
ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE SIX MONTHS PERIOD ENDED
JUNE 30, 2019



**INDEPENDENT AUDITORS' REVIEW REPORT ON
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Alinma Bank and its subsidiaries (the "Bank") as of June 30, 2019, and the related interim consolidated statements of income and comprehensive income for the three month and six month periods then ended and the interim consolidated statements of changes in shareholders' equity and cash flows for the six month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard No. 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note (14) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (14) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

PricewaterhouseCoopers

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

Mufaddal A. Ali
Certified Public Accountant
License No. 447

Ernst & Young

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

Rashid S. AlRashoud
Certified Public Accountant
License No. 366



5 Dhu Al-Hijjah 1440H
(August 6, 2019)



ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		7,671,445	7,359,684	7,365,372
Due from banks and other financial institutions		3,580,740	8,293,206	7,061,436
Investments, net	5	21,288,320	18,399,178	16,191,289
Financing, net	6	87,666,853	83,889,150	82,128,871
Property and equipment, net		2,311,227	1,896,679	1,851,335
Other assets		960,872	1,700,073	2,177,011
TOTAL ASSETS		123,479,457	121,537,970	116,775,314
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		6,186,856	6,318,336	4,885,295
Customers' deposits	7	92,816,449	90,128,138	88,937,931
Other liabilities		3,297,265	3,793,788	3,364,461
TOTAL LIABILITIES		102,300,570	100,240,262	97,187,687
SHAREHOLDERS' EQUITY				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		2,888,815	2,888,815	2,259,457
Fair value reserve for FVOCI investments		43,844	(22,377)	(43,715)
Other reserves		40,005	54,085	32,911
Retained earnings		3,309,698	1,990,693	2,442,449
Proposed dividends		-	1,489,967	-
Treasury shares		(103,475)	(103,475)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		21,178,887	21,297,708	19,587,627
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		123,479,457	121,537,970	116,775,314

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	<u>For the three months period ended</u>		<u>For the six months period ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018 (Restated)</u>	<u>June 30, 2019</u>	<u>June 30, 2018 (Restated)</u>
Notes	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Income from investments and financing	1,378,495	1,185,931	2,685,608	2,299,017
Return on time investments	(298,936)	(243,541)	(612,950)	(460,350)
Income from investments and financing, net	1,079,559	942,390	2,072,658	1,838,667
Fee from banking services – income	262,351	275,485	530,483	481,766
Fee from banking services - expense	(81,070)	(61,071)	(142,990)	(116,373)
Fees from banking services, net	181,281	214,414	387,493	365,393
Exchange income, net	52,404	45,868	97,845	85,403
Gain from FVSI financial instruments, net	48,305	25,296	92,319	47,844
Gain from FVOCI debt investments, net	542	-	772	-
Dividend income	1,893	2,019	2,532	2,439
Other operating income	228	1,017	231	1,018
Total operating income	1,364,212	1,231,004	2,653,850	2,340,764
Salaries and employee related expenses	229,847	216,567	491,785	443,577
Rent and premises related expenses	15,872	40,332	50,088	78,220
Depreciation and amortization	68,278	46,098	135,004	92,060
Other general and administrative expenses	152,835	140,503	303,242	272,830
Charge for credit impairment	141,661	162,759	207,059	252,232
Total operating expenses	608,493	606,259	1,187,178	1,138,919
Net operating income	755,719	624,745	1,466,672	1,201,845
Share of (loss) / income from an associate and a joint venture	(4,977)	(3,420)	(7,410)	1,292
Income for the period before zakat	750,742	621,325	1,459,262	1,203,137
Zakat for the period	15 (75,076)	(15,533)	(145,760)	(30,078)
Net income for the period after zakat	675,666	605,792	1,313,502	1,173,059
Basic and diluted earnings per share (SAR)	11 0.45	0.41	0.88	0.79

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK**(A Saudi Joint Stock Company)****INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**

	<u>For the three months</u> <u>period ended</u>		<u>For the six months period</u> <u>ended</u>	
	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>	<u>June 30,</u> <u>2018</u> <u>(Restated)</u> <u>SAR'000</u>	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>	<u>June 30,</u> <u>2018</u> <u>(Restated)</u> <u>SAR'000</u>
Net income for the period after zakat	675,666	605,792	1,313,502	1,173,059
Other comprehensive income:				
<i>Items that cannot be recycled back to interim consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI equity investments	8,889	(14,868)	21,189	(13,069)
<i>Items that can be recycled back to interim consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI sukuk investments	38,011	9,950	45,804	(1,567)
Net gain realized on sale of FVOCI sukuk investments	<u>(542)</u>	<u>-</u>	<u>(772)</u>	<u>-</u>
Total comprehensive income for the period	<u>722,024</u>	<u>600,874</u>	<u>1,379,723</u>	<u>1,158,423</u>

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK**(A Saudi Joint Stock Company)****INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)****FOR THE SIX MONTHS PERIOD ENDED JUNE 30,**

2019 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	2,888,815	(22,377)	54,085	1,990,693	1,489,967	(103,475)	21,297,708
Net income for the period after zakat	-	-	-	-	1,313,502	-	-	1,313,502
Net changes in fair value of FVOCI equity investments	-	-	21,189	-	-	-	-	21,189
Net changes in fair values of FVOCI sukuk investments	-	-	45,804	-	-	-	-	45,804
Net gain realized on sale of FVOCI sukuk investments	-	-	(772)	-	-	-	-	(772)
Total comprehensive income	-	-	66,221	-	1,313,502	-	-	1,379,723
Dividend paid for 2018	-	-	-	-	-	(1,489,967)	-	(1,489,967)
Social community and other reserve	-	-	-	(14,080)	5,503	-	-	(8,577)
Balance at the end of the period	15,000,000	2,888,815	43,844	40,005	3,309,698	-	(103,475)	21,178,887

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK**(A Saudi Joint Stock Company)****INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)****FOR THE SIX MONTHS PERIOD ENDED JUNE 30,**

2018 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period		15,000,000	2,259,457	340,155	16,484	1,896,529	1,191,964	(107,436)	20,597,153
Effect of restatement		-	-	(253,391)	-	-	-	-	(253,391)
Effect of adopting IFRS-9 at January 01, 2018		-	-	(113,902)	-	(608,966)	-	-	(722,868)
Restated balance as at January 01, 2018		15,000,000	2,259,457	(27,138)	16,484	1,287,563	1,191,964	(107,436)	19,620,894
Net income for the period after zakat - restated	15	-	-	-	-	1,173,059	-	-	1,173,059
Net changes in fair value of FVOCI equity investments		-	-	(13,069)	-	-	-	-	(13,069)
Net changes in fair values of FVOCI sukuk investments		-	-	(1,567)	-	-	-	-	(1,567)
Total comprehensive income		-	-	(14,636)	-	1,173,059	-	-	1,158,423
Net gain realised on sale of FVOCI equity investments		-	-	(1,941)	-	1,941	-	-	-
Dividend paid for 2017		-	-	-	-	-	(1,191,964)	-	(1,191,964)
Employee share based plan and other reserve		-	-	-	16,427	(20,114)	-	-	(3,687)
Net change in treasury shares		-	-	-	-	-	-	3,961	3,961
Balance at the end of the period		15,000,000	2,259,457	(43,715)	32,911	2,442,449	-	(103,475)	19,587,627

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,

	Note	2019 SAR'000	2018 SAR'000
OPERATING ACTIVITIES			
Income for the period before zakat		1,459,262	1,203,137
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		135,004	92,060
(Gain) / Loss on disposal of property and equipment, net		1,651	159
Unrealized gain from FVSI financial instruments, net		(29,316)	(10,962)
Dividend income		(2,532)	(2,439)
Charge for credit impairment		207,059	252,232
Employee share based plan reserve		-	274
Share of loss / (income) from an associate and joint venture		7,410	(1,292)
		1,778,538	1,533,169
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		(72,073)	92,973
Due from banks and other financial institutions, with original maturity of more than three months		(479,619)	(58,496)
Investments		(2,861,137)	(1,175,012)
Financing		(3,949,432)	(3,832,347)
Other assets		727,614	(518,782)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(131,480)	3,532,408
Customers' deposits		2,688,311	(126,820)
Other liabilities		(1,099,576)	(843,445)
Net cash used in operating activities		(3,398,854)	(1,396,352)
INVESTING ACTIVITIES			
Purchase of property and equipment, net		(69,596)	(67,131)
Proceeds from disposal of property and equipment		142	-
Dividends received		2,532	32,443
Net cash used in investing activities		(66,922)	(34,688)
FINANCING ACTIVITY			
Dividend paid		(1,489,967)	(1,191,964)
Net cash used in financing activities		(1,489,967)	(1,191,964)
Net decrease in cash and cash equivalents			
		(4,955,743)	(2,623,004)
Cash and cash equivalents at the beginning of the period		9,540,679	10,702,200
Cash and cash equivalents at the end of the period	9	4,584,936	8,079,196
Income received from investments and financing		2,481,459	2,101,918
Return paid on time investments		586,339	379,290
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		66,992	(16,577)

The accompanying notes from 1 to 17 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

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 1429H (corresponding to May 26, 2008) and provides banking services through 92 branches (June 30, 2018: 86) in the Kingdom of Saudi Arabia. Its head office address is as follows:

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

The interim condensed consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the "Bank"):

Subsidiaries	Bank's Ownership	Establishment date	Main Activities
Alinma Investment Company	100%	07 Jumada - II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Al Awwal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)
Saudi Fintech Company	100%	6 Dhul Qa'da 1440H (corresponding to July 9, 2019)	Provide Financial technology products and services to Alinma and others.
Esnad Company	100%	24 Ramadan 1440H (corresponding to May 29, 2019)	To provide outsourced staff to the Bank.

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

b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah laws.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard-34 Interim Financial Reporting (IAS-34) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”).

The consolidated financial statements of the Bank as at and for the period and year ended March 31, 2019 and December 31, 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by the Saudi Arabian Monetary Agency (“SAMA”) for the accounting of zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Accordingly, the Bank changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with IAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors” (as disclosed in note 3) and the effects of this change are disclosed in note 15 to the interim condensed consolidated financial statements.

Since, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, therefore, these should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2018.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

a) Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at Fair Value through Statement of Income (“FVSI”), Fair Value through Other Comprehensive Income (“FVOCI”) investments and end of service benefits that are stated at the present value of the related obligation.

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

b) Functional and presentation currency

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

c) Basis of consolidation

These interim condensed 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 period as that of the Bank.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when, it has power over the investee entity, it is exposed to, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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

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

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The accounting policies adopted by the subsidiaries are consistent with that of the Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed.

Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements.

3. Summary of significant accounting policies

The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2018, except for the change in accounting policy for zakat and adoption of the new standards and corresponding changes in accounting policies as explained below:

a) Zakat

The basis of preparation has been changed for the period ended June 30, 2019 based on latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. As per SAMA instructions issued by SAMA dated July 17, 2019, the zakat shall be recognized in the consolidated statement of income. The Bank has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 15 to the interim condensed consolidated financial statements.

The change has resulted in reduction of the reported income of the Bank for the period ended June 30, 2018 by SAR 30 million. The change has had no impact on the interim consolidated statement of cash flows for the period ended June 30, 2018.

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

GAZT has prescribed a new criteria for calculation of Zakat effective January 1, 2019. Due accruals has been made for the obligation up to June 30, 2019. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to Zakat.

b) Adoption of new standards

The Bank has adopted the following new standard that has become effective during the period:

New Standards	Effective date	Brief description of changes
IFRS-16 “Leases”	January 01, 2019	The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 uses a single on-balance sheet accounting model.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance with effect from future dates.

The corresponding change in the accounting policies due to the adoption of above standard is explained below:

i) Lease Liability

For all the leases classified as operating leases’ a liability will be recognized at the date of initial application measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application.

ii) Right of Use Asset

A right-of-use asset will be recorded by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized before the date of initial application.

iii) Transition

The Bank has adopted IFRS 16 with modified retrospective approach whereby the comparative information has not been restated and on the date of initial application i.e. January 1, 2019 the requirements of IFRS 16 have been applied. The Bank elected to use the exemptions allowed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Bank has used a single discount rate to a portfolio of leases with reasonably similar characteristics.

4. Impact of initial application of IFRS 16

The remaining lease obligations as of December 31, 2018 are reconciled to the recognized lease liabilities as of January 1, 2019 as follows:

	SAR in ‘000’
	(Unaudited)
Off-balance sheet lease obligations as of December 31, 2018	529,907
Current leases with a lease term of 12 months or less and low-value leases	(2,652)
Operating lease obligations as of January 1, 2019 (Gross before discounting)	527,255
Discounting to present value	(80,212)
Operating lease obligations as of January 1, 2019 (net, discounted)	447,043

- 4.1 The amount of Right of Use assets as of June 30, 2019 are SAR 457 million which have been included under Property and equipment, net in the interim consolidated statement of financial position.
- 4.2 The amount of lease liability as of June 30, 2019 is SAR 431 million which have been included under other liabilities in the interim consolidated statement of financial position.

5. Investments

	Note	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Held at Amortized Cost		15,221,007	12,948,903	11,172,116
Held at FVOCI		3,792,220	3,201,088	3,305,079
Held at FVSI		2,209,622	2,180,148	1,637,996
Investment in an associate	5.1	66,009	72,776	78,176
Investment in a joint venture	5.2	13,689	14,332	15,458
Less: Allowance for impairment		<u>(14,227)</u>	<u>(18,069)</u>	<u>(17,536)</u>
Total		<u>21,288,320</u>	<u>18,399,178</u>	<u>16,191,289</u>

- 5.1 Investment in an associate represents the Bank's share of ownership (28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million.
- 5.2 Investment in a joint venture represents the Banks's share of ownership (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post).

6. Financing, net

	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Retail	16,759,114	15,709,601	15,234,239
Corporate	71,590,829	69,203,984	68,271,073
Performing financing	88,349,943	84,913,585	83,505,312
Non-performing loans	1,792,750	1,276,651	892,962
Total financing, gross	90,142,693	86,190,236	84,398,274
Allowance for impairment	<u>(2,475,840)</u>	<u>(2,301,086)</u>	<u>(2,269,403)</u>
Financing, net	<u>87,666,853</u>	<u>83,889,150</u>	<u>82,128,871</u>

- 6.1 The Allowance for impairment includes SAR 237 million (December 31, 2018: SAR 204 million and June 30, 2018: SAR 187 million) provided for credit related contingencies and commitments.

6.2 Movement in allowance for impairment of financing

	June 30, 2019 (Unaudited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Opening allowance at January 01	2,505,070	2,209,041
Charge for the period, net	210,820	247,421
Write-off	(3,025)	-
Balance at the end of the period	2,712,865	2,456,462

7. Customers' deposits

	Note	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Current and saving		56,884,968	53,510,669	45,262,120
Time investments	7.1	34,936,180	35,690,291	42,876,276
Margin deposits		995,301	927,178	799,535
Total		92,816,449	90,128,138	88,937,931

7.1 This represents Murabaha, Mudaraba and Wakala with customers.

8. Commitments and contingencies

i) The Bank's credit related commitments and contingencies are as follows:

	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Letters of credit	2,960,147	2,882,717	2,888,696
Letters of guarantee	9,932,952	8,837,299	8,347,609
Acceptances	288,001	255,025	172,096
Irrevocable commitments to extend credit	469,165	574,565	548,099
Total	13,650,265	12,549,606	11,956,500

9. Cash and cash equivalents

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

	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Cash in hand	2,465,769	2,209,434	2,424,579
Balances with SAMA excluding statutory deposit	76,872	93,519	87,999
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	<u>2,042,295</u>	<u>7,237,726</u>	<u>5,566,618</u>
Total	<u>4,584,936</u>	<u>9,540,679</u>	<u>8,079,196</u>

10. 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 Chief Executive Officer (“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. The 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

Investments, Interbank and other treasury services.

d) Investment and brokerage

Investment, asset management and brokerage services through dealing, managing, arranging, advising and custodial services.

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

Effective January 1, 2019, the Bank has enhanced the FTP compensation on Current Accounts and the basis of allocation of common expenses to segments to be more equitable and transparent. To ensure conformity, the comparative numbers have also been reclassified wherever applicable.

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

SAR '000	June 30, 2019 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	16,268,320	71,091,733	34,994,807	1,124,597	123,479,457
Total liabilities	71,738,794	8,328,079	21,969,189	264,508	102,300,570
Income from investments and financing	1,215,909	864,405	595,191	10,103	2,685,608
Return on time investments	(329,347)	(58,474)	(225,129)	-	(612,950)
Income from investments and financing, net	886,562	805,931	370,062	10,103	2,072,658
Fees from banking services and other operating income	191,527	54,134	180,730	154,801	581,192
Total operating income	1,078,089	860,065	550,792	164,904	2,653,850
Charge for credit impairment	120,381	90,978	(3,605)	(695)	207,059
Depreciation and amortization	101,523	17,328	13,615	2,538	135,004
Other operating expenses	585,025	117,177	79,344	63,569	845,115
Total operating expenses	806,929	225,483	89,354	65,412	1,187,178
Net operating income	271,160	634,582	461,438	99,492	1,466,672
Share of loss from an associate and joint venture	-	-	(7,410)	-	(7,410)
Income for the period before zakat	271,160	634,582	454,028	99,492	1,459,262
Zakat expense	(27,116)	(63,458)	(45,237)	(9,949)	(145,760)
Net income for the period after zakat	244,044	571,124	408,791	89,543	1,313,502

SAR '000	June 30, 2018 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	14,793,658	66,994,026	33,972,083	1,015,547	116,775,314
Total liabilities	59,588,381	8,657,259	28,684,148	257,899	97,187,687
Income from investments and financing	901,569	826,846	566,149	4,453	2,299,017
Return on time investments	(144,073)	(59,033)	(257,244)	-	(460,350)
Income from investments and financing, net	757,496	767,813	308,905	4,453	1,838,667
Fees from banking services and other operating income	157,137	61,896	118,809	164,255	502,097
Total operating income	914,633	829,709	427,714	168,708	2,340,764
Charge for credit impairment	21,552	225,869	4,811	-	252,232
Depreciation and amortization	64,586	14,928	12,187	359	92,060
Other operating expenses	558,291	111,077	76,917	48,342	794,627
Total operating expenses	644,429	351,874	93,915	48,701	1,138,919
Net operating income	270,204	477,835	333,799	120,007	1,201,845
Share of income from an associate and joint venture	-	-	1,292	-	1,292
Income for the period before zakat	270,204	477,835	335,091	120,007	1,203,137
Zakat expense	(6,755)	(11,946)	(8,377)	(3,000)	(30,078)
Net income for the period after zakat	263,449	465,889	326,714	117,007	1,173,059

SAR '000	June 30, 2019 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
- External	285,738	1,911,714	291,493	164,905	2,653,850
- Inter-segment	792,351	(1,051,649)	259,298	-	-
Total operating income	1,078,089	860,065	550,791	164,905	2,653,850

SAR '000	June 30, 2018 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
- External	441,672	1,600,192	130,192	168,708	2,340,764
- Inter-segment	472,961	(770,483)	297,522	-	-
Total operating income	914,633	829,709	427,714	168,708	2,340,764

11. Earnings per share

Earnings per share is calculated by dividing the net income by the weighted average number of outstanding shares (Basic and diluted: 1,490 million) at period end.

12. Fair values of financial assets and liabilities

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

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability

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

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

Level 2: quoted prices in active market for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

12 (a) Fair values of financial assets and liabilities carried at fair value

Following table shows an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

	SAR '000			
June 30, 2019 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	45,288	-	-	45,288
- Mutual funds	-	1,953,448	210,886	2,164,334
Financial assets held as FVOCI				
- Equities	139,103	-	-	139,103
- Sukuks	87,698	3,565,419	-	3,653,117
Total	272,089	5,518,867	210,886	6,001,842

	SAR '000			
June 30, 2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	54,747	-	-	54,747
- Mutual funds	-	1,382,889	200,360	1,583,249
Financial assets held as FVOCI				
- Equities	130,406	-	-	130,406
- Sukuks	75,669	3,099,004	-	3,174,673
Total	260,822	4,481,893	200,360	4,943,075

The fair value of the sovereign sukuks classified in Level 2 is determined using prices from external sources which are compiled using active quotes from Primary Dealers on these financial instruments and observed comparables to the security.

The valuation for other unlisted sukuks classified in Level 2 is determined using a fixed income pricing model and discounted cash flow techniques that generally use observable market data inputs for yield curves and credit spreads. Since these financial instruments are floating rate, i.e. where the base rate is reset periodically, these instruments tend to have stable values that are close to par.

The valuation for the FVSI funds classified in Level 2 and Level 3 are based on the latest reported net assets values as at the date of interim consolidated statement of financial position.

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date.

The movement in Level 3 financial instruments during the period relates to fair value movement only recognised in interim consolidated statement of income.

There were no transfers between the fair value hierarchy levels during the period. Moreover, there has been no change in valuation techniques during the period.

12 (b) 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. Following table shows the fair value of financial instruments carried at amortized cost.

June 30, 2019 (Unaudited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	3,580,740	3,589,870
Investments - at amortized cost	15,221,007	14,927,049
Financing, net	87,666,853	87,006,437
LIABILITIES		
Due to banks and other financial institutions	6,186,856	6,187,873
Customers' deposits	92,816,449	92,854,514

June 30, 2018 (Unaudited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	7,061,436	7,035,122
Investments - at amortized cost	11,172,116	10,963,546
Financing, net	82,128,871	81,893,863
LIABILITIES		
Due to banks and other financial institutions	4,885,295	4,883,417
Customers' deposits	88,937,931	88,920,676

Other financial instruments not carried at fair value are typically short-term in nature and re-price to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of their fair values.

13. Financial Risk Management

Credit Risk

Credit risk arises when a counterparty fails to fulfill 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 fulfill 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. Target Market (TM) 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 entity which 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 Credit Committee which is composed of CEO, Business and Risk Officers. Credits are extended based on the Corporate Banking and Retail Banking Credit Policies and Guidelines. Risk Management, (the Chief Risk

Officer (“CRO”), the Chief Credit Officer (“CCO”) and Risk Senior Credit Officers) acts as independent credit reviewers and approvers. Risk Management owns and controls the policies established for lending 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 in accordance with the actual economic, market 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. Bank seeks diversification of its portfolios through customer acquisition across different industry and economic activities, geographical presence across the country, targeting large, medium and small corporate clients, its diverse services to individuals. Obligor and sector concentrations are monitored to assess funding concentrations (Large Fund Providers). 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.

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, strong credit policies, extensive due diligence, credit review and approval process combined with stringent credit administration and limit monitoring.

For generating the internal risk rating, the Bank uses Moody’s Risk Analyst system (MRA). The MRA is used by many leading banks globally and in the Kingdom. It enables the Bank to assign internal risk ratings to a single obligor. The internal risk rating indicates the one year 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-) to apply a more granular assessment of the probability of default. As part of the Bank’s financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing. The Bank reviews and validates the MRA rating system on a regular basis - calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to a specific obligor such as changes in the audited financial statements, compliance with covenants, management changes – if any, changes in the political and business environment and the potential impact on the business activities of the obligor.

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 MRA rating.

Point in time PD

The term structure of PD describes the relationship between PD and time-to-maturity. The Bank formulated three forward-looking scenarios of the economic cycle to generate an estimate of 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, may tend to deteriorate. Conversely, if the economic environment is on an up-swing, the PD of a similar obligor may improve. Based on this concept, the Bank then designed Long Term Survival Probability Adjusted PD which essentially means that if a stressed obligor survives over a longer period time, the probability of it defaulting reduces.

Determining whether credit risk has increased significantly

In determining whether the credit risk has increased significantly since origination, management looks at the change in the risk of a default occurring over the expected life of the credit exposure rather than the change in the ECL. The Bank compares the risk of default as at the reporting date with the risk of default occurring as at the date of origination. The assessment is primarily driven by PD estimation methodology of 12 month point-in-time and lifetime PD. The Bank groups its credit exposure on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to

enable significant increases in the credit risk to be identified on a timely basis. Given below is a non-exhaustive list of the shared credit risk characteristics:

- a) type of exposure
- b) obligor risk ratings
- c) collateral type
- d) collateral value
- e) economic cycle and forward looking scenario
- f) date of origination
- g) remaining term to maturity
- h) geographical location of the obligor

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 Bank recognizes impairment allowance based on 12 months Probability of Default (PD).
- **Stage 2** – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. The trigger point for classifying accounts under Stage 2 and the consequent calculation of lifetime expected credit losses is based on past due payments (rebuttable assumption if payments are more than 30 days past due.) However, the most important consideration for Stage 2 classification is the decision by the Credit Committee that the credit quality has deteriorated to the degree as 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 allowance based on life time PD, and the lifetime expected credit losses are recognized.
- **Stage 3** – Impaired assets: For impaired financial asset(s), the Bank recognize the impairment allowance based on life time PD and the lifetime expected credit losses are recognized.

Definition of ‘Default’

The Bank follows the rebuttable 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”.

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the allowance for impairment for due from banks and other financial institutions, Investments, financing and credit related contingencies and commitments:

	June 30, 2019			Total
	12 month ECL	Life time ECL		
		not credit impaired	Lifetime ECL credit impaired	
SAR in ‘000’				
Balance at the beginning of the period	799,672	771,127	956,862	2,527,661
Transfer to 12 month ECL	92,806	(85,484)	(7,322)	-
Transfer to life time ECL, not credit impaired	(6,427)	11,442	(5,015)	-
Transfer to life time ECL, credit impaired	(521)	(21,851)	22,372	-
Net charge / (reversal) for the period	(28,614)	72,337	163,336	207,059
Write-off	-	-	(3,025)	(3,025)
Balance as at June 30, 2019	856,916	747,571	1,127,208	2,731,695

December 31, 2018				
	12 month ECL	Life time ECL		Total
		not credit impaired	Lifetime ECL credit impaired	
SAR in '000'				
Balance at the beginning of the period	455,682	976,364	794,152	2,226,198
Transfer to 12 month ECL	145,655	(141,182)	(4,473)	-
Transfer to life time ECL, not credit impaired	(67,761)	71,159	(3,398)	-
Transfer to life time ECL, credit impaired	(2,051)	(252,072)	254,123	-
Net charge for the period	268,147	116,858	13,225	398,230
Write-off	-	-	(96,767)	(96,767)
Balance as at December 31, 2018	799,672	771,127	956,862	2,527,661

June 30, 2018				
	12 month ECL	Life time ECL		Total
		not credit impaired	Lifetime ECL credit impaired	
SAR in '000'				
Balance at the beginning of the period	455,682	976,364	794,152	2,226,198
Transfer to 12 month ECL	19,975	(13,289)	(6,686)	-
Transfer to life time ECL, not credit impaired	(4,191)	6,859	(2,668)	-
Transfer to life time ECL, credit impaired	(107)	(11,130)	11,237	-
Net charge / (reversal) for the period	303,421	(112,759)	61,570	252,232
Balance as at June 30, 2018	774,780	846,045	857,605	2,478,430

14. 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 of 8%.

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

	June 30, 2019 (Unaudited) SAR'000	December 31, 2018 (Audited) SAR'000	June 30, 2018 (Unaudited) SAR'000
Credit risk weighted assets	103,764,996	101,696,007	97,914,057
Operational risk weighted assets	8,528,325	7,841,050	7,205,726
Market risk weighted assets	300,689	422,812	526,583
Total Pillar-I Risk Weighted Assets	112,594,010	109,959,869	105,646,366
Tier I capital	21,612,608	21,876,003	20,165,920
Tier II capital	1,297,062	1,271,200	1,223,926
Total Tier I & II Capital	22,909,670	23,147,203	21,389,846
Capital Adequacy Ratio %			
Tier I ratio	19%	20%	19%
Tier I + Tier II ratio	20%	21%	20%

15. Zakat

The change in accounting treatment for zakat (as explained in note 3) has the following impact on the line items of the interim consolidated statements of income and statements of changes in shareholders' equity:

As at and for the six month period ended June 30, 2018:				SAR '000
Financial statement impacted	Line item	Amount before restatement	Effect of restatement	Amount after restatement
Statement of income	Zakat for the period	-	30,078	30,078
Statement of income	Earnings per share	0.81	(0.02)	0.79
Statement of changes in shareholders' equity	Zakat for the period	30,078	(30,078)	-

As at and for the three month period ended June 30, 2018:				SAR '000
Financial statement impacted	Line item	Amount before restatement	Effect of restatement	Amount after restatement
Statement of income	Zakat for the period	-	15,533	15,533
Statement of income	Earnings per share	0.42	(0.01)	0.41

16. 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 interim condensed consolidated financial statements other than due to change in accounting policy as mentioned in note 15.

17. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 10 Dhul-Qa'dah 1440H (corresponding to July 13, 2019).