



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

From its inception, Alinma Bank has endeavored to set a new standard in the business of Shariah-compliant banking. Towards that end, the bank has been successful in serving its partners (clients) with the highest level of professionalism, providing trusted and thoroughly vetted Shariah-compliant products and services, and sharing its vision and mission, which are both guided by a firm set of high-minded principles that permeate all of the bank's dealings.

Alinma Bank's establishment comes as a direct result of the continued development of the Kingdom under the wise guidance of its national leadership. On the occasion of issuing its first annual report, Alinma Bank extends its deepest gratitude and appreciation to the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud; HRH, Prince Sultan Ibn Abdulaziz Al Saud, Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General; and HRH, Prince Naif Ibn Abdulaziz Al Saud, Second Deputy Prime Minister and Minister of Interior. It was with their support that Royal Decree No. M/15 (dated 28/2/1427 – 28/3/2006) was issued, effectively establishing Alinma Bank as a joint stock company with capital of SAR 15 billion.

One of the aims of the bank is to contribute to the development of the Kingdom's economy by bolstering the strength of the banking sector, a sector that is vital for the development and support of various other sectors and fields. As such, Alinma seeks to make a tangible contribution both in the present economic environment and in the future as a strong partner for all. Indeed, the concept of partnership is at the core of the bank's identity; and the bank views its clients as partners. This view establishes the basis for the bank's relationship with all those with whom it has dealings. It is the bank's hope that through this approach, it can achieve long-term, far-reaching and sustainable partnerships.

Today, Alinma is fully operational and moving quickly to meet the needs of the market. In the short-term, growth will be a key focus. This fits with the bank's slogan – For Our Growth – which is addressed to all residents of the Kingdom, citizens and expatriates alike, and aims for comprehensive growth across the whole of Saudi Arabia: for our economy, for our industry, for our prosperity, for our potential and for our future.

We welcome you to join us in building this bright future.



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:

Serving the
Community

Taking Initiative

Innovation

Striving to Lead

Serving Customers

Strengthening
Relationships

Honesty

Respect for All



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 holds 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



Mr. Saad Ali Al-Kathiry
Member



Dr. Suliman Mohammad Al-Turki
Member



Mr. Abdulmuhsin Abdulaziz Al-Hussein
Member



Dr. Ibrahim Fahad Al-Ghufaili
Member



Mr. Mohamed Yousuf Naghi
Member



Dr. Abdulrehman Hamad Al-Harkan
Member



Dr. Saad Attia Al-Ghamdi
Member

Message from the Chairman of the Board of Directors



Thanks to the efforts of its dedicated staff and management, Alinma Bank continues on course after having successfully launched its operations, all of which have been developed according to the strictures of Shariah-compliance. Alinma now stands in a position to become a strong contributor to the Saudi economy. All of this has been possible due to the kind support and patronage of the Kingdom's leadership: The Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz Al Saud; HRH Prince Sultan Ibn Abdulaziz Al Saud, Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General; and HRH Prince Naif Ibn Abdulaziz Al Saud, Second Deputy Prime Minister and Minister of Interior.

Of the bank's achievements thus far, the most important has been the comprehensive effort to commence

commercial operations. This has been a multi-faceted effort that has included the acquisition and implementation of the latest and most advanced banking system technologies, the building of the bank's kingdom-wide network of branches and ATMs, the preparation and deployment of advanced electronic/alternative banking channels and, of course, the recruitment of the finest banking professionals and specialized employees who have contributed significantly to the achievements of the bank.

Alinma has excelled in offering modern products and services that meet partner needs. This has been reflected in the bank's financial results. For the first financial year, which ended on December 31, 2009, the bank achieved a net income of SAR 605 million, which included net income from the bank's pre-operating period of SAR 290 million.

Total operating income during the first financial year reached SAR 954 million, total assets amounted to SAR 17,306 million, investments stood at SAR 1,000 million, and balances with banks and other financial institutions reached SAR 13,846 million. The bank's financing portfolio amounted to SAR 1,126 million, its customer deposits reached SAR 1,501 million and total equity equaled SAR 15,605 million.

Alinma looks forward to continued growth and achievement and hopes to help its partners and shareholders fulfill their aspirations. In order to do this, the bank will continue to dedicate time and resources to the acquisition, retention and development of staff, and the implementation of the latest banking technologies. In this way, Alinma hopes to fulfill its own vision of becoming the preferred financial partner for all.

In conclusion, I would like to extend, on my own behalf and on behalf of the entire board of directors, the executive management and the bank's employees, most sincere thanks and appreciation to the Kingdom's leadership and regulatory institutions for their unwavering support of the banking sector. I also would like to thank my colleagues on the board of directors and the bank's employees for their dedication and hard work. May we continue to move forward into a future filled with success and achievement.

Abdulaziz Abdullah Al-Zamil
Chairman of the Board of Directors

Message from the Managing Director/CEO



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. The bank was established with share capital of SAR 15,000,000,000 and is authorized by the Saudi Arabian Monetary Agency (SAMA) to provide retail and corporate banking services within Saudi Arabia and to engage in treasury and brokerage activities in both domestic and foreign markets.

Upon the issuance of the royal decree, the founding shareholders (the Public Investment Fund, the Public Pension Agency and the General Organization for Social Insurance) formed a founding committee to oversee preparations related to the offering of the bank's shares for public subscription as well as to manage and supervise the legal and administrative arrangements for the establishment of the bank. After the bank's initial public offering (IPO), the founding assembly of the bank was held on Jumada Awal 16, 1429, corresponding to May 21, 2008. At this meeting, the first board of directors was appointed to oversee the final phase of the bank's establishment and to supervise the bank's operations.

From its inception the bank has carefully studied the unique characteristics of the Saudi banking sector and

has worked to achieve a competitive advantage versus other competitors in the market. As a result, the bank has developed a modern, integrated strategy for the provision of Shariah-compliant banking services designed to maintain stability and to cope with changes in the local and international economies. Through this approach, Alinma hopes to establish itself over the coming years as a leading bank in Saudi Arabia.

Government spending, an increase in various economic opportunities in the Kingdom and the issuance of several regulations over the past few years have provided, and will provide opportunities for the banking sector and will lead to the growth of financing and investment activities. The same can be said for the expected issuance of real estate mortgage regulations.

The bank has taken into account, with regard to its strategy, the increasing demand, locally and globally, for Shariah-compliant financial products and services and the increased competition in this respect. Accordingly, the bank was established with the capacity to meet future needs and will move, as necessary, to increase its operational efficiency and to provide its partners with a wide range of products and services.

The following is a summary of the key accomplishments achieved by the bank during its establishment phase and its first financial year:

- The successful completion of its initial public offering

(IPO), which was held April 7 – 16, 2008. At the close of the IPO, the coverage ratio reached 174% and more than 8.8 million subscribers had participated. Both financial experts and media outlets praised the IPO for the level of transparency in the process, which came as a result of the bank's efforts to publish information about the subscription process in prominent local newspapers and websites. This marked the first time in Saudi Arabia that such transparency efforts were taken for an IPO. Further recognition came from *The Banker* magazine, which named the Alinma IPO its 2008 "Equities Deal of the Year" for the Middle East region.

- The successful recruitment and training of qualified and experienced staff. As of December 31, 2009, more than 1052 male and female employees had been recruited and the bank had a Saudization rate that exceeded 83%. Moreover, the bank has held 20 internal programs with a total of 206 training courses that have been attended by nearly 299 trainees. These programs have provided training in banking, finance, legal, legislative, administrative, and behavioral related subjects. Additionally, some 269 male and female employees have participated in 269 conferences and open training courses in specialized subjects inside and outside the Kingdom. At Alinma Bank's investment subsidiary, Alinma Investment, 57 employees have been trained through two internal programs and 24 conferences and open courses inside and outside the Kingdom.
- The design of the official logo as well as the launch of Alinma's corporate identity.

- The designing, equipping and opening of the physical premises related to bank operations including an integrated information center, a phone banking center and a training center.
- The development and deployment of systems for the execution, facilitation and support of banking operations (computerized in-branch transactions, database systems, ATM systems, Alinma Internet and Alinma Phone).
- The development and deployment of various technical systems related to branch operations (welcoming system, partner service system, ATM system and on-demand issuance of Alinma ATM debit smart cards) and electronic transactions and information transfer (SADAD, SWIFT, Reuters, SIMAH and the Saudi Payment Network).
- The launch of the bank's kingdom-wide branch network, consisting of 13 branches for men and 9 branches for women. More branches are expected to open throughout 2010 and already 22 sites have been purchased and 15 sites have been leased for branch operations. An additional 100 sites have been leased for ATMs of which 81 were operational by the end of 2009 (55 drive-up, 26 lobby).
- The conclusion of agreements with several specialized companies to provide a range of services such as secure transportation of cash, ATM cash replenishment, head office and branch safety and security, hospitality, cleaning, maintenance and postal services.

- The designing, equipping and opening of a state-of-the-art facility dedicated solely to the processing of partner account statements in order to guarantee the security and confidentiality of partner account information and personal data.
- The acquisition and deployment of security monitoring systems for the head office, branches and ATMs.
- The designing and deploying of an IT strategy, emphasizing precision, quality and safety in order to reduce risk and maintain the confidentiality of partner information. The system is state-of-the art and in line with international industry best practices.
- The launch of corporate banking operations in the second quarter of 2009 providing a range of products and services including corporate current and investment accounts, checking services, business services (guarantees, documentary credits and documentary collections), deposit, withdrawal and transfer services, local and international remittances through branches and alternative channels, corporate cash and liquidity management services, and financing through Murabaha, Musharaka, Bai Al-Ajal, Ijara and other products.
- The launch of retail banking operations for individual partners during the latter half of 2009 providing a range of products and services through a network of

branches including electronic/alternative channel self-service, current and investment accounts, instant in-branch ATM card issuance, checking services, funds transfers, currency exchange, standing orders, bill payments, global limit, auto and real estate financing and other products and services.

- The launch of the bank's advertising campaign under the slogan "Aspire" in the fourth quarter of 2009. The aim of the campaign was to promote the bank's launch, create greater awareness of the bank, establish a public image of the bank and develop a positive impression regarding the role of the bank in society. As a result of the campaign, the bank saw strong demand for its corporate and retail services.
- The preparation of the bank's Reserve Information Center, which is expected to be operational during the first half of 2010.
- The initiation of construction and preparation of 16 independent Alinma branches across the Kingdom, 6 of which are expected to open during 2010.
- The receipt of ISO 27001 global certification for online banking information security services. The certification, 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. The bank also received the award for the best call center technology in the Middle East region for 2009 from Insights, a Middle East call center professional services organization. Alinma, which faced strong competition from other regional call center operations, was selected after a thorough review of its call center infrastructure and communication procedures.

Still in its first year of operations, the bank ambitiously looks forward to a bright and promising future. Alinma hopes to not only achieve results in the short-term, but also to establish a financial entity that supports the Kingdom's national economy and achieves sustainable long-term growth. What has been achieved by the bank to date represents the foundation from which it will strive for further achievements. Alinma Bank continues to work on behalf of its partners and shareholders in pursuit of our mutual aspirations. In this year and the next, the bank will focus on building its financial position, completing the construction of its branch and ATM network, providing more products and services to its partners and launching subsidiary operations.

In conclusion, I extend, on my own behalf and on behalf of the bank's employees, deepest thanks and appreciation to the Custodian of the Two Holy Mosques King Abdullah Ibn Abdulaziz, HRH, the Crown Prince, Deputy Prime Minister,

Minister of Defense and Aviation and Inspector General, Prince Sultan Ibn Abdulaziz and HRH, the Second Deputy Prime Minister and Minister of Interior, Prince Naif Ibn Abdulaziz, for their kind care and constant support for the banking sector in the Kingdom.

I also extend my thanks and appreciation to the Ministry of Finance, the Saudi Arabian Monetary Agency, the Capital Market Authority, and the Ministry of Industry and Commerce for their efforts and support for our national economy, including their support of Alinma Bank during the period of its establishment.

Finally, I also wish to extend a note of thanks to the bank's chairman and members of the board of directors for their constant support and to all employees of the bank for the efforts they have exerted. I wish continued progress and success for us all.

Abdulmohsen Abdulaziz Al-Fares
CEO

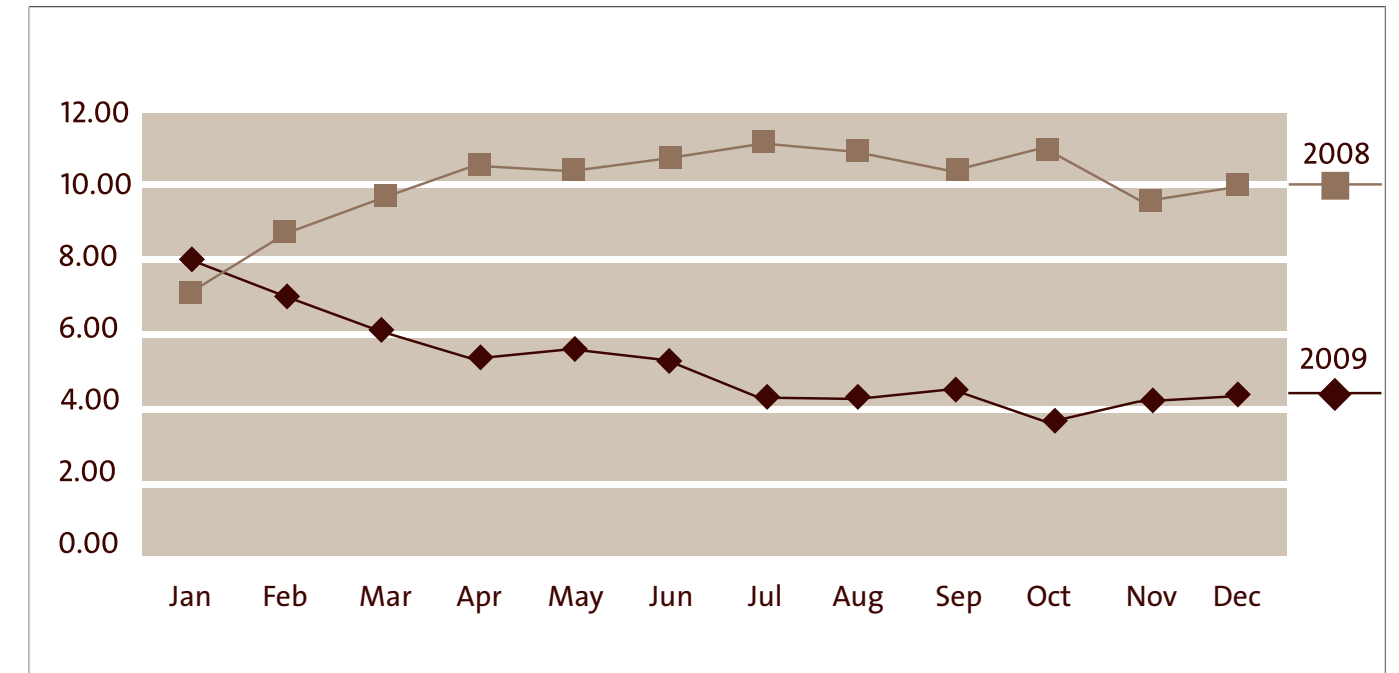
Directors' Report

The board of directors of Alinma Bank is pleased to present the bank's first annual report for the period ended December 31, 2009. Pursuant to clause 39 of the articles of association of the bank, the first financial year began on May 26, 2008 (the date of the ministerial resolution announcing the establishment of the bank) and extended through December 31, 2009.

Economic Overview

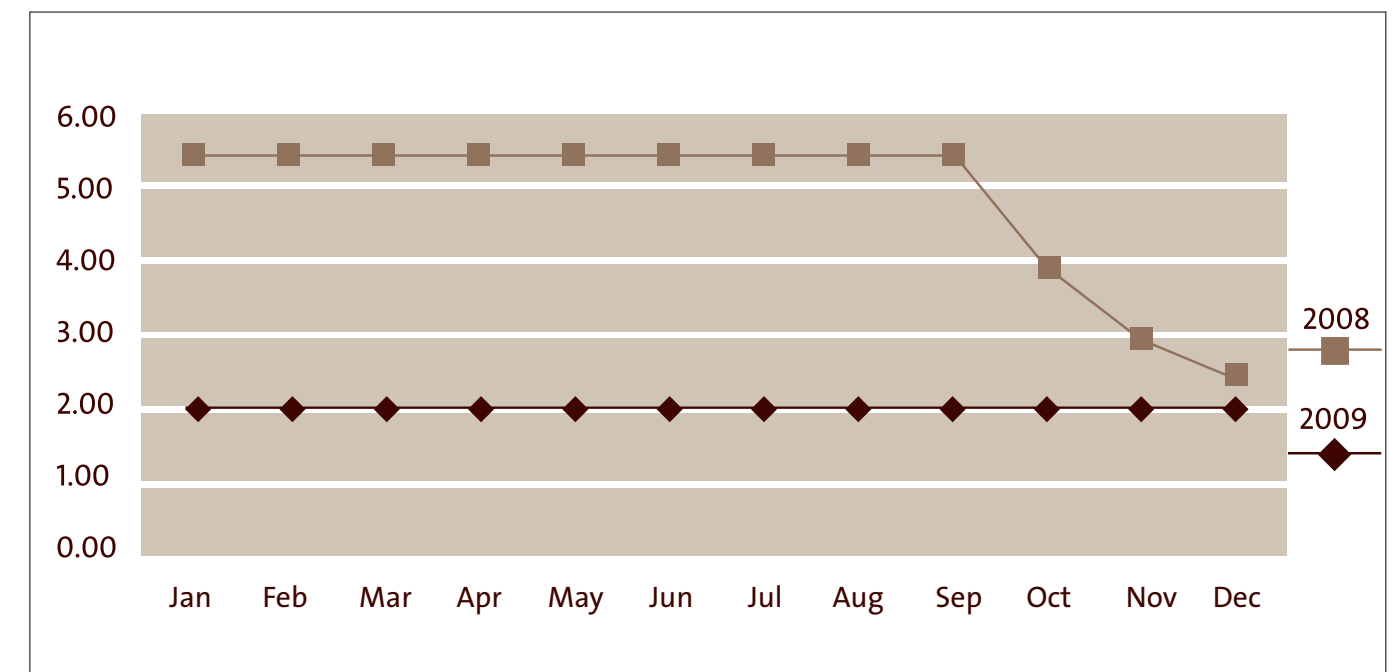
The Kingdom has recorded strong and steady growth during the last seven years as a result of increased oil production and higher oil prices. Non-oil sectors, especially the real estate and construction industries, have also contributed towards this growth. However, due to the negative influences of the global financial crisis, GDP growth for 2009 declined to 0.15% compared to 4.5% in 2008. The Saudi Arabian Monetary Agency (SAMA) has taken aggressive measures, such as frequent rate cuts and relaxing reserve requirements, to ensure adequate liquidity exists to meet domestic financing demand. As a result of SAMA's efforts, the inflation rate declined from 9.9% in 2008 to 4.2% by the end of 2009.

Inflation Trend during 2008-2009



The repo rate declined to 2.0% in January 2009 from the rate of 5.5%, which had prevailed up to September 2008. The statutory deposit requirements also declined from 13% to 7% and, as a result, inter-bank rates declined from around 5% in 2008 to around 1% during 2009.

Repo Rate Trend during 2008-2009



Incorporation and Commencement of Activities

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

– Alinma Investment Company

Based 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.

– Al-Tanweer Real Estate Company

Based in Riyadh, the company has capital of SAR 100,000. The objectives of the company include keeping and managing the asset titles that are transferred to the bank or to third parties as guarantees. The company also has the right to sell, buy and transfer real estate titles for the funding purposes for which the company has been established. Alinma Bank owns 98% of the company while the remaining 2% is owned by Alinma Investment Company.

Principal Activities of the Bank

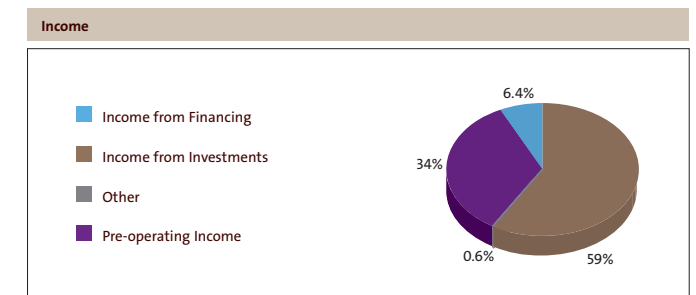
Alinma provides a comprehensive range of Shariah-compliant retail and corporate banking and investment services. At the core of the bank's mission is the concept of partnership, in which clients are seen as true partners who deserve to be valued and served with the highest level of transparency, innovation and respect. The bank serves its partners through a kingdom-wide network of branches (13 for men & 9 for women) as well as through a network of ATMs, which exceeded 80 in number by the end of 2009, and through its alternative channels, Alinma Internet, Alinma Phone and Alinma Mobile.

Financial Results:

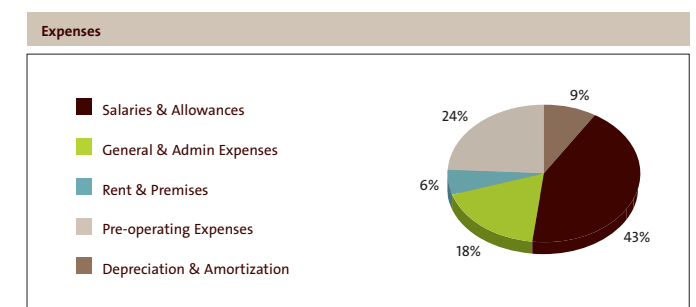
Highlights of the first financial year ended December 31, 2009 are given below:

Financial Position	SAR in millions
Financing, investments and balances with banks and other financial institutions	15,973
Deposits	1,501
Total Assets	17,306
Total Equity	15,605
Operating Results	
Net Income from Financing and Investments	954
Operating Expenses	639
Net Income	605

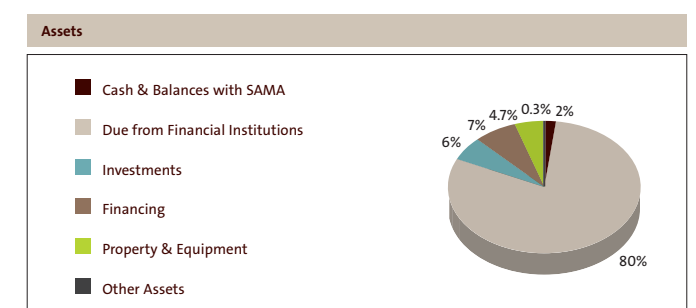
The net income of SAR 605 million for the period comprises operating income of SAR 315 million and pre-operating income of SAR 290 million. Being a new bank, the capital remained largely deployed in low-risk short-term investments during the period under review. However, with the launch of commercial operations in July 2009, the bank has gradually started replacing the above investments with medium and long-term financing. This strategy is expected to yield higher and sustainable revenues for the bank over the next few years.



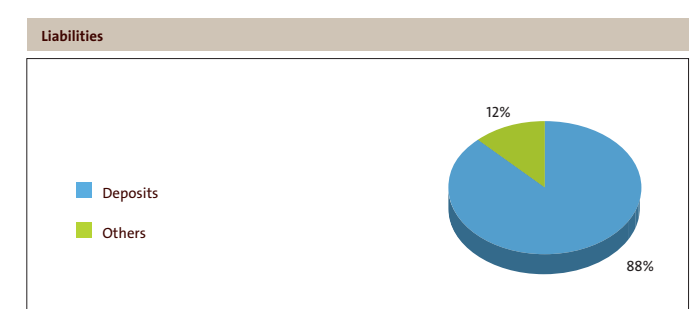
The operating expenses of SAR 638 million mainly include salaries and wages, amounting to SAR 361 million, and general and administrative expenses of SAR 277 million. In addition to the above, the bank spent SAR 1,001 million on various capital expenditures related to the acquisition of equipment, IT hardware/software and premises.



By the end of the financial year 2009, total assets amounted to SAR 17,306 million, which comprised financing to customers of SAR 1,126 million and Murabaha investments with SAMA and other banks of SAR 14,846 million.



Total customer deposits amounted to SAR 1,501 million.



Financial Position by Business Segments

The following is an analysis of the financial position of the bank as per major business segments:

SAR in millions

	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 revenues were derived from banking activities inside the Kingdom of Saudi Arabia.

Earnings per Share

Earnings per share for the first financial year amounted to SAR 0.40.

Borrowing by the Bank

There was no outstanding borrowing as of December 31, 2009.

Dividend Distribution Policy

The bank distributes its net income after deducting general expenses, Zakat and other costs and after setting aside reserves required under article 41 of the bank's articles of association.

The bank achieved a net profit of SAR 605 million in the first financial year which is proposed to be apportioned as follows:

	SAR in millions
Net income for the period	605
Less: Transfer to statutory reserve (25% of net income)	(151)
Transfer to general reserve	---
Retained earnings carried forward	454

Shareholding Structure

The bank has authorized capital of SAR 15,000,000,000 divided into 1,500,000,000 ordinary shares with a nominal value of SAR 10 per share.

The following table shows the shareholding structure of the bank:

Shareholder	Number of Shares	Ownership Percentage	Capital
Public Investment Fund	150,000,000	10%	1,500,000,000
Public Pension Agency	150,000,000	10%	1,500,000,000
General Organization for Social Insurance	150,000,000	10%	1,500,000,000
Public Subscribers	1,050,000,000	70%	10,500,000,000
Total	1,500,000,000	100%	15,000,000,000

Board of Directors

The bank is managed by a board of directors consisting of nine (9) members who serve a term of three (3) years. Members are appointed by shareholders at the ordinary general assembly. As an exception to the foregoing, and based on the bank's articles of association, the first board of directors was appointed by the founding committee of the bank for a period of five (5) years. The following table shows the names and details of the members of the board of directors:

Member's Name	Status	Other Directorships	Meeting Date							Number of Meetings	
			31/05/2008	18/11/2008	28/12/2008	07/03/2009	17/05/2009	14/06/2009	01/11/2009		27/12/2009
Eng. Abdulaziz Al-Zamil (Chairman)	Independent	Sahara Co. & Sipchem Co.	√	√	√	√	√	√	√	√	8
Mr. Abdulmohsen Al-Fares (Managing Director/CEO)	Executive	SABIC	√	√	√	√	√	√	√	√	8
Dr. Suliman Al-Turki	Non- executive		√	√	√	---	√	√	---	√	6
Mr. Saad Al-Kathiry	Non- executive		√	√	√	√	√	√	√	√	8
Mr. Abdulmuhsin Al-Hussein*	Non- executive		---	---	---	---	---	---	√	√	2
Dr. Abdulrehman Al-Harkan	Independent		√	√	√	√	√	√	√	√	8
Dr. Saad Al-Ghamdi	Independent		√	√	√	---	√	√	√	√	7
Mr. Mohamed Naghi	Independent	Emaar the Economic City	√	---	√	√	---	---	---	√	4
Dr. Ibrahim Al-Ghufaili	Independent		√	√	√	√	√	√	√	√	8
Mr. Adel Al-Zaid	-		√	√	√	√	√	---	---	---	5

* Mr. Abdulmuhsin Al-Hussein was appointed on 23/06/1430, corresponding to 16/06/2009, in place of Mr. Adel Al-Zaid.

Major Shareholders

There are no shareholders whose ownership exceeds 5% except the founding members.

Committees of the Board of Directors

The board of directors has formed various committees to assist it in discharging its duties. Those committees are as follows:

Executive Committee

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 nine (9) meetings during the financial year as shown in the table below:

Member's Name	Meeting Date									Number of Meetings
	25/01/2009	01/03/2009	19/04/2009	01/07/2009	26/7/2009	23/08/2009	13/10/2009	31/10/2009	13/12/2009	
Eng. Abdulaziz Al-Zamil (Chairman)	√	√	√	√	√	√	√	√	√	9
Mr. Abdulmohsen Al-Fares	√	√	√	√	√	√	√	√	√	9
Dr. Suliman Al-Turki	√	√	√	√	√	√	√	-	√	8
Mr. Abdulmuhsin Al Hussein*	-	-	-	√	√	√	√	√	√	6
Dr. Saad Al-Ghamdi	-	-	-	-	√	-	√	√	-	3
Mr. Adel Al-Zaid	√	√	√	-	-	-	-	-	-	3

* Mr. Abdulmuhsin Al-Hussein was appointed on 23/06/1430, corresponding to 16/06/2009, in place of Mr. Adel Al-Zaid.

Benefits & Compensations Committee

The board of directors formed the Benefits and Compensations Committee, comprising four (4) members. Only one meeting was held during the financial year and was attended by all members as shown in the following table:

Member's Name	Meeting Date
	28/05/2009
Dr. Suliman Al-Turki (Chairman)	√
Mr. Abdulmohsen Al-Fares	√
Mr. Mohamed Yousuf Naghi	√
Dr. Ibrahim Al-Ghufaili	√

Audit Committee

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

Member's Name	Meeting Date				Number of Meetings
	07/01/2009	08/04/2009	13/08/2009	12/11/2009	
Dr. Saad Al-Ghamdi (Chairman)	√	√	√	√	4
Dr. Abdulrehman Al-Harkan	√	√	√	√	4
Mr. Saad Al-Kathiry	√	√	-	√	3

Executive Management

The executive management tier of the bank, which manages the business of the bank, is composed of a number of executives headed by the CEO.

Remuneration of Members of the Board of Directors and Senior Executives

Description	SAR in millions		
	Executive Directors	Non - Executive Directors	Senior Management
Salaries & Allowances	-	-	18,923
Annual & Periodic Remuneration	439	2,449	-
Incentive Plans	-	-	-
End of Service Benefits	-	-	621
Other	-	-	-
Total	439	2,449	19,544

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 business 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. Abdulrahman Saleh Al-Atram - Chairman
2. Dr. Abdullah Wakeel Al-Sheikh
3. Dr. Suleiman Turkey Al-Turkey

Legal Penalties and Sanctions

The bank was not exposed to any material penalties or fines during the financial year 2009.

Legally Accrued Payments

The estimated Zakat for the financial year ended December 31, 2009 amounted to SAR 359 million and the balance related to withholding tax at the end of the financial year 2009 amounted to SAR 157,689.

Staff Benefits

Benefits and compensations of employees are paid in accordance with the provisions of the Saudi Labor Law. As at December 31, 2009, the accumulated balance for the end-of-service benefits amounted to SAR 14.2 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, Members of the Board of Directors, Senior Executives, their Spouses and Minor Children

As at December 31, 2009, 1,109,683 shares were owned by members of the board of directors, senior executives, their spouses and minor children.

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. However, the bank did not implement the corporate governance requirement of cumulative voting, as the articles of association of the bank prescribe simple voting.

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.
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 26 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 aggressive plans to expand its operations and activities through a wide range of Shariah-compliant products and services, an extended network of branches and ATMs, and an increased number of customers, both for retail and corporate businesses.

Alinma Investment Company also plans to launch a variety of activities during 2010, including investment, advisory and brokerage products & services.

The Board of Directors

Auditors' Report Financial Statements

Auditors' Report

PRICEWATERHOUSECOOPERS 

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
(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, 2009, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the period from May 26, 2008 (Date of Ministerial Resolution) to December 31, 2009, a summary of significant accounting policies and the other explanatory notes from (1) to (29). We have not audited note (30), nor the information related to "Basel II" disclosures cross-referenced therein, which is not required to be within the scope of our audit.

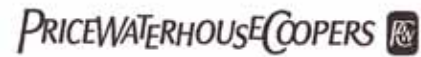
Management Responsibility for the Consolidated Financial Statements

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 and the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. 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 Bank'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



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Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at December 31, 2009, and of its financial performance and its cash flows for the period 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 and 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 Al Juraid

Rashid Al Rashoud
Registration No. 366

Ernst & Young

Fahad M. Al-Toaimi
Registration No. 354

23 Safar 1431H
(February 7, 2010)



CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM MAY 26, 2008 (DATE OF MINISTERIAL RESOLUTION) TO DECEMBER 31, 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2009	Notes	SAR'000
ASSETS		
Cash and balances with Saudi Arabian Monetary Agency ("SAMA")	4	361,133
Due from banks and other financial institutions	5	13,846,340
Investments	6	1,000,141
Financing	7	1,126,391
Property and equipment, net	8	922,199
Other assets	9	50,189
TOTAL ASSETS		17,306,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Customers' deposits	10	1,501,140
Other liabilities	11	199,912
TOTAL LIABILITIES		1,701,052
SHAREHOLDERS' EQUITY		
Share capital	12	15,000,000
Statutory reserve	13	151,335
Retained earnings		454,006
TOTAL SHAREHOLDERS' EQUITY		15,605,341
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		17,306,393

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM MAY 26, 2008 (DATE OF MINISTERIAL RESOLUTION) TO DECEMBER 31, 2009	Notes	SAR'000
INCOME		
Income from investments and financing	15	949,294
Return on customers' time investments	15	(3,796)
Net income from investments and financing activities	15	945,498
Fees from banking services	16	7,076
Exchange income		649
Other operating income		757
Total operating income		953,980
Salaries and employee-related expenses		361,001
Rent and premises- related expenses		52,112
Depreciation and amortization	8	78,557
Other general and administrative expenses		146,783
Total operating expenses		638,453
Income from operating activities		315,527
Pre-operating income, net	17	289,814
Net income		605,341
Other comprehensive income		-
Total comprehensive income		605,341
Basic and diluted earnings per share (SAR)	18	0.40

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD FROM MAY 26, 2008 (DATE OF MINISTERIAL RESOLUTION) TO DECEMBER 31, 2009	SAR'000				
	Notes	Share capital	Statutory reserve	Retained earnings	Total
Share capital	12	15,000,000	-	-	15,000,000
Total comprehensive income		-	-	605,341	605,341
Transfer of statutory reserve	13	-	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 30 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). 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%	24 Sha'aban 1430H corresponding to August 15, 2009

The Bank's objective is to provide a full range of banking, financing and investment services through products and instruments that are in accordance with Islamic Shariah and the Articles and Memorandum of Association and within the provisions of Banking Control Law. The Bank provides these services through 13 branches in the Kingdom of Saudi Arabia. The Bank employed 1052 staff as at December 31, 2009.

b) Shariah Board

The Bank 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 extends from the date of the Ministerial Resolution announcing the establishment of the Bank until the end of December of the following year. The first financial year, 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 the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

b) Basis of Measurement

The consolidated financial statements are prepared under the historical cost convention.

c) Functional and Presentation Currency

These consolidated financial statements are expressed in Saudi Arabian Riyals ("SAR") which is the functional currency of the Bank. Except as indicated, the amounts are rounded off to the nearest thousands.

d) Critical Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting 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 estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice 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 valuation of financial assets 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 financial statements continue to be prepared on the going concern basis.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM MAY 26, 2008 (DATE OF MINISTERIAL RESOLUTION) TO DECEMBER 31, 2009	Notes	SAR'000
OPERATING ACTIVITIES		
Net income		605,341
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization		78,557
		<u>683,898</u>
Net increase in operating assets:		
Statutory deposit with SAMA		(71,552)
Due from banks and other financial institutions maturing after ninety days of acquisition		(2,005,536)
Investments		(1,000,141)
Financing		(1,126,391)
Other assets		(50,189)
Net increase in operating liabilities:		
Customers' deposits		1,501,140
Other liabilities		199,912
Net cash used in operating activities		<u>(1,868,859)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment		(1,000,756)
Net cash used in investing activities		<u>(1,000,756)</u>
FINANCING ACTIVITIES:		
Paid in share capital		15,000,000
Net cash from financing activities		<u>15,000,000</u>
Cash and cash equivalents at end of the period	20	<u>12,130,385</u>
Income received from investments and financing activities		<u>1,360,965</u>
Return paid to customers		<u>199</u>

The accompanying notes from 1 to 30 form an integral part of these consolidated financial statements.

3. Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the first published interim financial statements as of December 31, 2008 except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and requires disclosure of information about the Bank's operating segments;
- The revisions and amendments to IAS 1 Presentation of 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 period as that of the Bank, using consistent accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

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.

Non-controlling interests represent the portion of net income (loss) and net assets attributable to interests which are not owned, directly or indirectly, by the Bank in its subsidiaries. As at December 31, 2009, 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 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 marketplace.

c) Foreign Currencies

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

d) Offsetting

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

e) Revenue/Expenses Recognition

Income/Expenses on Financial Instruments

Income/expenses related to financial instruments, are recognized in the consolidated statement of comprehensive income on the effective yield basis.

Exchange Income/Loss

Exchange income/loss is recognized when earned/incurred.

Fees and Dividend Income

Fees from banking services are recognized on accrual basis as services are rendered while dividend income is recognized when the right to receive income is established.

f) Investments

Investments include certain 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 cost net of impairment (if any).

g) Financing

Financing includes primarily Murabaha and Ijarah products. Murabaha is the sale in which the Bank agrees with the customer to sell at cost plus a specified profit. It may be based on the customer's intention or promise to buy from the Bank. Murabahas are initially recognized at cost (including the associated acquisition charges) representing the fair value of amounts paid. Subsequently these are measured at amortized cost less impairment (if any).

h) Impairment of Financial Assets

An assessment is made at the date of each statement of financial position to determine whether there is an objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

i) Property and Equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold 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 the date of each statement of financial position.

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.

j) Customers' Deposits

Customers' deposits represent current and investment accounts. All deposits are initially recognized at the value received; however, the investment accounts are subsequently measured at amortized cost.

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 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.

(i) 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.

(ii) Where the Bank is the Lessor

When assets are leased under a finance lease (Ijarah), the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognized over the term of the lease using the effective yield method, which reflects a constant periodic rate of return.

m) Cash and Cash Equivalents

For the purpose of the 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 the 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 de-recognized, 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 de-recognized 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 de-recognized 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 de-recognized 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 dividends.

4. Cash, and Balances with SAMA

	2009	SAR'000
Cash in hand		55,203
Balances with SAMA:		
Statutory deposit		71,552
Current account		352
Cash management account		231,000
		302,904
Other		3,026
Total		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.

5. Due from Banks and Other Financial Institutions

	2009	SAR'000
Current accounts		22,354
Murabahas with banks and other financial institutions		13,823,986
Total		13,846,340

6. Investments

	2009	SAR'000
At amortized cost (Unquoted)		
Murabahas with SAMA		1,000,141
Total		1,000,141

7. Financing

	At Amortized Cost	Performing Balance	Non - Performing	Total	Allowance for Impairment	Net
Retail		56,792	-	56,792	-	56,792
Corporate		1,069,599	-	1,069,599	-	1,069,599
Total		1,126,391	-	1,126,391	-	1,126,391

As part of the Bank's financial policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing.

a) Credit quality of financing portfolio

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

As part of the Bank's financial policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing.

1) Neither past due nor impaired

Bank's Internal Rating Scale	Rating Definition	2009	SAR'000
1	Substantially credit risk free		----
2	Exceptionally strong credit risk		----
3	Excellent credit risk		----
4	Very good credit risk		516,585
5	Good credit quality		609,806
6	Satisfactory credit quality		----
Total			1,126,391

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

	2009	SAR'000		
	Performing	Non-Performing	Allowance for Impairment	Financing, Net
Commercial	150,111	-	-	150,111
Building and construction	919,488	-	-	919,488
Others	56,792	-	-	56,792
Total	1,126,391	-	-	1,126,391

3) Collateral

The Bank, in the ordinary course of financing activities, 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. As per the management, the fair value of collaterals was not less than the corresponding exposures.

4) Financing include Ijara (qualifying the finance lease definition) receivables, which are as follows:

	2009	SAR'000
Gross receivables from finance lease		430,309
Less than 1 year		-
1 to 5 years		430,309
Over 5 years		-
Unearned future finance income on finance lease		(67,538)
Net receivables from finance lease		362,771

8. Property and Equipment, Net

	2009	SAR'000		
	Land & Buildings	Furniture, Equipment and Vehicles	Leasehold Improvements	Total
Cost	249,527	644,609	106,620	1,000,756
Depreciation and amortization charge for the period	-	(71,743)	(6,814)	(78,557)
Net book value	249,527	572,866	99,806	922,199

Property and equipment include work in progress as at December 31, 2009 amounting to SAR 71 million. Furniture, equipment and vehicles category includes information technology-related assets at cost SAR 595 million with depreciation and amortization value SAR 63 million.

9. Other Assets

	2009	SAR'000
Prepaid rental		8,176
Other prepayments		8,397
Advances to suppliers		18,200
Advances to staff		474
Others		14,942
Total		50,189

10. Customers' Deposits

	2009	SAR'000
Demand		1,043,681
Customers' time investments		453,829
Margin		3,630
Total		1,501,140

The above includes foreign currency deposits as follows:

	2009	SAR'000
Demand		27,548
Margin		2,018
Total		29,566

11. Other Liabilities

	2009	SAR'000
Accrued expenses		72,192
Accounts payable		120,878
Others		6,842
Total		199,912

12. Share Capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each. The ownership of the Bank's share capital is as follows:

	Percentage
Public Investment Fund ("PIF")	10
Public Pension Agency ("PPA")	10
General Organization for Social Insurance ("GOSI")	10
Public	70
Total	100

13. 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 151 million has been transferred from the net income for the period to statutory reserve. The statutory reserve is not currently available for distribution.

14. Commitments and Contingencies

a) Legal Proceedings

As at December 31, 2009 there were no significant legal proceedings outstanding against Bank.

b) Capital Commitments

As at December 31, 2009, the Bank had capital commitments of SAR 96 million relating to leasehold improvements and equipment purchases.

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 credit 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 withdraw the funds under the agreement.

Documentary letters of credit are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk. Similarly for acceptances, the Bank expects that most acceptances will be presented before being reimbursed by the customers.

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

	2009				SAR'000
	Within 3 months	3 months to 1 year	1 to 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 above commitments and contingencies are from the corporate sector.

d) Operating Lease Commitments

As at December 31, 2009 the future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

	2009	SAR'000
Less than one year		-
One year to five years		13,223
Over five years		349,276
Total		362,499

15. Net Income from Investments and Financing Activities

Income From	For the period ended December 31, 2009 SAR'000
Investments	121,498
Due from banks and other financial institutions	731,951
Financing	95,845
Total	949,294
Return on customers' time investments	(3,796)
Income from investments and financing, net	945,498

16. Fees from Banking Services

	2009	SAR'000
Trade services		5,097
Other		1,979
Total		7,076

17. Pre-operating Income, Net

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

18. 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 is 1,500 million shares at the period end.

19. Zakat

Zakat attributable to shareholders for the period is estimated at SAR 359 million which will be deducted from future dividends. The Bank will file with the Department of Zakat and Income Tax, in 2010, the first Zakat returns.

20. Cash and Cash Equivalents

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

	2009	SAR'000
Cash in hand		55,203
Balances with SAMA excluding statutory deposit		234,378
Due from banks and other financial institutions maturing within ninety days of acquisition		11,840,804
Total		12,130,385

21. Business Segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision makers, 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. There are no material items of income or expense between the operating segments. Majority of the segment assets and liabilities comprise operating assets and liabilities. For management purposes, the Bank is divided into the following four segments:

- Retail Banking**- Deposits, financing and other products and services for individuals and business firms.
- Corporate Banking**- Financing, deposits and other products & services for corporate and institutional customers.
- Treasury and Investments**- Murabahas with banks, and treasury services. Income is charged to business segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.
- Others**- Includes head office (as custodian of capital and assets in common use) which does not constitute a separately reportable segment.

Following is an analysis of the Bank's assets, income and results by operating segments:

	2009					SAR'000
	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 business segments is as follows:

	2009					SAR'000
	Retail	Corporate	Treasury	Investment & Brokerage	Others	Total
On Balance Sheet assets	56,734	1,054,571	14,902,308	250,000	30,605	16,294,218
Commitments and contingencies	-	1,105,442	-	-	-	1,105,442
Total	56,734	2,160,013	14,902,308	250,000	30,605	17,399,660

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.

22. Credit Risk

Credit risk is the most significant risk for the Bank's business. It is defined as the risk that a 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, letter of guarantees, 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 and currencies. 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.

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 (14).

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

The Bank's main credit exposure by geographic region is as follows:

	2009				SAR'000
	Kingdom of Saudi Arabia	Other GCC and Middle East Countries	Europe	Other Countries	Total
Financial Assets					
Cash & balances with SAMA	359,410	-	578	1,145	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	1,126,391	-	-	-	1,126,391
Other assets	15,416	-	-	-	15,416
Total Financial Assets	14,558,758	1,774,884	3,975	11,804	16,349,421
Financial Liabilities					
Customers' deposits	1,501,140	-	-	-	1,501,140
Other liabilities	199,912	-	-	-	199,912
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

23. 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 financial statements based on amortized cost. In addition, a major portion of the Bank's liabilities do not carry any return.

b) Currency Risk

1. 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.

The Bank had the following summarized exposure to foreign currency exchange rate risk as at December 31, 2009:

	2009	SAR'000
Assets		
Cash & balances with SAMA		1,723
Due from banks and other financial institutions		1,479,521
Investments		14
Financing		12,897
Total Currency Risk on Assets		1,494,155
Liabilities		
Customers' deposits		29,566
Total Currency Risk on Liabilities		29,566

2. The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2009:

	2009	SAR'000	Long
USD			913,427
Euro			13,167
UAE Dirhams			192
BHD			264,094
QAR			272,943
Others			766
Total			1,464,589

24. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. 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 in mind, maintaining a healthy 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 from the date of the statement of financial position 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 are contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by 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.

The maturity profile of assets, liabilities and equity as of December 31, 2009 are as follows:

	2009					SAR'000
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
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	7,320	177,054	667,685	274,332	-	1,126,391
Property and equipment	-	-	-	-	922,199	922,199
Other assets	-	-	-	-	50,189	50,189
Total	12,759,562	2,632,426	667,685	274,332	972,388	17,306,393
Liabilities and Shareholders' Equity						
Customers' deposits	1,114,490	386,650	-	-	-	1,501,140
Other liabilities	-	-	-	-	199,912	199,912
Equity	-	-	-	-	15,605,341	15,605,341
Total	1,114,490	386,650	-	-	15,805,253	17,306,393

25. 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, excluding financings, are not significantly different from their respective net book values.

26. 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, 2009 resulting from such transactions included in the consolidated financial statements are as follows:

Directors, key management personnel, and other major shareholders and their affiliates:

	2009	SAR'000
Advances to key management personnel		1,811
Current accounts		5,005
Customers' time investments		386,628

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

	2009	SAR'000
Board of directors' remunerations		2,887
Remunerations to executive management		33,106
End of service benefits provision for executive management		1,303
Return on customers' time investments		3,549
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.

27. Capital Adequacy

The Bank maintains an actively managed capital to cover risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the guidelines established by the Basel Committee on Banking Supervision and as adopted by SAMA in supervising the Bank.

Particulars	2009	SAR'000
Credit Risk Weighted Assets		5,814,434
Operational Risk Weighted Assets		2,704,451
Market Risk Weighted Assets		-
Total Pillar-I Weighted Assets		8,518,885
Tier I Capital		15,605,341
Tier II Capital		-
Total Tier I & II Capital		15,605,341
Capital Adequacy Ratio		
Tier I ratio		183%
Tier I + Tier II ratio		183%

28. Prospective Changes in Accounting Policies

IFRS 9 "Financial instruments" has been issued and is mandatory for compliance for the financial year beginning January 01, 2013. The Bank has not exercised the option to early adopt this standard.

29. Approval of the Financial Statements

These consolidated financial statements were approved by the Bank's board of directors on 23 Safar 1431 H (corresponding to February 07, 2010).

30. Basel II Pillar 3 - Qualitative 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, 2009 as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

Alinma Bank Branches



Riyadh

Branch	Area	Street
Head Office	Olaya	King Fahad Road
Malaz Branch	Malaz	Salahudin Al-Ayoubi Road
Dahrat Al-Badia Branch (Men & Ladies)	Dahrat Al-Badia	Al-Madinah Al-Munawwarah Road
Takhassusi Branch (Men & Ladies)	Olaya	Takhassusi Street

Eastern Region

Branch	Area	Street
Dammam Branch (Men & Ladies)	Tubaishi	Prince Mohd bin Fahad (1st street)
Hafuf Branch	Al-Souq	King Abdulaziz Street
Jubail Branch (Men & Ladies)	Fanateer	Shatee Street

Western Region

Branch	Area	Street
Rabwah Branch (Men & Ladies) / Jeddah	Rabwah	King Fahad Road "Sitteen"
Rawdah Branch (Men & Ladies) / Jeddah	Rawdah	Sary Street
Balad Branch / Jeddah	Balad	King Abdulaziz Street
Taif Branch (Men & Ladies)	Moashi	Al Jaish Street
Madinah Munawarah Branch (Men & Ladies)	Khalidya Dist.	Second Ring Road

Southern Region

Branch	Area	Street
Khamis Mushait Branch (Men & Ladies)	Rawdah Dist.	King Khalid Road Beside King Fahad Mosque



Qualitative Disclosure Basel II Pillar 3

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 28/2/1427H (28/3/2006) and Ministerial Resolution No. 42 dated 27/2/1427H (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 the details on bank's capital adequacy.

2. Risk Management Framework

To manage various risks being faced by the bank due to its business drivers, Board of Directors and Management will determine and select 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, Risk Management Group and various lines of business.

All banking activities will only be performed and developed within a framework approved by the Board and Bank's committees as defined in related policies and principles, to ensure governance are in place to manage the potential risks that the bank may face.

Risk Management Philosophy

The bank's risk management objective is to be partner centric and increase enterprise value by providing appropriate level of controls 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.

Decisions involving risks are business decisions; they 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 Tolerance

The Board of Directors sets the bank's risk tolerance and risk capital. Risk tolerance 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 tolerance and is aligned to the bank's solvency standard.

Allocating Capital

We recognize the need and in the process of establishing framework and plan to allocate capital to business units and to new business opportunities based largely on their expected risk-adjusted returns.

Setting Risk Limits

Bank's management establishes 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 risk activities based on the bank's risk tolerance.

Establishing Risk Policies

Bank's management established risk policies for each functional unit and for each risk category to manage risks within the limits set above. The bank's risk policies establish the governance model and structure for making decisions with respect to the associated risks being taken within the approved limits, processes and procedures which are promulgated to implement the pre-defined Risk governance model and risk policies.

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 businesses or support functions assigned to them and for the area where they have governance accountability.

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

- The Board's Executive Committee has the delegated responsibility and authority from the Board of Directors for managing certain banks' risks defined in the charter including approval of financing above the authority of management.
- Risk Management Committee chaired by Chief Risk Officer, has the principal responsibility for 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.
- The Credit Committee, whose membership is comprised of all the authorized lending officers, acts individually and independently as credit committee members of the bank. The primary function of the Credit 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.

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 Asset Liability Committee (ALCO).

These committees function as an integral part of the bank's overall risk management framework.

Risk Management Group

The bank has an independent risk management group supervised by Chief Risk Officer (CRO). The Chief Risk Officer is responsible for evaluating the level of risk being faced by the bank and as well as in 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 risk which is corresponding to the nature of the bank's businesses and activities.

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

Among the principal activities, responsibilities and authority of Risk Management Group are:

- Establishing and maintaining the business risk policy and bank operational risk policy.
- Establishing the Risk governance framework and review system for effective implementation of enterprise risk policy.
- Reviewing and approving business processes and procedures to assure effective implementation of those Policies.
- With approval from the Executive Committee, establish the approval framework for credit, market and operational risks and the delegation of approval authorities.
- Participate in approving credit, market and operational risk exposures as required by the respective approval frameworks.

4. Risk Management Process

Bank shall have a sound process for executing all elements of risk management including risk identification, quantification, mitigation, monitoring, reporting and control. This process requires the implementation of appropriate policies, limits, procedures and effective management information systems for internal risk reporting and necessary decision making that are commensurate with the scope, complexity and nature of bank's activities.

The bank shall ensure that an adequate system of controls with appropriate checks and balances are in place.

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 principal bank units responsible for taking credit risk are:

- Corporate banking Group
- Retail banking Group
- Treasury Group

Each credit risk taking unit has developed their respective policies and guidelines governing their credit risk taking functions which are contained in respective business risk policies and frameworks.

All corporate credit process, approval disbursement, administration, classification and control are centrally managed by 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.

Concentration of exposures to counterparties; geographies and sectors are governed and reported as per set regulatory guidelines.

Market Risk

Market risk is the risk of losses in on-and off-balance sheet positions arising from movements in market rates or prices such as cost of fund rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss. Market Risk components focuses on three most significant components of 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.

Profit Rate Risk

It is a risk generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers, and also defines as the risk of reduced profits, resulting from a change in market prices impacting the gap between the profit rate structures of assets and liabilities.

Equity Investment Risk

It is a risk arising from entering into a partnership to undertake/participate in a particular financing or general business activity where the provider of finance shares in the business risk.

The policies, guidelines and stipulations under which the equity investment risk will be managed are contained in the Investment Policy which has been developed and implemented by Treasury Group, while its implementation is overseen by Assets and Liabilities Committee.

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 Operational Risk Policy and Framework..

Risk Control Self Assessment and Business Continuity Management development process has been commenced and the bank has also started to work on the preparation of Operational Loss Event Database.

The work on identifying Key Risk Indicators (KRIs) for each line of business has also commenced. The management of Operational Risk will be further enhanced to meet the bank and regulatory requirements.

Legal Risk

Legal risk is the risk that may arise as a result from contracts, lawsuits or legal court orders. The bank unit responsible for managing legal risk is the Legal Group.

Reputational Risk

Reputational risk is the risk arising from negative public opinion which will affect the bank's ability to establish new relationships or services or continue servicing existing relationships. The bank unit responsible for managing reputation risk is the Marketing Group.

Other Risks

Other risks like, arising out of non compliance to Shariah guidelines or etc, are monitored through Risk Management Group.

Capital Adequacy

The bank is required to adhere to regulatory and economic capital regime, the BASEL II Accord as adapted to local conditions by 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. The 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 Standardized Approach for credit and market risk, and use of basic indicator approach for operational risk. Given its aspirations, the bank intends in the coming years to use the 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.