مصرف الإنماء
alinma bank

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2010

PRICEWATERHOUSECOOPERS

ERNST & YOUNG

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

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

AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Alinma Bank (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, a summary of significant accounting policies and the other explanatory notes from 1 to 34, other than note 30 and the information related to "Basel II" disclosures cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia, the Bank's Articles of Association and By-laws. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PRICEWATERHOUSECOOPERS

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Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at December 31, 2010, and their consolidated financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia, the Bank's Articles of Association and By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

PricewaterhouseCoopers

Mohammed A. Al Obaidi
Registration No. 367

Ernst & Young

Fahad M. Al-Toaimi
Registration No. 354

6 Rabiul Awwal 1432H
(February 9, 2011)

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

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

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2010 and 2009

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

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

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ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2010 and period ended December 31, 2009

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

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

ALINMA BANK
(A Saudi Joint Stock Company)

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

SAR'000

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

SAR'000

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

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

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2010 and period ended December 31, 2009

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

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

1. General

a) Incorporation and Operations

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

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

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

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

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

b) Shariah Board

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

c) Accounting period

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

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared:

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

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

e) Going concern

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

3. Summary of significant accounting policies

The amendments to International Financial Reporting Standards that were applicable during the year ended December 31, 2010 were not relevant to the Bank and therefore have no material impact on these consolidated financial statements.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and is mandatory for compliance for the Bank's accounting years beginning after 1 January 2011(note 31).

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

a) Basis of consolidation

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and ceased to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

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

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

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

b) Trade date accounting

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

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

c) Foreign currencies

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

d) Offsetting

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

e) Revenue/expenses recognition

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

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

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

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services

Fees from banking services that are not integral part of the effective yield calculation on the financial asset are recognized when the related service is provided as follows:

- Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.
- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service, are received.

f) Investments

Murabaha

These are commodity Murabahas held at amortized cost. These are initially recognized at cost, including associated acquisition charges representing the fair value of amounts paid. Subsequently these are measured at amortized cost net of impairment, if any.

Investment in equity securities

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

g) Financing

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

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

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

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

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

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

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

Impairment of financial assets

A financial asset or group of financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for losses due to impairment of a financing or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

In addition to a specific provision for losses, an additional portfolio provision for collective impairment is made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of comprehensive income or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the obligor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income, in impairment charge for losses.

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

h) Property and equipment

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

i) Liabilities

All customer deposits and due to Banks and other financial institutions are initially recognized at fair value less transaction costs.

Subsequently all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of comprehensive income.

j) Guarantees

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

k) Provisions

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

l) Accounting for Ijarah (leases)

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

Where the Bank is the lessee

Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

Where the Bank is the lessor

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

m) Cash and cash equivalents

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

n) De-recognition of financial instruments

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

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

o) Zakat

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

4. Cash and balances with SAMA

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

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

5. Due from banks and other financial institutions

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

6. Investments

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

6.1 These are investments in quoted securities of domestic market.

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

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

7. Financing, net (at amortized cost)

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

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

7.1 Movement in allowance for impairment of financing losses:

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

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

7.2 Credit quality of financing portfolio

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

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

7.2.1 Neither past due nor impaired:

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

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

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

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

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

SAR'000

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

SAR'000

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

7.4 Collateral

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

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

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

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

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

8. Property and equipment, net

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

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

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9. Other assets

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

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

10. Due to banks and other financial institutions

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

11. Customers' deposits

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

The above includes foreign currency deposits as follows:

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

12. Other liabilities

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

13. Share capital

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

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

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

14. Statutory reserve

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

15. Commitments and contingencies

a) Legal proceedings

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

b) Capital commitments

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

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

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

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

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

d) Operating lease commitments

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

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

16. Income from investments and financing activities, net

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

17. Fees from banking services, net

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

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18. Salaries and employee related expenses

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

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

18.1 Salient features of Compensation Policy

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

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

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

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

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

19. Pre-operating income, net

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

20. Earnings per share

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

21. Zakat

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

22. Cash and cash equivalents

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

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

23. Operating Segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Deposit, financing and other products for individuals and small to medium sized businesses.

b) Corporate banking

Deposits, financing and other products and services for corporate and institutional customers.

c) Treasury

Murabahas with banks and treasury services.

d) Investment and brokerage

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

e) Others

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

Profit is charged or credited to business segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.

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

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

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

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

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 operating segments is as follows:

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

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

24. Credit risk

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

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

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

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

Country / Transfer Risk

Country risk or the transfer risk is the inability of the borrowers to fulfill their obligations due to government action. This occurs generally when the government imposes prohibitive exchange restrictions that make it impossible for the obligor to pay its obligations.

The Bank computes Country / Transfer risk for the Bank's credit exposures including off-balance sheet exposures outside Saudi Arabia. The Bank uses foreign exchange default ratings for different countries and their respective defaults rates from two external rating agencies; The Bank has established country risk limits.

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

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

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

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

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

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

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

25. Financial Risk Management

Market risk

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

a) Risk of rate of return

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

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

Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on SIBOR.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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

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

b) Currency Risk

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

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

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

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

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

c) Equity Price Risk

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

26. Liquidity risk

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

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

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities

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

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

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

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

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

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

2009	SAR'000					
	Within 3 months	3 months to 12 months	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, net	7,320	162,506	667,685	274,332	-	1,111,843
Property and equipment, net	-	-	-	-	922,199	922,199
Other assets	-	-	-	-	64,737	64,737
Total	12,759,562	2,617,878	667,685	274,332	986,936	17,306,393
Liabilities and shareholders' equity						
Due to banks and other financial institutions	-	-	-	-	-	-
Customers' deposits	1,110,878	386,650	-	-	-	1,497,528
Other liabilities	-	-	-	-	203,524	203,524
Shareholders' Equity	-	-	-	-	15,605,341	15,605,341
Total	1,110,878	386,650	-	-	15,808,865	17,306,393
Commitments & contingencies	104,364	244,279	756,799	-	-	1,105,442

27. Fair values of financial assets and liabilities

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

28. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

(i) The balances as at December 31, resulting from such transactions included in the consolidated financial statements are as follows:

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

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

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

The advances and expenses related to executives are in line with the normal employment terms.

(iii) The total amount of compensation paid to key management personnel during the year is as follow:

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

29. Capital Adequacy

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

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

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

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

30. BASEL II PILLAR 3 Disclosure

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

31. Prospective changes in the International Financial Reporting Framework

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

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

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

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

32. Investment management and brokerage services

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

33. Comparative figures

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

34. Approval of the consolidated financial statements

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