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**ALINMA BANK**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(AUDITED)**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2023**

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## KPMG Professional Services

Roshn Front, Airport Road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia  
Commercial Registration No 1010425494

Headquarters in Riyadh



Ernst & Young Professional Services (Professional LLC)  
Paid-up capital (SR 5,500,000 — Five million five hundred thousand Saudi Riyal)

Head Office  
Al Faisaliah Office Tower, 14th Floor  
King Fahad Road, P.O. Box 2732  
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## Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company)

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Alinma Bank and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include material accounting policies information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in the Kingdom of Saudi Arabia").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key audit matter below, a description of how our audit addressed the matter is provided in that context.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Expected credit loss allowance against financing</i></b></p> <p>As at 31 December 2023, the Bank's gross financing amounted to SAR 178,057 million (2022: SAR 150,473 million), against which an expected credit loss ("ECL") allowance of SAR 4,433 million (2022: SAR 3,981 million) was recorded.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment, and this has a material impact on the consolidated financial statements of the Bank. The key areas of judgment include:</p> <ol style="list-style-type: none"> <li>1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> <li>(a) exposures that have a significant increase in credit risk ("SICR") since their origination; and</li> <li>(b) individually impaired / defaulted exposures.</li> </ol> </li> </ol> <p>The Bank has also applied judgments to identify and estimate the likelihood of borrowers that may have experienced SICR due to current economic outlook.</p>	<ul style="list-style-type: none"> <li>• We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Bank's internal rating model, accounting policy and methodology, as well as any key changes made during the year.</li> <li>• We compared the Bank's accounting policy and methodology for ECL allowance with the requirements of IFRS 9.</li> <li>• We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to: <ul style="list-style-type: none"> <li>○ the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any);</li> <li>○ the classification of financing into Stages 1, 2 and 3 and timely identification of SICR, and the determination of default / individually impaired exposures;</li> <li>○ the IT systems and applications supporting the ECL model; and</li> <li>○ the integrity of data inputs into the ECL model.</li> </ul> </li> <li>• For a sample of customers, we assessed: <ul style="list-style-type: none"> <li>○ the internal ratings determined by management based on the Bank's internal models, and evaluated these assigned ratings in light of relevant external market conditions and available industry information; and</li> <li>○ management's computations of ECL</li> </ul> </li> </ul> <p>For selected financings, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.</p>

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Expected credit loss allowance against financing (continued)</i></b></p> <p>2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including, but not limited to, assessment of the financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios.</p> <p>3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors, that might not have been captured by the ECL model.</p> <p>The application of these judgments resulted in heightened estimation uncertainty around ECL calculations, and therefore affected the associated audit risk thereon as at 31 December 2023.</p> <p><i>Refer to the summary of material accounting policy note 3 (j) for the impairment of financial assets; note 2 (e) (i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Bank; note 8 which contains the disclosure of impairment against financing; and note 28.1 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<ul style="list-style-type: none"> <li>We assessed the appropriateness of the Bank's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of financing facilities.</li> <li>We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise.</li> <li>We assessed the reasonableness of the underlying assumptions used by the Bank in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios.</li> <li>We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2023.</li> <li>Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs (including EAD, PDs and LGDs) and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables and forecasted macroeconomic scenarios; and of assumptions used in post model overlays.</li> </ul> <p>We assessed the adequacy of the relevant disclosures in the consolidated financial statements as per the requirements of the IFRSs.</p>





## **Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### **Other Information included in the Bank's 2023 Annual Report**

Management is responsible for the other information in the Bank's annual report. Other information consists of the information included in the Bank's 2023 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Bank's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs that are endorsed in Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance i.e., the Audit Committee is responsible for overseeing the Bank's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that Bank is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

**For KPMG Professional Services**



**Ebrahim Oboud Baeshen**  
Certified Public Accountant  
License number 382



**For Ernst & Young Professional Services**



**Rashid S. Roshod**  
Certified Public Accountant  
License number 366



(3 Sha'ban 1445H)  
(13 February 2024)



ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

		2023	2022
	Notes	SAR'000	SAR'000
<b>ASSETS</b>			
Cash and balances with Saudi Central Bank (SAMA)	4	12,598,444	9,723,259
Due from banks and other financial institutions, net	5	1,700,907	1,454,458
Investments held at fair value through statement of income (FVSI)	6	2,610,274	1,641,496
Investments held at fair value through other comprehensive income (FVOCI)	6	13,505,282	12,084,604
Investments held at amortized cost, net	6	27,105,159	24,721,320
Investments in associate and joint venture	6	15,637	70,214
Financing, net	8	173,624,044	146,491,956
Property, equipment and right of use assets, net	9	2,888,209	2,632,794
Other assets	10	2,667,142	1,616,128
<b>TOTAL ASSETS</b>		<b>236,715,098</b>	<b>200,436,229</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to SAMA, banks and other financial institutions	11	7,431,230	16,483,039
Customers' deposits	12	187,900,581	145,168,490
Amount due to Mutual Funds' unitholders	13	93,510	136,570
Other liabilities	14	6,956,176	6,771,817
<b>TOTAL LIABILITIES</b>		<b>202,381,497</b>	<b>168,559,916</b>
<b>EQUITY</b>			
Share capital	15	20,000,000	20,000,000
Treasury shares	17.1	(225,611)	(66,021)
Statutory reserve	16	3,378,431	2,168,630
Other reserves	17.2	62,359	(507,396)
Retained earnings		1,118,422	4,285,004
Proposed issue of bonus shares	15.2	5,000,000	-
Proposed dividends	15.1	-	996,096
<b>Equity attributable to the shareholders of the Bank</b>		<b>29,333,601</b>	<b>26,876,313</b>
Tier 1 Sukuk	18	5,000,000	5,000,000
<b>TOTAL EQUITY</b>		<b>34,333,601</b>	<b>31,876,313</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>236,715,098</b>	<b>200,436,229</b>

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

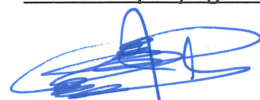
Authorized Board Member




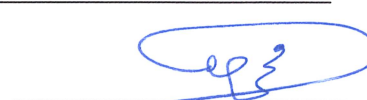
**ALINMA BANK**  
**(A Saudi Joint Stock Company)**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the year ended December 31**

		2023	2022
	Notes	SAR'000	SAR'000
Income from investments and financing	20	13,227,509	7,612,961
Return on time investments	20	(5,572,995)	(1,546,495)
<b>Income from investments and financing, net</b>	20	<b>7,654,514</b>	<b>6,066,466</b>
Fee from banking services – income	21.1	2,426,703	1,901,510
Fee from banking services – expense	21.1	(967,712)	(692,578)
Fees from banking services, net	21.1	1,458,991	1,208,932
Exchange income, net		330,291	290,836
Income from FVSI financial instruments, net	6.1	211,721	279,308
Gain from FVOCI sukuk investments, net		-	993
Dividend income on FVOCI equity investments		30,798	30,545
Other operating income	21.2	39,342	85,980
<b>Total operating income</b>		<b>9,725,657</b>	<b>7,963,060</b>
Salaries and employee related expenses	22	1,466,521	1,325,324
Rent and premises related expenses		73,651	68,225
Depreciation and amortization	9	325,313	279,116
Other general and administrative expenses		1,178,041	1,092,312
<b>Operating expenses before impairment charges</b>		<b>3,043,526</b>	<b>2,764,977</b>
Impairment charge on financing, net of recoveries	8.2	1,272,104	1,197,700
Impairment charge / (reversal) on other financial assets		26,524	(8,982)
<b>Total operating expenses</b>		<b>4,342,154</b>	<b>3,953,695</b>
<b>Net operating income</b>		<b>5,383,503</b>	<b>4,009,365</b>
Share of income from associate and joint venture	6.5, 6.6	12,021	3,534
<b>Income for the year before zakat</b>		<b>5,395,524</b>	<b>4,012,899</b>
Zakat for the year	24	(556,318)	(413,759)
<b>Net income for the year after zakat</b>		<b>4,839,206</b>	<b>3,599,140</b>
<b>Basic and diluted earnings per share (SAR)</b>	23	<b>2.33</b>	<b>1.73</b>

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member

ALINMA BANK


(A Saudi Joint Stock Company)


CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31

		2023	2022
	Notes	SAR'000	SAR'000
Net income for the year after zakat		4,839,206	3,599,140
<b>Other comprehensive income / (loss):</b>			
<i>Items that cannot be recycled back to consolidated statement of income in subsequent periods</i>			
Net change in fair value of FVOCI equity investments	17.2	461,304	(412,976)
Share of associate's other comprehensive income	17.2	10,868	-
Actuarial gain on re-measurement of End of Service Benefits	17.2	19,637	12,226
<i>Items that can be recycled back to consolidated statement of income in subsequent periods</i>			
Net change in fair value of FVOCI sukuk investments	17.2	108,987	(247,262)
Net gain realized on sale of FVOCI sukuk investments	17.2	-	(993)
<b>Total other comprehensive income / (loss)</b>		<b>600,796</b>	<b>(649,005)</b>
<b>Total comprehensive income for the year</b>		<b>5,440,002</b>	<b>2,950,135</b>

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member

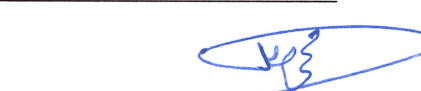


2023 (SAR '000)	Notes	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Proposed issue of bonus shares / dividends	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
Balance at the beginning of the year		20,000,000	(66,021)	2,168,630	(507,396)	4,285,004	996,096	26,876,313	5,000,000	31,876,313
Net income for the year after zakat		-	-	-	-	4,839,206	-	4,839,206	-	4,839,206
Net change in fair value of FVOCI equity investments	17.2	-	-	-	461,304	-	-	461,304	-	461,304
Actuarial gain on re-measurement of End of Service Benefits	17.2	-	-	-	19,637	-	-	19,637	-	19,637
Net change in fair values of FVOCI sukuk investments	17.2	-	-	-	108,987	-	-	108,987	-	108,987
Share of associate's other comprehensive income	17.2	-	-	-	10,868	-	-	10,868	-	10,868
Total comprehensive income		-	-	-	600,796	4,839,206	-	5,440,002	-	5,440,002
Gain on sale of FVOCI equity investments	17.2	-	-	-	(120,052)	120,052	-	-	-	-
Realized share of associate's other comprehensive income	17.2	-	-	-	(10,868)	10,868	-	-	-	-
Transfer to statutory reserve	16	-	-	1,209,801	-	(1,209,801)	-	-	-	-
Tier 1 Sukuk costs		-	-	-	-	(200,000)	-	(200,000)	-	(200,000)
Final dividends paid for 2022	15.1	-	-	-	-	-	(996,096)	(996,096)	-	(996,096)
Interim dividends paid for 2023	15.1	-	-	-	-	(1,690,389)	-	(1,690,389)	-	(1,690,389)
Proposed issue of bonus shares for 2023	15.2	-	-	-	-	(5,000,000)	5,000,000	-	-	-
Employee share based plans and other reserve movements	17.1, 17.2	-	(159,590)	-	99,879	(36,518)	-	(96,229)	-	(96,229)
Balance at the end of the year		20,000,000	(225,611)	3,378,431	62,359	1,118,422	5,000,000	29,333,601	5,000,000	34,333,601

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.


  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member

2022 (SAR '000)	Notes	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
Balance at the beginning of the year		20,000,000	(94,159)	1,268,845	122,601	3,618,609	795,131	25,711,027	5,000,000	30,711,027
Net income for the year after zakat		-	-	-	-	3,599,140	-	3,599,140	-	3,599,140
Net change in fair value of FVOCI equity investments	17.2	-	-	-	(412,976)	-	-	(412,976)	-	(412,976)
Actuarial gain on re-measurement of End of Service Benefits	17.2	-	-	-	12,226	-	-	12,226	-	12,226
Net change in fair values of FVOCI sukuk investments	17.2	-	-	-	(247,262)	-	-	(247,262)	-	(247,262)
Gain on sale of FVOCI sukuk investments	17.2	-	-	-	(993)	-	-	(993)	-	(993)
Total comprehensive income		-	-	-	(649,005)	3,599,140	-	2,950,135	-	2,950,135
Loss on sale of FVOCI equity investments	17.2	-	-	-	347	(347)	-	-	-	-
Transfer to statutory reserve	16	-	-	899,785	-	(899,785)	-	-	-	-
Tier 1 Sukuk costs		-	-	-	-	(150,000)	-	(150,000)	-	(150,000)
Final dividends paid for 2021	15.1	-	-	-	-	-	(795,131)	(795,131)	-	(795,131)
Interim dividends paid for 2022	15.1	-	-	-	-	(896,121)	-	(896,121)	-	(896,121)
Proposed final dividends for 2022	15.1	-	-	-	-	(996,096)	996,096	-	-	-
Employee share based plans and other reserve movements	17.1, 17.2	-	28,138	-	18,661	9,604	-	56,403	-	56,403
Balance at the end of the year		20,000,000	(66,021)	2,168,630	(507,396)	4,285,004	996,096	26,876,313	5,000,000	31,876,313

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member





ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

	Notes	2023 SAR' 000	2022 SAR' 000
<b>OPERATING ACTIVITIES</b>			
Income for the year before zakat		5,395,524	4,012,899
<b>Adjustments to reconcile income for the year before zakat to net cash from operating activities:</b>			
Depreciation and amortization	9	325,313	279,116
Gain on disposal of property and equipment, net		(7,878)	(678)
Unrealized gain from FVSI financial instruments, net		(67,011)	(209,139)
Gain from Sukuk investments held at amortized cost	21.2	-	(52,196)
Gain from FVOCI sukuk investments, net	17.2	-	(993)
Dividend income on FVOCI equity investments		(30,798)	(30,545)
Impairment charge on financing, net of recoveries	8.2	1,272,104	1,197,700
Impairment charge / (reversal) on other financial assets		26,524	(8,982)
Recoveries of previously written-off bad debts		141,705	43,036
Unwinding of deferred payment program modification loss		(22,548)	(34,444)
Unwinding of fair value impact of SAMA deposits		55,901	55,951
Employees share based plans reserve	17.2	57,113	27,187
Share of income from associate and joint venture	6.5, 6.6	(12,021)	(3,534)
Gain on derecognition of an associate	6.5	(5,143)	-
		7,128,785	5,275,378
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with Saudi Central Bank		(1,505,499)	(778,951)
Due from banks and other financial institutions with original maturity of more than three months		(13,927)	(123,262)
Investments held at FVSI		(901,767)	(207,388)
Financing		(28,386,725)	(21,254,697)
Other assets		(1,069,472)	48,757
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to SAMA, banks and other financial institutions		(9,155,325)	1,137,212
Customers' deposits		42,732,091	24,107,939
Other liabilities		(40,488)	323,541
Financing cost on lease liabilities		(13,773)	(14,164)
<b>Net cash from operating activities before Zakat paid</b>		<b>8,773,900</b>	<b>8,514,365</b>
Zakat paid		(413,759)	(311,545)
<b>Net cash from operating activities</b>		<b>8,360,141</b>	<b>8,202,820</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of investments held at FVOCI		(2,141,530)	(5,486,723)
Purchases of investments held at amortized cost	6.4	(3,425,272)	(3,818,613)
Proceeds from sales and maturities of investments held at FVOCI		1,373,749	1,340,902
Proceeds from sales and maturities of investments held at amortized cost	6.4	1,037,737	2,519,131
Purchase of property and equipment		(557,195)	(464,764)
Proceeds from disposal of property and equipment		68,206	21,000
Dividends received from FVOCI equity investments		30,798	30,545
<b>Net cash used in investing activities</b>		<b>(3,613,507)</b>	<b>(5,858,522)</b>

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member


ALINMA BANK  
(A Saudi Joint Stock Company)  
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
For the year ended December 31

	Notes	2023 SAR' 000	2022 SAR' 000
<b>FINANCING ACTIVITIES</b>			
Payment for Tier 1 Sukuk costs		(200,000)	(200,000)
Cash payment for principal portion of lease liabilities		(93,861)	(90,627)
Dividend paid		(2,686,485)	(1,691,252)
Purchase of treasury shares	17.1	(166,384)	-
<b>Net cash used in financing activities</b>		<b>(3,146,730)</b>	<b>(1,981,879)</b>
<b>Net change in cash and cash equivalents</b>		<b>1,599,904</b>	<b>362,419</b>
Cash and cash equivalents at beginning of the year		3,572,943	3,210,524
<b>Cash and cash equivalents at end of the year</b>	25	<b>5,172,847</b>	<b>3,572,943</b>
Income received from investments and financing		12,122,334	6,677,781
Return paid on time investments		4,648,505	1,087,834
<b>Supplemental non-cash information:</b>			
Right-of-use assets		(83,383)	(84,736)
Lease liabilities		(9,999)	(5,891)
Net change in fair value of FVOCI investments		581,159	(661,231)

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member



**ALINMA BANK**

**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2023 and 2022**

**1. General**

**a) Incorporation**

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21 Jumada I, 1429 (corresponding to May 26, 2008) and provides banking services through 108 branches (2022: 104 branches) in the Kingdom of Saudi Arabia ("KSA"). The address of the Bank's head office is as follows:

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

The consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the "Bank") which are registered in KSA except for Alinma SPV Ltd which is registered in Cayman Islands:

<b>Subsidiaries</b>	<b>Bank's Ownership</b>	<b>Establishment date</b>	<b>Main Activities</b>
Alinma Investment Company	100%	07 Jumada - II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Saudi Fintech Company	100%	6 Dhul Qa'da 1440H (corresponding to July 9, 2019)	Provide Financial technology products and services to the Bank and others.
Esnad Company	100%	24 Ramadan 1440H (corresponding to May 29, 2019)	To provide outsourced staff to the Bank.
Alinma SPV Ltd	100%	22 Jumada - II 1443H (corresponding to January 25, 2022)	Engage and execute financial derivatives transactions and repurchase agreements with international banks.



In addition to above subsidiaries, the management has concluded that the Bank has effective control of the below Funds and started consolidating the Funds' financial statements at the dates of effective control:

<b>Funds</b>	<b>Bank's Ownership</b>	<b>Establishment date</b>	<b>Date of effective control</b>	<b>Purpose</b>
Alinma Sukuk ETF	As at December 31, 2023: 92.2% (2022: 92.4%)	January 22, 2020	January 22, 2020	To invest in a basket of local sovereign Sukuks issued by the Kingdom of Saudi Arabia
Alinma IPO Fund	As at December 31, 2023: 69.2% (2022: 70.9%)	April 26, 2015	January 1, 2020	To achieve capital appreciation over the long term by investing mainly in Saudi joint stock companies
Dhahban Real Estate Fund	As at December 31, 2023: 99.8% (December 31, 2022: Nil)	September 15, 2023	September 15, 2023	To achieve medium-term capital growth through direct investment in the real estate sector in the city of Jeddah.
Alinma Fund for Private Equity Investments	As at December 31, 2023: 99.9% (December 31, 2022: Nil)	February 27, 2020	December 18, 2023	To distribute cash returns and/or achieve capital growth through investments in a private equity.

Alinma Cooperative Insurance Agency, a fully-owned subsidiary of the Bank, established on 29 Rabi Al Awwal 1435H (corresponding to January 30, 2014), was liquidated during the year and its commercial registration cancelled on 15 Muharram 1445H (corresponding to August 2, 2023).

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

## **b) Sharia'a Committee**

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

## **2. Basis of preparation**

### **a) Statement of compliance**

The consolidated financial statements of the Bank as at and for the year ended December 31, 2023 and 2022 have been prepared:

- in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA"); and,
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

In alignment with the new Companies Law issued by Royal Decree number M/132 on 1/12/1443H (corresponding to June 30, 2022), which came into effect on 26/6/1444H (corresponding to January 19, 2023), the Bank's Bylaws have been amended accordingly and endorsed by the Extraordinary General Assembly on 10/10/1444H (corresponding to April 30, 2023).



**b) Basis of measurement and presentation**

The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at fair value through statement of income ("FVSI"), investments carried at fair value through other comprehensive income ("FVOCI") and end of service benefits which are measured using projected unit credit method under IAS-19.

The consolidated statement of financial position is stated broadly in order of liquidity.

**c) Functional and presentation currency**

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

**d) Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the intention and resources to continue in business for the foreseeable future. In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources, etc. 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.

**e) Critical accounting judgments, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, 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.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

**Judgement of equity vs liability for Tier 1 Sukuk**

The determination of equity classification of Tier 1 Sukuk requires significant judgement as certain clauses of the Offering Circular require interpretation. The Bank classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Bank for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukuk holders are limited in number and scope and very difficult to exercise. The related initial costs and distributions thereon are recognized directly in the consolidated statement of changes in equity under retained earnings.

### **Critical accounting estimates**

Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

#### **i. Expected credit losses ("ECL") on financial assets (Notes 3(j), 28)**

The measurement of ECL under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
  - a) The Bank's internal credit grading model, which assigns Probability of Defaults ("PDs") to the individual grades
  - b) The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
  - c) The segmentation of financial assets when their ECL is assessed on a collective basis
  - d) Development of ECL models, including the various formulas
  - e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

- ii. Fair value measurement (Note 34)
- iii. Classification of Financial assets (Note 3(g))
- iv. Useful lives of property and equipment and determination of depreciation and amortization (Note 3(k))
- v. Assessment of control over investees (Note 3(b))
- vi. Valuation of End of Service benefits scheme (Notes 3(s), 26)
- vii. Lease accounting (Note 3(p))
- viii. Recognition and measurement of contingencies (Note 19)

### **3. Summary of material accounting policies**

The material accounting policies adopted in the preparation of these consolidated financial statements are set out below.

#### **a) Change in accounting policies**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2022 except for the adoption of the following amendments to IFRS explained below which became applicable for annual reporting periods commencing on or after January 1, 2023. The management has assessed that the below amendments have no material impact on the Bank's consolidated financial statements.

**New standards, interpretations and amendments adopted by the Bank**

Standard, interpretation, amendments	Description	Effective date
IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts.	January 1, 2023.
Narrow scope amendments to IAS 1	Practice statement 2 and IAS 8 - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	January 1, 2023.
Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.	January 1, 2023.
Amendment to IAS 12 - International tax reform - pillar two model rules	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	January 1, 2023.
Amendments to IAS 8	Definition of accounting estimates	January 1, 2023.

**IBOR Transition (Interest Rate Benchmark Reforms):**

Management has completed the Bank's overall transition activities through engagement with various stakeholders to support an orderly transition. As of December 31, 2023, all impacted financial instruments have transitioned to alternate reference rates. All relevant policies, procedures, models and client contracts have been amended.

**b) Basis of consolidation**

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

Subsidiaries are the entities that are controlled by Alinma Bank. The control over an investee arises when, someone has power over the investee, and it is exposed, or has a right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over that investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The control indicators set out below are subject to management's judgements that can have a significant effect in the case of the Bank's interests in securitization vehicles and investments funds. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect amount of its returns

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

- The contractual arrangement with the other voters of the investee entity
- Rights arising from other contractual arrangements
- Bank's current and potential voting rights granted by equity instruments such as shares

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Bank had directly disposed of the related assets or liabilities.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed. The functional currency of all subsidiaries is Saudi Arabian Riyal ("SAR"), except for Alinma SPV Ltd whose financial currency is in United States Dollar ("USD").

Amounts due to Mutual Funds' unitholders represent the portion of net assets of the mutual funds which are attributable to interests which are not owned, directly or indirectly, by the Bank or its subsidiaries and are presented separately within liability in the Bank's consolidated statement of financial position.

All inter-group balances, transactions, income and expenses are eliminated in full in preparing these consolidated financial statements.

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 consolidated financial statements.



### *Investment funds*

The Bank acts as Fund Manager to a number of investment funds. Determining whether the Bank controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Bank in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

#### **c) Trade date accounting**

All regular way purchases and sales of financial assets are initially recognized and derecognized on the trade date (i.e. the date on which the Bank becomes a party to the contractual provisions of the instrument). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

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

#### **d) 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. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Bank initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Bank determines the transaction date for each payment or receipt of advance consideration.

#### **e) Offsetting**

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

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

f) Revenue / expenses recognition

***Income from investments and financing and return on time investments***

Revenue and expenses related to profit bearing financial instruments are recognized in the consolidated statement of income using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount. When calculating the EIR, the Bank estimates future cash flows considering all contractual terms including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the expected credit losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

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

***Exchange income/loss***

Exchange income/loss is recognized when earned/incurred.

***Fees from banking services, net***

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the "Income from investments and financing" or "Return on time investments" as applicable.

Income from asset management and brokerage are recognised at a point-in-time when the performance obligation of the Bank is satisfied.

Investment banking and corporate finance fee revenues are recognized over the period of time when the performance obligations are met in accordance with the applicable terms of the contract.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed and performance obligations are achieved as point-in-time. If a loan commitment is not expected to result in the draw-down of a loan or if the fee relates to multiple loan commitments and cannot be reasonably allocated, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

***Dividend income***

Dividend income is recognized in consolidated statement of income, when the right to receive income is established.

***Income / (loss) from FVSI financial instruments, net***

Net income / (loss) from FVSI financial instruments relates to financial assets designated as FVSI and includes all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

g) Financial assets and financial liabilities

1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified at amortized cost, FVOCI or FVSI. The classification and measurement of financial assets under IFRS-9 is a result of two main assessments, namely, business model assessment and analysis of contractual cash flows.

***Business model assessment***

The Bank assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

***Assessments whether contractual cash flows are solely payments of principal and profit***

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;

- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and,
- Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

#### ***Financial Asset held at amortized cost***

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVSI:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and return on the principal amount outstanding.

Generally, Financing to customers, due from banks and other financial institutions, SAMA Murabaha and certain investments in Sukuk qualify for measurement under amortized cost.

#### ***Financial assets held at FVOCI***

***Sukuk and like instruments:*** are measured at FVOCI only if they meet both of the following conditions and are not designated at FVSI:

- The asset is held with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and return on the principal amount outstanding.

***Equity Instruments:*** On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair values are recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

#### ***Financial assets held at FVSI***

All other financial assets are classified as measured at FVSI. Financial assets in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Financial assets classified as held trading are acquired principally for the purpose of selling in short term.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset to be measured at FVSI that otherwise meets the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

A financial asset is measured initially at fair value plus, for an item not at FVSI, transaction costs that are directly attributable to its acquisition or issue.

## 2) Classification and measurement of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds and costs that are an integral part of financial liabilities' effective interest rate (EIR).

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, financial guarantees and loan commitments are measured at higher of amortized cost and the amount of ECL.

A financial liability is measured initially at fair value plus, for an item not at FVSI, transaction costs that are directly attributable to its acquisition or issue.

## 3) De-recognition of financial assets and financial liabilities

### *Financial assets*

The Bank derecognizes a financial asset when:

- The contractual rights to the cash flows from the financial asset expires or,
- It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred or,
- The Bank neither transfers nor retains substantially all of the risks and rewards of ownership but it does not retain control of the financial asset.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, as the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in consolidated statement of income.

However, the cumulative gain/loss recognized in OCI in respect of equity investments is not recognized in consolidated statement of income on de-recognition of such investments.



#### **Financial liabilities**

The Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

#### **4) Modifications of financial assets and financial liabilities**

##### **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as 'Income from financing'.

##### **Financial liabilities**

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the consolidated statement of income.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in consolidated statement of income.

##### **Interest rate benchmark reform**

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Bank updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Bank first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applied the policies on accounting for modifications to the additional changes.

## 5) Fair value measurement

The Bank measures financial instruments, such as financial assets measured at FVSI and FVOCI, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 34.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described in note 34.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## 6) Sale and repurchase agreements

Financial assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank, these financial assets are continued to measure in accordance with related accounting policies for investments held as FVSI, FVOCI or at amortized cost. The transactions are treated as collateralized borrowing and counter-party liability for amounts received under these agreements is included in "Due to SAMA, banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as "Return on time investments" and accrued over the life of the repo agreement on an effective yield basis.

Financial assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Bank does not obtain control over the financial assets. Amounts paid under these agreements are included in "Cash and balances with Saudi Central Bank", "Due from banks and other financial institutions" or "Financing", as appropriate. The difference between purchase and resale price is treated as "Income from investments and financing" and accrued over the life of the reverse repo agreement on an effective yield basis.

#### h) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency, and commission rate swaps, currency, and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognized in the statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

##### Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

#### i) Financing

Financing assets are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantially all risk and rewards of ownership.

All financing assets are initially measured at fair value including any incremental associated acquisition charges. Subsequently, these are measured at amortized cost less allowance for impairment. All of the Bank's financing products are approved by the Sharia'a Committee.

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. The selling price comprises of cost plus an agreed profit margin.

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

Ijarah could conclude either by transferring the ownership of the leased asset to the lessee at an agreed amount or by termination of lease and re-possession of underlying asset.

**Musharaka:** is an agreement between the Bank and the customer to contribute to a project, 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 on a deferred payment basis, to a customer certain commodity or an asset on a negotiated price.

j) **Impairment of financial assets**

The Bank recognizes impairment allowances based on a forward-looking Expected Credit Loss (ECL) approach on financial assets that are not measured at FVSI. This mainly includes financing, investments that are measured at amortized cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments.

No impairment loss is recognized on FVOCI equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- a. Financial assets that are determined to have low credit risk at the reporting date; and
- b. Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers its exposure to other banks, financial institutions and Sukuk investments to have low credit risk as their credit risk rating is equivalent to the globally accepted definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage1' financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which the lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'

**Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the present value of cash shortfalls being the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of cash shortfalls being the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)



The above parameters are generally derived from internally developed statistical models and historical data which are adjusted for forward looking information. The Bank categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:

- **Stage 1: Performing assets:** Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months ECL.
- **Stage 2: Underperforming assets:** Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime of PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance is recorded based on lifetime ECL.
- **Stage 3: Credit-impaired assets:** For financial asset(s) that are impaired, the Bank recognize the impairment allowance based on lifetime ECL.

The Bank also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurements of ECLs.

The forward-looking information includes the elements such as macroeconomic factors and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Bank formulates various scenarios. For each scenario, the Bank derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

#### **Credit-impaired assets**

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or significant past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign sukuk is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the sukuk yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new sukuk issuance.
- The probability of sukuk being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

#### **Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### **Presentation of allowance for ECL in the consolidated statement of financial position**

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision which is reported under 'Other liabilities';
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under 'Other liabilities'; and
- Sukuk and like instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

#### **Write-off**

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'Impairment charge of financing'.

**k) Property and equipment**

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. Land is not depreciated. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred. 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 and equipment (including intangibles)	5-10 years
Leasehold improvements	the shorter of lease period or 10 years
Right of use assets	Over the lease period

Intangibles pertains mainly to computer software. The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the date of addition (when asset is available for use) and up till the date preceding disposal.

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

All assets are reviewed for impairment at each reporting date whenever that 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.

**l) Impairment of non-financial assets**

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognized in the consolidated statement of income except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

**m) Real estate held for sale**

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

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

#### ***Collateral valuation***

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional real estate appraisers and brokers, or based on housing price indices.

#### ***Collateral repossessed***

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its financing portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

### **n) Financial guarantees and loan commitments**

In the ordinary course of business, the Bank issues financial guarantees (consisting of letters of credit, guarantees, standby letters of credit and acceptances) and credit commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Credit commitments' are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of ECL. The Bank has issued no loan commitments that are measured at FVSI. For other loan commitments, the Bank recognizes loss allowance. Any increase in the liability relating to the financial guarantee is recognized as "Impairment charge of financing", in the consolidated statement of income.



The premium received is recognized in the consolidated statement of income under "Fees from banking services, net" on a straight-line basis over the life of the guarantee or commitment.

Credit commitments are measured at ECL. For contracts that include both financing and undrawn commitments which are not distinctly identifiable, the ECL is recognized together with the loss allowance for the financing.

**o) Provisions**

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

**p) Accounting for Ijarah (leases)**

***Where the Bank is the lessor***

When assets are leased under Islamic lease arrangements (e.g., Ijarah), the present value of the lease payments is recognized as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognized as unearned income from financing. Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

***Where the Bank is the lessee***

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

**Right of Use Assets**

Bank applies cost model, and measure right of use asset at cost;

1. Less any accumulated depreciation and any accumulated impairment losses; and
2. Adjusted for any re-measurement of the lease liability for lease modifications

Generally, right of use asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use asset value.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

#### Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

After the commencement date, Bank measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;

Re-measuring the carrying amount to reflect any re-assessment or lease modification. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **q) Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as amounts included in cash in hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

#### **r) Short term employee benefits**

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

#### **s) End of service benefits**

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position. The liability recognized is the present value of the defined benefit obligation discounted at the yield on government bonds that have terms approximating the related obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income directly.

**t) Zakat**

The Bank is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA") formerly General Authority for Zakat and Tax ("GAZT"). Zakat expense is charged to the consolidated statement of income.

ZATCA has prescribed a new criteria for calculation of Zakat effective January 1, 2019. Due accruals have been made for the obligation as at December 31, 2023. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to Zakat.

**u) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Bank.

**v) Treasury shares**

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its employee share-based payment plans.

**w) Tier 1 Sukuk**

The Bank classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Bank for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukukholders are limited in number and scope and very difficult to exercise.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

**x) Investment management services**

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

As a result of the above assessment, where the Bank has concluded that it acts as an agent for the investors, such funds are not consolidated by the Bank. Fee earned from these funds are disclosed in consolidated statement of income while the Bank's share of investments is included under "Investments held at FVSI" in the consolidated statement of financial position.

Any assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the consolidated financial statements.

**y) Investments in associate and joint venture**

Investments in associate and joint venture are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. A joint venture is an entity in which the Bank exercises joint control.

Under the equity method, the investments in associate and joint venture is carried on the statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the associate/joint venture. The Bank's share of profit of associate and joint venture is shown on the face of the consolidated statement of income.

The consolidated statement of income reflects the Bank's share of the results of operations of the associate and joint venture. When there has been a change recognized directly in the equity of the associate and joint venture, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains on transactions are eliminated to the extent of the Bank's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Bank's share of profit of associate and joint venture is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and joint venture and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate and joint venture. The financial statements of the associate and joint venture are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate / joint venture and its carrying value and recognises the amount in the 'share of income/loss from associate and joint venture' in the consolidated statement of income.

**z) Share based payments**

The Bank offers its eligible employees the following types of plans (the "Plans"). Brief description of the plans are as follows:

**Employees Share Grant Scheme (ESGS)**

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

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



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

#### Deferred bonus schemes

Under the terms of the Deferred Bonus Schemes, eligible employees are granted shares with a vesting period of 1-3 years. At the maturity of each vesting period, the Bank delivers the underlying allocated shares to the employee. The Deferred Bonus Schemes is accounted for similar way with ESGs.

#### aa) Profit sharing investment account (PSIA)

The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept.

In Mudaraba, the Bank (Mudarib) manages Investment Account Funds along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.

Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal) and the Bank have the right, in its sole discretion and without being obligated, to cover the Investor loss. Operating expenses incurred by the Bank are not charged to investment account.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

#### 4. Cash and balances with Saudi Central Bank (SAMA)

	2023	2022
	SAR'000	SAR'000
Cash in hand	1,807,396	1,960,998
Statutory deposit	8,989,295	7,483,796
Current account and money market placements	1,724,908	169,542
Others	76,845	108,923
<b>Total</b>	<b>12,598,444</b>	<b>9,723,259</b>

In accordance with the Banking Control Law and regulations issued by Saudi Central Bank ("SAMA"), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customers' deposits as calculated on monthly average at the end of reporting period. The statutory deposit is not available to finance the Bank's day to day operations and therefore does not form part of cash and cash equivalents. Money market placements represent securities purchased under an agreement to re-sell (reverse repos) with SAMA.

5. Due from banks and other financial institutions, net

		2023	2022
	Notes	SAR'000	SAR'000
Current accounts		487,098	935,469
Murabaha and Wakala with banks	5.1	1,215,097	522,581
Less: Allowance for impairment	5.2	(1,288)	(3,592)
<b>Total</b>		<b>1,700,907</b>	<b>1,454,458</b>

5.1 These are predominantly investment grade exposures in the range of “substantially credit risk free to very good credit risk quality” based on external credit ratings.

5.2 The following table shows reconciliations from the opening to the closing balance of the gross exposure and allowance for impairment for due from banks and other financial institutions:

	December 31, 2023		
	SAR'000		
<u>Gross exposure</u>	12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1, 2023	1,457,524	526	1,458,050
Transfer to life time ECL, not credit impaired	(4,231)	4,231	
Net movement	246,987	(2,842)	244,145
<b>Balance as at December 31, 2023</b>	<b>1,700,280</b>	<b>1,915</b>	<b>1,702,195</b>

	December 31, 2022		
	SAR'000		
<u>Gross exposure</u>	12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1, 2022	737,978	1,403	739,381
Transfer to 12-month ECL	1,404	(1,404)	-
Transfer to life time ECL, not credit impaired	(804)	804	
Net movement	718,946	(277)	718,669
<b>Balance as at December 31, 2022</b>	<b>1,457,524</b>	<b>526</b>	<b>1,458,050</b>

	December 31, 2023		
	SAR'000		
<u>Allowance for impairment</u>	12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1, 2023	3,564	28	3,592
Transfer to life time ECL, not credit impaired	(229)	229	-
Reversal during the year	(2,304)	-	(2,304)
<b>Balance as at December 31, 2023</b>	<b>1,031</b>	<b>257</b>	<b>1,288</b>

Allowance for impairment	December 31, 2022		
	SAR'000		
	12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1, 2022	1,239	69	1,308
Transfer to 12-month ECL	69	(69)	-
Transfer to life time ECL, not credit impaired	(39)	39	-
(Charge) / reversal during the year	2,295	(11)	2,284
Balance as at December 31, 2022	3,564	28	3,592

## 6. Investments

	Notes	2023	2022
		SAR'000	SAR'000
<b>Investments held at FVSI</b>	<b>6.1</b>	<b>2,610,274</b>	<b>1,641,496</b>
<b>Investments held at FVOCI</b>	<b>6.2</b>	<b>13,505,282</b>	<b>12,084,604</b>
<b>Investments held at amortized cost, net</b>			
Murabahas with SAMA		1,626,379	904,901
Sukuks	6.3	25,498,634	23,832,577
Less: Allowance for impairment	6.4	(19,854)	(16,158)
		<u>27,105,159</u>	<u>24,721,320</u>
<b>Investments in associate and joint venture</b>			
Investment in an associate	6.5	-	56,158
Investment in a joint venture	6.6	15,637	14,056
		<u>15,637</u>	<u>70,214</u>
<b>Total</b>		<u><b>43,236,352</b></u>	<u><b>38,517,634</b></u>

### 6.1 Investments held at FVSI

	2023	2022
	SAR'000	SAR'000
Equities	230,545	145,050
Funds	2,379,729	1,496,446
<b>Total</b>	<u><b>2,610,274</b></u>	<u><b>1,641,496</b></u>

Below is an analysis of the Bank's net income from FVSI financial instruments:

	2023	2022
	SAR'000	SAR'000
Trading income, net	128,762	212,730
Dividend income	82,959	66,578
<b>Total</b>	<u><b>211,721</b></u>	<u><b>279,308</b></u>

## 6.2 Investments held at FVOCI

	2023	2022
	SAR'000	SAR'000
Sukuk	12,358,287	10,646,145
Equities	1,146,995	1,438,459
<b>Total</b>	<b>13,505,282</b>	<b>12,084,604</b>

During the year, out of the Bank's FVOCI sukuk portfolio, instruments with a principal of SAR 369 million matured/redeemed during the year (2022: SAR 1,200 million).

The Bank designated these investments as equity securities as at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

6.3 The fair value of sukuku (at amortized cost) as at December 31, 2023 was SAR 25,039 million (2022: SAR 23,440 million).

6.4 The following table shows reconciliations from the opening to the closing balance of the gross exposure and allowance for impairment for investments:

	2023	2022
	SAR'000	SAR'000
<u>Gross exposure</u>	12-month	12-month
	ECL	ECL
Balance as at January 1	24,737,478	23,442,400
Purchase of new investments	3,390,500	3,818,613
Disposals and maturities during the year	(1,037,737)	(2,519,131)
Change in profit accruals	34,772	(56,600)
Gain from Sukuk investments held at amortized cost	-	52,196
<b>Balance as at December 31</b>	<b>27,125,013</b>	<b>24,737,478</b>

	2023	2022
	SAR'000	SAR'000
<u>Allowance for impairment</u>	12-month	12-month
	ECL	ECL
Balance as at January 1	16,158	9,886
Charge for the year	3,696	6,272
<b>Balance as at December 31</b>	<b>19,854</b>	<b>16,158</b>

There were no exposures transferred between ECL stages during the year.



## 6.5 Investment in an associate

Investment in an associate represents the Bank's share of investment of (Nil), (2022: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). During the year ended December 31, 2023, Bank's investee Alinma Tokio Marine Company (a cooperative insurance company) merged with Arabian Shield Cooperative Insurance Company and therefore has ceased to exist as a legal entity. As a result of the merger, the Bank recognized a gain on derecognition of investment in associate amounting to SAR 5.1 million.

	2023 SAR'000	2022 SAR'000
Balance as at January 1	56,158	53,910
Share of gain for the year	10,440	2,248
Realized share of an associate's other comprehensive income	10,868	-
Derecognition of investment in associate due to merger	(77,466)	-
<b>Balance as at December 31</b>	<b>-</b>	<b>56,158</b>

## 6.6 Investment in a joint venture

The Bank has invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The joint venture was established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of net profit for the year is SAR 1.6 million (2022: share of net gain of SAR 1.3 million).

## 6.7 Analysis of investments by type and location

	Domestic SAR'000		International SAR'000		Total SAR'000	
	2023	2022	2023	2022	2023	2022
<b>Investments held at FVSI</b>						
Equities	110,456	74,498	120,089	70,552	230,545	145,050
Funds	1,102,891	819,091	1,276,838	677,355	2,379,729	1,496,446
	<b>1,213,347</b>	<b>893,589</b>	<b>1,396,927</b>	<b>747,907</b>	<b>2,610,274</b>	<b>1,641,496</b>
<b>Investments held at FVOCI</b>						
Fixed-rate investments	4,877,708	3,619,660	798,329	605,155	5,676,037	4,224,815
Floating-rate investments	6,161,445	5,902,646	520,805	518,684	6,682,250	6,421,330
Equities	1,143,187	1,437,573	3,808	886	1,146,995	1,438,459
	<b>12,182,340</b>	<b>10,959,879</b>	<b>1,322,942</b>	<b>1,124,725</b>	<b>13,505,282</b>	<b>12,084,604</b>
<b>Investments held at amortized cost, net</b>						
Fixed-rate investments	25,278,044	23,759,850	193,505	56,569	25,471,549	23,816,419
Floating-rate investments	1,633,610	904,901	-	-	1,633,610	904,901
	<b>26,911,654</b>	<b>24,664,751</b>	<b>193,505</b>	<b>56,569</b>	<b>27,105,159</b>	<b>24,721,320</b>
<b>Investments in associate and joint venture</b>						
Equities	15,637	70,214	-	-	15,637	70,214
<b>Total</b>	<b>40,322,978</b>	<b>36,588,433</b>	<b>2,913,374</b>	<b>1,929,201</b>	<b>43,236,352</b>	<b>38,517,634</b>

## 6.8 Analysis of investments by composition

	Quoted SAR'000		Unquoted SAR'000		Total SAR'000	
	2023	2022	2023	2022	2023	2022
<b>Investments held at FVSI</b>						
Equities	77,272	52,779	153,273	92,271	230,545	145,050
Funds	337,928	234,258	2,041,801	1,262,188	2,379,729	1,496,446
	<b>415,200</b>	<b>287,037</b>	<b>2,195,074</b>	<b>1,354,459</b>	<b>2,610,274</b>	<b>1,641,496</b>
<b>Investments held at FVOCI</b>						
Fixed-rate investments	2,155,054	1,913,938	3,520,982	2,310,877	5,676,036	4,224,815
Floating-rate investments	1,668,031	1,657,147	5,014,220	4,764,183	6,682,251	6,421,330
Equities	1,122,156	1,416,680	24,839	21,779	1,146,995	1,438,459
	<b>4,945,241</b>	<b>4,987,765</b>	<b>8,560,041</b>	<b>7,096,839</b>	<b>13,505,282</b>	<b>12,084,604</b>
<b>Investments held at amortized cost, net</b>						
Fixed-rate investments	25,448,549	23,716,551	23,000	99,868	25,471,549	23,816,419
Floating-rate investments	7,231	-	1,626,379	904,901	1,633,610	904,901
	<b>25,455,780</b>	<b>23,716,551</b>	<b>1,649,379</b>	<b>1,004,769</b>	<b>27,105,159</b>	<b>24,721,320</b>
<b>Investments in associate and joint venture</b>						
Equities	-	56,158	15,637	14,056	15,637	70,214
<b>Total</b>	<b>30,816,221</b>	<b>29,047,511</b>	<b>12,420,131</b>	<b>9,470,123</b>	<b>43,236,352</b>	<b>38,517,634</b>

## 6.9 Analysis of investments by counter-parties

	2023 SAR'000	2022 SAR'000
Government and quasi government	31,104,550	28,321,390
Banks and other financial institutions	5,699,015	4,586,481
Corporate	6,432,787	5,609,763
<b>Total</b>	<b>43,236,352</b>	<b>38,517,634</b>

## 6.10 Analysis of investments by asset quality

	2023 SAR'000	2022 SAR'000
Government and quasi government	31,104,550	28,321,390
Investment grade	7,776,160	7,669,528
Good / satisfactory grade	797,878	960,056
Equities and funds	3,557,764	1,566,660
<b>Total</b>	<b>43,236,352</b>	<b>38,517,634</b>

Investment grade includes exposures in the range of “substantially credit risk free to very good credit risk quality”. The maximum exposure to credit risk for financial assets carried at fair value as of December 31, 2023 is SAR 12,458 million (2022: SAR 10,858 million).

Investments includes SAR 1,664.2 million (2022: SAR 1,664.2 million) which have been pledged under repurchased agreement with other banks. The market value of such investments is SAR 1,642.9 million (2022: SAR 1,630.4 million).

## 7. Derivative financial instruments

The table below summarizes the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, if any, nor market risk.

December 31, 2023			
SAR'000			
	Positive fair value	Negative fair value	Total notional amount
<b>Held for trading:</b>			
Profit rate swaps	144,040	110,321	16,492,135
Foreign exchange forward contracts	289	-	270,476
December 31, 2022			
SAR'000			
	Positive fair value	Negative fair value	Total notional amount
<b>Held for trading:</b>			
Profit rate swaps	10,751	13,161	883,750
Foreign exchange forward contracts	232	-	299,171

The maximum credit exposure for positive value derivatives as of December 31, 2023 is SAR 144.3 million (2022: SAR 11 million).

## 8. Financing, net

SAR'000					
2023	Performing	Non-performing	Gross	Allowance for impairment (note 8.1)	Financing, net
Retail	42,374,048	851,915	43,225,963	(979,914)	42,246,049
Corporate	132,820,236	2,010,546	134,830,782	(3,452,787)	131,377,995
<b>Total</b>	<b>175,194,284</b>	<b>2,862,461</b>	<b>178,056,745</b>	<b>(4,432,701)</b>	<b>173,624,044</b>
SAR'000					
2022	Performing	Non-performing	Gross	Allowance for impairment (note 8.1)	Financing, net
Retail	36,814,136	461,214	37,275,350	(751,658)	36,523,692
Corporate	110,739,162	2,458,700	113,197,862	(3,229,598)	109,968,264
<b>Total</b>	<b>147,553,298</b>	<b>2,919,914</b>	<b>150,473,212</b>	<b>(3,981,256)</b>	<b>146,491,956</b>

Retail financing comprise mainly of mortgage financing, consumer financing and credit cards. Corporate financing comprises mainly of commercial financing for projects, large, mid-corporates and Small Medium Enterprises (SMEs). The Bank's financing products are in compliance with Sharia'a rules.

The below table shows the product-wise analysis of Gross Financing:

	2023			2022		
	SAR'000			SAR'000		
	Retail	Corporate	Total	Retail	Corporate	Total
Murabaha	30,498,072	3,091,400	33,589,472	28,675,731	2,696,545	31,372,276
Ijarah	4,698,170	43,013,931	47,712,101	4,092,913	37,981,922	42,074,835
Bei Ajel	7,032,101	88,725,451	95,757,552	3,511,992	72,519,395	76,031,387
Others	997,620	-	997,620	994,714	-	994,714
<b>Total</b>	<b>43,225,963</b>	<b>134,830,782</b>	<b>178,056,745</b>	<b>37,275,350</b>	<b>113,197,862</b>	<b>150,473,212</b>

#### 8.1 Movement in gross exposure and allowance for impairment of financing:

The following table shows reconciliation from the opening to the closing balance of the gross exposure of financing:

December 31, 2023				
Gross exposure	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
SAR in '000'				
<b>Retail</b>				
Balance at the beginning of the year	35,678,542	1,135,594	461,214	37,275,350
Transfer to 12-month ECL	307,412	(290,816)	(16,596)	-
Transfer to life time ECL, not credit impaired	(741,041)	742,673	(1,632)	-
Transfer to life time ECL, credit impaired	(369,898)	(253,535)	623,433	-
New financial assets, net of financial assets derecognized and repayments	6,490,500	(325,383)	389,332	6,554,449
Write-off	-	-	(603,836)	(603,836)
<b>Balance as at December 31, 2023</b>	<b>41,365,515</b>	<b>1,008,533</b>	<b>851,915</b>	<b>43,225,963</b>
<b>Corporate</b>				
Balance at the beginning of the year	103,416,908	7,322,254	2,458,700	113,197,862
Transfer to 12-month ECL	677,165	(673,591)	(3,574)	-
Transfer to life time ECL, not credit impaired	(3,593,144)	3,669,574	(76,430)	-
Transfer to life time ECL, credit impaired	(30,466)	(253,938)	284,404	-
New financial assets, net of financial assets derecognized and repayments	22,784,404	(498,930)	(430,650)	21,854,824
Write-off	-	-	(221,904)	(221,904)
<b>Balance as at December 31, 2023</b>	<b>123,254,867</b>	<b>9,565,369</b>	<b>2,010,546</b>	<b>134,830,782</b>
<b>Total</b>				
Balance at the beginning of the year	139,095,450	8,457,848	2,919,914	150,473,212
Transfer to 12-month ECL	984,577	(964,407)	(20,170)	-
Transfer to life time ECL, not credit impaired	(4,334,185)	4,412,247	(78,062)	-
Transfer to life time ECL, credit impaired	(400,364)	(507,473)	907,837	-
New financial assets, net of financial assets derecognized and repayments	29,274,904	(824,313)	(41,318)	28,409,273
Write-off	-	-	(825,740)	(825,740)
<b>Balance as at December 31, 2023</b>	<b>164,620,382</b>	<b>10,573,902</b>	<b>2,862,461</b>	<b>178,056,745</b>



	December 31, 2022			
Gross exposure	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Retail				
Balance at the beginning of the year	27,627,040	191,437	148,958	27,967,435
Transfer to 12-month ECL	20,480	(16,644)	(3,836)	-
Transfer to life time ECL, not credit impaired	(353,972)	356,946	(2,974)	-
Transfer to life time ECL, credit impaired	(75,456)	(43,980)	119,436	-
New financial assets, net of financial assets derecognized and repayments	8,460,450	647,835	299,292	9,407,577
Write-off	-	-	(99,662)	(99,662)
Balance as at December 31, 2022	35,678,542	1,135,594	461,214	37,275,350
Corporate				
Balance at the beginning of the year	91,280,300	8,931,406	2,133,063	102,344,769
Transfer to 12-month ECL	373,019	(373,019)	-	-
Transfer to life time ECL, not credit impaired	(289,006)	318,602	(29,596)	-
Transfer to life time ECL, credit impaired	(7,121)	(1,818,621)	1,825,742	-
New financial assets, net of financial assets derecognized and repayments	12,059,716	263,886	(442,038)	11,881,564
Write-off	-	-	(1,028,471)	(1,028,471)
Balance as at December 31, 2022	103,416,908	7,322,254	2,458,700	113,197,862
Total				
Balance at the beginning of the year	118,907,340	9,122,843	2,282,021	130,312,204
Transfer to 12-month ECL	393,499	(389,663)	(3,836)	-
Transfer to life time ECL, not credit impaired	(642,978)	675,548	(32,570)	-
Transfer to life time ECL, credit impaired	(82,577)	(1,862,601)	1,945,178	-
New financial assets, net of financial assets derecognized and repayments	20,520,166	911,721	(142,746)	21,289,141
Write-off	-	-	(1,128,133)	(1,128,133)
Balance as at December 31, 2022	139,095,450	8,457,848	2,919,914	150,473,212

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment of financing:

Allowance for impairment	December 31, 2023			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Retail				
Balance at the beginning of the year	265,329	163,803	322,526	751,658
Transfer to 12-month ECL	38,569	(27,971)	(10,598)	-
Transfer to life time ECL, not credit impaired	(6,927)	7,902	(975)	-
Transfer to life time ECL, credit impaired	(5,830)	(47,533)	53,363	-
Net (reversal) / charge for the year	(65,708)	19,639	878,161	832,092
Write-off	-	-	(603,836)	(603,836)
Balance as at December 31, 2023	225,433	115,840	638,641	979,914
Corporate				
Balance at the beginning of the year	425,859	1,468,250	1,335,489	3,229,598
Transfer to 12-month ECL	54,420	(53,348)	(1,072)	-
Transfer to life time ECL, not credit impaired	(53,438)	85,921	(32,483)	-
Transfer to life time ECL, credit impaired	(696)	(94,087)	94,783	-
Net charge for the year	34,354	193,783	216,956	445,093
Write-off	-	-	(221,904)	(221,904)
Balance as at December 31, 2023	460,499	1,600,519	1,391,769	3,452,787
Total				
Balance at the beginning of the year	691,188	1,632,053	1,658,015	3,981,256
Transfer to 12-month ECL	92,989	(81,319)	(11,670)	-
Transfer to life time ECL, not credit impaired	(60,365)	93,823	(33,458)	-
Transfer to life time ECL, credit impaired	(6,526)	(141,620)	148,146	-
Net (reversal) / charge for the year	(31,354)	213,422	1,095,117	1,277,185
Write-off	-	-	(825,740)	(825,740)
Balance as at December 31, 2023	685,932	1,716,359	2,030,410	4,432,701

	December 31, 2022			
<u>Allowance for impairment</u>	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in ‘000’			
Retail				
Balance at the beginning of the year	341,134	53,953	65,413	460,500
Transfer to 12-month ECL	6,868	(4,694)	(2,174)	-
Transfer to life time ECL, not credit impaired	(4,888)	6,292	(1,404)	-
Transfer to life time ECL, credit impaired	(1,028)	(11,641)	12,669	-
Net (reversal) / charge for the year	(76,757)	119,893	347,684	390,820
Write-off	-	-	(99,662)	(99,662)
Balance as at December 31, 2022	265,329	163,803	322,526	751,658
Corporate				
Balance at the beginning of the year	260,351	1,955,857	1,364,005	3,580,213
Transfer to 12-month ECL	4,806	(4,806)	-	-
Transfer to life time ECL, not credit impaired	(2,907)	32,503	(29,596)	-
Transfer to life time ECL, credit impaired	(87)	(507,836)	507,923	-
Net charge / (reversal) for the year	163,696	(7,468)	521,628	677,856
Write-off	-	-	(1,028,471)	(1,028,471)
Balance as at December 31, 2022	425,859	1,468,250	1,335,489	3,229,598
Total				
Balance at the beginning of the year	601,485	2,009,810	1,429,418	4,040,713
Transfer to 12-month ECL	11,674	(9,500)	(2,174)	-
Transfer to life time ECL, not credit impaired	(7,795)	38,795	(31,000)	-
Transfer to life time ECL, credit impaired	(1,115)	(519,477)	520,592	-
Net charge for the year	86,939	112,425	869,312	1,068,676
Write-off	-	-	(1,128,133)	(1,128,133)
Balance as at December 31, 2022	691,188	1,632,053	1,658,015	3,981,256

The loss allowance in these tables includes ECL on loan commitments which the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

#### Write off

As at December 31, 2023, the contractual amount outstanding on financial assets that were written off and that are still subject to enforcement activity is SAR 3,188.7 million (2022: SAR 2,574.5 million).

## 8.2 Impairment charge on financing, net of recoveries

	2023 SAR'000	2022 SAR'000
	ECL	ECL
Charge for impairment on financing	1,277,185	1,068,676
Charge for impairment of non-funded financing and credit related commitments (Note 19 (c))	136,624	172,060
Recoveries of previously written off bad debts	(141,705)	(43,036)
	<u>1,272,104</u>	<u>1,197,700</u>

## 8.3 Financing includes Ijarah as follows:

	2023 SAR'000	2022 SAR'000
Less than 1 year	10,650,518	9,964,656
1 to 5 years	33,186,792	24,429,449
Over 5 years	19,003,500	19,797,642
Gross receivables from Ijarah	62,840,810	54,191,747
Unearned future finance income on Ijarah	(15,128,709)	(12,116,912)
<b>Net receivables from Ijarah</b>	<u>47,712,101</u>	<u>42,074,835</u>

## 9. Property, equipment and right of use assets, net

	SAR'000				
2023	Land and buildings	Leasehold improvements	Furniture and equipment	Right-of-Use assets	Total 2023
<b>Cost:</b>					
Balance at beginning of the year	1,520,006	530,676	2,157,687	731,272	4,939,641
Additions during the year	122,792	67,465	366,938	83,942	641,137
Disposals during the year	(40,767)	(144)	(47,060)	(559)	(88,530)
Balance at end of the year	1,602,031	597,997	2,477,565	814,655	5,492,248
<b>Accumulated depreciation:</b>					
Balance at beginning of the year	162,755	361,809	1,414,546	367,738	2,306,848
Charge for the year	22,391	30,123	170,945	101,854	325,313
Disposals during the year	(3,519)	(143)	(23,981)	(479)	(28,122)
Balance at end of the year	181,627	391,789	1,561,510	469,113	2,604,039
<b>Net book value-as at December 31, 2023</b>	<u>1,420,404</u>	<u>206,208</u>	<u>916,055</u>	<u>345,542</u>	<u>2,888,209</u>



2022	SAR'000				
	Land and buildings	Leasehold improvements	Furniture and equipment	Right-of-Use assets	Total 2022
Cost:					
Balance at beginning of the year	1,501,823	474,200	1,788,919	646,536	4,411,478
Additions during the year	38,505	56,476	369,783	84,736	549,500
Disposals during the year	(20,322)	-	(1,014)	-	(21,336)
Balance at end of the year	1,520,006	530,676	2,157,688	731,272	4,939,642
Accumulated depreciation:					
Balance at beginning of the year	141,173	333,176	1,286,701	267,696	2,028,746
Charge for the year	21,582	28,633	128,859	100,042	279,116
Disposals during the year	-	-	(1,014)	-	(1,014)
Balance at end of the year	162,755	361,809	1,414,546	367,738	2,306,848
Net book value-as at December 31, 2022	1,357,251	168,867	743,142	363,534	2,632,794

Property, equipment and right of use assets include work in progress as at December 31, 2023 amounting to SAR 623.7 million (2022: SAR 447 million).

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

2023	Tangible	Intangible	Total
	SAR'000		
Cost			
January 1, 2023	726,581	1,195,783	1,922,364
Additions during the year	105,358	241,009	346,367
Disposals during the year	(46,074)	-	(46,074)
December 31, 2023	785,865	1,436,792	2,222,657
Accumulated depreciation/amortization			
January 1, 2023	439,699	792,096	1,231,795
Charge during the year	62,144	95,178	157,322
Disposals during the year	(23,088)	-	(23,088)
December 31, 2023	478,755	887,274	1,366,029
Net book value-as at December 31, 2023	307,110	549,518	856,628

	Tangible	Intangible	Total
2022	SAR'000		
Cost			
January 1, 2022	574,877	1,013,335	1,588,212
Additions during the year	152,721	182,448	335,169
Disposals during the year	(1,017)	-	(1,017)
December 31, 2022	726,581	1,195,783	1,922,364
Accumulated depreciation/amortization			
January 1, 2022	389,415	732,712	1,122,127
Charge during the year	51,299	59,384	110,683
Disposals during the year	(1,015)	-	(1,015)
December 31, 2022	439,699	792,096	1,231,795
Net book value-as at December 31, 2022	286,882	403,687	690,569

Intangibles pertains mainly to computer software. Right of Use asset pertains mainly to leases of the Bank's head office, branches and ATM kiosks.

#### 10. Other assets

	Note	2023 SAR'000	2022 SAR'000
Fee receivable for asset management services		568,794	354,680
Real estate held for sale	10.1	339,672	435,905
Advance payments		256,693	6,493
Financing inventory		226,177	130,657
Prepaid expenses		157,763	122,028
Positive fair value of derivatives	7	144,329	10,983
Others	10.2	973,714	555,382
<b>Total</b>		<b>2,667,142</b>	<b>1,616,128</b>

**10.1** These properties were acquired in settlement of financing due from customers. During the year ended December 31, 2023, properties have been acquired in settlement of financing claims is SAR 6.1 million (2022: SAR 191.5 million).

**10.2** These mainly include sundry debtors, settlement accounts and items in transit which are cleared in the normal course of business.

#### 11. Due to SAMA, banks and other financial institutions

	Notes	2023 SAR'000	2022 SAR'000
Due to SAMA	11.1	1,934,512	11,870,093
Time investments from banks and other financial institutions	11.2	5,180,322	4,557,615
Current accounts		316,396	55,331
<b>Total</b>		<b>7,431,230</b>	<b>16,483,039</b>

**11.1** This balance includes interest free deposits received from SAMA with gross amount of SAR 509.3 million (2022: SAR 6.8 billion) with varying maturities in order to support the Bank in its implementation of various regulatory relief packages given by the government in response to COVID-19.

**11.2** This balance represents Murabaha, Mudaraba and Wakala with banks including repurchase agreements with other banks of SAR 1,288 million (2022: SAR 1,287 million).

## 12. Customers' deposits

	Notes	2023 SAR'000	2022 SAR'000
Demand		78,955,995	73,887,522
Savings		9,833,634	7,093,170
Customers' time investments	12.1	97,348,367	62,679,182
Others	12.2	1,762,585	1,508,616
<b>Total</b>		<b>187,900,581</b>	<b>145,168,490</b>

**12.1** These represent Murabaha and Mudaraba with customers including profit sharing investments accounts (PSIA).

**12.2** Others represent cash margins for letters of credit and guarantees.

**12.3** The above includes foreign currency deposits as follows:

	2023 SAR'000	2022 SAR'000
Demand	1,292,098	1,674,700
Customers' time investments	4,530,535	6,051,283
Others	107,245	121,403
<b>Total</b>	<b>5,929,878</b>	<b>7,847,386</b>

### 12.4 Profit sharing investment accounts (PSIA)

a) Analysis of PSIA income according to types of investments and their financing

As of December 31, 2023, the PSIA gross pool of assets is funded by comingled pool which includes funds from Unrestricted Investment Account Holders (IAH).

Gross Pool of Assets funded by PSIA by type of contract:

	2023 SAR'000	2022 SAR'000
Investments in Sukuk - FVOCI	4,484,443	3,332,816
Investments held at Amortized Cost, net	9,744,352	7,471,511
Financing, net	62,859,927	45,948,056
<b>Total Pool of Assets funded by PSIA</b>	<b>77,088,722</b>	<b>56,752,383</b>

b) The basis for calculating and allocating profits between the bank and the IAHs:

Computation of Pool income is as follows:

	2023 SAR'000	2022 SAR'000
Income from Investments	409,469	224,985
Income from Financing	2,925,457	1,318,020
<b>Total Pool Income</b>	<b>3,334,926</b>	<b>1,543,005</b>
Pool Income	3,334,926	1,543,005
Mudarib fee	(33,349)	(15,430)
Top up / (excess)	198,003	(588,021)
<b>Total amount paid/payable to investment account holders</b>	<b>3,499,580</b>	<b>939,554</b>

The total pool increase is net of attributable cost and impairment charges.

	IAH Share	Bank Share
Profit Sharing Allocation Percentages	99%	1%

c) The equity of the IAHs at the end of the reporting period:

	2023 SAR'000	2022 SAR'000
Investment account holders balance before profit	76,493,107	56,498,794
Add: Profit for the IAH during the year	3,499,580	939,554
Less: Profit paid out during the year	(2,903,965)	(685,965)
<b>Total equity for Investment Account Holders</b>	<b>77,088,722</b>	<b>56,752,383</b>

### 13. Amount due to Mutual Funds' unitholders

Amount due to Mutual Funds' unitholders represents the non-controlling interest in Mutual Funds consolidated in these financial statements.

### 14. Other liabilities

	Notes	2023 SAR'000	2022 SAR'000
Outward drafts payable		1,982,071	2,142,889
Accounts payable		1,640,302	1,906,213
Unearned revenue		749,871	548,437
Provision for credit-related commitments	19.3	655,863	519,239
Provision for zakat	24	556,318	413,759
End of service liability	26.2	485,254	464,007
Accrued expenses		373,446	337,721
Lease liabilities	14.1	366,092	376,091
Negative fair value of derivatives	7	110,321	13,161
Others		36,638	50,300
<b>Total</b>		<b>6,956,176</b>	<b>6,771,817</b>

#### 14.1 Lease liabilities and lease-related expenses

Below is the undiscounted contractual cash flows for lease liabilities:

	2023 SAR'000	2022 SAR'000
Less than 1 year	109,233	101,266
1 to 5 years	225,115	239,937
Over 5 years	73,637	70,331
<b>Total</b>	<b>407,985</b>	<b>411,534</b>

Other general and administrative expenses include financing cost of SAR 13.8 million (2022: SAR 14.2 million). Rent and premises related expenses include payments for leases excluded in the calculation of lease liabilities (i.e., short term leases and leases of low value assets) of SAR 10.9 million (2022: SAR 8.3 million).

## 15. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 2,000 million shares (2022: 2,000 million shares) of SAR 10 each.

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

	2023	2022
	Percentage	
Public Investment Fund ("PIF")	10	10
General public and others	90	90
<b>Total</b>	<b>100</b>	<b>100</b>

### 15.1 Dividends

The Board of Directors in their meeting held on December 20, 2022 proposed a final 2022 dividends of SAR 996.1 million (2021: SAR 795.1 million) which was approved in the extraordinary general assembly held on April 30, 2023. This resulted to a net payment of SAR 0.50 per share to the shareholders of the Bank (2021: SAR 0.40 per share).

During the year ended December 31, 2023, the Board of Directors approved a total interim dividends of SAR 1,690.4 million (2022: SAR 896.1 million). This resulted to a total payment of SAR 0.85 per share to the shareholders of the Bank (2022: SAR 0.45 per share).

### 15.2 Proposed issue of bonus shares

On December 31, 2023, the Board of Directors recommended to the Extraordinary General Assembly of the Bank to increase the capital by SAR 5,000 million through capitalization from the retained earnings by way of granting one share for every four shares. The proposed grant is conditional on obtaining the approval of the official authorities and the extraordinary general assembly on the increase in the capital and the number of shares granted.

## 16. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, and Bank's By-Laws, 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 1,209.8 million (2022: SAR 899.8 million) has been transferred from the net income for the year to the statutory reserve. The statutory reserve is not available for cash distribution.

## 17. Treasury shares and other reserves

### 17.1 Treasury shares

Treasury shares have been acquired, after due approvals, for discharging the obligations of employees share based plans (refer to note 22.2).

On April 30, 2023, the extraordinary general assembly approved 5 million shares to be purchased as treasury shares for allocation to the Employee Stock Plan. The Bank has completed the purchase of these shares during the year.



## 17.2 Other reserves

2023 (SAR '000)	Fair value reserve for FVOCI investments	Employees share-based plan reserve (note 22.2)	Social contribution reserve	Remeasurement of End of Service Benefits	Total
Balance at the beginning of the year	(634,267)	33,855	113,555	(20,539)	(507,396)
Net change in fair value of FVOCI equity investments	461,304	-	-	-	461,304
Net change in fair values of FVOCI sukuk investments	108,987	-	-	-	108,987
Share of associate's other comprehensive income	10,868	-	-	-	10,868
Gain on sale of FVOCI equity investments	(120,052)	-	-	-	(120,052)
Realized gain on share of associate's other comprehensive income	(10,868)	-	-	-	(10,868)
Actuarial gain on Remeasurement of End of Service Benefits (Note 26)	-	-	-	19,637	19,637
Employee share based plan reserve	-	57,113	-	-	57,113
Other transfers	-	21,748	-	-	21,748
Vesting of shares	-	(18,830)	-	-	(18,830)
Appropriations, net of utilizations	-	-	39,848	-	39,848
Balance at the end of the year	(184,028)	93,886	153,403	(902)	62,359

2022 (SAR '000)	Fair value reserve for FVOCI investments	Employees share-based plan reserve (note 22.2)	Social contribution reserve	Remeasurement of End of Service Benefits	Total
Balance at the beginning of the year	26,617	43,291	85,458	(32,765)	122,601
Net change in fair value of FVOCI equity investments	(412,976)	-	-	-	(412,976)
Net change in fair values of FVOCI sukuk investments	(247,262)	-	-	-	(247,262)
Gain on sale of FVOCI sukuk investments	(993)	-	-	-	(993)
Loss on sale of FVOCI equity investments	347	-	-	-	347
Actuarial gain on Remeasurement of End of Service Benefits (Note 26)	-	-	-	12,226	12,226
Employee share based plan reserve	-	27,187	-	-	27,187
Vesting of shares	-	(36,623)	-	-	(36,623)
Appropriations, net of utilizations	-	-	28,097	-	28,097
Balance at the end of the year	(634,267)	33,855	113,555	(20,539)	(507,396)

During the year, an amount of SAR 48.4 million for 2023 (2022: SAR 36 million) was appropriated from retained earnings to social community reserve. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

## **18. Tier 1 Sukuk**

On July 1, 2021, the Bank through a Shariah compliant arrangement issued Tier 1 Sukuk (the "Sukuk"), amounting to SAR 5 billion. The issuance was approved by the regulatory authorities and the Board of Directors of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement. These securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of SAMA.

The applicable profit rate is 4% per annum from date of issue up to 2026 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

## **19. Commitments and contingencies**

### **19.1 Legal proceedings**

As at December 31, 2023 and 2022, there were no significant legal proceedings outstanding against the Bank.

### **19.2 Capital commitments**

As at December 31, 2023, the Bank had capital commitments of SAR 70.5 million (2022: SAR 51 million) relating to acquisition of property and equipment.

### **19.3 Credit related commitments and contingencies**

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

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

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

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

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

2023	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,369,762	1,402,770	150,445	-	3,922,977
Letters of guarantee	3,111,702	7,604,171	8,302,668	33,603	19,052,144
Acceptances	1,254,199	-	-	-	1,254,199
Irrevocable commitments to extend credit	-	-	12,136,338	-	12,136,338
<b>Total</b>	<b>6,735,663</b>	<b>9,006,941</b>	<b>20,589,451</b>	<b>33,603</b>	<b>36,365,658</b>

2022	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,283,947	1,259,353	61,777	51,833	4,656,910
Letters of guarantee	1,274,686	6,735,169	7,248,594	376,117	15,634,566
Acceptances	486,488	71,287	-	-	557,775
Irrevocable commitments to extend credit	-	-	2,750,501	-	2,750,501
<b>Total</b>	<b>5,045,121</b>	<b>8,065,809</b>	<b>10,060,872</b>	<b>427,950</b>	<b>23,599,752</b>

This is as per contractual period of the guarantee and other credit commitments and in event of default may be payable on demand and therefore current in nature.

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

	2023	2022
	SAR'000	SAR'000
Government and quasi government	8,720	801
Corporate	33,733,756	19,797,042
Banks and other financial institutions	2,623,182	3,801,909
<b>Total</b>	<b>36,365,658</b>	<b>23,599,752</b>

- iii) The outstanding unused portion of commitments as at December 31, 2023 which can be revoked unilaterally at any time by the Bank, amounts to SAR 35,126 million (2022: SAR 35,298 million).
- iv) The following table shows reconciliations from the opening to the closing balance of the gross exposure of credit commitments and contingencies and 'Provision for credit-related commitments':

<u>Gross exposure of credit commitments and contingencies</u>	December 31, 2023			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
SAR in '000'				
Balance at the beginning of the year	20,722,255	2,298,177	579,320	23,599,752
Transfer to 12-month ECL	39,590	(39,590)	-	-
Transfer to life time ECL, not credit impaired	(1,897,151)	1,902,641	(5,490)	-
New commitments, net of expired / matured commitments during the year	12,480,789	292,454	(7,337)	12,765,906
<b>Balance as at December 31, 2023</b>	<b>31,345,483</b>	<b>4,453,682</b>	<b>566,493</b>	<b>36,365,658</b>

<u>Gross exposure of credit commitments and contingencies</u>	December 31, 2022			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the year	11,152,123	2,217,077	575,832	13,945,032
Transfer to 12-month ECL	99,753	(99,753)	-	-
Transfer to life time ECL, credit impaired	-	(25,191)	25,191	-
New commitments, net of expired / matured commitments during the year	9,470,379	206,044	(21,703)	9,654,720
Balance as at December 31, 2022	20,722,255	2,298,177	579,320	23,599,752

<u>Provision for credit-related commitments</u>	December 31, 2023			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the year	51,580	245,464	222,195	519,239
Transfer to 12-month ECL	256	(256)	-	-
Transfer to life time ECL, not credit impaired	(23,309)	23,951	(642)	-
Net charge / (reversal) for the year	11,942	132,857	(8,175)	136,624
<b>Balance as at December 31, 2023</b>	<b>40,469</b>	<b>402,016</b>	<b>213,378</b>	<b>655,863</b>

<u>Provision for credit-related commitments</u>	December 31, 2022			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the year	37,428	75,037	234,714	347,179
Transfer to 12-month ECL	4,028	(4,028)	-	-
Transfer to life time ECL, credit impaired	-	(177)	177	-
Net charge / (reversal) for the year	10,124	174,632	(12,696)	172,060
Balance as at December 31, 2022	51,580	245,464	222,195	519,239

20. Income from investments and financing, net

	2023 SAR'000	2022 SAR'000
<b>Income from investments and financing:</b>		
Investments in Murabaha and money market placement with SAMA	156,859	30,208
Investments in Sukuk held at amortized cost	767,573	769,681
Investments in Sukuk held at FVOCI	625,309	324,810
Murabaha with banks and other financial institutions	99,231	12,430
<b>Financing:</b>		
Murabaha	1,700,948	1,358,054
Ijarah	3,268,301	1,970,982
Bei Ajel	6,486,777	3,087,325
Other financing products	122,511	59,471
Total income from financing	11,578,537	6,475,832
<b>Total</b>	<b>13,227,509</b>	<b>7,612,961</b>
<b>Return on time investments:</b>		
Customers' time investments	(5,105,486)	(1,166,164)
Time investments from SAMA, banks and other financial institutions	(467,509)	(380,331)
	(5,572,995)	(1,546,495)
<b>Total</b>	<b>7,654,514</b>	<b>6,066,466</b>

21. Fees from banking services, net and other operating income

21.1 Fees from banking services, net

	2023 SAR'000	2022 SAR'000
<b>Income from:</b>		
Trade finance services	172,452	124,583
Card services	1,301,748	1,071,806
Brokerage fees	138,961	88,613
Fund management and other banking services	813,542	616,508
	2,426,703	1,901,510
<b>Expense on:</b>		
Card services	(931,727)	(663,360)
Other fees	(35,985)	(29,218)
	(967,712)	(692,578)
	<b>1,458,991</b>	<b>1,208,932</b>



## 21.2 Other operating income

	2023 SAR'000	2022 SAR'000
Gain on sale of property and equipment	7,878	4,371
Gain on derecognition of associate	5,143	-
Gain from Sukuk investments held at amortized cost	-	52,196
Others, net	26,321	29,413
	<b>39,342</b>	<b>85,980</b>

## 22. Salaries and employees related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

SAR'000										
Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares (note 22.2)		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Senior executives requiring SAMA no objections	30	30	53,918	53,908	18,196	16,169	7,177	9,372	25,373	25,541
Employees engaged in risk taking activities	948	898	355,078	326,614	42,821	57,047	4,371	20,640	47,192	77,687
Employees engaged in control functions	460	377	144,342	127,868	31,703	23,796	2,049	8,043	33,752	31,839
Other employees	2,440	2,371	551,758	493,915	57,353	59,048	4,521	23,089	61,874	82,137
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-	-	-	-	-	-
	<b>3,878</b>	<b>3,676</b>	<b>1,105,096</b>	<b>1,002,305</b>	<b>150,073</b>	<b>156,060</b>	<b>18,118</b>	<b>61,144</b>	<b>168,191</b>	<b>217,204</b>
Variable compensation accrued	-	-	149,600	162,021	-	-	-	-	-	-
Other employee related benefits	-	-	211,825	160,998	-	-	-	-	-	-
<b>Total</b>	<b>3,878</b>	<b>3,676</b>	<b>1,466,521</b>	<b>1,325,324</b>	<b>150,073</b>	<b>156,060</b>	<b>18,118</b>	<b>61,144</b>	<b>168,191</b>	<b>217,204</b>

Refer to note 22.2 for more details on shares paid during the year ended December 31, 2023 and 2022.

## 22.1 Salient features of Compensation Policy

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

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

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

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

The Bank, as part of their compensation practices which are aligned with the SAMA rules, considers variable compensation programs which are based on (1) market practice, (2) strategy of the business area, (3) roles of the business area, (4) nature and tail of risks undertaken, and (5) actual performance delivered.

As part of the Bank's variable compensation structure, following are the key components of variable compensation in the Bank:

1-Cash Bonus – The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

2-Deferred Bonus – The portion of the variable compensation that is awarded and paid in cash and/or shares over a period of 3 years.

Below are the details of the deferred bonus payments for the outstanding years and no deferred bonus is reduced through performance adjustments.

<u>Year</u>	<b>SAR in '000'</b>			
	<b>Total amount deferred</b>	<b>Amount vested</b>	<b>Amount unvested</b>	<b>Amount paid in 2023</b>
2020 (awarded in shares)	11,378,680	6,747,413	4,631,267	3,332,899
2021 (awarded in shares)	28,638,600	9,060,509	19,578,091	9,060,509
2022 (awarded in shares)	44,534,987	-	44,534,987	-

The Bank implements procedures so as to support the principles of adjustment to variable compensation outcomes so as to reflect true underlying and actual, realized performance. This can either be achieved through:

1. Withholding, whereby deferred payments are to be withheld following subdued or negative performance; or
2. Malus, whereby a portion of variable pay is deferred and only released subject to no subdued or negative performance indicating the results on which the variable pay was paid were overstated and that were used to calculate the overall bonus.

As a Sharia'a compliant bank, the Bank uses claw back of previously paid bonuses in its purest form to be appropriate in the context of Sharia'a Committee decisions only when the malus clause applies.

Therefore, for the purpose of bonus deferral, the Bank may apply a further malus clause to this deferred amount that may require either a restatement of results for which the bonus was paid and / or additional performance measures.

Linkage of compensation with actual performance

The variable compensation in the Bank is purely performance based and consists of the annual performance bonus. As part of the staff's variable compensation, the annual bonus is driven by delivery of operational and financial targets set each year, the individual performance of the employees and their contribution in delivering the overall Bank's objectives.

The Bank has adopted a Board-approved framework to develop a clear link between variable compensation and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would deliver a target bonus pool for the employees, prior to consideration of any allocation to business areas and employees individually.

The key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable compensation, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risks via the use of risk-adjusted measures. The NRC carefully evaluates practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC. For the Bank to have any funding for distribution of a bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable compensation is generally considerably contracted where subdued or negative financial performance occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

Deferral policy and vesting criteria

For certain categories of employees such as (1) Employees requiring SAMA No Objection, (2) Material Risk Takers and (3) Material Risk Controllers, where deemed appropriate, the Bank provides a portion of variable compensation in the form of corporate performance linked shares paid out on a multi-year cycle for identified key employees who have direct impact on the Bank growth and success.

Where variable compensation plans that include corporate performance linked cash/shares payments are introduced, the Bank provides criteria for determining the value for allocation of deferred payments within the plan rules or guidelines. Payouts of such conditional deferred shares plans are required to be subject to a retention or vesting policy that is determined on a plan to plan basis. Such retention or vesting policies are to be outlined within the plan rules or guidelines. As a minimum requirement, the Bank's policy is for cash/shares based awards to be subject to an appropriate retention policy.

Parameters for allocating cash versus other forms of compensation

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore attracts, retains and motivates the best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements;

1. **Fixed Pay** (comprises of basic salary and cash allowances) and other benefits programs are developed so as to support the pay positioning and pay mix policies and align with all applicable regulatory requirements.
2. **Cash Allowances** are provided to support the Bank's pay positioning policies and to aid recruitment of sufficiently qualified talent to drive sustainable growth. The Bank reviews which allowances it offers to employees and the quantum of such allowances so as to ensure they support the aims of compensation across the whole Bank.
3. **Benefits** to support retention and recruitment of sufficiently experienced talent across the business. Provision of these benefits is provided in line with local market norms and reviewed on a regular basis to ensure they remain appropriate.
4. **Annual Performance Bonus** to enhance employee effectiveness by driving the Bank, business group and individual performance in a sustainable process and create a competitive compensation strategy that supports the Bank's business growth strategy.

## 22.2 Employees share-based plans

Significant features of the Employees Share based schemes outstanding at the end of the period are as follows:

Nature of scheme	ESGS Plan A	Deferred bonus 2021	Deferred bonus 2022	Deferred bonus 2023
No. of outstanding Schemes	1	1	1	1
Grant date	May-2019	Mar-2021	Jan-2022	Jan-2023
Maturity date	Apr-2024	Mar-2024	Jan-2025	Jan-2026
Number of shares granted – adjusted after issuance of bonus shares	1,167,452	699,985	1,177,790	1,203,141
Vesting period	5 years	3 years	3 years	3 years
Value of shares granted (SAR)	21,864,357	11,535,753	34,627,015	42,182,109
Fair value per share at grant date (SAR) – adjusted after issuance of bonus shares	20.25	16.48	29.40	35.06
Vesting condition	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value	Market Value
Weighted average remaining contractual life	0.3 Years	0.2 Years	1.1 Years	2 Years

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

2023	ESGS Plan A		Deferred bonus schemes	
	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme
December 31, 2023				
Beginning of the year	19.70	434,534	26.94	2,029,256
Granted during the year	19.70	27,397	34.90	1,307,826
Vested during the year	19.70	(221,412)	30.06	(578,075)
Expired during the year	19.70	(16,957)	30.06	(148,725)
End of the year	19.70	223,562	30.06	2,610,282
Exercisable at year end	19.70	223,562	30.06	2,610,282

2022	ESPS (Jana)		ESGS Plan A		ESGS Plan B		Deferred bonus	
	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme
December 31, 2022								
Beginning of the year	16.13	1,824,633	19.70	1,422,415	20.25	566,409	16.48	684,934
Granted during the year	-	-	19.70	7,782	-	-	29.40	1,687,097
Vested during the year	16.13	(1,791,147)	19.70	(986,361)	20.25	(558,499)	17.16	(286,201)
Expired during the year	16.13	(33,486)	19.70	(9,302)	20.25	(7,910)	22.99	(56,574)
End of the year	-	-	19.70	434,534	-	-	26.94	2,029,256
Exercisable at year end	-	-	19.70	434,534	-	-	26.94	2,029,256

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized in consolidated statement of income during the year ended December 31, 2023 in respect of these schemes was SAR 57.1 million (2022: SAR 27.2 million).



## 23. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income adjusted for Tier 1 Sukuk costs by the weighted average number of outstanding shares which were 1,989.2 million shares at December 31, 2023. Basic and diluted earnings per share as at December 31, 2022 were divided by 1,990.3 million shares. The diluted earnings per share is the same as the basic earnings per share.

## 24. Zakat liability

	2023	2022
	SAR'000	SAR'000
Opening balance	413,759	311,545
Zakat expense	556,318	413,759
Payments during the year	(413,759)	(311,545)
Ending balance	556,318	413,759

## 25. Cash and cash equivalents

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

	2023	2022
	SAR'000	SAR'000
Cash in hand	1,807,396	1,960,998
Balances with SAMA excluding statutory deposit	1,801,753	278,465
Due from banks and other financial institutions maturing within three months of acquisition	1,563,698	1,333,480
Total	5,172,847	3,572,943

## 26. Employee benefit obligations

### 26.1 General description of Defined Benefit Plan

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

26.2 The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2023	2022
	SAR'000	SAR'000
Defined benefit obligation at the beginning of the year	464,007	438,073
Charge for the year	67,505	66,083
Discount cost	20,897	13,731
Benefits paid	(47,518)	(41,654)
Actuarial gain on re-measurement recognized in OCI	(19,637)	(12,226)
Defined benefit obligation at the end of the year	485,254	464,007

Charge for the year is comprised of current service cost.

Actuarial gain on re-measurement recognized in OCI is comprised of:

	2023 SAR'000	2022 SAR'000
Gain from change in experience assumptions	2,395	4,867
Gain from change in financial assumptions	17,242	7,359
<b>Total</b>	<b>19,637</b>	<b>12,226</b>

### 26.3 Principal actuarial assumptions (in respect of the end of service benefit plan)

	2023	2022
Discount rate	4.76% p.a.	4.76% p.a.
	3.5% p.a. for the next 3 years	3.5% p.a. for the next year
Expected rate of salary increase – thereafter	4.8% p.a.	4.8% p.a.
Normal retirement age	60 years	60 years

The assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

### 26.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2023 and 2022:

2023	SAR 000'		
	Impact on defined benefit obligation – Increase/(Decrease)		
Base scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(42,720)	49,752
Expected rate of salary increase	1%	51,089	(44,637)
2022	SAR 000'		
	Impact on defined benefit obligation – Increase/(Decrease)		
Base scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(41,554)	48,608
Expected rate of salary increase	1%	50,585	(43,974)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

## 26.5 Expected maturity

Expected maturity analysis of undiscounted defined benefit obligation for the end of service benefit plan is as follows:

	2023	2022
	SAR'000	SAR'000
Less than a year	41,463	38,803
1-2 years	31,200	28,902
2-5 years	88,310	86,558
Over 5 years	654,600	635,028
<b>Total</b>	<b>815,573</b>	<b>789,291</b>

The weighted average duration of the defined benefit obligation is 14.7 years (2022: 14.7 years).

## 26.6 Defined contribution plan

The Bank makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SAR 73.2 million (2022: SAR 73 million).

## 27. Operating segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the key decision makers including CEO and the Assets and Liabilities Committee (ALCO), in order to allocate resources to the segments and to assess their performance.

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

The Bank's reportable segments are as follows:

### a) Retail banking

Financing, deposit and other products/services for individuals.

### b) Corporate banking

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

### c) Treasury

Murabahas with banks, investments and treasury services.

### d) Investment and brokerage

Asset Management, custodianship, advisory, underwriting and brokerage services.

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

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

SAR '000	December 31, 2023				
	Retail	Corporate	Treasury	Investment & brokerage	Total
<b>Total assets</b>	<b>41,309,676</b>	<b>131,377,995</b>	<b>61,379,953</b>	<b>2,647,474</b>	<b>236,715,098</b>
<b>Total liabilities</b>	<b>117,765,455</b>	<b>22,787,416</b>	<b>61,639,658</b>	<b>188,968</b>	<b>202,381,497</b>
Income from investments and financing	6,243,516	4,070,998	2,812,114	100,881	13,227,509
Return on time investments	(2,213,386)	(1,159,737)	(2,199,872)	-	(5,572,995)
<b>Income from investments and financing, net</b>	<b>4,030,130</b>	<b>2,911,261</b>	<b>612,242</b>	<b>100,881</b>	<b>7,654,514</b>
Fees from banking services and other income	464,018	357,507	499,833	749,785	2,071,143
<b>Total operating income</b>	<b>4,494,148</b>	<b>3,268,768</b>	<b>1,112,075</b>	<b>850,666</b>	<b>9,725,657</b>
Charge/ (reversal) for impairment of financing	735,700	540,319	-	(3,915)	1,272,104
Charge for impairment of other financial assets	6,191	-	7,081	13,252	26,524
Depreciation and amortization	264,218	32,718	23,415	4,962	325,313
Other operating expenses	1,434,010	628,448	348,261	307,494	2,718,213
<b>Total operating expenses</b>	<b>2,440,119</b>	<b>1,201,485</b>	<b>378,757</b>	<b>321,793</b>	<b>4,342,154</b>
<b>Net operating income</b>	<b>2,054,029</b>	<b>2,067,283</b>	<b>733,318</b>	<b>528,873</b>	<b>5,383,503</b>
Share of income from associate and joint venture	-	-	12,021	-	12,021
<b>Net income for the year before zakat</b>	<b>2,054,029</b>	<b>2,067,283</b>	<b>745,339</b>	<b>528,873</b>	<b>5,395,524</b>

SAR '000	December 31, 2022				
	Retail	Corporate	Treasury	Investment & brokerage	Total
<b>Total assets</b>	<b>35,600,568</b>	<b>109,953,692</b>	<b>52,381,346</b>	<b>2,500,623</b>	<b>200,436,229</b>
<b>Total liabilities</b>	<b>97,108,721</b>	<b>23,711,603</b>	<b>47,548,547</b>	<b>191,045</b>	<b>168,559,916</b>
Income from investments and financing	3,400,066	2,748,778	1,372,191	91,926	7,612,961
Return on time investments	(518,669)	(306,162)	(721,664)	-	(1,546,495)
<b>Income from investments and financing, net</b>	<b>2,881,397</b>	<b>2,442,616</b>	<b>650,527</b>	<b>91,926</b>	<b>6,066,466</b>
Fees from banking services and other income	442,729	293,341	534,621	625,903	1,896,594
<b>Total operating income</b>	<b>3,324,126</b>	<b>2,735,957</b>	<b>1,185,148</b>	<b>717,829</b>	<b>7,963,060</b>
Charge for impairment of financing	350,642	843,286	-	3,772	1,197,700
Charge / (reversal) for impairment of other financial assets	-	-	13,774	(22,756)	(8,982)
Depreciation and amortization	247,915	16,237	9,617	5,347	279,116
Other operating expenses	1,501,202	474,205	242,430	268,024	2,485,861
<b>Total operating expenses</b>	<b>2,099,759</b>	<b>1,333,728</b>	<b>265,821</b>	<b>254,387</b>	<b>3,953,695</b>
<b>Net operating income</b>	<b>1,224,367</b>	<b>1,402,229</b>	<b>919,327</b>	<b>463,442</b>	<b>4,009,365</b>
Share of income from associate and joint venture	-	-	3,534	-	3,534
<b>Net income for the year before zakat</b>	<b>1,224,367</b>	<b>1,402,229</b>	<b>922,861</b>	<b>463,442</b>	<b>4,012,899</b>

	December 31, 2023				
SAR '000	Retail	Corporate	Treasury	Investment & brokerage	Total
Other information:					
Income from:					
-External customers	526,795	8,436,168	(87,972)	850,666	9,725,657
-Inter-segment	3,967,353	(5,167,400)	1,200,047	-	-
<b>Total operating income</b>	<b>4,494,148</b>	<b>3,268,768</b>	<b>1,112,075</b>	<b>850,666</b>	<b>9,725,657</b>

	December 31, 2022				
SAR '000	Retail	Corporate	Treasury	Investment & brokerage	Total
Other information:					
Income from:					
-External customers	1,490,170	4,844,945	910,116	717,829	7,963,060
-Inter-segment	1,833,956	(2,108,988)	275,032	-	-
<b>Total operating income</b>	<b>3,324,126</b>	<b>2,735,957</b>	<b>1,185,148</b>	<b>717,829</b>	<b>7,963,060</b>

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

	December 31, 2023				
SAR '000	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	41,309,676	131,377,995	52,257,049	1,839,195	226,783,915
Commitments and contingencies	-	16,389,473	910,573	-	17,300,046
<b>Total</b>	<b>41,309,676</b>	<b>147,767,468</b>	<b>53,167,622</b>	<b>1,839,195</b>	<b>244,083,961</b>

	December 31, 2022				
SAR '000	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	35,600,568	109,953,692	45,139,493	1,682,474	192,376,227
Commitments and contingencies	-	12,574,758	840,049	-	13,414,807
<b>Total</b>	<b>35,600,568</b>	<b>122,528,450</b>	<b>45,979,542</b>	<b>1,682,474</b>	<b>205,791,034</b>

Credit exposure comprises the carrying value of on balance sheet assets, excluding cash, property and equipment and right of use assets, investments in funds and equities and non-credit other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.



## 28. Credit risk

Credit risk arises when a counterparty fails to fulfil its contractual obligations to the Bank. To minimize the risk of a counterparty failing to meet its obligations, the Bank is committed to a strong pro-active credit process to ensure that a credit that is originated will meet the institutional risk appetite and will fulfil the criteria under which credits are extended. All credit proposals are subjected to a high degree of due diligence intended to identify all risks associated with granting the credit.

An internal credit-rating model is used to determine the Obligor Risk Rating (ORR), a measure of the obligor's probability of default. Ratings by the major credit rating agencies are also considered, when available and disclosed by clients. Target Market is a key component of this process as it provides the first filter for prospective and existing obligors to avoid initiating or maintaining relationships that do not fit the Bank's strategy and desired risk profile. Risk Acceptance Criteria (RAC) is a set of variables indicating the terms under which the Bank is willing to initiate and/or maintain a credit relationship with an obligor that meets the target market. The business team is a front-end marketing team responsible for originating, evaluating and recommending credit proposals. Approval is granted in accordance with the Board approved "Credit Approval Authority Delegation Matrix" through the Credit Committee which is composed of the CEO, Business Senior Credit Officer, and Chief Credit Officer. Credits are extended based on the Corporate, Financial Institutions and Retail Banking Credit Policies and Guidelines.

Risk Management, as a key stakeholder, controls the policies established for financing and are tasked with the responsibility of regularly reviewing, and revising the Bank's credit policies, guidelines and processes, to ensure that credits risk is managed and controlled within the Risk Appetite Criteria of the Bank and credit related losses are minimized. Risk Management also ensures that credit policies are aligned and adjusted on periodic basis in accordance with the economic, market, regulatory and legal landscape.

Various credit portfolios are managed to achieve diversification. Concentration in the portfolio mix is managed in terms of economic activity, geography, collateral and underlying product. The Bank seeks diversification of its credit portfolios through customer acquisition across different industries, economic activities and geographical presence across the country and by targeting large, medium and small corporate clients as well as individual clients. Obligor and sector concentrations are monitored to assess different types of financing concentrations. The Bank regularly stress tests its credit portfolios, in order to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

### 28.1 Expected credit Loss (ECL)

#### Credit Risk Grades

The Bank follows a well-defined credit evaluation process anchored in a clear Target Market and Risk Acceptance Criteria, credit policies framework and extensive due diligence process. The credit review and approval process is ably supported with stringent credit administration control and limit monitoring function of credit limits.

To generate an internal risk rating, the Bank uses Moody's CreditLens. This rating system is used by many leading banks globally and in the Kingdom. It enables the Bank to assign a risk rating to a single obligor. The risk rating is a point-in-time, 12-month probability of default (PD). The Bank assigns a rating from a 10-point rating scale with 1 as the best through 10 as the worst. The rating uses sub-grades (e.g. 3+, 3, and 3- ) for a granular assessment of the PD. As part of the Bank's policy, only obligors with risk ratings of -6 or better are eligible for new financing facilities. The Bank reviews and validates the Moody's CreditLens rating system on a regular basis by calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring and annual review activity, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to the specific obligor such as changes in the audited financial statements, compliance with covenants, management changes, as well as changes in the economic and business environment.

Credit risks in the retail portfolio are estimated based on individual credit-worthiness scores, derived from an automated credit scoring platform and is not subject to the Moody's rating system.

The Bank's internal credit rating grades:

Internal rating grade	Internal rating description	12 months Point in Time (PIT) PD
<b>Performing</b>		
1	Almost Credit Risk Free	0.01%
2+	Almost Credit Risk Free	0.01%
2	Almost Credit Risk Free	0.02%
2-	Almost Credit Risk Free	0.05%
3+	Exceptionally Strong Credit Risk	0.08%
3	Exceptionally Strong Credit Risk	0.12%
3-	Exceptionally Strong Credit Risk	0.17%
4+	Exceptionally Strong Credit Risk	0.25%
4	Excellent Credit Risk	0.36%
4-	Excellent Credit Risk	0.51%
5+	Good Credit Quality	0.81%
5	Good Credit Quality	1.27%
5-	Good Credit Quality	2.13%
6+	Satisfactory Credit Quality	3.56%
6	Satisfactory Credit Quality	6.40%
6-	Borderline Credit Quality	13.47%
7	Weak Credit Quality	30.49%
<b>Non-performing</b>		
8	First stage of default	100.000%
9	Default / substantial difficulty	100.000%
10	Write - Off	100.000%

#### Impairment Framework

The Bank compares the risk of default at the reporting date with the risk of default from the reference period. If the change in credit assessment is significant, the obligor is moved from Stage 1 to Stage 2 or Stage 2 to Stage 3. The PD is then changed from a 12-month point-in-time PD to a lifetime PD. The Bank groups its credit exposures on the basis of shared credit risk characteristics with the objective of facilitating analysis designed to identify significant increases in the credit risk on a timely basis. Given below are the most important types of the shared credit risk characteristics:

- Type of exposure
- Obligor risk rating
- Collateral type
- Collateral value
- Economic cycle and forward-looking scenario
- Date of origination
- Remaining term to maturity
- Geographical location of the obligor
- Industry

The Bank categorizes its financial assets into three stages of impairment, in accordance with IFRS 9 methodology:

- **Stage 1 Performing assets** – Financial asset(s) at origination or existing financial assets, at the reporting date, with no significant increase in credit risk since origination: The Bank recognizes an impairment allowance amounting to 12-month expected credit losses using a point-in-time PD (an estimate of the probability of default over the next 12 months). Profits associated with the asset are recognized on the basis of gross carrying value.
- **Stage 2 Underperforming assets** – Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Impairment Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value.
- **Stage 3 Credit-impaired assets (non-performing assets)** – Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD approach. Profits associated with the asset are recognized on the basis of net carrying value.

#### Definition of 'Default'

The Bank follows the Basel definition for default i.e. "The borrower is more than 90 days past due on principal or profit on any material obligation to the Bank".

#### Write offs

The Bank writes off any financing exposure in whole or in part, only when it has exhausted all practical recovery and remedial efforts and has concluded that there is no reasonable expectation of recovery in the foreseeable future. The write off are made after obtaining required approval. In the event of write-off the Bank does not forfeit its right to recover and continues to apply same collection intensity to optimize recovery potential including legal recourse.

#### Impairment – Stage Assessment and Expected Credit Loss Estimation

The Bank recognizes impairment on an on-going basis by calculating the expected credit loss (ECL) at each reporting period. The IFRS 9 methodology requires a forward-looking approach considering ECL for impairment rather than incurred losses.

By definition, all accounts in the financing portfolio of the Bank are categorized as Stage 1, unless these assets qualify under the rules and guidelines for impairment under the two stages which are "underperforming" Stage 2, and "Impaired," Stage 3. The levels of Credit Risk are described below:

#### Credit Losses (CL)

Credit Loss simply defined, is the difference between all the contractual cash flows that are due to the Bank and the NPV of the expected reduced cash flows discounted at the applicable effective rate, in view of certain circumstances that affect the borrower's ability to repay its original obligations. Credit loss could be the total contractual cash flows (100% credit loss), or a portion of the contractual cash flows.

### **Lifetime expected credit losses**

Lifetime expected credit loss is the expected present value of losses that may arise if a borrower defaults on its obligations at some time during the life of the financial asset. This is equivalent to the shortfalls in contractual cash flows, taking into account the potential or the probability of default at any point in time during the life of the asset.

### **12- Month Expected credit losses**

The 12 – month expected credit loss is a portion of the lifetime expected credit loss which is calculated by multiplying the probability of default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default. They are not the expected cash shortfalls over the next 12 months or the forecast of default in next 12 months but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. An asset moves from 12 – month expected credit losses (Stage 1) to lifetime expected credit loss (Stage 2) when there has been a significant deterioration in credit quality since initial recognition. Lifetime expected credit loss is also applied for obligors classified in stage 3.

### **Probability of Default**

Probability of Default (“PD”) is a critical attribute in credit risk assessment. It is used to compute the expected credit loss. Alinma Bank starts by using its credit risk models to assign a risk rating for an obligor (obligor risk rating). Each obligor risk rating is mapped to a probability of default, a point-in-time estimate of the probability of default over a 12-month period. A macroeconomic forecast is then used to calculate a multi-period probability of default; these multi-period (or term structure PD) are then used in the calculation of lifetime expected credit losses. The Bank formulates three forward-looking scenarios of the economic cycle to generate an estimate of the Term Structure PD (which is the expected migration of PD up or down, depending on the various stages of the economic cycle.) For example, it can be expected that if the economic environment is on a down-swing, the PD of an obligor which is already stressed and is classified under Stage 2 with clear signs of credit weaknesses, will tend to deteriorate. Conversely, if the economic environment is on an up-swing, the PD of a similar obligor will tend to improve. The Bank has incorporated in its lifetime PD an adjustment factor for survivability which recognizes that if a stressed obligor survives over a longer period of time, this indicates that the probability of default is reduced.

### **Loss Given Default**

Loss Given Default (“LGD”) is an estimate of the loss arising for an obligor in case of default. The following are the LGDs estimations aspect to be noted for the ECL calculation:

- Internal loss or recovery back LGDs are used for different portfolio of Alinma bank.
- The LGDs are benchmarked against market (National data pooling) estimates.
- For the retail product the CART based LGD models are designed based on historical loss and recovery experience.
- Due to lack of default and loss data, the investment and financial institution portfolio uses the regulatory prescribed LGD estimates.

## Sensitivity analysis

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank:

2023	SAR '000			
	Due from banks and other financial institutions	Investments	Financing	Provision for credit-related commitments
Base case (most likely)	1,288	19,854	4,432,701	655,863
Up turn	1,218	18,854	4,346,277	647,178
Down turn	1,411	21,855	4,668,821	690,171

2022	SAR '000			
	Due from banks and other financial institutions	Investments	Financing	Provision for credit-related commitments
Base case (most likely)	3,592	16,158	3,981,256	519,239
Up turn	3,393	15,252	3,768,327	515,768
Down turn	3,682	16,939	4,179,895	523,624

The base case scenario represents a most-likely outcome. In the up turn scenario, weightings are 50% for baseline assumptions, 40% for optimistic assumptions and 10% for pessimistic assumptions. In the down turn scenario, weightings are 50% for baseline assumptions, 40% for pessimistic assumptions and 10% optimistic assumptions. The Bank currently uses the weightings of 50% for baseline, 30% for optimistic assumptions and 20% for pessimistic assumptions.

No change has been made in the backstop criteria for all types of exposures.

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. In addition to the base case forecast which reflects the negative economic impact as compared to last year, greater weighting has been applied to the downside scenario given the Bank's assessment of downside risks and lesser weighting has been applied to upside scenario.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data. The Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2022 ECL model		
	2024	2025	2026
Inflation (%)	2.31	2.03	2.01
GDP per capita (SAR)	87,361	88,181	89,042
Fiscal Spending (SAR Billions)	1,391	1,442	1,488
Oil Price / Barrel (USD)	71.28	69.40	67.96

The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement evaluation based over periodic independent model validation and back-testing exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by various assumptions, management expert judgement and uncertainty and therefore, the actual outcomes may be different than those projected. The bank has assigned high priority in enhancing the IFRS 9 calculation engine with an objective to minimize the manual intervention and automate system functionality to an optimal level.

#### 28.1.1 Due from banks and other financial institutions by risk rating

	2023			2022		
	<u>12-month ECL</u>	<u>Life time ECL not credit impaired</u>	<u>Total</u>	<u>12-month ECL</u>	<u>Life time ECL not credit impaired</u>	<u>Total</u>
	SAR '000			SAR '000		
<b>Due from banks and other financial institutions</b>						
Grades 1-4: investment grade	1,683,542	-	1,683,542	1,416,640	-	1,416,640
Grades 5-6: good/satisfactory	16,738	-	16,738	40,884	526	41,410
Grades 7: Watch-list	-	1,915	1,915	-	-	-
<b>Gross</b>	<b>1,700,280</b>	<b>1,915</b>	<b>1,702,195</b>	<b>1,457,524</b>	<b>526</b>	<b>1,458,050</b>
Allowance for impairment	(1,031)	(257)	(1,288)	(3,564)	(28)	(3,592)
<b>Net</b>	<b>1,699,249</b>	<b>1,658</b>	<b>1,700,907</b>	<b>1,453,960</b>	<b>498</b>	<b>1,454,458</b>

#### 28.1.2 Sukuk and Murabaha investments by risk rating

	2023	2022
	<u>12-month ECL</u>	<u>12-month ECL</u>
	SAR '000	SAR '000
<b>Murabahas with SAMA investments – amortized cost</b>		
Grades 1-4: investment grade	1,626,379	904,901
<b>Sukuk investments – amortized cost</b>		
Grades 1-4: investment grade	25,422,871	22,477,405
Grades 5-6: good/satisfactory	75,763	1,355,172
	<u>25,498,634</u>	<u>23,832,577</u>
<b>Sukuk investments – FVOCI</b>		
Grades 1-4: investment grade	11,488,199	9,595,856
Grades 5-6: good/satisfactory	870,088	1,050,289
	<u>12,358,287</u>	<u>10,646,145</u>
<b>Murabahas with SAMA and Sukuk investments - Total</b>		
Grades 1-4: investment grade	38,537,449	32,978,162
Grades 5-6: good/satisfactory	945,851	2,405,461
<b>Gross</b>	<b>39,483,300</b>	<b>35,383,623</b>
Allowance for impairment	(19,854)	(16,158)
<b>Net</b>	<b>39,463,446</b>	<b>35,367,465</b>



28.1.3 Financing to customers by risk rating

	December 31, 2023			
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non- Performing)	Total
	SAR ‘000			
<b>Financing to customers (at amortized cost) – Retail</b>				
Unrated	41,365,515	1,008,533	-	42,374,048
Impaired financing	-	-	851,915	851,915
<b>Gross financing</b>	<b>41,365,515</b>	<b>1,008,533</b>	<b>851,915</b>	<b>43,225,963</b>
Allowance for impairment	(225,433)	(115,840)	(638,641)	(979,914)
	<b>41,140,082</b>	<b>892,693</b>	<b>213,274</b>	<b>42,246,049</b>
<b>Financing to customers (at amortized cost) – Corporate</b>				
Grades 1-4: investment grade	74,180,382	-	-	74,180,382
Grades 5-6: good/satisfactory	49,074,485	7,588,368	-	56,662,853
Grades 7: Watch-list	-	1,977,001	-	1,977,001
Impaired financing	-	-	2,010,546	2,010,546
<b>Gross financing</b>	<b>123,254,867</b>	<b>9,565,369</b>	<b>2,010,546</b>	<b>134,830,782</b>
Allowance for impairment	(460,499)	(1,600,519)	(1,391,769)	(3,452,787)
	<b>122,794,368</b>	<b>7,964,850</b>	<b>618,777</b>	<b>131,377,995</b>
<b>Financing to customers (at amortized cost) – Total</b>				
Grades 1-4: investment grade	74,180,382	-	-	74,180,382
Grades 5-6: good/satisfactory	49,074,485	7,588,368	-	56,662,853
Grades 7: Watch-list	-	1,977,001	-	1,977,001
Unrated	41,365,515	1,008,533	-	42,374,048
Impaired financing	-	-	2,862,461	2,862,461
<b>Gross financing</b>	<b>164,620,382</b>	<b>10,573,902</b>	<b>2,862,461</b>	<b>178,056,745</b>
Allowance for impairment	(685,932)	(1,716,359)	(2,030,410)	(4,432,701)
<b>Financing, net</b>	<b>163,934,450</b>	<b>8,857,543</b>	<b>832,051</b>	<b>173,624,044</b>

December 31, 2022				
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non- Performing)	Total
SAR '000				
Financing to customers (at amortized cost) – Retail				
Unrated	35,678,542	1,135,594	-	36,814,136
Impaired financing	-	-	461,214	461,214
Gross financing	35,678,542	1,135,594	461,214	37,275,350
Allowance for impairment	(265,329)	(163,803)	(322,526)	(751,658)
	35,413,213	971,791	138,688	36,523,692
Financing to customers (at amortized cost) – Corporate				
Grades 1-4: investment grade	47,700,501	-	-	47,700,501
Grades 5-6: good/satisfactory	55,716,407	4,720,413	-	60,436,820
Grades 7: Watch-list	-	2,601,841	-	2,601,841
Impaired financing	-	-	2,458,700	2,458,700
Gross financing	103,416,908	7,322,254	2,458,700	113,197,862
Allowance for impairment	(425,859)	(1,468,250)	(1,335,489)	(3,229,598)
	102,991,049	5,854,004	1,123,211	109,968,264
Financing to customers (at amortized cost) – Total				
Grades 1-4: investment grade	47,700,501	-	-	47,700,501
Grades 5-6: good/satisfactory	55,716,407	4,720,413	-	60,436,820
Grades 7: Watch-list	-	2,601,841	-	2,601,841
Unrated	35,678,542	1,135,594	-	36,814,136
Impaired financing	-	-	2,919,914	2,919,914
Gross financing	139,095,450	8,457,848	2,919,914	150,473,212
Allowance for impairment	(691,188)	(1,632,053)	(1,658,015)	(3,981,256)
Financing, net	138,404,262	6,825,795	1,261,899	146,491,956

Rating Scale (1 – 4) represents:

Rating Scale (5 – 6) represents:

Rating Scale (7) represents:

Substantially credit risk free, Exceptionally strong credit quality,  
Excellent credit risk quality, Very good credit risk quality.  
Good to satisfactory and borderline credit quality.  
Watch list category.

28.1.4 Commitments and contingencies by risk rating

	December 31, 2023			
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non- Performing)	Total
	SAR '000			
Commitments and contingencies				
Grades 1-4: investment grade	8,671,995	-	-	8,671,995
Grades 5-6: good/satisfactory	4,273,179	2,187,758	-	6,460,937
Grades 7: Watch-list	-	371,397	-	371,397
Unrated	1,511,482	-	-	1,511,482
Impaired	-	-	284,235	284,235
Total amount at credit equivalents	14,456,656	2,559,155	284,235	17,300,046
Provision for credit-related commitments	40,469	402,016	213,378	655,863
	December 31, 2022			
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non- Performing)	Total
	SAR '000			
Commitments and contingencies				
Grades 1-4: investment grade	4,213,585	-	-	4,213,585
Grades 5-6: good/satisfactory	6,269,278	1,263,567	-	7,532,845
Grades 7: Watch-list	-	362,303	-	362,303
Unrated	1,011,602	-	-	1,011,602
Impaired	-	-	294,472	294,472
Total amount at credit equivalents	11,494,465	1,625,870	294,472	13,414,807
Provision for credit-related commitments	51,580	245,464	222,195	519,239

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

2023	SAR'000			
	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	16,301,450	-	-	16,301,450
Manufacturing	9,417,958	1,329,925	(762,407)	9,985,476
Electricity, water, gas & health services	6,819,438	-	-	6,819,438
Building and construction	8,974,525	26,551	(19,913)	8,981,163
Services	22,912,063	68,761	(40,145)	22,940,679
Mining	1,981,418	-	-	1,981,418
Agriculture	2,831,795	-	-	2,831,795
Consumer financing	42,374,048	851,915	(638,641)	42,587,322
Transportation and communication	5,791,424	27,516	(27,516)	5,791,424
Commerce	12,108,629	553,083	(539,786)	12,121,926
Real estate business	28,686,575	4,710	(2,002)	28,689,283
Others	16,994,961	-	-	16,994,961
	<u>175,194,284</u>	<u>2,862,461</u>	<u>(2,030,410)</u>	<u>176,026,335</u>
ECL against performing financing				(2,402,291)
Financing, net				<u>173,624,044</u>

2022	SAR'000			
	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	13,681,025	-	-	13,681,025
Manufacturing	9,093,796	1,098,045	(650,398)	9,541,443
Electricity, water, gas & health services	5,312,933	-	-	5,312,933
Building and construction	7,908,210	8,218	(6,163)	7,910,265
Services	17,422,594	66,162	(43,246)	17,445,510
Mining	2,826,249	-	-	2,826,249
Agriculture	3,302,830	-	-	3,302,830
Consumer financing	36,814,217	461,133	(322,446)	36,952,904
Transportation and communication	6,741,803	27,516	(20,637)	6,748,682
Commerce	9,727,806	716,119	(373,954)	10,069,971
Real estate business	20,180,174	516,936	(219,743)	20,477,367
Others	14,541,661	25,785	(21,428)	14,546,018
	<u>147,553,298</u>	<u>2,919,914</u>	<u>(1,658,015)</u>	<u>148,815,197</u>
ECL against performing financing				(2,323,241)
Financing, net				<u>146,491,956</u>

28.3 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. As at December 31, 2023, the Bank held collaterals of SAR 195,695 million (2022: SAR 188,104 million) against its secured financing.

The amount of collaterals held as security for financing that are credit-impaired are as follows:

	2023	2022
	SAR'000	SAR'000
Less than 50%	2,128,091	2,033,827
51% to 70%	582,185	52,829
More than 70%	152,185	833,258
<b>Total</b>	<b>2,862,461</b>	<b>2,919,914</b>

The Bank's policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collaterals held by the Bank.

The following table sets out the principal types of collateral held against financing. The Bank does not hold any type of collateral for its financial assets other than financing.

	2023	2022
Types of Collateral	SAR'000	SAR'000
Real estate and fixed assets	134,389,254	127,061,959
Shares	30,045,466	26,528,968
Others	31,260,183	34,513,230
<b>Total</b>	<b>195,694,903</b>	<b>188,104,157</b>

28.4 Geographical concentration of financial assets, financial liabilities, commitments and contingencies are as follows:

2023	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<b>Financial assets:</b>					
Cash and balances with SAMA	12,598,444	-	-	-	12,598,444
Due from banks and other financial institutions					
Current accounts	-	34,583	365,126	86,101	485,810
Murabaha and Wakala with banks	1,215,097	-	-	-	1,215,097
Investments, net					
Investments held at amortized cost	27,006,545	84,184	-	14,430	27,105,159
Investments held at FVOCI	12,182,339	1,149,104	100,864	72,975	13,505,282
Investments held at FVSI	1,205,904	792,817	34,745	576,808	2,610,274
Investments in associate and joint venture	15,637	-	-	-	15,637
Financing, net					
Retail	42,246,049	-	-	-	42,246,049
Corporate	128,893,436	-	-	2,484,559	131,377,995
Other assets	1,943,530	-	-	-	1,943,530
<b>Total financial assets</b>	<b>227,306,981</b>	<b>2,060,688</b>	<b>500,735</b>	<b>3,234,873</b>	<b>233,103,277</b>
<b>Financial liabilities:</b>					
Due to SAMA, banks and other financial institutions					
Demand	173,964	34,583	-	107,849	316,396
Time investments and due to SAMA	5,254,509	534,562	1,288,114	37,649	7,114,834
Customers' deposits					
Demand, savings and others	90,421,636	-	-	130,578	90,552,214
Customer's time investments	97,348,367	-	-	-	97,348,367
Other liabilities	6,253,806	-	-	-	6,253,806
<b>Total financial liabilities</b>	<b>199,452,282</b>	<b>569,145</b>	<b>1,288,114</b>	<b>276,076</b>	<b>201,585,617</b>
<b>Commitments and contingencies:</b>					
Letters of credit	3,922,977	-	-	-	3,922,977
Letters of guarantee	19,052,144	-	-	-	19,052,144
Acceptances	1,254,199	-	-	-	1,254,199
Irrevocable commitments to extend credit	12,136,338	-	-	-	12,136,338
<b>Total commitments and contingencies</b>	<b>36,365,658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,365,658</b>
<b>Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:</b>					
Letters of credit	784,595	-	-	-	784,595
Letters of guarantee	10,406,717	-	-	-	10,406,717
Acceptances	1,254,199	-	-	-	1,254,199
Irrevocable commitments to extend credit	4,854,535	-	-	-	4,854,535
<b>Total maximum credit exposure</b>	<b>17,300,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,300,046</b>



2022	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets:					
Cash and balances with SAMA	9,723,259	-	-	-	9,723,259
Due from banks and other financial institutions					
<i>Current accounts</i>	-	15,365	358,143	558,369	931,877
<i>Murabaha and Wakala with banks</i>	146,199	376,382	-	-	522,581
Investments, net					
<i>Investments held at amortized cost</i>	24,664,751	56,569	-	-	24,721,320
<i>Investments held at FVOCI</i>	10,959,879	1,109,527	886	14,312	12,084,604
<i>Investments held at FVSI</i>	893,589	222,817	13,099	511,991	1,641,496
<i>Investments in associate and joint venture</i>	70,214	-	-	-	70,214
Financing, net					
<i>Retail</i>	36,523,692	-	-	-	36,523,692
<i>Corporate</i>	107,017,039	-	-	2,951,225	109,968,264
Other assets	927,539	-	-	-	927,539
Total financial assets	190,926,161	1,780,660	372,128	4,035,897	197,114,846
Financial liabilities:					
Due to SAMA, banks and other financial institutions					
<i>Demand</i>	22,650	31,597	-	1,084	55,331
<i>Time investments and due to SAMA</i>	15,079,137	61,615	1,286,956	-	16,427,708
Customers' deposits					
<i>Demand, savings and others</i>	82,305,356	-	-	183,952	82,489,308
<i>Customer's time investments</i>	62,679,182	-	-	-	62,679,182
Other liabilities	6,223,378	-	-	-	6,223,378
Total financial liabilities	166,309,703	93,212	1,286,956	185,036	167,874,907
Commitments and contingencies:					
<i>Letters of credit</i>	4,656,910	-	-	-	4,656,910
<i>Letters of guarantee</i>	15,634,566	-	-	-	15,634,566
<i>Acceptances</i>	557,775	-	-	-	557,775
<i>Irrevocable commitments to extend credit</i>	2,750,501	-	-	-	2,750,501
Total commitments and contingencies	23,599,752	-	-	-	23,599,752
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:					
<i>Letters of credit</i>	931,319	-	-	-	931,319
<i>Letters of guarantee</i>	10,550,463	-	-	-	10,550,463
<i>Acceptances</i>	557,775	-	-	-	557,775
<i>Irrevocable commitments to extend credit</i>	1,375,250	-	-	-	1,375,250
Total maximum credit exposure	13,414,807	-	-	-	13,414,807

28.5 The distribution by geographical concentration of non-performing financing and allowances for impairment on financing is as follows:

2023	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<i>Non-performing financing, net</i>					
Retail	851,915	-	-	-	851,915
Corporate	2,010,546	-	-	-	2,010,546
Total	2,862,461	-	-	-	2,862,461
<i>Allowances for impairment on financing</i>					
Retail	979,914	-	-	-	979,914
Corporate	3,447,603	-	-	5,184	3,452,787
Total	4,427,517	-	-	5,184	4,432,701

2022	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<i>Non-performing financing, net</i>					
Retail	461,214	-	-	-	461,214
Corporate	2,458,700	-	-	-	2,458,700
Total	2,919,914	-	-	-	2,919,914
<i>Allowances for impairment on financing</i>					
Retail	751,658	-	-	-	751,658
Corporate	3,223,116	-	-	6,482	3,229,598
Total	3,974,774	-	-	6,482	3,981,256

## 29. Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates and commodity prices. The Bank classifies exposures to market risks into either trading or non-trading (or banking book).

### Market risk – trading book

The Bank is exposed to an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into consolidated statement of income.

### Market risk – non trading book

Market risks on non-trading book mainly arise from profit rate movements and, to a minor extent, from currency fluctuations. The Bank also faces price risks on investments held at "FVOCI".

## 29.1 Profit rate risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits which are regularly monitored by ALCO. Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

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

2023	Average sensitivity of net income from financing and investments	Sensitivity of equity (SAR '000)				
		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Increase/decrease in basis points						
10	10,282	(3,350)	13,716	(10,533)	(18,241)	(18,408)
-10	(10,282)	3,350	(13,716)	10,533	18,241	18,408

2022	Average sensitivity of net income from financing and investments	Sensitivity of equity (SAR '000)				
		Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Increase/decrease in basis points						
10	14,564	3,904	10,632	(6,155)	(19,162)	(10,781)
-10	(14,564)	(3,904)	(10,632)	6,155	19,162	10,781

### Yield sensitivity of assets, liabilities and off-balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and appropriate reference rates for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost of fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

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

2023

SAR'000

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	12,598,444	12,598,444
<b>Due from banks and other financial institutions:</b>						
Current accounts	-	-	-	-	485,810	485,810
Murabaha and Wakala with banks	1,215,097	-	-	-	-	1,215,097
<b>Investments, net</b>						
Investments held at amortized cost	43,192	2,844,947	3,155,796	21,061,224	-	27,105,159
Investments held at FVOCI	2,349,328	2,495,378	7,333,829	179,751	1,146,996	13,505,282
Investments held at FVSI	-	-	-	-	2,610,274	2,610,274
Investments in associate and joint venture	-	-	-	-	15,637	15,637
<b>Financing, net</b>						
Retail	6,775,192	3,797,746	15,906,974	15,766,137	-	42,246,049
Corporate	65,761,862	56,725,088	6,345,875	2,545,170	-	131,377,995
Property and equipment, net	-	-	-	-	2,888,209	2,888,209
Other assets	-	-	-	-	2,667,142	2,667,142
<b>Total assets</b>	<b>76,144,671</b>	<b>65,863,159</b>	<b>32,742,474</b>	<b>39,552,282</b>	<b>22,412,512</b>	<b>236,715,098</b>
<b>Liabilities &amp; equity</b>						
<b>Due to SAMA, banks and other financial institutions</b>						
Demand	-	-	-	-	316,396	316,396
Time investments and due to SAMA	5,067,379	759,341	1,288,114	-	-	7,114,834
<b>Customer deposits</b>						
Demand, savings and others	7,204,676	1,528,884	2,064,716	4,783,062	74,970,876	90,552,214
Customer's time investments	67,720,197	27,178,861	2,316,206	133,103	-	97,348,367
Amounts due to Mutual Funds' unitholders	-	-	-	-	93,510	93,510
Other liabilities	-	-	-	-	6,956,176	6,956,176
Total equity	-	-	-	-	34,333,601	34,333,601
<b>Total liabilities &amp; equity</b>	<b>79,992,252</b>	<b>29,467,086</b>	<b>5,669,036</b>	<b>4,916,165</b>	<b>116,670,559</b>	<b>236,715,098</b>
Yield sensitivity - On statement of financial position	(3,847,581)	36,396,073	27,073,438	34,636,117	(94,258,047)	-
Yield sensitivity - Off statement of financial position	6,735,663	9,006,941	20,589,451	33,603	-	36,365,658
Total yield sensitivity gap	2,888,082	45,403,014	47,662,889	34,669,720		
<b>Cumulative yield sensitivity gap</b>	<b>2,888,082</b>	<b>48,291,096</b>	<b>95,953,985</b>	<b>130,623,705</b>		

2022

SAR'000

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
<b>Assets</b>						
Cash and balances with SAMA	-	-	-	-	9,723,259	9,723,259
Due from banks and other financial institutions:						
<i>Current accounts</i>	-	-	-	-	931,877	931,877
<i>Murabaha and Wakala with banks</i>	401,603	120,978	-	-	-	522,581
Investments, net						
<i>Investments held at amortized cost</i>	107,529	17,315	4,555,457	20,041,019	-	24,721,320
<i>Investments held at FVOCI</i>	1,261,204	-	2,216,120	7,168,821	1,438,459	12,084,604
<i>Investments held at FVSI</i>	-	-	-	-	1,641,496	1,641,496
<i>Investments in associate and joint venture</i>	-	-	-	-	70,214	70,214
Financing, net						
<i>Retail</i>	4,043,985	4,333,227	14,034,303	14,112,177	-	36,523,692
<i>Corporate</i>	45,857,569	56,294,606	5,346,155	2,469,934	-	109,968,264
Property and equipment, net	-	-	-	-	2,632,794	2,632,794
Other assets	-	-	-	-	1,616,128	1,616,128
<b>Total assets</b>	<b>51,671,890</b>	<b>60,766,126</b>	<b>26,152,035</b>	<b>43,791,951</b>	<b>18,054,227</b>	<b>200,436,229</b>
<b>Liabilities &amp; equity</b>						
Due to SAMA, banks and other financial institutions						
<i>Demand</i>	-	-	-	-	55,331	55,331
<i>Time investments and due to SAMA</i>	7,822,795	7,960,338	644,575	-	-	16,427,708
Customer deposits						
<i>Demand, savings and others</i>	3,914,130	784,975	1,175,452	3,302,592	73,312,159	82,489,308
<i>Customer's time investments</i>	35,449,518	23,649,001	3,419,181	161,482	-	62,679,182
Amounts due to Mutual Funds' unitholders	-	-	-	-	136,570	136,570
Other liabilities	-	-	-	-	6,771,817	6,771,817
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,876,313</b>	<b>31,876,313</b>
<b>Total liabilities &amp; equity</b>	<b>47,186,443</b>	<b>32,394,314</b>	<b>5,239,208</b>	<b>3,464,074</b>	<b>112,152,190</b>	<b>200,436,229</b>
Yield sensitivity - On statement of financial position	4,485,447	28,371,812	20,912,827	40,327,877	(94,097,963)	-
Yield sensitivity - Off statement of financial position	5,045,121	8,065,809	10,060,872	427,950	-	23,599,752
<b>Total yield sensitivity gap</b>	<b>9,530,568</b>	<b>36,437,621</b>	<b>30,973,699</b>	<b>40,755,827</b>		
<b>Cumulative yield sensitivity gap</b>	<b>9,530,568</b>	<b>45,968,189</b>	<b>76,941,888</b>	<b>117,697,715</b>		

## 29.2 Currency risk

Currency risk represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Bank's Risk Appetite Framework and policies contain limits for positions by currencies. However, the Bank has negligible exposure in foreign currencies because its assets and liabilities are primarily denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies.

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

	2023	2022
	SAR'000	SAR'000
<b>Assets</b>		
Cash and balances with SAMA	122,668	230,297
Due from banks and other financial institutions	487,098	1,311,119
Investments, net	4,821,685	3,550,121
Financing, net	5,487,801	4,389,664
Other assets	636,662	9,955
<b>Total currency risk on assets</b>	<b>11,555,914</b>	<b>9,491,156</b>
<b>Liabilities</b>		
Due to SAMA, banks and other financial institutions	2,410,785	1,518,272
Customers' deposits	5,929,878	7,847,386
Other liabilities	464,493	252,655
<b>Total currency risk on liabilities</b>	<b>8,805,156</b>	<b>9,618,313</b>
Foreign currency forwards, net	(901,874)	-
<b>Net position – (liability) / asset</b>	<b>1,848,884</b>	<b>(127,157)</b>

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

	2023	2022
	SAR'000	SAR'000
USD	1,831,814	(89,382)
Euro	(30,026)	(45,234)
UAE Dirham	46,326	3,267
BHD	(19,273)	(13,463)
QAR	1,633	8,161
Others	18,410	9,494
<b>Total</b>	<b>1,848,884</b>	<b>(127,157)</b>



### 29.3 Equity price risk

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

The effect on the Bank's equity investments held at FVOCI due to reasonable possible change in equity index, with all other variables held constant is as follows:

	2023 SAR'000		2022 SAR'000	
Market index-(Saudi Exchange)	Increase / decrease in market prices%	Effect on equity	Increase / decrease in market prices%	Effect on equity
Impact of change in market prices	±10%	± 112,216	±10%	± 141,668

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

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

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

#### 30.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2023 and 2022 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appearing in the consolidated statement of financial position.

2023	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Liabilities</b>						
<b>Due to SAMA, banks and other financial institutions</b>						
<i>Demand</i>	-	-	-	-	316,396	316,396
<i>Time investments and due to SAMA</i>	2,930,488	2,392,998	2,341,697	-	-	7,665,183
<b>Customers' deposits</b>						
<i>Demand, savings and others</i>	-	-	-	-	90,552,214	90,552,214
<i>Customer's time investments</i>	68,266,219	28,094,066	2,543,338	193,834	-	99,097,457
<i>Other liabilities</i>	-	-	-	-	7,049,686	7,049,686
<b>Total liabilities</b>	<b>71,196,707</b>	<b>30,487,064</b>	<b>4,885,035</b>	<b>193,834</b>	<b>97,918,296</b>	<b>204,680,936</b>
2022	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
<b>Liabilities</b>						
<b>Due to SAMA, banks and other financial institutions</b>						
<i>Demand</i>	-	-	-	-	55,331	55,331
<i>Time investments and due to SAMA</i>	6,766,604	7,934,084	1,791,601	-	-	16,492,289
<b>Customers' deposits</b>						
<i>Demand, savings and others</i>	-	-	-	-	82,489,308	82,489,308
<i>Customer's time investments</i>	35,618,236	24,483,451	3,650,288	223,864	-	63,975,839
<i>Other liabilities</i>	-	-	-	-	6,908,387	6,908,387
<b>Total liabilities</b>	<b>42,384,840</b>	<b>32,417,535</b>	<b>5,441,889</b>	<b>223,864</b>	<b>89,453,026</b>	<b>169,921,154</b>

### 30.2 The tables below show the maturity profile of the assets and liabilities:

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

	SAR'000					
2023	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	1,700,000	-	-	-	10,898,444	12,598,444
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	485,810	485,810
Murabaha and Wakala with banks	1,010,171	-	204,926	-	-	1,215,097
Investments, net						
Investments held at amortized cost	49,708	2,949,864	4,868,914	19,236,673	-	27,105,159
Investments held at FVOCI	9,883	1,135,776	6,379,067	4,833,560	1,146,996	13,505,282
Investments held at FVSI	-	-	-	-	2,610,274	2,610,274
Investments in associate and joint venture	-	-	-	-	15,637	15,637
Financing, net						
Retail	2,860,018	5,887,992	17,475,298	16,022,741	-	42,246,049
Corporate	16,821,272	30,791,448	53,301,305	30,463,970	-	131,377,995
Property and equipment, net	-	-	-	-	2,888,209	2,888,209
Other assets	-	-	-	-	2,667,142	2,667,142
Total assets	22,451,052	40,765,080	82,229,510	70,556,944	20,712,512	236,715,098
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	316,396	316,396
Time investments and due to SAMA	5,067,379	759,341	1,288,114	-	-	7,114,834
Customers' deposits						
Demand, savings and others	-	-	-	-	90,552,214	90,552,214
Customer's time investments	67,721,036	27,178,022	2,316,206	133,103	-	97,348,367
Amount due to Mutual Funds' unitholders	-	-	-	-	93,510	93,510
Other liabilities	-	-	-	-	6,956,176	6,956,176
Total equity	-	-	-	-	34,333,601	34,333,601
Total liabilities and equity	72,788,415	27,937,363	3,604,320	133,103	132,251,897	236,715,098
Commitments & contingencies						
Letters of credit	2,369,762	1,402,770	150,445	-	-	3,922,977
Letters of guarantee	3,111,702	7,604,171	8,302,668	33,603	-	19,052,144
Acceptances	1,254,199	-	-	-	-	1,254,199
Irrevocable commitments to extend credit	-	-	12,136,338	-	-	12,136,338

	SAR'000					
2022	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	9,723,259	9,723,259
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	931,877	931,877
Murabaha and Wakala with banks	401,603	120,978	-	-	-	522,581
Investments, net						
Investments held at amortized cost	311,197	249,917	3,775,341	20,384,865	-	24,721,320
Investments held at FVOCI	116,483	11,155	2,762,670	7,755,837	1,438,459	12,084,604
Investments held at FVSI	-	-	-	-	1,641,496	1,641,496
Investments in associate and joint venture	-	-	-	-	70,214	70,214
Financing, net						
Retail	2,761,347	5,546,207	13,883,654	14,332,484	-	36,523,692
Corporate	17,054,868	24,440,382	42,807,997	25,665,017	-	109,968,264
Property and equipment, net	-	-	-	-	2,632,794	2,632,794
Other assets	-	-	-	-	1,616,128	1,616,128
Total assets	20,645,498	30,368,639	63,229,662	68,138,203	18,054,227	200,436,229
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	55,331	55,331
Time investments and due to SAMA	6,761,065	7,870,389	1,796,254	-	-	16,427,708
Customers' deposits						
Demand, savings and others	-	-	-	-	82,489,308	82,489,308
Customer's time investments	35,449,518	23,649,001	3,419,181	161,482	-	62,679,182
Amount due to Mutual Funds' unitholders	-	-	-	-	136,570	136,570
Other liabilities	-	-	-	-	6,771,817	6,771,817
Total equity	-	-	-	-	31,876,313	31,876,313
Total liabilities and equity	42,210,583	31,519,390	5,215,435	161,482	121,329,339	200,436,229
Commitments & contingencies						
Letters of credit	3,283,947	1,259,353	61,777	51,833	-	4,656,910
Letters of guarantee	1,274,686	6,735,169	7,248,594	376,117	-	15,634,566
Acceptances	486,488	71,287	-	-	-	557,775
Irrevocable commitments to extend credit	-	-	2,750,501	-	-	2,750,501

### 31. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the operational risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

### 32. Sharia'a non-compliance risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'a non-compliance. To mitigate such risk, extensive Sharia'a policies and procedures are in place. Further, the Bank has established a Sharia'a Committee and a Sharia'a Compliance Audit Unit to monitor such risk.

### 33. Reputational risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of reputational risk is Sharia'a non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions and negative perceptions about the Bank's financial condition. The Bank has put in place controls around reputational risk in order to mitigate and avoid such risks. Currently, the Bank measures the reputational risk through a Scorecard based approach, where Risk Management Group compiles the results of assessments made by business heads to derive the Bank's overall reputational risk indicators.

### 34. Fair values of financial assets and liabilities

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank

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

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

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

Level 2: Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data

Level 3: Inputs that are unobservable. This category include all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

#### Valuation technique and significant unobservable inputs for financial instruments at fair value

The Bank uses various valuation techniques used in measuring level 2 and Level 3 fair values at December 31, 2023 and December 31, 2022, as well as the significant unobservable inputs used.

For the valuation of investments in mutual funds, the Bank utilizes fund manager reports. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying assets classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk-adjusted discount rates, marketability and liquidity discounts and control premiums.

#### 34.1 Fair values of financial assets and liabilities carried at fair value

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

SAR '000				
2023	Level 1	Level 2	Level 3	Total
<b>Financial assets held as FVSI</b>				
- Equities	187,728	-	42,817	230,545
- Mutual funds	337,927	1,657,753	384,049	2,379,729
<b>Financial assets held as FVOCI</b>				
- Equities	1,122,156	-	24,839	1,146,995
- Sukuk	3,823,085	8,535,202	-	12,358,287
<b>Total</b>	<b>5,470,896</b>	<b>10,192,955</b>	<b>451,705</b>	<b>16,115,556</b>
SAR '000				
2022	Level 1	Level 2	Level 3	Total
<b>Financial assets held as FVSI</b>				
- Equities	109,733	-	35,317	145,050
- Mutual funds	234,258	1,033,053	229,135	1,496,446
<b>Financial assets held as FVOCI</b>				
- Equities	1,416,680	-	21,779	1,438,459
- Sukuk	3,571,086	7,075,059	-	10,646,145
<b>Total</b>	<b>5,331,757</b>	<b>8,108,112</b>	<b>286,231</b>	<b>13,726,100</b>

There were no transfers between Stages 1, 2 and 3 during the year.



#### Reconciliation of Level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

2023	Financial assets held as FVSI	Financial assets held as FVOCI
	SAR'000	SAR'000
Balance at January 1, 2023	264,452	21,779
Additional / new investments	170,584	2,923
Capital return and disposals during the year	(4,732)	-
Net change in fair value (unrealized)	(3,438)	137
<b>Balance at December 31, 2023</b>	<b>426,866</b>	<b>24,839</b>
2022	Financial assets held as FVSI	Financial assets held as FVOCI
	SAR'000	SAR'000
Balance at January 1, 2022	239,390	16,204
Additional / new investments	59,679	-
Capital return and disposals during the year	(62,701)	(50)
Net change in fair value (unrealized)	28,084	5,625
Balance at December 31, 2022	264,452	21,779

#### 34.2 Fair values of financial assets and liabilities not carried at fair value

Management adopts discounted cash flow method using the current yield curve to arrive at the fair value of financial instruments which is categorized within Level 3 of the fair value hierarchy except for investments in Sukuks and Murabaha with SAMA which are categorized within Level 2. Following table shows the fair value of financial instruments carried at amortized cost.

	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
	SAR '000			
<b>Assets</b>				
Due from banks and other financial institutions	1,700,907	1,693,958	1,454,458	1,451,928
Investments – Murabaha with SAMA	1,626,379	1,619,862	904,901	899,487
Sukuks – Amortized Cost	25,498,634	25,039,413	23,832,577	23,440,021
Financing, net	173,624,044	173,043,853	146,491,956	144,813,324
<b>Liabilities</b>				
Due to SAMA, banks and other financial institutions	7,431,230	7,378,987	16,483,039	16,299,059
Customers' deposits	187,900,581	187,898,339	145,168,490	145,079,131

### 35. 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.

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

	2023 SAR'000	2022 SAR'000
<b>Directors, key management personnel, major shareholders and affiliates</b>		
Financing to key management personnel	56,022	50,503
Financing to other related parties	1,433,866	935,993
Customers' deposits	58,959	107,960
Investments in associate and joint venture	15,637	70,214
<b>Bank's mutual funds</b>		
Investments in mutual funds	953,614	625,708
Deposits from mutual funds	335,531	796,174

Customers' deposits mainly include deposits from major shareholders, affiliates and directors. The Bank has transactions with government and government-related entities which are conducted within normal course of business.

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

	2023 SAR'000	2022 SAR'000
Income on financing	91,421	20,413
Return on time investments	137,129	3,803
Fee from banking services, net	434,278	378,163
Directors' remuneration	7,870	9,086

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

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

	2023 SAR'000	2022 SAR'000
Short-term employees' benefits	101,839	80,604
End of service benefit	4,254	7,312

### 36. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires to hold and maintain a ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum percentage.

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

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

The current year numbers are presented as per Basel III Final Post Crisis Reforms regulation issued by SAMA (circular number 44047144) effective from January 1, 2023, while the prior year is based on Basel III regulations.

In accordance with SAMA's Guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures issued on April 26, 2020, SAMA allowed the banks to add-back up to 100% of the Day 1 impact of IFRS-9 transitional adjustment amount to Common Equity Tier 1 (CET1) for the two years period comprising 2020 and 2021. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. The Bank has applied the aforementioned transitional arrangement in the calculation of the Bank's capital adequacy ratios effective March 31, 2020.

Previously, the Bank was applying the ECL accounting transitional arrangement for regulatory capital that allowed banks to transition Day 1 impact of IFRS9 (applicable from 1 January 2018) on regulatory capital over (5) years by using the dynamic approach to reflect the impact of the transition in accordance with SAMA Circular no. 391000029731 dated 15 Rabi-I 1439H (corresponding to December 3, 2017).

The impact of these revised transitional arrangements to the Bank's Tier 1 and Tier 1 + 2 ratio have been an improvement of 11 bps as of December 31, 2023 (2022: 27 bps).

Particulars	2023	2022
	SAR'000	SAR'000
Credit Risk Weighted Assets	200,114,001	160,491,295
Operational Risk Weighted Assets	6,040,617	12,713,318
Market Risk Weighted Assets	5,439,506	399,339
<b>Total Pillar-I Risk Weighted Assets</b>	<b>211,594,124</b>	<b>173,603,952</b>
Tier I Capital	34,574,557	32,358,224
Tier II Capital	2,423,433	2,006,141
<b>Total Tier I &amp; II Capital</b>	<b>36,997,990</b>	<b>34,364,365</b>
Capital Adequacy Ratio %		
Tier I ratio	16%	19%
Tier I + Tier II ratio	17%	20%

### 37. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 82,683 million (2022: SAR 76,220 million).

### 38. Auditors' fees

	2023 SAR'000	2022 SAR'000
Audit fees	5,380	4,550
Other services	1,807	1,263
Total	7,187	5,813

### 39. Prospective changes in the International Financial Reporting Standards

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2024. The Bank has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Bank.

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	January 1, 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	January 1, 2024
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	January 1, 2024
IFRS S1 & IFRS S2, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	January 1, 2024 subject to endorsement from SOCPA

Standard, interpretation, amendments	Description	Effective date
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	January 1, 2024 subject to endorsement from SOCPA

#### 40. Comparative figures

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

#### 41. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 23 Rajab 1445H (corresponding to February 4, 2024).