ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2018

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, 2018, and the related interim consolidated statements of income and comprehensive income for the three months and six month periods ended June 30, 2018 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 International Accounting Standard No. 34 "Interim Financial Reporting" as modified by the Saudi Arabian Monetary Authority's ("SAMA") guidance for the accounting of zakat and income tax. 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 condensed consolidated financial statements 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 modified by SAMA's guidance for the accounting of zakat and income tax.

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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9 Dhul Qadah 1439H
(July 22, 2018)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R.1010371622

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

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

	Note	**June 30, 2018 (Unaudited)**	December 31, 2017 (Audited) (Restated)	June 30, 2017 (Unaudited) (Restated)
		SAR'000	SAR'000	SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**7,365,372**	7,299,371	10,044,392
Due from banks and other financial institutions		**7,060,943**	9,788,857	13,801,042
Investments, net	5	**16,191,289**	15,066,199	7,065,565
Financing, net	6	**81,941,812**	79,062,597	76,960,644
Property and equipment, net		**1,851,335**	1,876,423	1,691,704
Other assets		**2,177,011**	1,658,229	1,613,756
TOTAL ASSETS		**116,587,762**	114,751,676	111,177,103
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**4,885,295**	1,352,887	3,845,924
Customers' deposits	7	**88,937,931**	89,064,751	85,782,656
Other liabilities		**3,176,909**	3,990,276	2,262,366
TOTAL LIABILITIES		**97,000,135**	94,407,914	91,890,946
SHAREHOLDERS' EQUITY				
Share capital		**15,000,000**	15,000,000	15,000,000
Statutory reserve		**2,259,457**	2,259,457	1,756,618
Fair value reserve for FVOCI / AFS investments		**(43,715)**	86,764	75,420
Other reserves		**32,911**	16,484	24,007
Retained earnings		**2,442,449**	1,896,529	2,537,548
Proposed dividends		**-**	1,191,964	-
Treasury shares		**(103,475)**	(107,436)	(107,436)
TOTAL SHAREHOLDERS' EQUITY		**19,587,627**	20,343,762	19,286,157
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**116,587,762**	114,751,676	111,177,103

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)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,

		For the three months period ended		For the six months period ended	
		June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
	Note	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Income from investments and financing		**1,185,931**	1,021,141	**2,299,017**	2,028,650
Return on time investments		**(243,541)**	(186,922)	**(460,350)**	(380,005)
Income from investments and financing, net		**942,390**	834,219	**1,838,667**	1,648,645
Fees from banking services, net		**214,414**	127,348	**365,393**	270,381
Exchange income, net		**45,868**	38,681	**85,403**	72,491
Gain / (loss) from FVSI financial instruments, net		**4,666**	(1,487)	**17,840**	(2,393)
Gain from FVOCI / AFS investments, net	12	**-**	292	**-**	12,322
Dividend income		**22,649**	7,650	**32,443**	10,036
Other operating income		**1,017**	-	**1,018**	67
Total operating income		**1,231,004**	1,006,703	**2,340,764**	2,011,549
Salaries and employee related expenses		**216,567**	192,175	**443,577**	413,481
Rent and premises related expenses		**40,332**	35,824	**78,220**	72,304
Depreciation and amortization		**46,098**	44,177	**92,060**	107,801
Other general and administrative expenses		**140,503**	121,831	**272,830**	242,049
Charge for impairment of financing		**157,948**	119,536	**247,421**	243,772
Charge for impairment of other financial assets		**4,811**	4,436	**4,811**	18,961
Total operating expenses		**606,259**	517,979	**1,138,919**	1,098,368
Net operating income		**624,745**	488,724	**1,201,845**	913,181
Share of income / (loss) from an associate and a joint venture		**(3,420)**	(500)	**1,292**	(3,635)
Net income for the period		**621,325**	488,224	**1,203,137**	909,546
Basic and diluted earnings per share (SAR)	11	**0.42**	0.33	**0.81**	0.61

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)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,

	For the three months period ended		For the six months period ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
	SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period	**621,325**	488,224	**1,203,137**	909,546
Other comprehensive income:				
Items that cannot be recycled back to consolidated statement of income in subsequent periods				
Net change in fair value of FVOCI equity investments	**(14,455)**	-	**(15,010)**	-
Net amount realized on sale of FVOCI equity investments	**(413)**	-	**1,941**	-
Items that can be recycled back to consolidated statement of income in subsequent periods				
Net change in fair value of FVOCI sukuks investments	**9,950**	(1,409)	**(1,567)**	(851)
Net change in fair value of AFS equity investments	**-**	(29,297)	**-**	1491
Net amount realized on sale of FVOCI sukuks /AFS investments	**-**	4,144	**-**	6,639
Total comprehensive income for the period	**616,407**	461,662	**1,188,501**	916,825

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 / AFS 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	16	**-**	**-**	**(253,391)**	**-**	**-**	**-**	**-**	**(253,391)**
Effect of adopting IFRS-9 at January 01, 2018	4(c)	**-**	**-**	**(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		**-**	**-**	**-**	**-**	**1,203,137**	**-**	**-**	**1,203,137**
Net changes in fair value of FVOCI equity investments		**-**	**-**	**(15,010)**	**-**	**-**	**-**	**-**	**(15,010)**
Net changes in fair values of FVOCI sukuk instruments		**-**	**-**	**(1,567)**	**-**	**-**	**-**	**-**	**(1,567)**
Net amount realized on sale of FVOCI investments		**-**	**-**	**-**	**-**	**1,941**	**-**	**-**	**1,941**
Total comprehensive income		**-**	**-**	**(16,577)**		**1,205,078**	**-**	**-**	**1,188,501**
Zakat for the period		**-**	**-**	**-**	**-**	**(30,078)**	**-**	**-**	**(30,078)**
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 CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,

2017 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI / AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period		15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460
Net income for the period		-	-	-	-	909,546	-	-	909,546
Net change in fair value of available for sale investments (restated)	16	-	-	640	-	-	-	-	640
Net amount realized on available for sale investments		-	-	6,639	-	-	-	-	6,639
Total comprehensive income		-	-	7,279	-	909,546	-	-	916,825
Zakat for the current period		-	-	-	-	(23,444)	-	-	(23,444)
Zakat for the prior period		-	-	-	-	-	(42,070)	-	(42,070)
Dividend paid for 2016		-	-	-	-	-	(744,978)	-	(744,978)
Employee share based plan and other reserve		-	-	-	12,415	(15,023)	-	-	(2,608)
Net change in treasury shares								3,972	3,972
Balance at the end of the period		15,000,000	1,756,618	75,420	24,007	2,537,548	-	(107,436)	19,286,157

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	**2018** **SAR'000**	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the period		**1,203,137**	909,546
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**92,060**	107,801
Loss on disposal of property and equipment, net		**159**	226
Unrealized loss from FVSI financial instruments, net		**19,042**	6,171
Dividend income		**(32,443)**	(10,036)
Charge for impairment of financing		**247,421**	243,772
Charge for impairment of other financial assets		**4,811**	18,961
Employee share based plan reserve		**274**	1,364
Share of (income) / loss from an associate and joint venture		**(1,292)**	3,635
		1,533,169	1,281,440
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**92,973**	(142,005)
Due from banks and other financial institutions, with original maturity of more than ninety days		**(58,496)**	3,134,257
Investments		**(1,175,012)**	(929,712)
Financing		**(3,832,347)**	(6,892,468)
Other assets		**(518,782)**	160,040
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**3,532,408**	1,414,120
Customers' deposits		**(126,820)**	5,170,430
Other liabilities		**(843,445)**	(268,448)
Net cash (used in) / generated from operating activities		**(1,396,352)**	2,927,654
INVESTING ACTIVITIES			
Purchase of property and equipment, net		**(67,131)**	(61,913)
Dividends received		**32,443**	11,548
Net cash used in investing activities		**(34,688)**	(50,365)
FINANCING ACTIVITIES			
Dividend paid		**(1,191,964)**	(787,048)
Net cash used in financing activities		**(1,191,964)**	(787,048)
Net (decrease) / increase in cash and cash equivalents		**(2,623,004)**	2,090,241
Cash and cash equivalents at the beginning of the period		**10,702,200**	15,368,063
Cash and cash equivalents at the end of the period	9	**8,079,196**	17,458,304
Income received from investments and financing		**2,101,918**	1,836,810
Return paid on time investments		**379,290**	440,466
Supplemental non-cash information:			
Net change in fair value of FVOCI / AFS investments		**(16,577)**	640

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

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 86 branches (June 30, 2017: 77) 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 Awwaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Shariah, its Articles of Association and within the provisions of laws and regulations 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. Shariah Board ascertains that all the Bank's activities are subject to its review and approval.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS - 34 "Interim Financial Reporting", using uniform accounting policies, estimates, judgment and valuation methods for similar transactions and other events in similar circumstances as disclosed in the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2017 except for the changes in accounting policies as explained in Note 3.

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, 2017.

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) Statement of compliance

The interim condensed consolidated financial statements have been prepared;

i) In accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dates April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and

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

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017.

b) 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 employees share based plan.

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

c) 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.

d) 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 condensed 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, 2017, except for the adoption of the new standards and corresponding changes in accounting policies as explained below:

a) Adoption of new standards

The Bank has adopted the following new standards that have become applicable during the period:

New Standards	Effective date	Brief description of changes
IFRS-9 "Financial Instruments"	January 01, 2018	The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It also changes the impairment of financial assets from incurred loss to expected loss model.
IFRS-15 "Revenue from contracts	January 01,	IFRS 15 outlines a single comprehensive model of

with customers	2018	accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It has established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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 adoption of the above standards are explained below:

i) Classification and measurement of financial assets

The classification and measurement of financial instruments under IFRS-9 is a result of two main assessments namely, Business Model assessment and analysis of contractual cash flows (SPPI).

Based on the said assessments, on initial recognition, a financial asset is classified as measured at either amortized cost, FVOCI or FVSI.

Financial Asset 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 a cash flow 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 Asset at FVOCI

Sukuk and like instruments: are measured at FVOCI only if they meet both of the following conditions and are not designated as 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. Changes in fair values are recognized in OCI. Upon de-recognition, except for FVOCI equity investments, any cumulative gain or loss previously recognized in OCI is charged to income in the consolidated statement of income.

Financial Asset at FVSI

Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as 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.

Investments 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 "Gain from FVSI financial instruments, net" in the consolidated statements 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.

ii) Classification and measurement of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and credit commitments, as measured at amortized cost.

All inter-bank deposits and customer deposits are initially recognized at fair value less transaction costs. Subsequently, financial liabilities are measured at amortized cost. Financial guarantees are measured at higher of amortised cost or allowance for impairment.

iii) 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 expire, 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.

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 interim condensed consolidated statement of income.

Cumulative gain/loss recognized in OCI in respect of equity investments is not recognized in interim condensed 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 expire.

iv) Impairment

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), inter-bank placements, financial guarantees, lease receivables and credit commitments. No impairment loss is recognized on equity investments. 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, other historical data and 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: 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.

The Bank considers its exposure to Banks, financial institutions and sukuk instruments to have low credit risk as their credit risk rating is equivalent to the globally accepted definition of 'investment grade'.

v) Transition

The Bank has opted for the modified retrospective approach for application of IFRS 9. Modified retrospective application requires the recognition of the cumulative impact of adoption in equity as follows:

A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 01, 2018. Accordingly, the comparative information presented does not reflect the requirements of IFRS 9 and therefore, is not comparable with the information presented for the current period under IFRS 9.

There has been no material impact on the interim condensed financial statements due to adoption of IFRS 15 “Revenue from contracts with customers”.

4. Financial assets and financial liabilities

a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at January 01, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in '000'	
Financial assets				
Cash and balances with SAMA	Loans and receivable	Amortized cost	7,299,371	7,299,371
Due from banks and other financial institutions	Loans and receivable	Amortized cost	9,788,857	9,782,582
Investments in equity and mutual funds – FVSI	FVSI	FVSI	77,045	56,775
Investments in equity	AFS	FVOCI	112,095	132,365
Investments in mutual funds	AFS	FVSI	1,643,681	1,643,681
Investments in sukuks	AFS	FVOCI / Amortized cost	11,234,219	11,223,337
Murabaha with SAMA	Loans and receivable	Amortized cost	1,906,817	1,906,817
Investment, net			**14,973,857**	**14,962,975**
Financing, net	Loans and receivable	Amortized cost	79,062,597	78,356,886
Other assets	Loans and receivable	Amortized cost	1,556,674	1,556,674
Total			**112,681,356**	**111,958,488**
Financial liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	1,352,887	1,352,887
Customers' deposits	Amortized cost	Amortized cost	89,064,751	89,064,751
Other liabilities	Loans and receivable	Amortized cost	3,108,240	3,108,240
Total			**93,525,878**	**93,525,878**

b) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 01, 2018.

	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement	IFRS 9 carrying amount as at January 01, 2018
	SAR in '000'			
Financial assets – amortized cost				
Cash and balances with SAMA	7,299,371	-	-	7,299,371
Due from banks and other financial institutions	9,788,857	-	(6,275)	9,782,582
Investments - at amortised cost	1,906,817	8,131,299	(10,882)	10,027,234
Financing, net	79,062,597	-	(705,711)	78,356,886
Other assets	1,556,674	-	-	1,556,674
Total financial assets – at amortized cost	**99,614,316**	**8,131,299**	**(722,868)**	**107,022,747**
Financial assets – at fair value				
AFS / FVOCI – equity	112,095	20,270	-	132,365
AFS / FVOCI – sukuk	11,234,219	(8,131,299)	-	3,102,920
AFS / FVOCI – mutual funds	1,643,681	(1,643,681)	-	-
Investments in equity and mutual funds – FVSI	77,045	1,623,411	-	1,700,456
Total financial assets – at fair value	**13,067,040**	**(8,131,299)**	**-**	**4,935,741**

	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement	IFRS 9 carrying amount as at January 01, 2018
	SAR in '000'			
Financial liabilities – amortized cost				
Due to banks and other financial institutions	1,352,887	-	-	1,352,887
Customers' deposits	89,064,751	-	-	89,064,751
Other liabilities	3,108,240	-	-	3,108,240
Total financial liabilities at amortized cost	**93,525,878**	**-**	**-**	**93,525,878**

c) Impact on retained earnings

	SAR in '000'
	Retained earnings
Closing balance under IAS 39 (December 31, 2017)	1,896,529
Reclassifications under IFRS 9	113,902
Recognition of expected credit losses under IFRS 9	(722,868)
Adjusted opening balance under IFRS 9 (January 01, 2018)	**1,287,563**

d) The following table reconciles the provision recorded as per the requirements of IAS 39 & IAS 37 to that of IFRS 9:

	December 31, 2017 (IAS 39 / IAS 37)	**Re-classification**	**Re-measurement**	**January 01, 2018 (IFRS 9)**
		SAR in '000'		
Due from banks and financial institutions	-	-	6,275	6,275
Investments	-	-	10,882	10,882
Financing including provision for credit commitments	1,503,330	-	705,711	2,209,041
Total	**1,503,330**	**-**	**722,868**	**2,226,198**

5. Investments

	Note	**June 30, 2018 (Unaudited)**	December 31, 2017 (Audited) Restated	June 30, 2017 (Unaudited) Restated
		SAR'000	SAR'000	SAR'000
Murabahas with SAMA (at amortized cost)		**1,907,310**	1,906,817	2,904,930
FVOCI / AFS - investments		**130,406**	1,755,776	834,267
FVOCI / AFS - sukuks		**3,174,673**	11,234,219	3,155,972
Sukuks - (at amortized cost)		**9,264,806**	-	-
FVSI investments		**1,637,996**	77,045	76,223
Investment in an associate	**5.1**	**78,176**	78,429	81,029
Investment in joint venture	**5.2**	**15,458**	13,913	13,144
Allowance for impairment		**(17,536)**	-	-
Total		**16,191,289**	15,066,199	7,065,565

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 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, 2018 (Unaudited)	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	**15,234,239**	14,601,023	13,814,668
Corporate	**68,271,073**	65,150,897	63,674,562
Performing financing	**83,505,312**	79,751,920	77,489,230
Impaired financing	**892,962**	814,007	660,751
Total financing, gross	**84,398,274**	80,565,927	78,149,981
Allowance for impairment	**(2,456,462)**	(1,503,330)	(1,189,337)
Financing, net	**81,941,812**	79,062,597	76,960,644

6.1 Movement in allowance for impairment of financing

	June 30, 2018 (Unaudited)
	SAR'000
Balance at December 31, 2017 (calculated under IAS 39)	**1,503,330**
Amounts restated through opening retained earnings	**705,711**
Opening allowance at January 01, 2018 (calculated under IFRS 9)	**2,209,041**
Charge for the period, net	**247,421**
Balance at the end of the period	**2,456,462**

7. Customers' deposits

	Note	**June 30, 2018 (Unaudited)**	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
		SAR'000	SAR'000	SAR'000
Demand deposits		**45,262,120**	45,316,467	47,995,185
Customers' time investments	**7.1**	**42,876,276**	42,987,385	37,153,133
Others	**7.2**	**799,535**	760,899	634,338
Total		**88,937,931**	89,064,751	85,782,656

7.1 This represents Murabaha and Mudaraba with customers.

7.2 Others represent cash margins held against letters of credit and guarantee.

8. Credit related commitments and contingencies

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

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**2,888,696**	3,023,080	2,348,871
Letters of guarantee	**8,347,609**	7,547,852	7,732,684
Acceptances	**172,096**	173,672	92,108
Irrevocable commitments to extend credit	**548,099**	488,627	144,082
Total	**11,956,500**	11,233,231	10,317,745

ii) During the period ended June 30, 2018, there has been no change in the status of the Bank's Zakat assessments. The Bank's position on these assessments, has remained the same as that of annual consolidated financial statements for the year ended December 31, 2017.

9. Cash and cash equivalents

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

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,424,579**	1,902,511	2,423,914
Balances with SAMA excluding statutory deposit	**87,999**	451,093	3,055,482
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**5,566,618**	8,348,596	11,978,908
Total	**8,079,196**	10,702,200	17,458,304

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 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

Murabahas and mudaraba with banks, investments and treasury services.

d) Investment and brokerage

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

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	**June 30, 2018 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	**18,742,739**	**68,468,794**	**28,343,255**	**1,032,974**	**116,587,762**
Total liabilities	**61,370,999**	**9,320,181**	**26,042,655**	**266,300**	**97,000,135**
Income from investments and financing	**799,487**	**907,003**	**586,637**	**5,890**	**2,299,017**
Return on time investments	**(144,073)**	**(59,033)**	**(257,244)**	**-**	**(460,350)**
Income from investments and financing, net	**655,414**	**847,970**	**329,393**	**5,890**	**1,838,667**
Fees from banking services and other operating income	**157,137**	**61,896**	**118,809**	**164,255**	**502,097**
Total operating income	**812,551**	**909,866**	**448,202**	**170,145**	**2,340,764**
Charge for impairment of financing	**21,552**	**225,869**	**-**	**-**	**247,421**
Charge for impairment of other financial assets	**-**	**-**	**4,811**		**4,811**
Depreciation and amortization	**44,579**	**32,933**	**13,693**	**855**	**92,060**
Other operating expenses	**460,226**	**199,326**	**84,305**	**50,770**	**794,627**
Total operating expenses	**526,357**	**458,128**	**102,809**	**51,625**	**1,138,919**
Net operating income	**286,194**	**451,738**	**345,393**	**118,520**	**1,201,845**
Share of income from an associate and joint venture	**-**	**-**	**1,292**	**-**	**1,292**
Net income for the period	**286,194**	**451,738**	**346,685**	**118,520**	**1,203,137**

SAR '000	**June 30, 2017 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	17,324,058	64,686,100	28,648,938	518,007	111,177,103
Total liabilities	54,741,912	9,616,829	27,463,539	68,666	91,890,946
Income from investments and financing	736,082	766,882	522,940	2,746	2,028,650
Return on time investments	(88,777)	(14,418)	(276,810)	-	(380,005)
Income from investments and financing, net	647,305	752,464	246,130	2,746	1,648,645
Fees from banking services and other operating income	122,881	72,428	71,793	95,802	362,904
Total operating income	770,186	824,892	317,923	98,548	2,011,549
Charge for impairment of financing	10,530	233,242	-	-	243,772
Charge for impairment of other financial assets	-	-	18,961	-	18,961
Depreciation and amortization	44,553	42,464	18,997	1,787	107,801
Other operating expenses	420,267	192,006	82,088	33,473	727,834
Total operating expenses	475,350	467,712	120,046	35,260	1,098,368
Net operating income	294,836	357,180	197,877	63,288	913,181
Share of loss from an associate and joint venture	-	-	(3,635)	-	(3,635)
Net income for the period	294,836	357,180	194,242	63,288	909,546

SAR '000	**June 30, 2018 (Unaudited)**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	**441,673**	**1,598,754**	**130,192**	**170,145**	**2,340,764**
- Inter-segment	**370,878**	**(688,888)**	**318,010**	**-**	**-**
Total operating income	**812,551**	**909,866**	**448,202**	**170,145**	**2,340,764**

SAR '000	**June 30, 2017 (Unaudited)**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	423,492	1,522,895	(33,386)	98,548	2,011,549
- Inter-segment	346,694	(698,003)	351,309	-	-
Total operating income	770,186	824,892	317,923	98,548	2,011,549

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. Gain from FVOCI / AFS investments, net

In accordance with IFRS 9, cumulative gain / (loss) on de-recognition of FVOCI equity investments are required to be credited directly to retained earnings. Previously such gains / (losses) were being recognised in interim consolidated statement of income as per IAS 39.

13. 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.

(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, 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**
- Mutual funds	**-**	**-**	**-**	**-**
- Sukuks	**75,669**	**3,099,004**	**-**	**3,174,673**
Total	**1,643,711**	**3,099,004**	**200,360**	**4,943,075**

				SAR '000
June 30, 2017 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	70,753	-	-	70,753
- Mutual funds	5,470	-	-	5,470
Financial assets held as available for sale				
- Equities	119,899	-	-	119,899
- Mutual funds	502,962	-	211,406	714,368
- Sukuks	37,503	3,118,469	-	3,155,972
Total	**736,587**	**3,118,469**	**211,406**	**4,066,462**

There were no transfers between the fair value hierarchy levels during the period.

(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.

	SAR '000	
June 30, 2018 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**7,060,943**	**7,035,122**
Investments - at amortized cost	**11,154,580**	**10,963,546**
Financing, net	**81,941,812**	**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**

	SAR '000	
June 30, 2017 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	13,801,042	13,750,937
Investments - at amortized cost	2,904,930	2,907,622
Financing, net	76,960,644	77,114,630
LIABILITIES		
Due to banks and other financial institutions	3,845,924	3,846,830
Customers' deposits	85,782,656	85,811,375

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.

14. 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 CRO, the 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)

<u>Credit risk grades</u>

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 recognize 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 recognize 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 financing.

	June 30, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the period	**438,525**	**976,364**	**794,152**	**2,209,041**
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 for the period	**298,610**	**(112,759)**	**61,570**	**247,421**
Balance as at June 30, 2018	**752,812**	**846,045**	**857,605**	**2,456,462**

The above includes loss allowance of SAR 187 million (January 01, 2018: SAR 197 million) related to credit related contingencies and commitments.

15. 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.

SAMA through its circular number 391000029731 dated 15/03/1439AH, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS can be transitioned over 5 years.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**97,914,057**	95,890,718	93,899,549
Operational risk weighted assets	**7,205,726**	6,727,186	6,131,704
Market risk weighted assets	**526,583**	870,356	819,668
Total Pillar-I Risk Weighted Assets	**105,646,366**	103,488,260	100,850,921
Tier I capital	**20,165,920**	20,343,762	19,286,157
Tier II capital	**1,223,926**	884,207	746,300
Total Tier I & II Capital	**21,389,846**	21,227,969	20,032,457
Capital Adequacy Ratio %			
Tier I ratio	**19%**	20%	19%
Tier I + Tier II ratio	**20%**	21%	20%

16. Prior period restatement

The bank has an investment in a fund whose fair value is determined based on fund's Net Asset Value (NAV). During the period, the fund manager has restated the prior period NAV of the fund. The restatement of the NAV was due to the inclusion of certain financial information, which should not have been included by the fund manager in the determination of the NAV of the fund. Accordingly, the Bank has restated the fair value of its investment in the fund recorded in the prior period. The effect of restatements is as follows:

Consolidated statement of financial position

Account	Balance as previously reported	Effect of restatement	Balance as restated
			December 31, 2017 (SAR '000)
Investments	15,319,590	(253,391)	15,066,199
Fair value reserve for available for sale investments	340,155	(253,391)	86,764
			June 30, 2017 (SAR '000)
Investments	7,264,708	(199,143)	7,065,565
Fair value reserve for available for sale investments	274,563	(199,143)	75,420

Interim consolidated statement of comprehensive income

			Period ended June 30, 2017 (SAR '000)
Net change in fair value reserve for available for sale investment during the period	199,783	(199,143)	640

17. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 3 Dhul-Qa'da 1439H (corresponding to July 16, 2018).