 2,172 | 7,467 | 38,686 | 9,297 | 57,622 |

**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 |
|---|---|---|---|---|---|---|
| **2015** | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non-profit bearing | Total |
| **Assets** | | | | | | |
| Cash and balances with SAMA | - | - | - | - | 5,132,787 | 5,132,787 |
| Due from banks and other financial institutions | 12,112,673 | 1,783,050 | 2,914,255 | - | 204,710 | 17,014,688 |
| Investments | 3,750,000 | 597,568 | 1,071,087 | - | 1,049,483 | 6,468,138 |
| Financing, net | 14,053,947 | 23,461,954 | 17,422,351 | 1,631,799 | - | 56,570,051 |
| Property and equipment, net | - | - | - | - | 1,629,004 | 1,629,004 |
| Other assets | - | - | - | - | 1,909,862 | 1,909,862 |
| **Total assets** | 29,916,620 | 25,842,572 | 21,407,693 | 1,631,799 | 9,925,846 | 88,724,530 |
| **Liabilities & shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | 2,213,397 | - | - | - | 50,277 | 2,263,674 |
| Customer deposits | 16,443,279 | 6,275,068 | 6,377,745 | 20,301 | 36,425,263 | 65,541,656 |
| Other liabilities | - | - | - | - | 2,567,039 | 2,567,039 |
| Shareholders' equity | - | - | - | - | 18,352,161 | 18,352,161 |
| **Total liabilities & shareholders' equity** | 18,656,676 | 6,275,068 | 6,377,745 | 20,301 | 57,394,740 | 88,724,530 |
| Yield sensitivity – On statement of financial position | 11,259,944 | 19,567,504 | 15,029,948 | 1,611,497 | (47,468,893) | |
| Yield sensitivity – Off statement of financial position | 2,424,400 | 3,516,531 | 6,840,912 | 35,894 | - | 12,817,737 |
| Total Yield sensitivity gap | 13,684,344 | 23,084,035 | 21,870,860 | 1,647,391 | | |
| **Cumulative yield sensitivity gap** | 13,684,344 | 36,768,379 | 58,639,239 | 60,286,630 | | |

| 2014 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non-profit bearing | Total |
|---|---|---|---|---|---|---|
| | | | | | | SAR'000 |
| **Assets** | | | | | | |
| Cash and balances with SAMA | - | - | - | - | 6,065,881 | 6,065,881 |
| Due from banks and other financial institutions | 8,064,586 | 187,587 | 1,951,020 | - | 114,661 | 10,317,854 |
| Investments | 6,000,000 | - | 1,087,086 | - | 949,065 | 8,036,151 |
| Financing, net | 16,185,304 | 18,823,411 | 16,768,896 | 1,859,370 | - | 53,636,981 |
| Property and equipment, net | - | - | - | - | 1,543,578 | 1,543,578 |
| Other assets | - | - | - | - | 1,261,414 | 1,261,414 |
| **Total assets** | 30,249,890 | 19,010,998 | 19,807,002 | 1,859,370 | 9,934,599 | 80,861,859 |
| **Liabilities & shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | 29,959 | - | - | - | 2,698 | 32,657 |
| Customer deposits | 12,846,356 | 7,064,567 | 6,911,807 | - | 32,605,095 | 59,427,825 |
| Other liabilities | - | - | - | - | 3,462,145 | 3,462,145 |
| Shareholders' equity | - | - | - | - | 17,939,232 | 17,939,232 |
| **Total liabilities & shareholders' equity** | 12,876,315 | 7,064,567 | 6,911,807 | - | 54,009,170 | 80,861,859 |
| Yield sensitivity – On statement of financial position | 17,373,575 | 11,946,431 | 12,895,195 | 1,859,370 | (44,074,571) | |
| Yield sensitivity – Off statement of financial position | 3,621,954 | 1,642,164 | 2,889,959 | 21,579 | - | 8,175,656 |
| Total Yield sensitivity gap | 20,995,529 | 13,588,595 | 15,785,154 | 1,880,949 | | |
| **Cumulative yield sensitivity gap** | 20,995,529 | 34,584,124 | 50,369,278 | 52,250,227 | | |

## b) Currency Risk

Represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Risk Appetite Framework and policies contain limits for 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:

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| **Assets** | | |
| Cash & balances with SAMA | **154,163** | 84,678 |
| Due from banks and other financial institutions | **5,669,653** | 5,397,833 |
| Investments | **37,733** | 38,250 |
| Financing, net | **174,718** | 183,652 |
| Other assets | **35,538** | 19,518 |
| **Total currency risk on assets** | **6,071,805** | 5,723,931 |
| **Liabilities** | | |
| Due to banks and other financial institutions | **900,637** | 30,048 |
| Customers' deposits | **4,424,166** | 6,586,013 |
| Other liabilities | **501,381** | 227,399 |
| **Total currency risk on liabilities** | **5,826,184** | 6,843,460 |

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

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| USD | **(142,307)** | (1,495,403) |
| Euro | **1,509** | 1,539 |
| UAE Dirham | **23,607** | 8,416 |
| BHD | **349,328** | 352,502 |
| QAR | **63** | 1,664 |
| Others | **13,421** | 11,753 |
| **Total** | **245,621** | (1,119,529) |

### c) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities as a result of changes in the levels of equity index and the value of individual stocks.

The effect on the Bank's equity investment held as available for sale due to reasonable possible change in equity index, with all other variables held constant is as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | SAR'000 | | SAR'000 | |
| **Market index-(Tadawul)** | **Increase/ decrease in market prices%** | **Effect on equity** | **Increase/ decrease in market prices%** | **Effect on equity** |
| **Impact of change in market prices** | **±10%** | **± 37,000** | **±10%** | **± 53,492** |

## 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 taking liquidity into consideration, maintaining an adequate balance of cash and cash equivalents. The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the liquidity risk of the Bank.

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, 2015 and 2014 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.

| 2015 | | | | | | SAR'000 |
|---|---|---|---|---|---|---|
| | Within 3 months | 3 months to 12 months | 1 to 5 years | Over 5 years | No fixed maturity | Total |
| **Liabilities** | | | | | | |
| Due to banks and other financial institutions | 2,264,402 | - | - | - | - | 2,264,402 |
| Customers' deposits | 52,924,023 | 6,362,904 | 6,701,053 | - | - | 65,987,980 |
| Other liabilities | - | - | - | - | 2,567,039 | 2,567,039 |
| **Total liabilities** | 55,118,425 | 6,362,904 | 6,701,053 | - | 2,567,039 | 70,819,421 |

| 2014 | | | | | | SAR'000 |
|---|---|---|---|---|---|---|
| | Within 3 months | 3 months to 12 months | 1 to 5 years | Over 5 years | No fixed maturity | Total |
| **Liabilities** | | | | | | |
| Due to banks and other financial institutions | 32,677 | - | - | - | - | 32,677 |
| Customers' deposits | 45,499,359 | 7,136,877 | 7,276,809 | - | - | 59,913,045 |
| Other liabilities | - | - | - | - | 3,462,145 | 3,462,145 |
| **Total liabilities** | 45,532,036 | 7,136,877 | 7,276,809 | - | 3,462,145 | 63,407,867 |

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

The maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date and does not reflects the effective maturities as indicated by the historical experience.

| 2015 | 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 | **5,132,787** | **-** | **-** | **-** | **-** | **5,132,787** |
| Due from banks and other financial institutions | **12,317,384** | **1,783,050** | **2,914,254** | **-** | **-** | **17,014,688** |
| Investments | **3,839,168** | **1,279,850** | **1,230,878** | **-** | **118,242** | **6,468,138** |
| Financing, net | **8,217,841** | **14,379,600** | **21,547,386** | **12,425,224** | **-** | **56,570,051** |
| Property and equipment, net | **-** | **-** | **-** | **-** | **1,629,004** | **1,629,004** |
| Other assets | **-** | **-** | **-** | **-** | **1,909,862** | **1,909,862** |
| **Total** | **29,507,180** | **17,442,500** | **25,692,518** | **12,425,224** | **3,657,108** | **88,724,530** |
| **Liabilities and shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | **2,263,674** | **-** | **-** | **-** | **-** | **2,263,674** |
| Customers' deposits | **52,868,542** | **6,275,068** | **6,377,745** | **20,301** | **-** | **65,541,656** |
| Other liabilities | **-** | **-** | **-** | **-** | **2,567,039** | **2,567,039** |
| Shareholders' equity | **-** | **-** | **-** | **-** | **18,352,161** | **18,352,161** |
| **Total** | **55,132,216** | **6,275,068** | **6,377,745** | **20,301** | **20,919,200** | **88,724,530** |
| Commitments & contingencies | **2,424,400** | **3,516,531** | **6,840,912** | **35,894** | **-** | **12,817,737** |

| 2014 | 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 | 6,065,881 | - | - | - | - | 6,065,881 |
| Due from banks and other financial institutions | 8,179,247 | 187,587 | 1,951,020 | - | - | 10,317,854 |
| Investments | 6,113,639 | 659,987 | 150,671 | 1,087,086 | 24,768 | 8,036,151 |
| Financing, net | 7,279,078 | 12,556,044 | 22,174,369 | 11,627,490 | - | 53,636,981 |
| Property and equipment, net | - | - | - | - | 1,543,578 | 1,543,578 |
| Other assets | - | - | - | - | 1,261,414 | 1,261,414 |
| **Total** | 27,637,845 | 13,403,618 | 24,276,060 | 12,714,576 | 2,829,760 | 80,861,859 |
| Liabilities and shareholders' equity | | | | | | |
| Due to banks and other financial institutions | 32,657 | - | - | - | - | 32,657 |
| Customers' deposits | 45,451,451 | 7,064,567 | 6,911,807 | - | - | 59,427,825 |
| Other liabilities | - | - | - | - | 3,462,145 | 3,462,145 |
| Shareholders' equity | - | - | - | - | 17,939,232 | 17,939,232 |
| **Total** | 45,484,108 | 7,064,567 | 6,911,807 | - | 21,401,377 | 80,861,859 |
| Commitments & contingencies | 3,621,954 | 1,642,164 | 2,889,959 | 21,579 | - | 8,175,656 |

## 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 as a part of 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 through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

## 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 Sharia'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 the Bank's financial condition. The Bank has put in place controls around reputational risk in order to mitigate and avoid such risks. Currently, the Bank measures the reputational risk through a Scorecard based approach, where Risk Management group compiles the results of assessments made by business heads to derive the Bank's overall reputational risk indicators.

## 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:

| 2015 | | | | SAR '000 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held as FVSI | | | | |
| - Equities | 84,274 | - | - | 84,274 |
| - Mutual funds | 4,893 | - | - | 4,893 |
| Financial assets held as 'available for sale' | | | | |
| - Equities | 369,997 | - | - | 369,997 |
| - Mutual funds | 265,826 | - | 213,763 | 479,589 |
| - Sukuks | - | 1,071,088 | - | 1,071,088 |
| **Total** | 724,990 | 1,071,088 | 213,763 | 2,009,841 |

| 2014 | SAR '000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets held as FVSI | | | | |
| - Equities | 112,891 | - | - | 112,891 |
| - Mutual funds | 749 | - | - | 749 |
| Financial assets held as 'available for sale' | | | | |
| - Equities | 534,937 | - | - | 534,937 |
| - Mutual funds | 175,735 | - | 100,000 | 275,735 |
| - Sukuks | - | 1,087,086 | - | 1,087,086 |
| **Total** | 824,312 | 1,087,086 | 100,000 | 2,011,398 |

## 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 | 2,277,887 | 2,788,000 |
| Vesting period | 3 years | 3-5 years |
| Value of shares granted (SAR) | 31,890,418 | 36,662,200 |
| 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 | 0.42 years | 2.25 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 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Beginning of the year | **11.5** | 11.5 | **2,414,288** | 2,580,654 |
| Granted during the year | **-** | - | **-** | - |
| Forfeited | **-** | - | **(136,401)** | (166,366) |
| Exercised/expired | **-** | - | **-** | - |
| End of the year | **11.5** | 11.5 | **2,277,887** | 2,414,288 |
| 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 the consolidated financial statements, in respect of these plans was SAR 13.4 million (2014: 12.8 million).

## 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:**

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| **Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates** | | |
| Financing | **23,572** | 15,026 |
| Customers' deposits | **13,898,863** | 7,881,848 |
| End of service benefit | **12,805** | 11,310 |
| Investments in associates | **110,729** | 24,753 |
| Financing and investments in Mutual funds | **1,404,847** | 1,271,457 |
| Deposits from Mutual funds | **249,004** | 487,240 |

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

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Income on financing | **19,243** | 13,736 |
| Return on time investments | **123,843** | 78,737 |
| Fee from banking services, net | **95,031** | 65,513 |
| Directors' remuneration | **2,896** | 2,798 |

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:**

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Short-term employees benefits | **41,134** | 44,064 |
| End of service benefit | **1,495** | 2,347 |

## 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.

SAMA has issued the framework and guidance for implementation of capital reforms under Basel III, which are effective from January 01, 2013. Accordingly, the risk weighted assets, total capital and related ratios are calculated using Basel III framework.

| Particulars | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Credit Risk Weighted Assets | **76,496,060** | 60,266,168 |
| Operational Risk Weighted Assets | **4,976,034** | 4,203,105 |
| Market Risk Weighted Assets | **655,431** | 5,670,815 |
| **Total Pillar-I Risk Weighted Assets** | **82,127,525** | 70,140,088 |
| Tier I Capital | **18,352,161** | 17,939,232 |
| Tier II Capital | **482,176** | 380,149 |
| **Total Tier I & II Capital** | **18,834,337** | 18,319,381 |
| Capital Adequacy Ratio % | | |
| Tier I ratio | **22%** | 26% |
| Tier I + Tier II ratio | **23%** | 26% |

## 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 14,704 million (2014: SAR 4,216 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, 2015.

| Standard, and amendments | Effective date | Brief description of changes |
|---|---|---|
| IFRS 9 "Financial Instruments" | **January 01, 2018** | 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. It also changes the impairment of financial assets from incurred loss to expected loss model. |
| IFRS 15 " Revenue from contracts with customers | **January 01, 2018** | IFRS 15 is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting and comparability of revenue in the financial statements. |
| Amendments to IFRS 11 "Accounting for acquisitions of interests in joint operations" | **January 01, 2016** | These amendments provide guidance to account for the acquisition of an interest in a joint operation that constitutes a business. |
| Amendments to IAS 16 and IAS 38 | **January 01, 2016** | These amendments provided clarification of acceptable methods of depreciation and amortization |
| Amendments to IFRS 10 and IAS 28 | **January 01, 2016** | It discusses the sale or contribution of assets between an Investor and its Associate or Joint venture. |
| Annual improvements to IFRSs 2012-2014 cycle | **January 01, 2016** | Improvement in various IFRS including certain disclosure initiatives. |

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

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation; however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

## 38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 08 Rabi II, 1437H (corresponding to 18 January, 2016).

# Basel III Pillar 3 - Qualitative Disclosure

**Basel III - Pillar 3 – Qualitative Disclosure**

## 1. Overview

The Pillar 3 Disclosure for financial year ended 31st December 2015 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:

| 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) |
| Alinma Cooperative Insurance Agency | 100% | 29 Rabi Awaal 1435H (corresponding to January 30,2014) |

## 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 ended 31st December 2015. The Qualitative Disclosure Requirements are reported annually.

## 5. Capital Structure

The Paid-up 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, 2015, the shareholders' equity totals SAR 18,352 billion.

### 5.1. Subsidiaries and Associates

**Alinma Investment Company**, a fully owned subsidiary, is capitalized at SAR 250 million;

**Al-Tanweer Real Estate Company**, a fully owned subsidiary, is capitalized at SAR 100,000. Al-Tanweer does not do business for its account. Its main purpose is to facilitate Alinma's mortgage financing and commercial financing backed by real estate collateral;

**Alinma Cooperative Insurance Agency**, a fully owned subsidiary, is capitalized at SAR 3 Million. It is acts as an agent for Alinma Tokio Marine Company;

**Alinma Tokio Marine Company** is an associated company owned with a share capital of 450 Million in which the Bank holds 28.75% ownership (i.e. an investment SAR 129 Million). It operates as an insurance company;

**ERSAL** is a Closed Joint Stock Company equally owned by Alinma Bank and the Saudi Post and is capitalized at SAR 50 Million. It is owned 50% by Alinma Bank and 50% by Saudi Post.

### 5.2. Capital Transferability

There are no restrictions, or other major impediments, on transfer of funds 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 III in relation to the various risk types under Pillar 1:

| Credit Risk | Market Risk | Operational Risk |
|---|---|---|
| The Standardized Approach (TSA) | The Standardized Approach (TSA) | Basic Indicator Approach (BIA) |

The Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2015 is 23 %.

## 7. Capital Management

A strong capital position and a forward looking capital strategy will improve the Bank's long-term stability and improve Alinma's profitability & resiliency to withstand market shocks and stress conditions. The Internal Capital Adequacy Assessment Process (ICAAP) is drawn up annually and aligned Accordingly with the strategic & business plan to ensure that Alinma has enough capital vis-a-vis the material risk facing the Bank.

### 7.1. Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP's main objective is to make sure that there is enough capital vis-à-vis the overall risk profile of the Bank under normal and stressed condition. ICAAP report is submitted to SAMA annually. Similarly, Stress Testing is due semi- annually. On a roll forward basis, the overall capital requirements are revisited quarterly, at the minimum, as part of the various regulatory reports.

#### 7.1.1. Risk Assessment under ICAAP Framework

Under the ICAAP, the following risk types are covered:

- Pillar I - Credit Risk, Market Risk and Operational Risk;
- Pillar II - Residual Pillar I Risks, Profit Rate Risk in Banking Book (PRRBB), Liquidity Risk, Strategic/Reputational risk, Macroeconomic and Business Cycle Risk and Credit Concentration Risk and Sharia Non-Compliance Risk.

#### 7.1.2. Models and Methodology Employed

The Bank is using risk assessment techniques consistent with best industry practice. A combination of quantification and expert judgment is adopted to have comprehensive and balanced results.

#### 7.1.3. Stress Testing

The Bank is performing stress testing to ensure Alinma's resilience under extreme but plausible conditions arising from macroeconomic, strategic, political and business environmental factors, among others.

The potential unfavorable effects of stress scenarios to the institution's risk weighted assets and capital adequacy are modeled accordingly to assess the Bank's resiliency thereof in terms of solvency, liquidity and profitability. Among others, the following are the key risk indicators:

- 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.

## 8. Risk Management

Alinma has following risk management's core principles on accountability, independence, structure and scope.

- The risk management approach of the Bank has three lines of defense namely risk taking units, risk control units and internal audit;
- The risk taking units are responsible for the day-to-day management of risks whereas the risk control units are responsible for setting-up the tools and methodologies for the risk identification, measurement, monitoring, control and testing. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach;
- The Chief Risk Officer (CRO), Chief Credit Officer (CCO), and the Credit Risk Managers (CRM) independently review and approve through the Credit Committee all major credit proposals as per the recommendation of the relevant business units.
- Risk Management Group (RMG) oversees the overall risk profile consistent with the Bank's policies/procedure & risk appetite thresholds;
- Risk management is functionally and organizationally independent to business;
- The Board of Directors (BoD) is overall responsible for the risk management practice of the Bank.

## 9. Risk Appetite Policy

The Risk Appetite Policy covers the Bank's risk taking-capacity, its desired financial position, the strength of its core earnings and the protection of its reputation and brand. The risk appetite is set and approved at the Board's Risk Committee, tracked and monitored at the business units and reported to the management, through the CRO regularly.

## 10. Credit Risk

Credit risk is the potential failure of the counterparty to meet its obligations as per the agreed terms.

The following are the risk taking units:

- Corporate Banking Group (CBG);
- Retail Banking Group (RBG);
- Treasury Group (TG).

#### 10.1. Management of Credit Risk

Credit risk arises when the counterparty fails to fulfill his contractual obligation with the Bank. Towards this end, the Bank is performing robust due diligence for all its customers using internal rating system to determine the Obligor Risk Rating (ORR) to assess the obligor's probability of default. Ratings by the major credit rating agencies are also considered, if available.

Through the Credit Risk Officers (CrRO) , the CCO and the CRO, the Credit risk is controlled through continuous monitoring and assessment of the obligor or counterparty's ability to meet obligations customer's visits and regular review of their financial position and business status. The credit process seeks to identify early warning indicators as preventive measures. Credit limits are set to control the obligor's exposure in terms of type of transaction, tenor, repayments. Collaterals are also required as additional protection.

The Bank controls concentrations in the portfolio mix in terms of economic activity, geography, collateral or products. Alinma diversifies the portfolio through customer acquisition across economic sectors, diversifying the type of financing in terms of the short term working capital financing and the typically booking longer term fixed capital expenditure and project financing needs of its clients. Obligors and Sector Concentrations are being monitored by the RMG as well as the funding concentrations (Large Fund Providers) in the Treasury. Among others, the following types of concentrations are monitored regularly:

- 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 regularly revise its credit polices to align with the actual economic, market and legal landscape.

The Bank has adopted the Standardized Approach (TSA) for the calculation of the "Credit Risk" capital charge under Pillar 1.

#### 10.2. 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 CCO, the CRO, the Heads of the Business Units, the Chief Finance Officer (CFO) and by the CEO.

## 11. Market Risk

Market risk is the risk that the probability 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.

#### 11.1. Management of Market Risk

Market risks are influenced by various factors including market volatility, business direction, Macroeconomic factors. This is being controlled by setting market risk's limits and implementing risk policies along the regulatory requirements, Sharia guidelines and statutory regulations. The Market Risk Management Team under the RMG is independently monitoring the market risk exposure of the Bank and preparing a regular report to Asset and Liability Management Committee (ALCO), through the CRO.

ALCO is responsible for monitoring the market risk exposure through the approved Risk Appetite and Treasury Risk Policies. The objective is to manage volatility in earnings, control the liquidity risk at the Bank level with reporting to the Senior Management, ALCO, Board's Risk Committee (RiskCom), Executive Committee (ExCom), BoD and the local regulators.

#### 11.1.1. 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.

#### 11.1.2. Equity Price Risk

The Bank is using the Value-at-Risk (VAR) methodology in monitoring Equity Price Risk for trading portfolio. For Investments in local equities, the VAR tolerance of 10% of the value of Investments calculated using Monte Carlo Simulation at 99% confidence level for a 2 weeks horizon. There are also limits set for the overall portfolio losses and holdings of international, regional and locally traded equities.

The Bank computes the minimum capital requirements for market risk using the Standardized Approach. Similarly, capital charge is also calculated for Equity price risk (trading book), foreign currency risk.

## 12. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Almost the entire bank operations carry the Operational Risk with varying severity.

The Bank has an independent Operational Risk Team under Risk Management Group monitoring and controlling the Operational Risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. In addition, the Bank has implemented Business Continuity and Disaster Recovery program.

#### 12.1. Management of Operational Risk

The 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 has 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 Bank has adopted the Basic Indicator Approach (BIA) for the calculation of "Operational Risk" regulatory capital charge.

## 13. Sharia'h Non-compliance Risk

In order to monitor such risks the Bank has established an independent Sharia Board and a Sharia Compliance Audit Unit under Sharia'h Group.

#### 13.1. Management of Sharia'h Risk

#### 13.1.1. Sharia'h Governance

The Sharia'h Compliance Framework was formulated to enable Alinma Bank to communicate its strategies towards the effective and efficient Sharia compliance risk management throughout the organization in line with the Sharia principles. The Sharia governance is affected through the following functions:

- Sharia Review;
- Sharia Advisory & Research;
- Sharia Audit.

#### 13.1.2. Sharia Board

The operation of the Islamic Bank is governed by Sharia'h Board 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 matters in its business operations;
- Endorse Sharia Compliance Manual and Framework;
- Endorse and validate relevant documentations;
- Advise the Bank on the computation and distribution of Zakat;
- Assist related parties on Sharia matters;
- Provide written Sharia opinion.

#### 13.2. Rectification Process of Sharia 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.

The Bank is using a Scorecard based methodology to assess Sharia'h Governance standards vis-a-vis best industry practice.

## 14. 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).

#### 14.1. Management of Liquidity Risk

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).

The Bank estimates the Liquidity Risk based on the results of LCR and NSFR and the standard SAMA Liquidity Ratio.

## 15. 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.

The Bank is using Economic Value of Equity (EVE) methodology to assess the Profit-Rate-Risk in the Banking Book (PRRBB), whereby an aggressive 2% increase/decrease of Profit Rate Risk is applied across the profit risk yield curve to measure the impact on the Bank's equity position resulting from changes of the values of all profit rate sensitive assets and liabilities.

## 16. 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.

## 17. Strategic and Reputational Risk

Strategic risk refers to the threat 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. On the other hand, Reputational risk refers to the potential adverse effects, which can arise from the Bank's reputation being damaged due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity and etc.

The Bank is using a scorecard methodology to assess the Strategic and Reputational risk vis-à-vis various relevant factors.

## 18. Risk Based Compensation

The Bank has established a Risk-based compensation framework to align the salary and bonuses of employee's vis-à-vis their risk taking activities. The core of the implementation is in the performance objective setting and appraisal process at the entity, business group and individual staff's level. The purpose of this effort is to balance the risk vs. reward in pursuing the strategic and business objective and embed risk management into the day-to-day operations of the Bank. The delivery of bonuses has been aligned to the time horizon of value at risk undertaken or controlled. The vesting of deferred bonuses is compliant with SAMA's rules on compensation. The following are the employee categorization arranged by criticality of risk activities:

- Senior Executives requiring SAMA no objection - These employees are Group Heads having authority and responsibility for planning, directing and controlling the activities of the Group;
- Employees engaged in risk taking activities - These employees sit within business areas / divisions / subsidiaries engaged in risk taking activities (Retail Banking, Corporate, Treasury, selected subsidiary departments). They are officers who have direct responsibility and are the key drivers in undertaking business transactions and managing business risks. Such officers may be undertaking these risks on an individual basis or overseeing a group of employees undertaking such risks;
- Employees engaged in control functions - Such employees are defined as undertaking a role through which they support the business groups by providing financial and risk control and compliance oversight. Such functions include Finance (financial control), Risk Management, Legal, Compliance, Sharia'h Compliance, and Internal Audit;
- Other employees - These are all other full time staff not deemed to be 'senior executives requiring SAMA no objection' or 'employees engaged in risk taking activities'
- Outsourced Employees/Service providers engaged in risk taking activities - These employees are outsourced by business areas/divisions/subsidiaries engaged in risk taking activities (Retail Banking, Corporate, Treasury, selected subsidiary departments). Such employees may either be deemed individual risk takers or sitting within a collective group of risk takers.

# 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 |
| 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 | Western Swaide Dist. | Western Ring Road Exit 27 |
| King khaled Airport | King khaled Airport | King khaled Airport - domestic arrival terminal |
| Al Deerah | Al Deerah district | Al Imam Mohammed bin Saud bin Moqren St. |
| Al Morouj (Gentlemen and Ladies) | Al Morouj | Imam Saud Bin AbdulAziz Bin Mohammad |
| Al Yarmouk | Al Yarmouk | Imam Abdullah Bin Saud Bin Abdulaziz |
| Prince Mohammad bin AbdulAziz Hospital (Gentlemen and Ladies) | Al Rawabi | Inside Prince Mohammad Hospital |
| Sales Center | Al Mohamdiyyah | Takhassusi |
| Exchange Center - Inside King Khalid Airport | King khaled Airport | Departure Terminal - International Flights |

## Dariyyah

| Branch | Area | Street |
|---|---|---|
| Dariyyah | Al Khaldiya | King Abdulaziz |

## Kharj

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

## Zulfi

| Branch | Area | Street |
|---|---|---|
| Zulfi (Gentlemen & Ladies) | Khaldia | King Fahad Roed |

# Alinma Bank Branches

## Al Dawadmi

| Branch | Area | Street |
|---|---|---|
| Al Dawadmi Branch | Al Haramain dest. | King Abdulaziz Road |

## Makkah

| Branch | Area | Street |
|---|---|---|
| Makkah (Gentlemen & Ladies) | Al Aziziyyah | Al Aziziyyah - Al-Aql Tower |
| Al Shawqia Branch (Gentlemen & Ladies) | Al Shawqia dest. | Ibraheem AlKhaleel street |

## 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 |
| Aziziah Branch | Aziziah Dist | Al Madinah Al Munawarah Road |
| Al Rehab Branch | Al Rehab Dest. | Palastine Road |

## 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 |
| Al Defa Branch (Gentlemen & Ladies) | Al Defa Dest. | Alimam Albukhari Street |
| Prince Mohammed bin Abdulaziz Airport branch (Gentlemen & Ladies) | Inside Prince Mohammad Bin Abdulaziz Airport in Medina | between arrival Hall and departure lounge |

## 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 |
| Al Thoqba | Al Thoqba | Makkah AlMokarramah street |

## Dhahran

| Branch | Area | Street |
|---|---|---|
| Doha Branch | Doha District | Abdullah bin Abbas intersection with Prince Sultan District |

## 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 |

## Al Ahsa

| Branch | Area | Street |
|---|---|---|
| Mubarraz (Gentlemen & Ladies) | Al Khars | King Fahad |
| Hofouf | Al Souq | King Abdulaziz |
| Al Rodah Branch | AlRodha Dest. | Al Khaleeg Road |

## 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 |

## 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 |

## Najran

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

## Jazan

| Branch | Area | Street |
|---|---|---|
| Al Shati Branch | AlShati Dist. | AlImam Mohammed ben Abdulaziz Road |

### Hail

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

### Tabouk

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

### Sikaka

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

### Arara

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

## Alinma ATMs

The bank has a kingdom-wide network of more than 1,166 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.

800 120 8000
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alinmabankSA

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