بسم الله الرحمن الرحيم

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

HRH Prince Sultan Ibn Abdulaziz Al Saud
Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General

HRH Prince Naif Ibn Abdulaziz Al Saud
Second Deputy Prime Minister and Minister of Interior

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Greetings

Greetings

As Alinma Bank begins a new operational year, we look to the future with optimism and ambition, having achieved so much during our establishment phase and first year of operation. Within this short period of time, Alinma has become an important pillar of the Saudi banking sector.

Alinma Bank has taken strident steps in delivering on its mission, vision and values in all aspects of its dealings with its partners, and in doing so, has made notable growth over this short period of time possible.

Alinma Bank begins its second operational year with the aim of delivering even greater excellence and creativity and gaining the confidence of its partners by providing them with the best, Shariah-compliant, financial solutions that leverage the best in contemporary banking technology.

We welcome you to further progress, growth and prosperity with your bank: Alinma Bank.

Vision Mission Values

The Bank's Vision

To be your preferred financial partner.

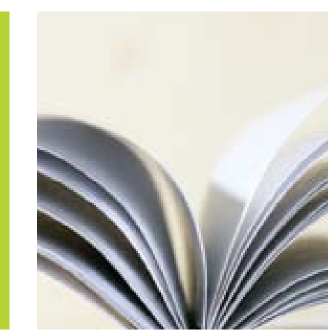
The Bank's Mission

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 Bank employees should commit:

Honesty



Striving to Lead

Serving Customers

Strengthening Relationships

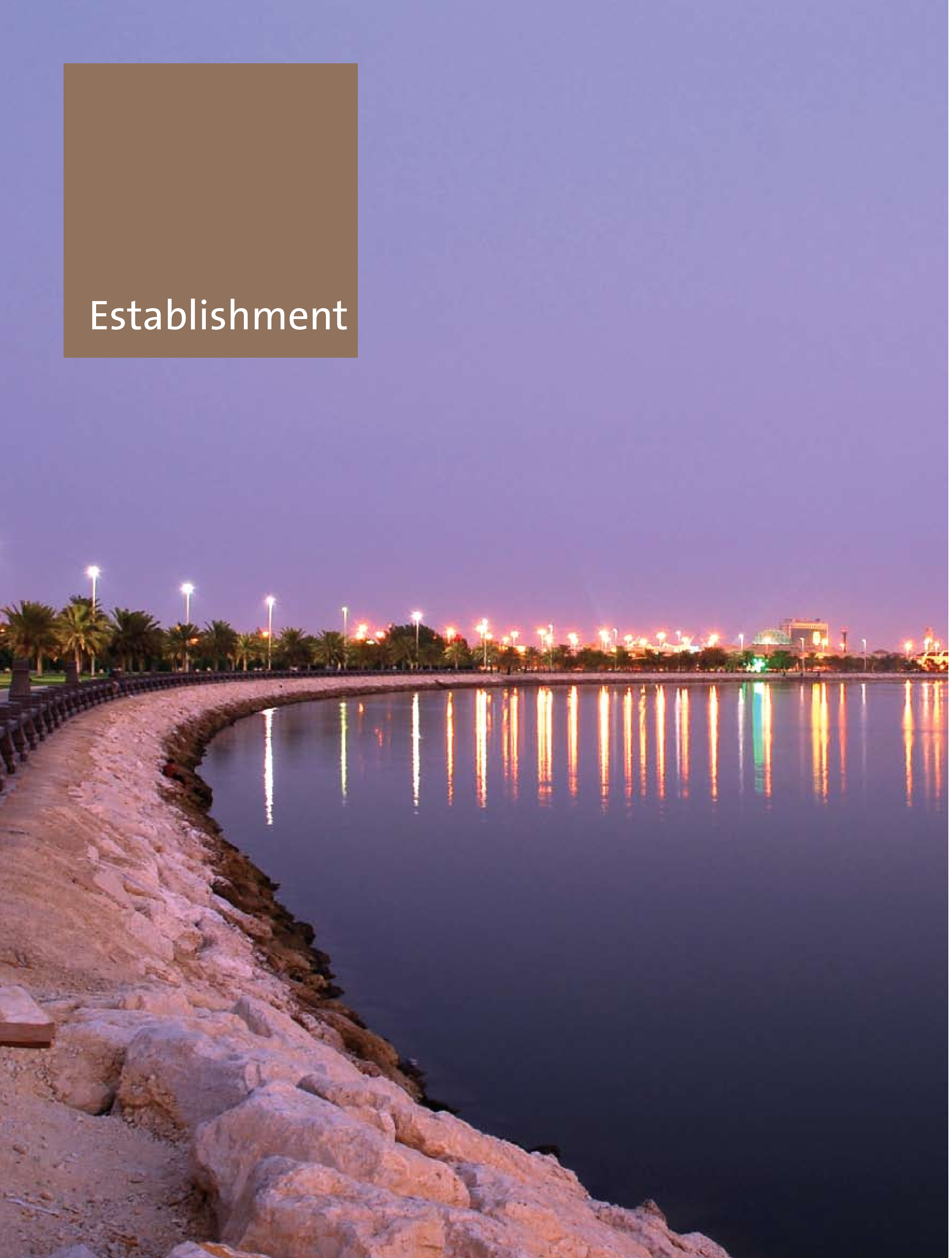
Respect for All

Innovation

Taking Initiative

Serving the Community

Establishment



Establishment

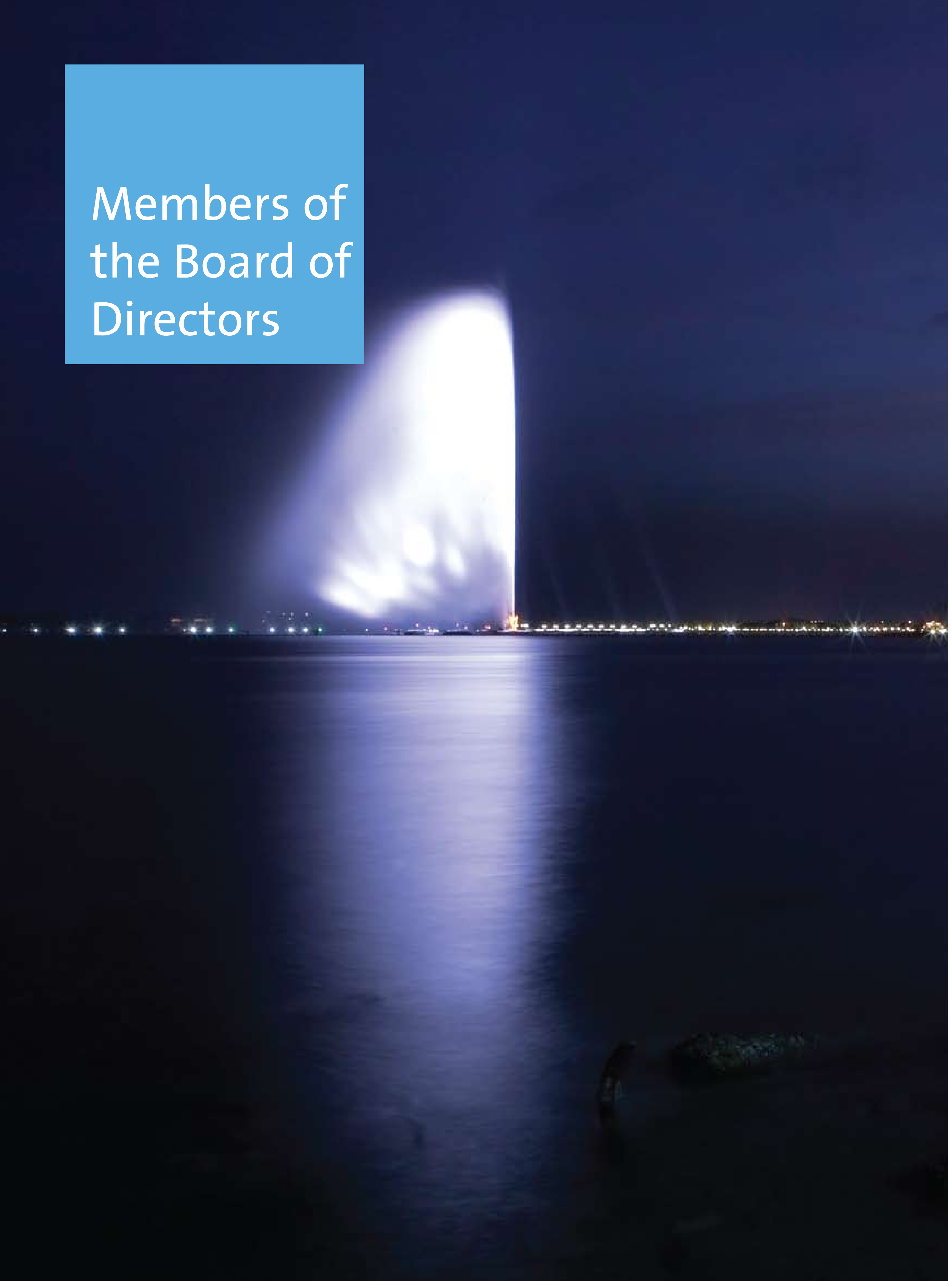
Alinma Bank was established under Royal Decree No. M/15, dated 28 Safar 1427, corresponding to March 28, 2006, and under Council of Ministers' Resolution No. 42, dated 27 Safar 1427, corresponding to March 27, 2006. Through the Council of Ministers' resolution, the bank has been authorized to engage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

Capital

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

Founders

The founding shareholders of the bank are the Public Investment Fund, the Public Pension Agency and the General Organization for Social Insurance. Each founding shareholder subscribed 10% of the bank's shares. The remaining 70% of the shares were offered for public subscription during Rabie II 1429, corresponding to April 2008.



Members of the Board of Directors

Eng. Abdulaziz Abdullah Al-Zamil
Chairman of the Board

Mr. Abdulmohsen Abdulaziz Al-Fares
Managing Director & CEO

Dr. Suliman Mohammad Al-Turki
Member

Mr. Saad Ali Al-Kathiry
Member

Mr. Abdulmuhsin Abdulaziz Al-Hussein
Member

Dr. Saad Attia Al-Ghamdi
Member

Dr. Abdulrehman Hamad Al-Harkan
Member

Mr. Mohamed Yousuf Naghi
Member

Dr. Ibrahim Fahad Al-Ghufaili
Member

A Message from the Chairman of the Board of Directors

Today we celebrate the completion of Alinma Bank's first operational year. The journey to build and establish the bank was long and arduous, but was ultimately possible because of the hard work of talented executive management and staff. As a result, we were able to launch a bank dedicated to Shariah-compliance and the highest operational standards set forth by the banking and finance industry.

The Alinma story is one filled with challenges and subsequent accomplishments. It began with simple benchmarking and other tried and true evaluative business practices. From there, Alinma put theory into practice by executing on its mission of providing Alinma partners with exemplary, innovative, Shariah-compliant, financial solutions designed to meet their needs and to ensure sustainable growth of an institution whose commitment extends to shareholders, partners and the community at-large. It is this mission that drives the bank forward in its vision to be preferred financial partner for all. Alinma Bank has thus become a reality, providing a full array of banking services to its retail and corporate partners through a distinctive network of branches and e-channels available across the Kingdom.

This, Alinma's second annual report, details the rapid growth of the bank's operations, branch network and e-channels as well as the major achievements of the first operational year in which Alinma continued to be a contributing agent in the national economy through its support of infrastructure projects. Alinma's successes would, of course, not have been possible without the ongoing support of the government, led by the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud, who was the impetus behind the establishment of the bank. I extend my thanks and gratitude to the Crown Prince, HRH Prince Sultan Ibn Abdulaziz Al Saud, and the Second Deputy Premier, HRH Prince Naif Ibn Abdulaziz Al Saud, for their support of the national economy and the banking sector in Saudi Arabia. I would also like to thank the Ministry of Finance, the Saudi Arabian Monetary Agency, the Capital Market Authority, my colleagues on the Alinma Bank Board of Directors and the employees of the bank whose efforts have had such an impact on building and launching Alinma.

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

A Message from the Managing Director/CEO

Since its establishment, Alinma Bank has achieved much, thanks to the concerted efforts of the bank's board of directors and employees, efforts that made the bank's growth throughout 2010 possible. Of particular note during the year, was the rapid increase in the number of partners, size of deposits, number of branches, financing portfolios, total assets, e-channel use and other major activities, in addition to the growing number of products and services provided by the bank to its partners. These successes give us reason to look to the future with optimism and confidence.

Alinma Bank has strived to achieve its vision of becoming the preferred financial partner for all, a vision that stems from its clarity of mission, which entails providing partners with trusted Shariah-compliant financial solutions, maintaining a work environment that leverages best practices and engenders a dedication to professionalism, achieving sustainable growth and contributing to the community at-large. Both the vision and mission of the bank are rooted in a system of values. These include respect for all, partner service, honesty, interdependence between colleagues, striving to lead, community service, creativity and taking initiative. As a result, the Bank has today a broad base of partners of more than 100,000 as well as strategic relationships with major companies and institutions in the Kingdom.

In terms of financial performance in 2010, financing portfolios rose from SAR 1.1 billion to SAR 15.6 billion, partner deposits increased from SAR 1.5 billion to SAR 8.3 billion, total assets grew from SAR 17.3 billion to SAR 26.7 billion, and most importantly, Alinma managed to surpass its break-even point during its first operational year, despite incurring costs related to its incorporation and infrastructural growth and despite a decrease in financing returns.

With regard to operations, Alinma is proud to say that, thanks to its highly qualified employees, rapidly expanding network of branches and ATMs, and comprehensive e-channel services, partners are now being served with excellence across the entire Kingdom.

All of the aforementioned achievements function as encouragement as Alinma moves into a new fiscal year with optimism that Alinma will be a leading institution in contemporary, Shariah-compliant, financial services and that Alinma will continue to support the Saudi financial sector and the national economy.

In terms of its strategy moving forward, Alinma looks to 2011 as a year in which the bank will finalize its administrative development, increase its branch and ATM networks, expand its product and service offerings, grow its partner base, and enhance the financial position of the bank.

I would like to take this opportunity to thank all Alinma partners for trusting Alinma to be their preferred financial partner and for giving us the opportunity to serve them. We hope that our relationship with them will be an enduring one. I would also like to extend my thanks to the Ministry of Finance, the Saudi Arabian Monetary Agency, the Ministry of Trade and Industry, the Capital Market Authority and other agencies for their continued support. My thanks are also extended to the board of directors and the bank's staff for their considerable efforts in realizing outstanding achievements in record time.

Abdulmohsen Bin Abdulaziz Al-Fares
Managing Director/CEO

Key Accomplishments of 2010

Human Capital: Recruitment, Development & Achievement

Of the many goals achieved by the bank in 2010, its progress in the area of human capital was particularly noteworthy. In specific, the bank finalized the development of its human capital strategies and procedures, thereby approving and applying its organizational plan, performance management and appraisal system and remuneration and incentives policies. Additionally, at the close of 2010, Alinma boasted a workforce of 1,185 qualified male and female employees and had a Saudization rate that exceeded 83%. 799 employees were trained in a total of 2,291 training days through banking, legal and administrative programs provided by specialized consulting firms as well as through product, service and systems courses provided by the bank.

Alinma Bank: Branches and Electronic Channels

At the close of 2010, Alinma had 35 branch locations across the Kingdom – 21 branches dedicated for men and 14 for ladies. In addition, 20 new locations were also under construction, with their launch anticipated in 2011. The number of ATMs equipped and operated reached 200 by the end of 2010. Currently, Alinma partners can also access banking services through an array of electronic channels, including Alinma Internet (http://www.alinma.com), Alinma Phone (8001208000) and Alinma Mobile, all of which have been designed using state-of-the-art technologies.

Alinma Bank: Modern Technologies and Trusted Security

Alinma Bank has adopted an IT strategy that leverages state-of-the-art technologies and internationally recognized banking and finance IT standards to ensure transactional accuracy and security. This has allowed Alinma to continue to serve its partners with the excellence and innovation they have come to expect.

Retail Banking: New Services and Increased Demand

Alinma Bank provides its retail partners with a broad range of more than 40 products and services including SMS notifications, current accounts, debit cards, instantly issued smart-chip credit cards, cash transfers, foreign exchange transactions, standing orders, SADAD system payments, payroll services, IPO subscription services, safe deposit boxes, activation and deactivation of the online credit card purchase feature, and real estate, car and stock financing. Additionally, Alinma offers a number of one-of-a-kind services in the Kingdom, including education financing, joint financing options and the global limit credit service.

Corporate Banking: Leadership

Alinma Bank's corporate partners benefit from an array of products and services, including current and investment accounts, checking services, trade services (guarantees, documentary credits and collections), deposits, withdrawals, transfers, local and international remittances through branches and electronic channels, cash and liquidity management, Murabaha, Musharaka, Bai Al-Ajel, Ijara, Musharaka by documentary credits, foreign exchange services and other corporate services.

Marketing: Inviting Partners to Aspire

Alinma Bank launched its operations with a marketing and advertising campaign under the "Aspire" slogan, which was adopted to increased awareness, solidify the Alinma identity in the minds of partners and develop a positive impression of the bank. Comprehensive marketing campaigns followed, coinciding with the launch of various products and services.

Alinma Bank: Awards and Certifications

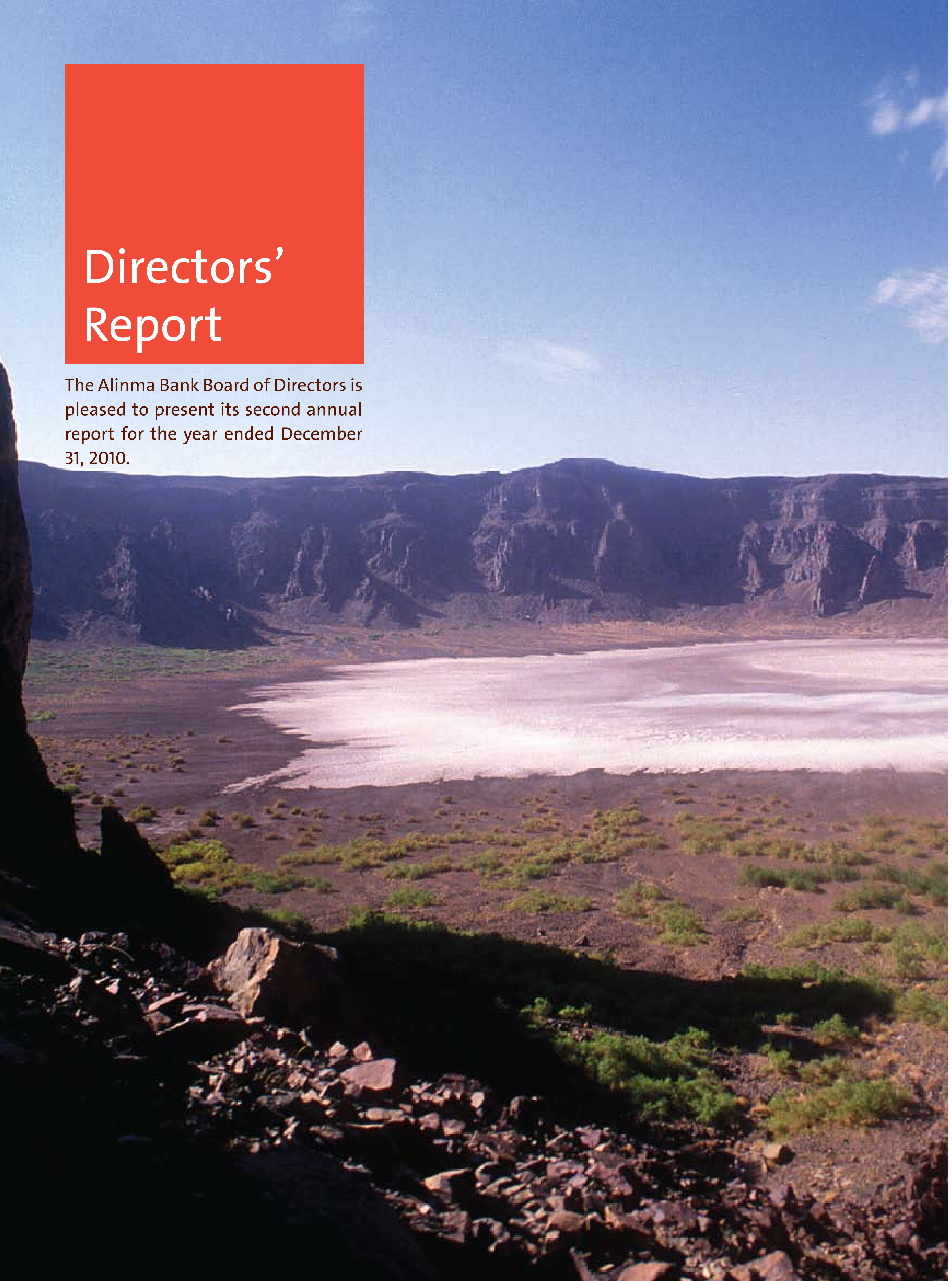
The bank has received a number of awards and has also earned several important certifications, all of which indicate the bank's dedication to excellence. In particular, the bank has received the PCI-DSS 1.2.1 certification for card data security and ISO 27001 global certification for online banking information security services. The latter, issued by the International Organization for Standardization (ISO), is one of the most widely recognized certifications and signifies excellence in an organization's efforts to maintain adherence to the high standard of information security set by the ISO. Few banks in Saudi Arabia are ISO 27001 certified. Additionally, the bank was awarded the INSIGHTS award for best call center in the Middle East and received Project Finance magazine's "Deal of the Year" award for its role in the financing of the Rabigh Independent Power Plant project.

Alinma Bank: Partnerships and Alliances

Alinma has signed a memorandum of understanding with the Japanese insurance provider, Tokio Marine Nichido Fire Insurance Co. Ltd and other founding partners (e.g. SABIC Industrial Investments Co. Ltd), to establish a Takaful (cooperative) insurance company in Saudi Arabia with share capital of two hundred million Saudi Riyals. The new company would provide Shariah-compliant Takaful insurance products.

Alinma Investment: Fruitful Partnership

Alinma Investment (Alinma Bank's investment subsidiary) is authorized by the Saudi Arabian Capital Market Authority to deal in securities as principal and agent, in underwriting, custodianship, asset management, advisory and arranging services. Using industry best practices and leveraging a state-of-the-art IT infrastructure, the company provides its corporate and retail partners with fully Shariah-compliant products and services that are delivered through a kingdom-wide network of investment centers and through a full range of electronic, self-service channels.

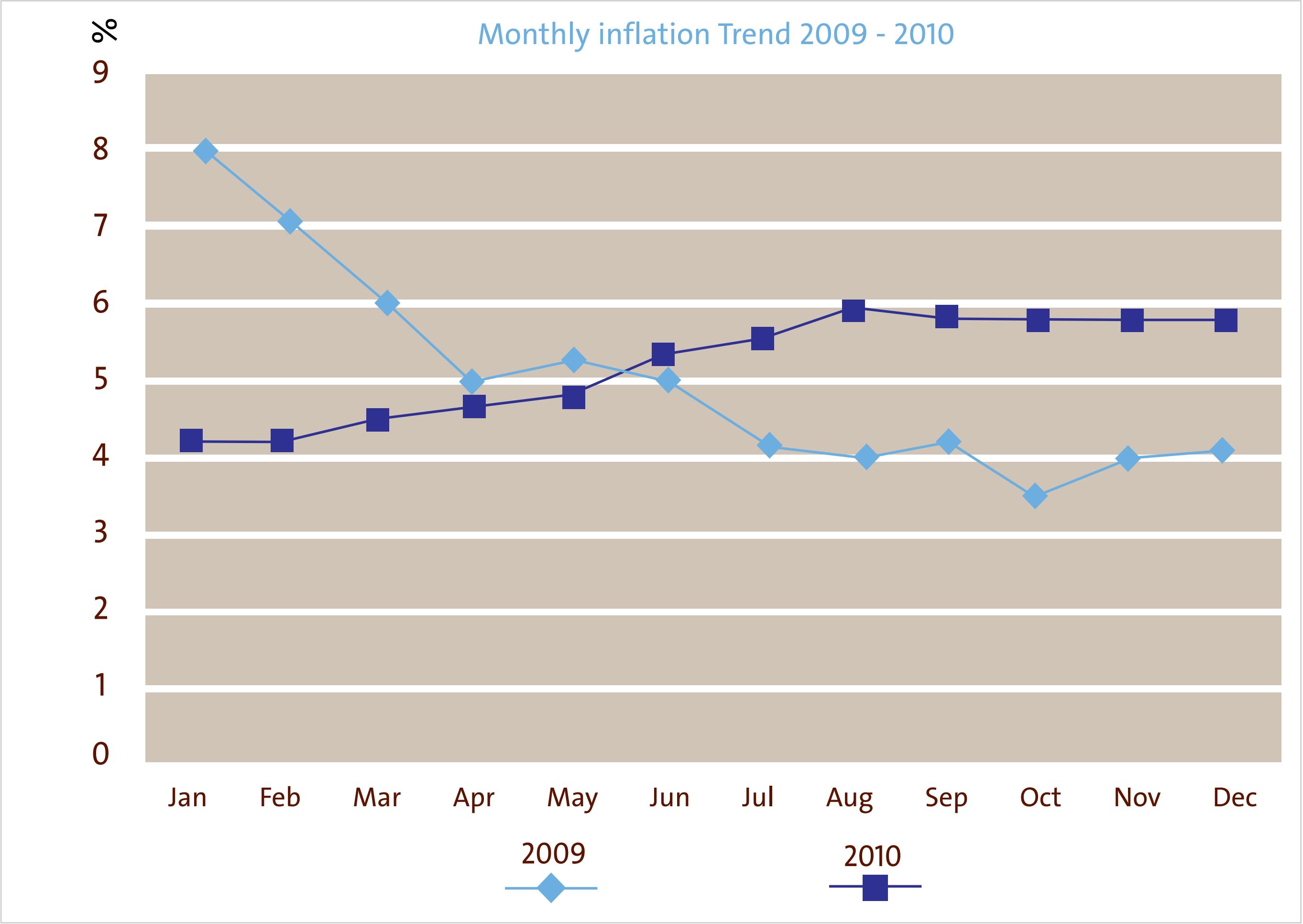


Directors' Report

The Alinma Bank Board of Directors is pleased to present its second annual report for the year ended December 31, 2010.

Economic Overview

The Saudi economy bounced back and registered steady growth during 2010. Real GDP grew to 3.8% from 0.6% in 2009. Stronger economic growth was primarily attributable to higher oil production and prices. The non-oil sector also grew by 3.7% in 2010, up from 3.5% in 2009. Higher government spending, greater availability of bank credit, a general improvement in consumer and corporate confidence and a partial recovery in the global markets all contributed to the aforementioned growth. The inflation rate was 5.8% by the end of 2010 compared to approximately 4.2% in 2009.



With rising oil prices and significant government budgetary allocations for infrastructure development, the Saudi economy is expected to further strengthen in 2011. GDP growth is expected to rise to 4.2% from 3.8% in 2010, while inflation is expected to be contained at 5.3% by the end of 2011.

It is a general expectation that oil prices will surpass, by far, the USD 56 per barrel figure that was used for government budgeting, which should result in a 2011 budgetary surplus.

Overview of the Banking Industry in Saudi Arabia

During 2010, the Saudi Arabian Monetary Agency (SAMA) continued with strong fiscal measures by containing repo rates (repo 2%, reverse repo 0.25%) and relatively relaxed reserve requirements (7% for demand, 4% for time deposits) to boost liquidity in the market. However, banks maintained a cautious approach towards fresh lending, resulting in a lower than expected volume of growth (approximately 6%). Profitability remained subdued, due to a marginal volume of growth and incremental provisions to strengthen the coverage ratio, which is expected to be over 100% by the close of 2011.

In 2011, Saudi banks are expected to remain prudent and set aside significant amounts to restore the historical coverage ratio of 150% that prevailed from 2004 through 2009. On the other hand, due to the peg of Saudi Riyal with United States Dollar, Saudi interest rates are expected to broadly follow the Federal Reserve trend, and hence are not expected to rise significantly. In this context, the profitability pressure combined with an expected rise in infrastructure led credit demand will result in volume growth in corporate lending with a marginal improvement on yield as well. On the consumer front, significant potential for growth exists in view of the rising consumption trend as well as the long due mortgage laws. Part of such growth would be funded through existing low yielding investment maturities.

Incorporation and Commencement of Activities

Alinma Bank was formed pursuant to Royal Decree No. M/15 dated Safar 28, 1427, corresponding to March 28, 2006, and Council of Ministers' Resolution No. 42, dated Safar 27, 1427, corresponding to March 27, 2006, and Commercial Register No. 1010250808 dated Jumada Awal 21, 1429 corresponding to May 26, 2008. The bank commenced commercial operations during the latter half of 2009 and has two subsidiaries, the details of which are as follows:

• Alinma Investment Company:

Incorporated in Riyadh, the company is authorized to deal in securities as principal and agent, in underwriting, custodianship, asset management, advisory and arranging services. The company has authorized capital of SAR 1,000 million and paid-up capital of SAR 250 million. The company received the commencement letter from Capital Market Authority during 2010. The bank owns 99.96% of the company while the remaining stake is owned by a nominee Directors.

• Al Tanweer Real Estate Company

Incorporated in Riyadh, Al Tanweer is a special purpose vehicle (SPV) formed to facilitate mortgage financing and to hold, on behalf of the bank, the titles for real-estate pledged as collateral against commercial financing extended by the bank. The bank owns a 98% stake in the company, which has share capital of SAR 100,000. The remaining 2% stake is owned by Alinma Investment Company.

Principal Activities of the Bank

Alinma provides a comprehensive range of Shariah-compliant banking and investment services.

An independent Shariah board was formed by the founding members of the bank on 12/1/1428 H, corresponding to 20/1/2007G. All banking activities are in accordance and compliance with Shariah guidelines. Shariah board resolutions are strictly followed by all departments and employees of the bank.

At the core of the bank's mission is the concept of partnership, in which clients are seen as true partners who deserve to be valued and served with the highest level of transparency, innovation and respect. The bank serves its partners through a kingdom-wide network of 35 locations (21 for male and 14 for female), and 200 ATMs together with alternative distribution channels including Alinma Internet (www.alinma.com), Alinma Phone (8001208000) and Alinma Mobile.

Financial Highlights

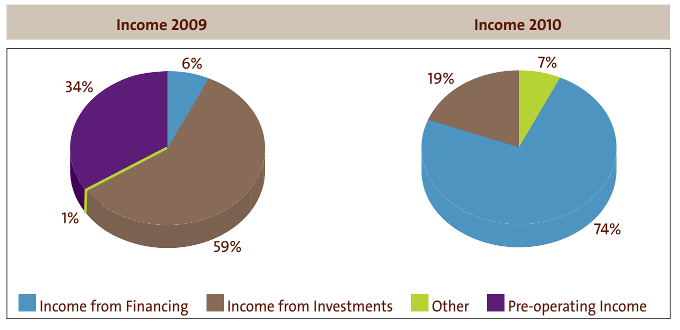
Highlights for the last two financial years are given below:

Financial Position	2010	2009
	SAR in millions	
Financing	**15,593**	1,112
Investment (including due from banks and FIs)	**8,427**	14,846
Total Assets	**26,669**	17,306
Deposits	**8,316**	1,498
Total Equity	**15,621**	15,605
Operating Results	**2010**	**2009 (19 months)**
Net income from investments and financing activities	**619**	945
Fees from banking services and other income	**43**	9
Total operating income	**662**	954
Total operating expenses	**647**	638
Net Income	**15**	605

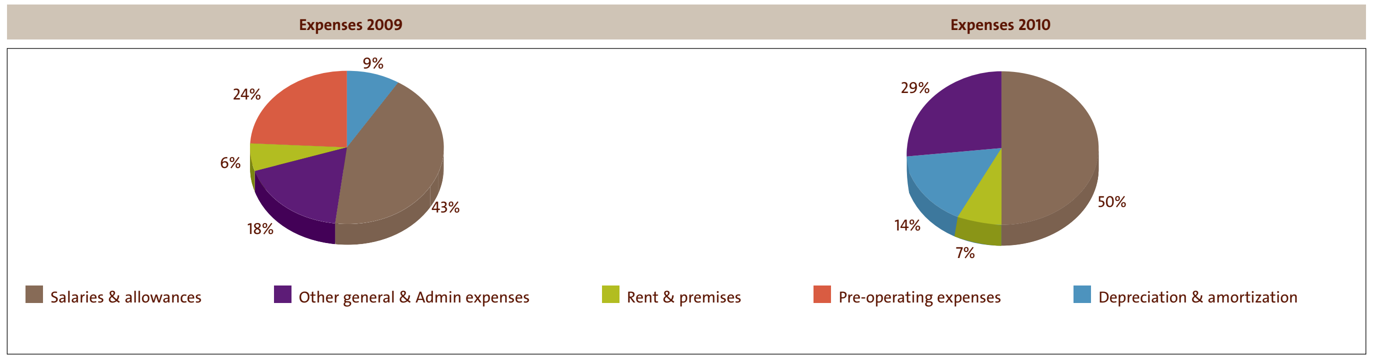
Operating Results

The bank registered net income of SAR 15 million for the financial year ended December 31, 2010, compared to net income of SAR 605 million for the previous financial year, which extended from May 26, 2008 through December 31, 2009.

The decline in net income can be attributed to the fact that the bank's 2009 results were skewed due to the fact that the bank recorded SAR 290 million in pre-operating income for that year and due to the fact that the 2009 financial year extended for a period of approximately 19 months, whereas the 2010 financial year was a normal 12-month period. Additionally, the year 2010 was the first full operational year which showed significant growth in business, branch network and head-count thus resulting in higher than previous year operating expenses.



It should also be noted that almost all 13 branches opened during 2009 became operational only during the last quarter of 2009. Another 8 locations were added during 2010 to bring the total number of locations to 21.



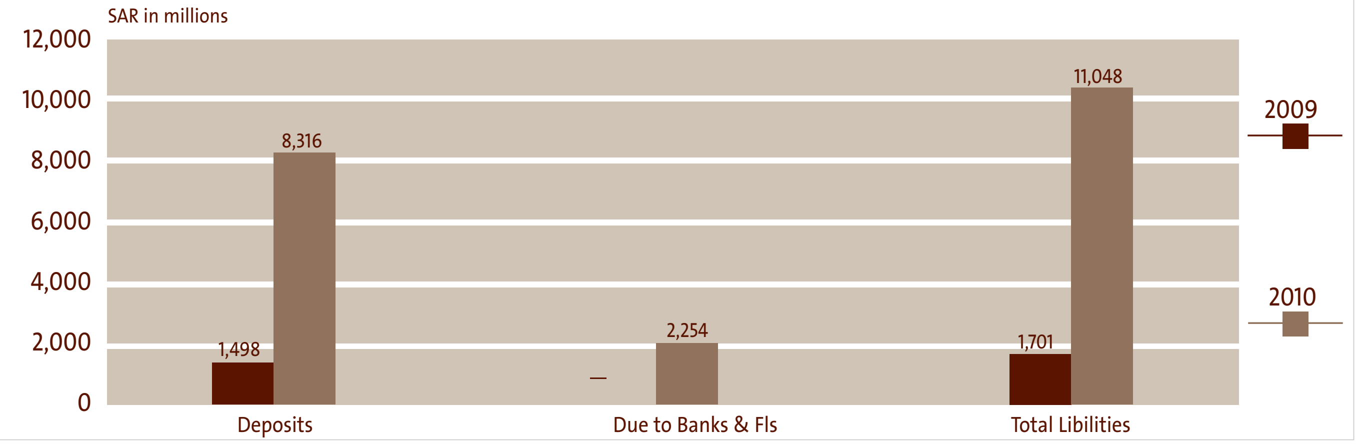
Earnings per Share

Earnings per share for the year amounted to SAR 0.01.

Financial Position

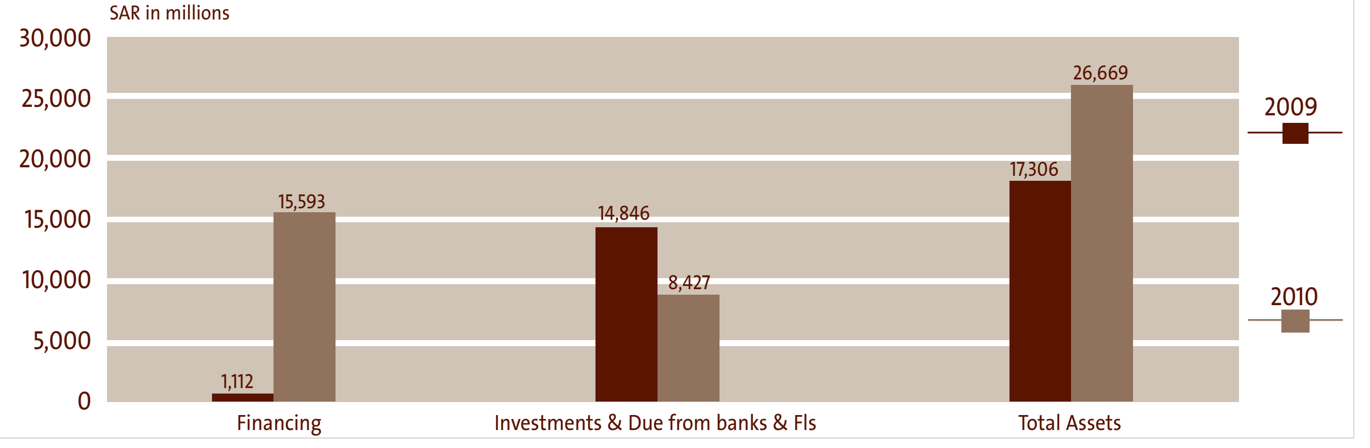
The total balance sheet size grew by 54%, mainly due to an increase in deposits, which rose from SAR 1,498 million in 2009 to SAR 8,316 million by the end of 2010.

Liabilities



During 2010, the bank managed to channelize low-yielding, short-term, liquid investments to financing assets earning higher yields. As a result, the financing portfolio surged to SAR 15,593 million by the end of 2010 from SAR 1,112 million in 2009. The total assets of the bank also grew from SAR 17,306 million in 2009 to SAR 26,669 million by the end of 2010.

Assets



Shareholders' Equity and Capital Adequacy

Shareholders' equity stood at SAR 15,621 million at the close of 2010, compared to SAR 15,605 million in 2009. Alinma's capital adequacy ratio was 75% by the end of 2010, compared to the minimum requirement of 8% stipulated by Saudi Arabian Monetary Agency (SAMA). The bank's capital adequacy ratio declined from 2009 level of 183% due to growth in financing portfolio of the bank.

Financial Position by Segment

The following is a financial analysis of the bank across its major business segments

SAR in millions-2010

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Other	Total
Total Assets	2,031	13,795	8,650	276	1,917	26,669
Total Liabilities	4,378	1,654	4,733	82	201	11,048
Total Operating Income	54	333	169	2	104	662

SAR in millions-2009 (19 months)

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Other	Total
Total Assets	112	1,055	14,902	250	987	17,306
Total Liabilities	1,022	507	-	24	148	1,701
Total Operating Income	4	91	407	-	452	954

Geographic Analysis of Revenue

Almost all revenue has been derived from banking activities inside the Kingdom of Saudi Arabia.

Branch and ATM Networks

During 2010, the bank opened 8 locations for men and 5 for ladies, bringing the total number of locations to 21 for men and 14 for ladies. In addition, the bank also added 125 ATM locations during 2010, bringing the total to 200 by end of the year.

Borrowing by the Bank

Total borrowing outstanding as of December 31, 2010 was SAR 2,254 million.

Dividend Distribution Policy

As stipulated in Article 41 of the Alinma Bank Articles of Association, the bank distributes its net income after deducting all expenses, including provisions for impairment of investments, financing and contingent liabilities, and after setting aside the required reserves in accordance with the provisions of the Banking Control Law and the Saudi Arabian Monetary Agency (SAMA), which are as follows:

a) Not less than 25 percent of net income must be set aside each year as a statutory reserve until it equals the paid up capital of the bank.
b) Necessary amounts must be withheld for payment of Zakat/income tax on behalf of Saudi/non-Saudi shareholders according to the applicable laws of the Kingdom of Saudi Arabia. Said withholding shall be paid to the authorities and then deducted from future dividends.
c) The available amount, after all allocations mentioned in paragraphs (a) and (b) above, shall be considered for payment of dividends with due approvals.

The board approved the following appropriations:

Particulars	2010	2009
	SAR in millions	
Net income for the year	15	605
Less: Transfer to statutory reserve (25% of net income)	(4)	(151)
Transfer to general reserve	-	-
Retained earnings-brought forward	454	-
Retained earnings-carried forward	465	454

Board of Directors

The bank is managed by a board of directors consisting of nine (9) members appointed at the first general assembly of the bank's founding members for a period of five (5) years. At the conclusion of the aforementioned term, a new board will be appointed for a period of 3 years, as per the bank's articles of association. The following table shows the names and details of the existing members of the board of directors:

Member's Name	Status	Other Directorships	Meeting Dates						Total
			07-02-2010	28-02-2010	16-05-2010	26-09-2010	28-11-2010	26-12-2010	
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	Independent	Al Sahara Co., Sipchem Co. & Al-Zamil Group	√	√	√	√	√	√	6
Mr. Abdul Mohsen Abdul Aziz Al- Fares (Managing Director/CEO)	Executive	SABIC, Alinma Investment, NTCC	√	√	√	√	√	√	6
Dr. Suleiman Mohammad Al-Turki	Non- executive		√	-	√	√	√	√	5
Mr. Saad Ali Al-Kathiry	Non- executive		√	√	√	-	√	√	5
Mr. Abdul Mohsen Abdul Aziz Al- Hussein	Non- executive		√	√	√	√	√	√	6
Dr. Abdulrehman Hamad Al-Harkan	Independent		√	√	√	√	√	√	6
Dr. Saad Attia Al-Ghamdi	Independent		√	√	-	-	√	√	4
Mr. Mohammed Yousef Naghi	Independent	Emaar the Economic City	√	-	√	-	√	-	3
Dr. Ibrahim Fahad Al- Ghufaili	Independent		√	√	√	√	√	√	6

Major Shareholders

There has been no change in ownership of shareholders whose ownership exceeds 5%. Said shareholders are listed below:

Shareholder	Number of shares	Ownership percentage
Public Investment Fund	150,000,000	10%
Public Pension Agency	150,000,000	10%
General Organization for Social Insurance	150,000,000	10%

Committees of the Board of Directors

The board has formed various committees to assist it in discharging its duties and responsibilities. They are as follows:

Executive Committee

The executive committee was formed by the board of directors, as stipulated by article 19 of the bank's articles of association. The executive committee exercises all powers conferred upon it by the board of directors. The committee is composed of five (5) members and is headed by the chairman of the board of directors. Its meetings are deemed valid if attended by at least three (3) members. The committee held eight (8) meetings during the financial year as shown in the table below:

Member's Name	Meeting dates								Total
	31-01-2010	28-02-2010	17-04-2010	09-05-2010	22-08-2010	03-10-2010	19-12-2010	26-12-2010	
Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	√	√	√	√	√	√	√	√	8
Mr. Abdulmohsen Abdulaziz Al-Fares	√	√	√	√	√	√	√	√	8
Dr. Suleiman Mohammad Al-Turki	-	√	-	√	√	-	-	√	4
Mr. Abdul Mohsen Abdul Aziz Al- Hussein	√	√	√	√	√	√	√	√	8
Dr. Saad Attia Al-Ghamdi*	√	√	-	-	-	-	-	-	2
Dr. Ibrahim Fahad Al- Ghufaili*	-	-	-	-	-	√	√	√	3

* Dr. Ibrahim Fahad Al-Ghufaili was appointed on 26/09/2010 in place of Dr. Saad Attia Al-Ghamdi.

Benefits & Compensation Committee

The benefits and compensation committee was formed by the board of directors and is composed of five (5) members. The committee is responsible for the nomination of board members and ensuring their independence. The committee is also responsible for the formulation of policies for benefits and compensation of board members and senior executives. Two meetings were held during the 2010 financial year; and were attended by members as shown in the below table:

Member's Name	Meeting dates		Total
	30-1-2010	25-12-2010	
Dr. Suliman Mohammed Al-Turki (Chairman)	√	√	2
Mr. Abdul Mohsen Abdul Aziz Al-Fares	√	√	2
Mr. Saad Ali Al-Kathiry*	-	√	1
Dr. AbdulRahman Hamad Al-Harkan*	-	√	1
Mr. Mohamed Yousef Naghi	√	√	2
Dr. Ibrahim Fahad Al-Ghuufaili**	√	-	1

*Membership started 26/09/2010
**Membership ended 26/09/2010

Audit Committee

The audit committee is composed of three (3) non-executive members. The committee is responsible for review of financial statements and accounting policies, supervision of the internal audit function, and recommending the appointment of external auditors. The committee held four (4) meetings during the 2010 financial year as shown in the following table:

Name	Meeting Date				Total
	16-01-2010	06-04-2010	10-07-2010	09-10-2010	
Dr. Saad Attia Al-Ghamdi (Chairman)	√	√	√	√	4
Dr. AbdulRahman Hamad Al-Harkan	√	√	√	√	4
Mr. Saad Ali Al- Kathiry	√	√	√	-	3

Executive Management

Alinma's executive management is composed of a number of executives, headed by the CEO, charged with management of the business of the bank.

Remuneration of Members of the Board of Directors and Senior Executives

Description	Executive Director	Non-Executive Directors	Top Five Compensated Senior Executives (including the CEO and CFO)
Salaries & Compensation	-	-	9,599,988
Allowances	61,000	577,220	2,449,992
Annual & Periodic Remuneration Schemes	300,000	2,400,000	3,212,500
End of Service Benefits	-	-	937,437
Other Compensation or Benefits Paid Monthly or Annually	-	-	-

Shariah Board

Alinma Bank is committed to conducting its business in compliance with Shariah. Article 48 of the bank's articles of association, stipulates that "all the company's business shall be subject to the provisions and controls of Shariah." The Shariah board provides guidance, supervision and monitoring of all businesses carried out by the bank. The Shariah board has the following three members, all of whom are specialized in the jurisprudence of Islamic finance and economics:

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

To achieve its objectives, the Shariah board is supported by the 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 exposed to any material penalties or fines during the 2010 financial year.

Legally Accrued Payments

The estimated Zakat for the financial year ended December 31, 2010 amounted to SAR 271 million and the balance related to withholding tax at the end of financial year 2010 amounted to SAR 303,896.

Staff Benefits

Benefits and compensation of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2010, the accumulated balance for the end of service benefits amounted to SAR 20 million. Additionally, the bank and its employees make monthly contributions to the General Organization for Social Insurance (GOSI) for staff welfare as per the Saudi Labor Law.

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

Description of all ownership by members of the board of directors, their spouses and minor children of the shares, sukuks and other instruments issued by the bank or any of its subsidiaries

No	Member's Name	Beginning of the Year		End of the Year		Net Change	% Change
		No. of Shares	Sukuks	No. of Shares	Sukuks		
1	Eng. Abdul Aziz Abdullah Al-Zamil (Chairman)	120,572	-	120,572	-	-	0%
2	Mr. Abdul Mohsen Abdul Aziz Al- Fares (Managing Director/CEO)	259,367	-	259,367	-	-	0%
3	Dr. Suliman Mohammad Al-Turki	51,145	-	51,145	-	-	0%
4	Mr. Saad Ali Al-Kathiry	1,290	-	1,290	-	-	0%
5	Dr. Saad Attia Al-Ghamdi	10,772	-	10,772	-	-	0%
6	Dr. Abdulrehman Hamad Al-Harkan	10,000	-	10,000	-	-	0%
7	Mr. Mohamed Yousef Naghi	10,000	-	10,000	-	-	0%
8	Dr. Ibrahim Fahad Al- Ghufaili	19,974	-	120,891	-	100,917	506%

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

No	Member's Name	Beginning of the Year		End of the Year		Net Change	% Change
		No. of Shares	Sukuks	No. of Shares	Sukuks		
1	Fahad Mohammed Al-Semari	8,059	-	8,059	-	0	0%
2	Emad AbdulRahman Al-Butairi	859	-	859	-	0	0%
3	Sulaiman Ali Al-Hudaif	26,664	-	63,664	-	37,000	138.8%
4	Mohammed Abdullah Al-Awadh	8,000	-	8,000	-	0	0%
5	Saad AbdulMohsin Al-Yaqoub	262,407	-	276,407	-	14,000	5.34%
6	Haidar Ali Rashed	20,000	-	20,000	-	0	0%
7	Abdulaziz Mohammed Al-Onaizan	20,000	-	150,000	-	130,000	650%

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 the board of directors. The system of internal controls is based upon what management considers appropriate for the bank's activities, to the materiality of 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 of the internal controls.
In view of the above, we believe that the bank has a reasonably sound and effective system of internal controls in force, both in design and implementation.

Corporate Governance

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

Article 6(b): which requires the application of the cumulative voting method for the nomination of board members at the general assembly. The bank has adopted the simple voting method as prescribed in its articles of association.

Article 6(d): which requires investors who are judicial persons and who act on behalf of others, such as investment funds, to disclose their voting policies, actual voting and ways of dealing with any material conflicts of interests that may affect the practice of 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 his right to receive dividends or any other interest in the bank.

Financial Reporting

The board of directors confirms the following:

1. The financial statements prepared by the management of the bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. 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. 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.
5. The system of internal control is sound in design and has been effectively implemented.
6. There are no doubts about the bank's ability to continue as a going concern.
7. Apart from the information provided in note 28 to the consolidated financial statements, there are no contracts entered into by the bank in which any of the members of the board of directors, the chief executive officer or the chief financial officer have any material interest.

Future Plans

The bank has ambitious plans to expand its operations through a wide range of Shariah-compliant products and services, an extended network of branches and ATMs, and an extensive customer base both for retail and corporate business.
Alinma Investment Company launched its operations during 2010 through investment advisory and brokerage services. It has already launched two funds, namely, Alinma Saudi Riyal Liquidity Fund and Alinma Saudi Equity Fund. The company also has plans to launch more funds, new products and services in the future.

In 2010, the bank signed a memorandum of understanding with Tokio-Marine Insurance, Japan to launch a new Takaful cooperative insurance company in the Kingdom of Saudi Arabia with other institutional partners. The company will have a paid-up capital of SAR 200 million with Alinma Bank and Tokio-Marine Insurance, Japan each owning a 28.75% stake.

The Board of Directors

Auditors' Report & Financial Statements

PRICEWATERHOUSECOOPERS

ERNST & YOUNG

P.O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

AUDITORS' REPORT

TO: THE SHAREHOLDERS OF ALINMA BANK
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Alinma Bank (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, a summary of significant accounting policies and the other explanatory notes from 1 to 34, other than note 30 and the information related to "Basel II" 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, 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 By-laws. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

PRICEWATERHOUSECOOPERS

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Riyadh 11482
Kingdom of Saudi Arabia

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Kingdom of Saudi Arabia

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 and its subsidiaries as at December 31, 2010, and their consolidated financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency 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, the Bank's Articles of Association and By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

PricewaterhouseCoopers

Mohammed A. Al Obaidi
Registration No. 367

Ernst & Young

Fahad M. Al-Toaimi
Registration No. 354

6 Rabiul Awwal 1432H
(February 9, 2011)

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED December 31, 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2010 and 2009	Notes	2010 SAR'000	2009 SAR'000
ASSETS			
Cash and balances with Saudi Arabian Monetary Agency (SAMA)	4	**657,593**	361,133
Due from banks and other financial institutions	5	**5,803,317**	13,846,340
Investments	6	**2,623,589**	1,000,141
Financing, net	7	**15,593,250**	1,111,843
Property and equipment, net	8	**1,193,195**	922,199
Other assets	9	**797,793**	64,737
TOTAL ASSETS		**26,668,737**	17,306,393
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	**2,254,016**	-
Customers' deposits	11	**8,315,878**	1,497,528
Other liabilities	12	**478,291**	203,524
TOTAL LIABILITIES		**11,048,185**	1,701,052
SHAREHOLDERS' EQUITY			
Share capital	13	**15,000,000**	15,000,000
Statutory reserve	14	**155,135**	151,335
Unrealized gain on available for sale investments		**11**	-
Retained earnings		**465,406**	454,006
TOTAL SHAREHOLDERS' EQUITY		**15,620,552**	15,605,341
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**26,668,737**	17,306,393

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended December 31, 2010 and period ended December 31, 2009	Notes	2010	From May 26, 2008 to December 31, 2009
		SAR'000	**SAR'000**
Income from investments and financing	16	**649,551**	949,294
Return on customers' time investments	16	**(30,363)**	(3,796)
Net income from investments and financing activities	16	**619,188**	945,498
Fees from banking services, net	17	**34,483**	7,076
Exchange income		**4,654**	649
Other operating income		**3,895**	757
Total operating income		**662,220**	953,980
Salaries and employee-related expenses	18	**322,261**	361,001
Rent and premises- related expenses		**46,066**	52,112
Depreciation and amortization	8	**92,007**	78,557
Other general and administrative expenses		**183,686**	146,783
Allowance for impairment on financing	7.1	**3,000**	-
Total operating expenses		**647,020**	638,453
Operating income		**15,200**	315,527
Pre-operating income, net	19	**-**	289,814
Net income		**15,200**	605,341
Other comprehensive income		**11**	-
Total comprehensive income		**15,211**	605,341
Basic and diluted earnings per share (SAR)	20	**0.01**	0.40

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2010 and period ended December 31, 2009

SAR'000

2010	Notes	Share capital	Statutory reserve	Unrealized gain on available for sale investments	Retained earnings	**Total**
Balance at the beginning of the year	**13**	**15,000,000**	**151,335**	**-**	**454,006**	**15,605,341**
Total comprehensive income		**-**	**-**	**11**	**15,200**	**15,211**
Transfer to statutory reserve	**14**	**-**	**3,800**	**-**	**(3,800)**	**-**
Balance at the end of the year		**15,000,000**	**155,135**	**11**	**465,406**	**15,620,552**

SAR'000

2009	Notes	Share capital	Statutory reserve	Unrealized gain on available for sale investments	Retained earnings	**Total**
Share capital issued	13	15,000,000	-	-	-	15,000,000
Total comprehensive income		-	-	-	605,341	605,341
Transfer to statutory reserve	14	-	151,335	-	(151,335)	-
Balance at the end of the period		15,000,000	151,335	-	454,006	15,605,341

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended December 31, 2010 and period ended December 31, 2009	Notes	2010 SAR' 000	From May 26, 2008 to December 31, 2009 SAR' 000
OPERATING ACTIVITIES:			
Net income		**15,200**	605,341
Adjustments to reconcile net income to net cash used in operating activities			
Depreciation and amortization		**92,007**	78,557
Allowance for impairment on financing		**3,000**	-
		110,207	683,898
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**(422,114)**	(71,552)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(2,636,962)**	(2,005,536)
Investments		**(1,623,437)**	(1,000,141)
Financing		**(14,484,407)**	(1,111,843)
Other assets		**(733,056)**	(64,737)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**2,254,016**	-
Customers' deposits		**6,818,350**	1,497,528
Other liabilities		**274,767**	203,524
Net cash used in operating activities		**(10,442,636)**	(1,868,859)
INVESTING ACTIVITIES:			
Acquisition of property and equipment		**(363,003)**	(1,000,756)
Net cash used in investing activities		**(363,003)**	(1,000,756)
FINANCING ACTIVITIES:			
Proceeds from issue of share capital		**-**	15,000,000
Net cash from financing activities		**-**	15,000,000
Net (decrease) /increase in cash and cash equivalents		**(10,805,639)**	12,130,385
Cash and cash equivalents at the beginning of the year/period		**12,130,385**	-
Cash and cash equivalents at end of the year/ period	22	**1,324,746**	12,130,385
Income received from investments and financing activities		**492,683**	1,360,965
Return paid to customers' time investments		**11,876**	199
Supplemental non-cash information			
Unrealized gain on available for sale investments		**11**	-

The accompanying notes from 1 to 34 form an integral part of these consolidated financial statements.

1. General

a) Incorporation and Operations

Alinma Bank, (the "Bank"), a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). The Bank operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21/05/1429H (corresponding to May 26, 2008) and providing banking services through 20 branches (2009: 13) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank
Head Office
P.O. Box 66674
Riyadh 11586
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as follows:

Subsidiary	Bank Ownership	Establishment date
Alinma Investment Company	99.96 %	07 Jumada II 1430 H corresponding to May 31, 2009
Al Tanweer Real Estate Company	98.00 %	24 Sha'aban 1430H corresponding to August 15, 2009

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

b) Shariah Board

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

c) Accounting period

According to the clause 39 of the Articles of Association of the Bank, the financial year begins on January 1 and ends on December 31. However, the first financial year started from the date of the Ministerial Resolution announcing the establishment of the Bank (May 26, 2008) until the end of December 31, 2009. The comparative information, therefore, constitutes the period from May 26, 2008 to December 31, 2009 ("period").

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared:

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

ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the available for sale investments.

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are the impairment for financing losses on financing, impairment of available for sale investments and the lives of property and equipments for depreciation and amortization calculation purposes.

e) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3. Summary of significant accounting policies

The amendments to International Financial Reporting Standards that were applicable during the year ended December 31, 2010 were not relevant to the Bank and therefore have no material impact on these consolidated financial statements.
The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and is mandatory for compliance for the Bank's accounting years beginning after 1 January, 2011 (note 31).

Following are the summary of significant accounting policies affecting these consolidated financial statements:

a) Basis of consolidation

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and ceased to be consolidated from the date on which the control is transferred from the Bank.

The results of subsidiaries acquired or disposed of during the period, if any, are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

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

Non controlling interests represent the portion of net results and net assets attributable to interests which are not owned, directly or indirectly, by the Bank in its subsidiaries. As at December 31, 2010, non controlling interests in the subsidiaries are immaterial and are owned by representative shareholders of the Bank, to meet regulatory requirements, and hence not presented separately in the consolidated statement of comprehensive income and within shareholders' equity in the consolidated statement of financial position.

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

b) Trade date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the trade date (i.e. the date that the Bank commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

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

c) Foreign currencies

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

d) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

e) Revenue/expenses recognition

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

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

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

Exchange income/loss
Exchange income/loss is recognized when earned/incurred.

Fees from banking services
Fees from banking services that are not integral part of the effective yield calculation on the financial asset are recognized when the related service is provided as follows:
• Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.
• Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service, are received.

f) Investments

Murabaha
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.

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

g) Financing

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

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

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

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

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

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

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

Impairment of financial assets

A financial asset or group of financial asset 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 asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
A specific provision for losses due to impairment of a financing or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.
In addition to a specific provision for losses, an additional portfolio provision for collective impairment is
made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date.
When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of comprehensive income or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the obligor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income, in impairment charge for losses.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated income statement for the year.

h) Property and equipment

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

Buildings	33 years
Furniture, equipment and vehicles	5-10 years
Leasehold improvements	the shorter of lease period or 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.
All assets are reviewed for impairment 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.

i) Liabilities

All customer deposits and due to Banks and other financial institutions are initially recognized at fair value less transaction costs. Subsequently all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of comprehensive income.

j) Guarantees

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

k) Provisions

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

l) Accounting for Ijarah (leases)

Ijarah as fully explained in note 3(g) is a lease contract with a promise to transfer the ownership of the leased asset to the lessee at the end of the lease period, or during the lease period by the payment of outstanding dues along with / without an additional specified amount.

Where the Bank is the lessee

Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.
When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

Where the Bank is the lessor

When assets are leased under a (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.

m) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

n) De-recognition of financial instruments

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

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.
A financial liability (or part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

o) Zakat

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

4. Cash and balances with SAMA

	2010 SAR'000	2009 SAR'000
Cash in hand	**158,867**	55,203
Statutory deposit	**493,666**	71,552
Current account	**632**	352
Cash management account	**-**	231,000
Other	**4,428**	3,026
Total	**657,593**	361,133

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

5. Due from banks and other financial institutions

	2010 SAR'000	2009 SAR'000
Current accounts	**70,959**	22,354
Murabahas with banks and other financial institutions	**5,732,358**	13,823,986
Total	**5,803,317**	13,846,340

6. Investments

	Note	2010 SAR'000	2009 SAR'000
Murabahas with SAMA, (at amortized cost)		**2,549,776**	1,000,141
Available for sale equity investments	6.1	**73,813**	-
Total	6.2	**2,623,589**	1,000,141

6.1 These are investments in quoted securities of domestic market.

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

	2010 SAR'000	2009 SAR'000
Government and quasi government	**2,558,027**	1,000,141
Corporate	**65,562**	-
Total	**2,623,589**	1,000,141

7. Financing, net (at amortized cost)

2010					SAR'000
	Performing	Non-performing	Total	Allowance for impairment	Net
Consumer	1,778,609	-	1,778,609	(3,000)	1,775,609
Commercial	13,817,641	-	13,817,641	-	13,817,641
Total	15,596,250	-	15,596,250	(3,000)	15,593,250

2009					SAR'000
	Performing	Non-performing	Total	Allowance for impairment	Net
Consumer	56,792	-	56,792	-	56,792
Commercial	1,055,051	-	1,055,051	-	1,055,051
Total	1,111,843	-	1,111,843	-	1,111,843

7.1 Movement in allowance for impairment of financing losses:

2010			SAR'000
	Consumer	Commercial	Total
Balance at the beginning of the year	-	-	-
Provided during the year	3,000	-	3,000
Bad debts written off	-	-	-
Recoveries of amounts previously provided	-	-	-
Balance at the end of the year	3,000	-	3,000

2009			SAR'000
	Consumer	Commercial	Total
Balance at the beginning of the period	-	-	-
Provided during the period	-	-	-
Bad debts written off	-	-	-
Recoveries of amounts previously provided	-	-	-
Balance at the end of the period	-	-	-

7.2 Credit quality of financing portfolio

For the purpose of the Bank's internal risk rating, it has implemented the generic Moody's KMV Risk Analyst Tool. This Tool, which is used by leading banks globally and also in the Kingdom, enables the Bank to assign internal risk ratings to individual obligors in the Corporate Banking business segments. The internal risk rating indicates the one year probability of credit default.

7.2.1 Neither past due nor impaired:

Bank's internal risk rating scale	Rating definition	2010 SAR'000	2009 SAR'000
1	Substantially credit risk free	-	-
2	Exceptionally strong credit quality	-	-
3	Excellent credit risk quality	3,950,702	-
4	Very good credit risk quality	4,945,599	516,585
5	Good credit quality	3,813,987	595,258
6	Satisfactory credit quality	2,882,962	-
Total		15,593,250	1,111,843

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

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

2009			SAR'000
	Retail	Corporate	Total
From 1 day to 30 days	2	-	2
From 31 days to 90 days	-	-	-
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	2	-	2

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

2010				SAR'000
	Performing	Non-Performing	Allowance for impairment	Financing, net
Government and quasi government	4,575,988	-	-	4,575,988
Manufacturing	126,032	-	-	126,032
Electricity, water, gas & health services	50,000	-	-	50,000
Building and construction	5,358,695	-	-	5,358,695
Services	1,266,990	-	-	1,266,990
Consumer financing	1,778,609	-	3,000	1,775,609
Commerce	2,305,078	-	-	2,305,078
Others	134,858	-	-	134,858
Financing, net	15,596,250	-	3,000	15,593,250

2009	SAR'000			
	Performing	Non-Performing	Allowance for impairment	Financing, net
Building and construction	904,940	-	-	904,940
Services	150,111	-	-	150,111
Consumer financing	56,792	-	-	56,792
Financing, net	1,111,843	-	-	1,111,843

7.4 Collateral

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

Fair values of collateral held by the Bank against financing by each category are as follows:

	2010 SAR'000	2009 SAR'000
Neither past due nor impaired	**6,431,117**	571,000
Past due but not impaired	**-**	-
Impaired	**-**	-
Total	**6,431,117**	571,000

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

	2010 SAR'000	2009 SAR'000
Less than 1 year	**138,353**	-
1 to 5 years	**399,952**	430,309
Over 5 years	**1,077,010**	-
Gross receivables from Ijarah	**1,615,315**	430,309
Unearned future finance income on Ijarah	**(604,894)**	(67,538)
Net receivables from Ijarah	**1,010,421**	362,771

8. Property and equipment, net

Cost	SAR'000				
	Land and buildings	Leasehold improvements	Furniture equipment & vehicles	Total 2010	Total 2009
Balance at beginning of the year	249,527	106,620	644,609	**1,000,756**	-
Additions	210,041	32,093	120,869	**363,003**	**1,000,756**
Balance at end of the year	**459,568**	**138,713**	**765,478**	**1,363,759**	**1,000,756**
Accumulated depreciation:					
Balance at beginning of the year	-	6,814	71,743	78,557	-
Charge for the year	392	12,324	79,291	92,007	78,557
Balance at end of the year	**392**	**19,138**	**151,034**	**170,564**	**78,557**
Net book value-as at December 31, 2010	**459,176**	**119,575**	**614,444**	**1,193,195**	**-**
Net book value-as at December 31, 2009	249,527	99,806	572,866	-	922,199

Property and equipment include work in progress as at December 31, 2010 amounting to SAR 180 million (2009: SAR 71 million). Furniture, equipment and vehicles includes information technology-related assets at cost SAR 660 million (2009: SAR 595 million) with accumulated depreciation and amortization value of SAR 133 million (2009: SAR 63 million).

9. Other assets

	Note	2010 SAR'000	2009 SAR'000
Accrued profit receivable on:			
Investments		**14,529**	-
Financing		**154,066**	14,548
Total		**168,595**	14,548
Zakat receivable from shareholders	21	**336,034**	-
Prepaid rental		**19,184**	8,176
Advances to suppliers		**34,676**	8,397
Other prepayments		**7,673**	18,200
Others	9.1	**231,631**	15,416
Total		**797,793**	64,737

9.1. This includes SAR 120 million (2009: NIL) funded for acquiring Banks' shares for the purpose of Employees Share based plans under finalization.

10. Due to banks and other financial institutions

	2010 SAR'000	2009 SAR'000
Cash management account with SAMA	**304,000**	-
Murabahas with banks and other financial institutions	**1,950,016**	-
Total	**2,254,016**	-

11. Customers' deposits

	2010	2009
	SAR'000	SAR'000
Demand	**3,948,270**	1,043,681
Customers' time investments	**4,180,372**	450,217
Margin	**187,236**	3,630
Total	**8,315,878**	1,497,528

The above includes foreign currency deposits as follows:

	2010	2009
	SAR'000	SAR'000
Demand	**268,321**	27,548
Margin	**145,304**	2,018
Total	**413,625**	29,566

12. Other liabilities

	2010	2009
	SAR'000	SAR'000
Accrued profit payable on:		
Customers' time investments	**20,582**	3,612
Due to banks and other financial institutions	**2,137**	-
Total	**22,719**	3,612
Accrued expenses	**75,961**	72,192
Accounts payable	**132,168**	120,878
Advance rentals	**101,190**	-
Others	**146,253**	6,842
Total	**478,291**	203,524

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2009: 1,500 million shares) of SAR 10 each.

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

	Percentage	
	2010	2009
Public Investment Fund ("PIF")	**10 %**	10 %
Public Pension Agency ("PPA")	**10 %**	10 %
General Organization for Social Insurance ("GOSI")	**10 %**	10 %
General public and others	**70 %**	70 %
Total	**100 %**	100 %

14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 3.8 million (2009: SAR 151.3 million) has been transferred from the net income for the year to statutory reserve.The statutory reserve is not available for distribution.

15. Commitments and contingencies

a) Legal proceedings

As at December 31, 2010 there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2010, the Bank had capital commitments of SAR 135 million (2009: SAR 96 million) relating to property and equipment.

c) Credit related commitments and contingencies

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

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

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

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

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

2009					SAR'000
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	25,501	194,994	69,789	-	290,284
Letters of guarantee	65,195	48,828	687,010	-	801,033
Acceptances	13,668	457	-	-	14,125
Total	104,364	244,279	756,799	-	1,105,442

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

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

	2010 SAR'000	2009 SAR'000
Government and quasi government	39,669	-
Corporate	4,190,420	1,105,442
Banks and other financial institutions	772,822	-
Total	5,002,911	1,105,442

iii) The outstanding unused portion of commitments as at December 31, 2010, which can be revoked unilaterally at any time by the Bank, amounts to SAR 5,084 million (2009: SAR 6,247 million).

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

	2010 SAR'000	2009 SAR'000
Less than one year	187	-
One year to five years	34,845	13,223
Over five years	352,426	349,276
Total	387,458	362,499

16. Income from investments and financing activities, net

	2010 SAR'000	From May 26, 2008 to December 31, 2009 SAR'000
Income from:		
Investments (Murabaha with SAMA)	8,081	121,498
Murabaha with banks and other financial institutions	121,054	731,951
Financing	520,416	95,845
Total	649,551	949,294
Return on customers' time investments	(30,363)	(3,796)
	619,188	945,498

17. Fees from banking services, net

	2010 SAR'000	From May 26, 2008 to December 31, 2009 SAR'000
Fee and commission income on:		
-Trade services	23,008	5,097
-Others	18,141	1,979
	41,149	7,076
Fee and commission expense on:		
-Card and other services	(5,471)	-
-Brokerage fees	(1,195)	-
	34,483	7,076

18. Salaries and employee related expenses

2010				SAR'000	
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives require SAMA no objections	11	16,619	1,711	18,330	Cash
Employees engaged in risk taking activities	259	77,192	8,452	85,644	
Employees engaged in control functions	95	33,054	3,197	36,251	
Other employees	823	162,205	19,831	182,036	
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	
TOTAL	1,188	289,070	33,191	322,261	

The above disclosures are required by SAMA and are applied prospectively.

18.1 Salient features of Compensation Policy

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

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

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

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

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

19. Pre-operating income, net

	2010 SAR'000	2009 SAR'000
Income from investments during pre-operating period	-	484,632
Pre-operating expenses	-	(194,818)
	-	289,814

20. Earnings per share

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

21. Zakat

Zakat assessment for the previous financial year ended December 31, 2009 has been finalized at SAR 336 million whereas the estimated Zakat for the year ended December 31, 2010 amounted to SAR 271 million. Therefore, the aggregate amount to be deducted from the future dividends to shareholders amounts to SAR 0.40 per share.

22. Cash and cash equivalents

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

	2010	2009
	SAR'000	SAR'000
Cash in hand	158,867	55,203
Balances with SAMA excluding statutory deposit	5,060	234,378
Due from banks and other financial institutions maturing within ninety days of acquisition	1,160,819	11,840,804
Total	**1,324,746**	**12,130,385**

23. Operating Segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking
Deposit, financing and other products for individuals and small to medium sized businesses.

b) Corporate banking
Deposits, financing and other products and services for corporate and institutional customers.

c) Treasury
Murabahas with banks and treasury services.

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

e) Others
Includes head office (as custodian of capital and assets in common use) which does not constitute a separately reportable segment.

Profit is charged or credited to business 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, income and results by operating segments:

						SAR'000
2010	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
Total assets	2,031,326	13,795,070	8,649,585	275,836	1,916,920	26,668,737
Total liabilities	4,378,043	1,653,965	4,732,801	82,165	201,211	11,048,185
Net income from investments and financing	42,477	309,754	166,294	535	100,128	619,188
Fees from banking services and other income	11,148	23,152	3,107	1,730	3,895	43,032
Total operating income	53,625	332,906	169,401	2,265	104,023	662,220
Depreciation and amortization	16,789	214	507	-	74,497	92,007
Other operating expenses	172,151	25,622	13,449	31,673	312,118	555,013
Total operating expenses	188,940	25,836	13,956	31,673	386,615	647,020
Net income (loss)	(135,315)	307,070	155,445	(29,408)	(282,592)	15,200

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

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

						SAR'000
2009	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
Total assets	111,937	1,054,571	14,902,308	250,000	987,577	17,306,393
Total liabilities	1,021,808	506,812	-	23,926	148,506	1,701,052
Net income from investments and financing	2,004	86,012	406,453	-	451,029	945,498
Fees from banking services and other income	1,973	5,103	649	-	757	8,482
Total operating income	3,977	91,115	407,102	-	451,786	953,980
Depreciation and amortization	5,439	234	559	-	72,325	78,557
Other operating expenses	121,198	19,082	11,882	13,591	394,143	559,896
Total operating expenses	126,637	19,316	12,441	13,591	466,468	638,453
Pre-operating income-net	-	-	-	-	289,814	289,814
Net income (loss)	(122,660)	71,799	394,661	(13,591)	275,132	605,341

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

						SAR'000
2009	Retail	Corporate	Treasury	Investment & brokerage	Others	Total
On Balance Sheet assets	56,734	1,040,023	14,902,308	250,000	30,605	16,279,670
Commitments and contingencies	-	1,105,442	-	-	-	1,105,442
Total	56,734	2,145,465	14,902,308	250,000	30,605	17,385,112

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

24. Credit risk

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

The Bank actively manages its credit risk exposure by having a well-defined target market focus, conscious portfolio diversification, tight financing structure, strong collateral coverage and thorough risk assessment. It uses an internal risk rating mechanism to assess the probability of default by counterparties. Where available, external ratings, issued by the recognized major rating agencies, are used to benchmark and/or validate the internal ratings. Credit exposures to all counterparties are thoroughly evaluated, reviewed and approved by the Bank's credit committee and, in case of large exposures, by the Bank's Executive Committee and Board of Directors. These exposures are monitored on an ongoing basis to ensure compliance with the conditions of the approval and to assess their continuing creditworthiness.

In addition, the risk management policies are designed to manage the overall exposure at the portfolio level to avoid undue concentration in any particular category of risk like obligors, products, industries/sectors, geographies, rating bands and currencies. The Bank has established concentration appetite and limits. The Bank uses Herfindahl-Hirshman Index to measure concentration. The conscious discipline of risk diversification ensures that the Bank is not materially impacted by systemic weaknesses in any particular segment of economy or default of a single counterparty.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Country / Transfer Risk
Country risk or the transfer risk is the inability of the borrowers to fulfill their obligations due to government action. This occurs generally when the government imposes prohibitive exchange restrictions that make it impossible for the obligor to pay its obligations.
The Bank computes Country / Transfer risk for the Bank's credit exposures including off-balance sheet exposures outside Saudi Arabia. The Bank uses foreign exchange default ratings for different countries and their respective defaults rates from two external rating agencies; The Bank has established country risk limits.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Analysis of investments by counter-party is provided in note (6). For details of the composition of financing refer to note (7). For commitments and contingencies refer to note (15).

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

2010					SAR'000
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash & balances with SAMA	657,593	-	-	-	657,593
Due from banks and other financial institutions	2,306,750	3,054,297	437,847	4,423	5,803,317
Investments	2,623,589	-	-	-	2,623,589
Financing, net	15,593,250	-	-	-	15,593,250
Other assets	736,260	-	-	-	736,260
Total financial assets	21,917,442	3,054,297	437,847	4,423	25,414,009
Financial liabilities					
Due to banks and other financial institutions	2,254,016	-	-	-	2,254,016
Customers' deposits	8,315,878	-	-	-	8,315,878
Other liabilities	478,291	-	-	-	478,291
Total financial liabilities	11,048,185	-	-	-	11,048,185
Commitments and contingencies	5,002,911	-	-	-	5,002,911
Maximum credit exposure (stated at credit equivalent amounts) of Commitments and contingencies	2,165,096	-	-	-	2,165,096

2009					SAR'000
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash & balances with SAMA	361,133	-	-	-	361,133
Due from banks and other financial institutions	12,057,400	1,774,884	3,397	10,659	13,846,340
Investments	1,000,141	-	-	-	1,000,141
Financing, net	1,111,843	-	-	-	1,111,843
Other assets	29,964	-	-	-	29,964
Total financial assets	14,560,481	1,774,884	3,397	10,659	16,349,421
Financial liabilities					
Due to banks and other financial institutions	-	-	-	-	-
Customers' deposits	1,497,528	-	-	-	1,497,528
Other liabilities	203,524	-	-	-	203,524
Total financial liabilities	1,701,052	-	-	-	1,701,052
Commitments and contingencies	1,092,693	-	-	12,749	1,105,442
Maximum credit exposure (stated at credit equivalent amounts) of Commitments and contingencies	445,362	217	-	2,549	448,128

24,2 The distributions by geographical concentration of impaired financing and allowances for impairment on financing are as follows:

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

2009					SAR'000
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non Performing financing, net	-	-	-	-	-
Allowances for impairment on financing	-	-	-	-	-

25. Financial Risk Management

Market risk

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

a) Risk of rate of return

Risk of rate of return reflects the future cash flows representing the returns on investment, financing and liabilities which are affected by changes in market price.

A fair value risk of returns represents the risks related to the changes in the fair value for financial instruments. There is no significant exposure affecting the changes in market price for future cash flows since most of financial assets have fixed returns and they are reported in the consolidated financial statements based on amortized cost.

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 SIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on SIBOR.

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.

2010						SAR'000
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	657,593	657,593
Due from banks and other financial institutions	3,071,047	1,304,333	1,356,978	-	70,959	5,803,317
Investment, net	2,549,776	73,813	-	-	-	2,623,589
Financing, net	1,255,039	1,576,727	7,494,623	5,266,861	-	15,593,250
Property and equipment net	-	-	-	-	1,193,195	1,193,195
Other assets	-	-	-	-	797,793	797,793
Total assets	6,875,862	2,954,873	8,851,601	5,266,861	2,719,540	26,668,737
Liabilities & shareholders' equity						
Due to banks and other financial institutions	2,254,016	-	-	-	-	2,254,016
Customer deposits	1,253,246	2,580,055	399,559	-	4,083,018	8,315,878
Other liabilities	-	-	-	-	478,291	478,291
Shareholders' equity	-	-	-	-	15,620,552	15,620,552
Total liabilities & shareholders' equity	3,507,262	2,580,055	399,559	-	20,181,861	26,668,737
Yield sensitivity - On statement of financial position	3,368,600	374,818	8,452,042	5,266,861	(17,462,321)	-
Yield sensitivity - Off statement of financial position	505,687	690,406	3,806,818	-	-	5,002,911
Total Yield sensitivity gap	3,874,287	1,065,224	12,258,860	5,266,861	-	-
Cumulative Yield sensitivity gap	3,874,287	4,939,511	17,198,371	22,465,232	-	-

2009						SAR'000
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	361,133	361,133
Due from banks and other financial institutions	11,818,450	2,005,536	-	-	22,354	13,846,340
Investment, net	550,305	449,836	-	-	-	1,000,141
Financing, net	7,320	162,506	667,685	274,332	-	1,111,843
Property and equipment net	-	-	-	-	922,199	922,199
Other assets	-	-	-	-	64,737	64,737
Total assets	12,376,075	2,617,878	667,685	274,332	1,370,423	17,306,393
Liabilities & shareholders' equity						
Due to banks and other financial institutions	-	-	-	-	-	-
Customer deposits	1,110,878	386,650	-	-	-	1,497,528
Other liabilities	-	-	-	-	203,524	203,524
Shareholders' equity	-	-	-	-	15,605,341	15,605,341
Total liabilities & shareholders' equity	1,110,878	386,650	-	-	15,808,865	17,306,393
Yield sensitivity - On statement of financial position	11,265,197	2,231,228	667,685	274,332	(14,438,442)	-
Yield sensitivity - Off statement of financial position	104,364	244,279	756,799	-	-	1,105,442
Total Yield sensitivity gap	11,369,561	2,475,507	1,424,484	274,332	-	-
Cumulative Yield sensitivity gap	11,369,561	13,845,068	15,269,552	15,543,884	-	-

b) Currency Risk

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Bank's management sets limits on the level of exposure by individual currency and in total for both overnight and intraday positions, which are monitored daily. As Saudi Arabian Riyal is pegged to US dollar, balances in US Dollar are not considered to represent significant currency risk. The Bank's exposure in currencies other than USD and USD pegged currencies are insignificant, therefore does not carry significant currency risk.

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

	2010 SAR'000	2009 SAR'000
Assets		
Cash & balances with SAMA	9,645	1,723
Due from banks and other financial institutions	2,486,449	1,479,521
Investments	14	14
Financing	63,585	12,897
Other assets	8,016	-
Total currency risk on assets	2,567,709	1,494,155
Liabilities		
Due to banks and other financial institutions	-	-
Customers' deposits	413,625	29,566
Other liabilities	141,713	-
Total currency risk on liabilities	555,338	29,566

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

	2010 SAR'000	2009 SAR'000
USD	1,158,857	913,427
Euro	272	13,167
UAE Dirham	1,027	192
BHD	270,806	264,094
QAR	579,099	272,943
Others	2,310	766
Total	2,012,371	1,464,589

c) Equity Price Risk

Equity risk refers to the risk of decrease in fair value of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. Currently the Banks' exposure to equities are not material thus does not holds any significant equity price risk.

26. Liquidity risk

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

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the historical experience. The amounts disclosed in the table (a) below are contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Management monitors the daily position and the maturity profile to ensure that adequate liquidity is maintained. All liquidity policies and procedures are subject to review and approval by Asset Liability Committee (ALCO). Daily reports to management cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

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

The Bank has the ability to raise additional funds through special investment arrangement facilities with SAMA.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December, 2010 and 2009 based on contractual undiscounted repayment obligations. As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appeared in the consolidated statement of financial position.

						SAR'000
2010	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,549,404	1,052,102	-	-	-	2,601,506
Customers' deposits	4,248,402	2,250,769	1,885,089	-	-	8,384,260
Other liabilities	-	-	-	-	455,572	455,572
Shareholders' Equity	-	-	-	-	15,620,552	15,620,552
Total Liabilities and shareholders' equity	5,797,806	3,302,871	1,885,089	-	16,076,124	27,061,890

						SAR'000
2009	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	-	-	-	-	-	-
Customers' deposits	1,073,933	424,708	-	-	-	1,498,641
Other liabilities	-	-	-	-	203,524	203,524
Shareholders' Equity	-	-	-	-	15,605,341	15,605,341
Total Liabilities and shareholders' equity	1,073,933	424,708	-	-	15,808,865	17,307,506

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

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

2010	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total (SAR'000)
Assets						
Cash & balances with SAMA	657,593	-	-	-	-	657,593
Due from banks and other financial institutions	3,142,006	1,304,333	1,356,978	-	-	5,803,317
Investments	2,549,776	73,813	-	-	-	2,623,589
Financing, net	1,255,039	1,576,727	7,494,623	5,266,861	-	15,593,250
Property and equipment, net	-	-	-	-	1,193,195	1,193,195
Other assets	-	-	-	-	797,793	797,793
Total	7,604,414	2,954,873	8,851,601	5,266,861	1,990,988	26,668,737
Liabilitties and shareholder's equity						
Due to banks and other financial institutions	2,254,016	-	-	-	-	2,254,016
Customers' deposits	5,336,264	2,580,055	399,559	-	-	8,315,878
Other liabilities	-	-	-	-	478,291	478,291
Shareholders' equity	-	-	-	-	15,620,552	15,620,552
Total	7,590,280	2,580,055	399,559	-	16,098,843	26,668,737
Commitments & contingencies	505,687	690,406	3,806,818	-	-	5,002,911

2009	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total (SAR'000)
Assets						
Cash & balances with SAMA	361,133	-	-	-	-	361,133
Due from banks and other financial institutions	11,840,804	2,005,536	-	-	-	13,846,340
Investments	550,305	449,836	-	-	-	1,000,141
Financing, net	7,320	162,506	667,685	274,332	-	1,111,843
Property and equipment, net	-	-	-	-	922,199	922,199
Other assets	-	-	-	-	64,737	64,737
Total	12,759,562	2,617,878	667,685	274,332	986,936	17,306,393
Liabilitties and shareholder's equity						
Due to banks and other financial institutions	-	-	-	-	-	-
Customers' deposits	1,110,878	386,650	-	-	-	1,497,528
Other liabilities	-	-	-	-	203,524	203,524
Shareholders' equity	-	-	-	-	15,605,341	15,605,341
Total	1,110,878	386,650	-	-	15,808,865	17,306,393
Commitments & contingencies	104,364	244,279	756,799	-	-	1,105,442

27. Fair values of financial assets and liabilities

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

28. 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:

Directors, key management personnel, Bank's mutual funds and major shareholders and their affiliates	2010 SAR'000	2009 SAR'000
Financing	209,530	-
Advances to key management personnel	337	1,811
Customers' deposits	2,204,687	391,633
End of service benefit	2,586	1,303
Bank's Mutual funds	50,000	-

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

	2010 SAR'000	2009 SAR'000
Income on financing	6,447	-
Return on customers' time investments	7,432	3,549
Directors' remuneration	3,193	2,887
Compensation paid to a founding shareholder for facilitating IPO and incorporation of the bank	-	20,000

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:

	2010 SAR'000	2009 SAR'000
Short-term employees benefits	18,903	33,106
End of service benefit	1,283	1,303

29. Capital Adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

Particulars	2010	2009
	SAR'000	SAR'000
Credit Risk Weighted Assets	**17,399,032**	5,814,434
Operational Risk Weighted Assets	**1,334,369**	2,704,451
Market Risk Weighted Assets	**2,059,997**	-
Total Pillar-I Weighted Assets	**20,793,398**	8,518,885
Tier I Capital	**15,620,541**	15,605,341
Tier II Capital	**3,006**	-
Total Tier I & II Capital	**15,623,547**	15,605,341
Capital Adequacy Ratio %		
Tier I ratio	**75%**	183%
Tier I + Tier II ratio	**75%**	183%

30. BASEL II PILLAR 3 Disclosure

Certain additional quantitative and qualitative disclosures are required under Basel II Pillar 3. These disclosures will be made available to the public on the Bank's website (www.alinma.com) within 60 business days after December 31, 2010 as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

31. Prospective changes in the International Financial Reporting Framework

The Bank has chosen not to early adopt the amendments and revisions to the following standards which have been published and is mandatory for compliance for the Bank's accounting years beginning after 1 January, 2011.

- The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. IAS 24 (2009 - Revised) applies retrospectively for annual periods beginning on or after 1 January, 2011 and early adoption is permitted.

- IFRS 9 Financial Instruments - These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. It applies for annual periods beginning on or after 1 January, 2013 and early adoption is permitted.

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

32. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary. During December 2010, the investment arm of the Bank has launched two funds namely Saudi Riyal Liquidity Fund and Saudi Equity Fund.

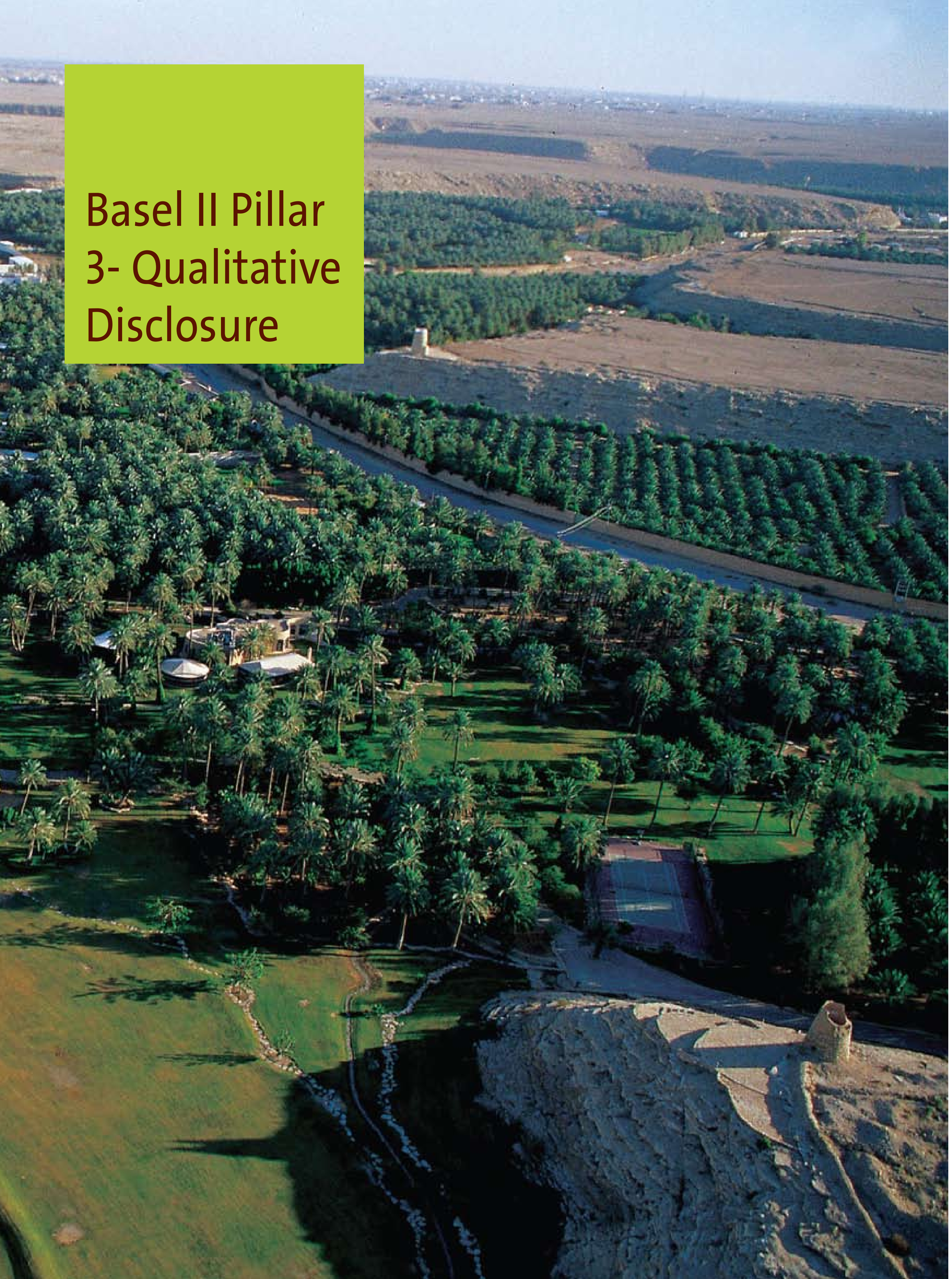
33. Comparative figures

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

34. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Bank's Board of Directors on 19 Safar 1432 H (corresponding to January 23, 2011).

Basel II Pillar 3- Qualitative Disclosure



Basel II Pillar 3- Qualitative Disclosure

1. Scope

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

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

The bank complies with the Basel II norms, having submitted to the Saudi Arabian Monetary Agency (SAMA) Alinma's report regarding returns derived under the Standardized Approach for credit and market risk and the Basic Indicator Approach for operational risk. The bank has also submitted its Internal Capital Adequacy Assessment Process (ICAAP) documentation to SAMA for Fiscal year 2010.

2. Risk Management Framework

To manage various risks being faced by the bank due to its business drivers, the board of directors and management have determined and selected the levels of risks to which the bank can be exposed in line with the strategies set forth and the bank's risk management capabilities. Responsibilities have been delegated to the board committees, the Risk Management group, the Risk Management committee, ALCO, the ICAAP Task Force and various lines of business.

All banking activities are developed and performed within a framework approved by the board and the bank's committees, as defined in related policies and procedures, to ensure adequate governance is in place to manage the potential risks that the bank may face. During the 2010 fiscal year the bank enhanced and strengthened its enterprise risk management framework through the Risk Appetite framework, which is under internal review.

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

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

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

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

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

Allocating Capital
The bank plans and allocates capital to business units and to new business opportunities based largely on their expected risk-adjusted returns.

Setting Risk Limits
The bank's management has established limits for the bank's risk activities subject to review and concurrence of the board of directors. Limits define the boundaries of acceptable risk for various business activities based on the bank's risk appetite. During the 2010 fiscal year, the bank further strengthened the Risk Limits framework.

Establishing Risk Policies
During the 2010 fiscal year, the bank launched several enterprise risk management initiatives and hired consultants to strengthen further its enterprise-wide risk management framework. The bank is in the process of implementing the updated risk management policies for credit, market, operational, liquidity, anti-fraud, Pillar II compliance and stress testing through the ERM-Basel II program.

3. Risk Governance Structure

Committees

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

The support functions within the risk management framework have been delegated to:

- Alinma Board Executive Committee: It has been delegated responsibility and authority from the board of directors to manage the bank's certain risks defined in the charter, including approval of financing above the authority of management.
- Risk Management Committee (RMC): It is chaired by the chief risk officer and, going forward, will be chaired by the chief executive officer (CEO). It has the principal responsibility of assuring implementation of sound principles, policies, procedures and practices for the management of key risks under the bank's enterprise-wide risk framework and in compliance with Basel II requirements and SAMA guidelines.
- Credit Committee: This committee, whose membership comprises the authorized lending officers, acts individually and independently as credit committee members of the bank. The primary function of the committee is to manage the bank's overall credit portfolio in line with the established credit policy and procedures, limits and risk appetite; and to technically, independently and prudently evaluate and approve, within its delegated approval authority, all credit transactions, programs, models and credit-related products and services.
- ICAAP Task Force: It has been constituted to prepare and coordinate preparation of ICAAP documents and ICAAP related policies, models and frameworks. The task force has successfully prepared ICAAP documents that are submitted to SAMA. The task force will continue to refine the Pillar 2 risk measurement.

Additionally, the independent supervision of risk management activities of the bank is performed by Internal Audit according to the Audit Plan supervised by the Audit Committee of the board of directors. The management of bank's balance sheet including the management of liquidity and funding, capital adequacy as well as market and liquidity risk is delegated to the Asset Liability Committee (ALCO).

These committees function as an integral part of the overall enterprise risk management framework.

Risk Management Group

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

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

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

Among the principal activities, responsibilities and authorities of the Risk Management group are the following:

- Establishing, maintaining and reviewing the overall risk apettite, strategic, credit, market, liquidity, and operational risk policies, as well as ICAAP and stress testing policies.
- Establishing the risk governance framework and reviewing its system for effective implementation and monitoring of enterprise risk policy.
- Reviewing and approving business processes and procedures to assure effective implementation of those policies.
- With the establishment of risk appetite, risk tolerance and risk limits framework, the approval framework credit, market and operational risks and the delegation of approval authorities, has further been enhanced during the year
- Participating in the approval of credit, market and operational risk exposures as required by the respective approval frameworks.

4. Risk Management Process

The bank has established a sound process for executing all elements of risk management including risk identification, quantification, mitigation, monitoring, reporting and control.

Credit Risk

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

- Corporate Banking
- Retail Banking
- Treasury

Each credit risk-taking unit has developed its own respective policies and guidelines governing its credit risk-taking functions, which are contained in respective business risk policies and frameworks. In addition, the bank is in the process of establishing enterprise-wide credit risk policies, procedures, limits, models, reporting and controls.

All corporate credit process, approval, disbursement, administration, classification and control activities are centrally managed by the Credit Operations department, which is governed by the bank's credit policy and procedures. Corporate risk-rating has been centralized and generic probability of default is calculated for corporate customers as per Moody's KMV.

The bank has established a credit risk limits framework to manage and control credit concentration to counterparties. Geographies, sectors and concentration are governed and reported as per set regulatory guidelines.

Market Risk

Market risk is the risk of losses in on- and off-balance sheet position arising from movements in market rates or prices such as cost of fund rates, foreign exchange rates, equity prices, and commodity prices resulting in a loss. Market risk components focus on the three most significant components: price risk, profit rate risk and liquidity risk.

Liquidity Risk

Liquidity risk represents potential losses arising from the inability either to meet obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. The bank has established the liquidity gap measurement for the principal currencies it deals with and measures liquidity risk under stressed conditions.

Profit Rate Risk

Profit rate risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers, and also defines the risk of reduced profits, resulting from a change in market prices impacting the gap between the profit rate structures of assets and liabilities. The bank is establishing Repricing Gap Reporting and Fund Transfer Pricing for the principal currencies the bank deals in.

Equity Investment Risk

Equity Investment Risk arises from entering into a partnership to undertake/participate in a particular financing or general business activity where the provider of financing shares in the business risk.

The policies, guidelines and stipulations under which the equity investment risk will be managed are contained in the bank's investment policy, which has been developed and implemented by the Treasury group. Its implementation is overseen by the Assets and Liabilities committee.

Currently the bank is pursuing Shariah-compliant equity investment as part of its overall portfolio.

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. Detailed operational risk policies and guidelines are governed by the bank's operational risk policy framework.

The bank has established risk control self-assessment, key risk indicators, and business continuity management processes as well as an operational risk/loss event database. The bank is also establishing a scorecard based approach for capital allocation to business units.

Legal Risk

Legal risk is the risk that may result from contracts, lawsuits or legal court orders. The Legal group is responsible for managing legal risk. The bank has established processes to manage and mitigate legal risks.

Reputational Risk

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

Other Risks

Other risks such as those arising from non-compliance with Shariah guidelines are monitored through the Risk Management group. As part of ICAAP compliance, the bank has stress tested its financials for non-compliance risk.

5. Capital Adequacy

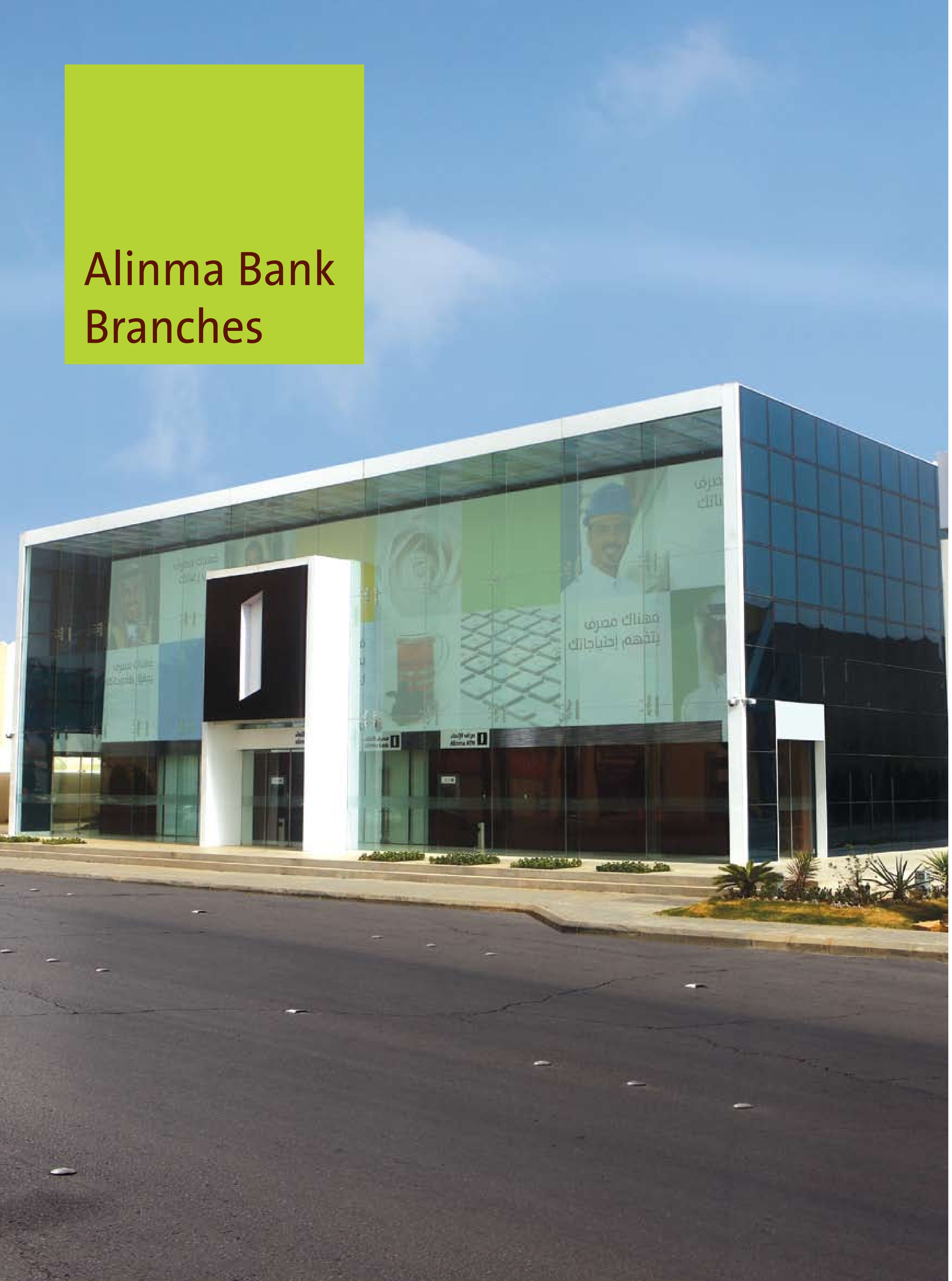
The bank is required to adhere to a regulatory and economic capital regime -- the Basel II Accord as adapted to local conditions by the Saudi Arabian Monetary Agency (SAMA).

The bank has a process for calculating its overall capital adequacy commensurate with its risk profile, risk appetite and strategy. Capital adequacy is maintained above the minimum regulatory requirements, which are reviewed and managed by the bank's executive management to ensure its compliance to SAMA regulations with appropriate actions being taken where deemed necessary.

The bank is in the process of introducing the Standardized Approach for credit and market risk, and the Use Basic Indicator Approach for operational risk. Given its aspirations, the bank intends in the coming years to use more sophisticated approaches. This does not preclude the bank from, at some later stage, advancing its capabilities to meet the Internal Ratings Based Approach (IRBA) requirements for credit risk, Internal Model Approach (IMA) requirements for market risk and Advanced Measurement Approach (AMA) requirements for operational risk.

6. Road Ahead

The bank is committed to effective enterprise risk management practices and institutionalization of risk awareness culture across all lines of business through implementation of the ERM-Basel II program and by embracing Basel III regulatory requirements.



Alinma Bank Branches

Alinma Bank Branches

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

Riyadh

Branch	Area	Street
Dhart Al Badiah Branch (Gentlemen and Ladies)	Dhart Al-Badiah Branch	Al Madenah Almunawara Road
Takassusi branch (Gentlemen and Ladies)	Al Olaya	Takassusi
Head office	Al Olaya	King Fahad Road
Al Malaz Branch	Al Zahra	Salah Al Deen Al-Ayoubi Road
Al Swaide Branch (Gentlemen and Ladies)	Al Swaide Dist.	Al Swaide Street
Al Rabwah Branch (Gentlemen and Ladies)	Al Rabwah Dist.	Omar Bin Abdulaziz Street
Sales Center	Al Mohamdiah	Al Takhassusi Street
Al Ghadeer Branch (Gentlemen and Ladies)	Al Ghadeer Dist.	King Abdulaziz Road
Nassem Branch	Nassem Dist.	Hassan Bin Thabit Street
Rayaan Branch (Gentlemen and Ladies)	Rayaan Dist.	Imam Shafeay Street

Jeddah

Branch	Area	Street
Al-Rabwah Branch (Gentlemen and Ladies)	Al Rabwah	King Fahad Road
Al-Rawdah Branch (Gentlemen and Ladies)	Al-Rawdah	Sari Road
Al Balad Branch	Al Balad	King Abdulaziz Road
Al Rehab Branch (Gentlemen and Ladies)	Al Rehab Dist	Prince Mohammad Bin Abdulaziz (Tahliyah)

Makkah

Branch	Area	Street
Makkah Branch	Al Aziziah	Al-Aziziah Road, Al-Aql Tower

Dammam

Branch	Area	Street
Dammam Branch (Gentlemen and Ladies)	Al Tubaishi	Prince Mohammad Bin Fahad Street (First Street)
Rayaan Branch (Gentlemen and Ladies)	Rayaan Dist	Ali Bin Aby Talib Street

Madina

Branch	Area	Street
Madina Branch (Gentlemen and Ladies)	Khaledya	Ring Road Street

Khamis Mushait

Branch	Area	Street
Khamis Mushait Branch (Gentlemen and Ladies)	Al Rawdah	King Khalid Street close to King Fahad Mosque

Alinma Bank Branches

Taif

Branch	Area	Street
Taif Branch (Gentlemen and Ladies)	Moeashi	Al Jaish Road

Najran

Branch	Area	Street
Najran Branch	Prince Mishal Dist	King Abdulaziz Street

Hofuf

Branch	Area	Street
Hofuf Branch	Al Souk	King Abdulaziz street

Jubail

Branch	Area	Street
Jubail Branch (Gentlemen and Ladies)	Al Fanatire	Fanatire Street

Mubarraz

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

Kharj

Branch	Area	Street
Kharj Branch (Gentlemen and Ladies)	Al-Nahdah Dist	King Fahad Street

Arar

Branch	Area	Street
Arar Branch	Al Rawda Dist	King Saud Street

For more information about bank's locations, please visit our website www.alinma.com or call Alinma phone banking 8001208000