ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2021

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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 (collectively referred to as "the Bank") as of March 31, 2021, and the related interim consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three months 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 34 - *Interim Financial Reporting* ("IAS 34") 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* as 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 IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note (16) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (16) 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

Ali A. Alotaibi
Certified Public Accountant
License No. 379

Ernst & Young
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

16 Ramadan 1442H
(April 28, 2021)

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

ERNST & YOUNG & Co. (CERTIFIED PUBLIC ACCOUNTANTS)
PROFESSIONAL LICENSE No. 45

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

	Notes	March 31, 2021 (Unaudited) SAR'000	December 31, 2020 (Audited) SAR'000	March 31, 2020 (Unaudited) SAR'000
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)		**9,389,933**	12,207,742	8,343,251
Due from banks and other financial institutions, net		**1,155,306**	443,002	3,669,834
Investments held at fair value through statement of income (FVSI)	4	**2,220,349**	2,185,553	2,301,596
Investments held at fair value through other comprehensive income (FVOCI)	4	**5,400,971**	4,516,121	3,745,152
Investments held at amortized cost, net	4	**21,120,889**	22,743,302	18,500,149
Investments in associate and joint venture	4	**76,934**	80,818	74,474
Financing, net	6	**117,148,856**	111,195,559	97,783,545
Property, equipment and right of use assets, net		**2,331,218**	2,365,286	2,378,845
Other assets		**1,106,583**	1,139,420	1,224,492
TOTAL ASSETS		**159,951,039**	156,876,803	138,021,338
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to SAMA, banks and other financial institutions	7	**8,862,813**	7,312,034	7,585,946
Customers' deposits	8	**120,707,035**	119,454,278	103,874,426
Amount due to Mutual Funds' unitholders		**336,323**	110,381	40,442
Other liabilities		**4,963,736**	5,571,323	3,741,654
TOTAL LIABILITIES		**134,869,907**	132,448,016	115,242,468
SHAREHOLDERS' EQUITY				
Share capital		**20,000,000**	20,000,000	15,000,000
Statutory reserve		**591,498**	591,498	100,000
Other reserves		**171,762**	177,046	124,748
Retained earnings		**3,818,778**	3,760,239	2,657,597
Proposed dividends	16.2	**596,218**	-	-
Proposed issue of bonus shares	16.1	**-**	-	5,000,000
Treasury shares		**(97,124)**	(99,996)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		**25,081,132**	24,428,787	22,778,870
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**159,951,039**	156,876,803	138,021,338

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31,

	Notes	For the three months period ended March 31, 2021 SAR'000	March 31, 2020 SAR'000
Income from investments and financing	7, 17	**1,348,782**	1,395,092
Return on time investments		**(144,330)**	(273,937)
Income from investments and financing, net		**1,204,452**	1,121,155
Fee from banking services – income		**392,456**	308,967
Fee from banking services – expense		**(91,200)**	(86,916)
Fees from banking services, net		**301,256**	222,051
Exchange income, net		**49,782**	58,642
Income / (loss) from FVSI financial instruments, net		**50,676**	(138,564)
Gain from FVOCI sukuk investments, net		**-**	574
Dividend income on FVOCI equity investments		**4,040**	882
Other operating income		**8,937**	3,292
Total operating income		**1,619,143**	1,268,032
Salaries and employee related expenses		**278,588**	271,499
Rent and premises related expenses		**12,045**	11,605
Depreciation and amortization		**60,875**	64,154
Other general and administrative expenses		**204,132**	164,974
Operating expenses before charge for credit impairment and other losses		**555,640**	512,232
Charge for impairment of financing, net of recoveries		**346,769**	358,694
Reversal of impairment of other financial assets		**(2,769)**	(16,109)
Total operating expenses		**899,640**	854,817
Net operating income		**719,503**	413,215
Share of loss from an associate and a joint venture		**(3,885)**	(1,809)
Income for the period before zakat		**715,618**	411,406
Zakat for the period		**(73,780)**	(41,141)
Net income for the period after zakat		**641,838**	370,265
			(Restated)
Basic and diluted earnings per share (SAR)	12	**0.32**	0.19

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

	For the three months period ended	
	March 31, 2021	March 31, 2020
	SAR'000	SAR'000
Net income for the period after zakat	**641,838**	370,265
Other comprehensive income / (loss):		
Items that cannot be recycled back to interim consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI equity investments	**16,384**	(46,141)
Items that can be recycled back to interim consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	**(11,651)**	12,172
Net gain realized on sale of FVOCI sukuk investments	**-**	(574)
Total comprehensive income for the period	**646,571**	335,722

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31,

2021 (SAR '000)	Note	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Total
Balance at the beginning of the period		**20,000,000**	**591,498**	**177,046**	**3,760,239**	**-**	**(99,996)**	**24,428,787**
Net income for the period after zakat		-	-	-	641,838	-	-	641,838
Net change in fair value of FVOCI equity investments		-	-	16,384	-	-	-	16,384
Net change in fair values of FVOCI sukuk investments		-	-	(11,651)	-	-	-	(11,651)
Total comprehensive income		-	-	4,733	641,838	-	-	646,571
Gain on sale of FVOCI equity investments		-	-	(8,273)	8,273	-	-	-
Proposed dividends for 2020	16.2	-	-	-	(596,218)	596,218	-	-
Employee share based plan and other reserve		-	-	(1,744)	4,646	-	2,872	5,774
Balance at the end of the period		**20,000,000**	**591,498**	**171,762**	**3,818,778**	**596,218**	**(97,124)**	**25,081,132**

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31,

2020 (SAR '000)	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed issue of bonus shares	Treasury shares	Total
Balance at the beginning of the period	15,000,000	100,000	161,097	2,287,302	5,000,000	(103,475)	22,444,924
Net income for the period after zakat	-	-	-	370,265	-	-	370,265
Net changes in fair value of FVOCI equity investments	-	-	(46,141)	-	-	-	(46,141)
Net changes in fair values of FVOCI sukuk investments	-	-	12,172	-	-	-	12,172
Net gain realized on sale of FVOCI sukuk investments	-	-	(574)	-	-	-	(574)
Total comprehensive income	-	-	(34,543)	370,265	-	-	335,722
Net gain realized on sale of FVOCI equity investments	-	-	(37)	37	-	-	-
Employee share based plan and other reserve	-	-	(1,769)	(7)	-	-	(1,776)
Balance at the end of the period	15,000,000	100,000	124,748	2,657,597	5,000,000	(103,475)	22,778,870

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31,

	2021 SAR' 000	2020 SAR' 000
OPERATING ACTIVITIES		
Net income for the period before zakat	**715,618**	411,406
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	**60,875**	64,154
Gain on disposal of property and equipment, net	**-**	(1,635)
Unrealized (gain) / loss from FVSI financial instruments, net	**(46,357)**	144,634
Gain from FVOCI sukuk investments, net	**-**	(574)
Dividend income on FVOCI equity investments	**(4,040)**	(882)
Charge for impairment of financing, net	**346,769**	358,694
(Reversal) / charge for impairment of other financial assets	**(2,769)**	(16,109)
Recoveries from written-off accounts	**6,402**	-
Deferred payment program modification loss, net of unwinding	**60,673**	56,824
Fair value benefit from profit free SAMA deposit, net of unwinding	**(21,366)**	(49,994)
Employees share based plans reserve	**5,775**	7,732
Share of loss from an associate and a joint venture	**3,885**	1,809
	1,125,465	976,059
Net (increase)/decrease in operating assets:		
Statutory deposit with Saudi Central Bank	**(7,727)**	(156,454)
Due from banks and other financial institutions with original maturity of more than three months	**(49,443)**	-
Investments held at FVSI	**11,561**	(191,370)
Financing	**(6,348,472)**	(3,395,301)
Other assets	**32,837**	(265,966)
Net increase/(decrease) in operating liabilities:		
Due to SAMA, banks and other financial institutions	**1,526,900**	4,346,096
Customers' deposits	**1,252,757**	1,811,591
Other liabilities	**(419,104)**	(301,080)
Net cash (used in) / generated from operating activities	**(2,875,226)**	2,823,575
INVESTING ACTIVITIES		
Purchase of investments not held at FVSI	**(5,861,134)**	(1,191,080)
Proceeds from sales and maturities of investments not held at FVSI	**6,604,953**	75,569
Purchase of property and equipment	**(16,955)**	(27,133)
Proceeds from disposal of property and equipment	**-**	4,326
Dividends received from FVOCI equity investments	**4,040**	3,695
Net cash from / (used in) investing activities	**730,904**	(1,134,623)

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, (Continued)

	Note	2021 SAR' 000	2020 SAR' 000
FINANCING ACTIVITIES			
Cash payment for principal portion of lease liability		**(16,164)**	(12,215)
Cash payment for financing cost portion of lease liability		**(3,608)**	(4,123)
Net cash used in financing activities		**(19,772)**	(16,338)
Net (decrease) / increase in cash and cash equivalents		**(2,164,094)**	1,672,614
Cash and cash equivalents at beginning of the period		**6,268,782**	4,624,067
Cash and cash equivalents at end of the period	**10**	**4,104,688**	6,296,681
Income received from investments and financing		**1,102,407**	1,401,682
Return paid on time investments		**167,142**	297,254
Supplemental non-cash information:			
Net changes in fair value of FVOCI investments		**4,733**	(34,543)
Proposed dividends for 2020		**596,218**	-

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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 99 branches (March 31, 2020: 97) 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.

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

Funds	Bank's Ownership	Establishment date	Date of effective control	Purpose
Alinma Sukuk ETF	As at March 31, 2021: 73.7% (December 31, 2020: 92.3%)	January 22, 2020	January 22, 2020	To invest in a basket of local sovereign Sukuks issued by the Kingdom of Saudi Arabia

Alinma IPO Fund	As at March 31, 2021: 86.4% (December 31, 2020: 85.5%)	April 26, 2015	January 1, 2020	To develop capital over the long term by investing mainly in Saudi joint stock companies

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. 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 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").

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, 2020.

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 interim condensed consolidated financial statements.

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

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, 2020 except for the below:

a) Derivative financial instruments

Derivative financial instruments include mainly profit rate swaps. These derivatives financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into. These instruments are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading purposes:

a) Profit rate swaps
Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

b) Foreign exchange forwards
Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

Held for trading purposes
Most of the Bank's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the interim condensed consolidated statement of income and included in "Income/(loss) from FVSI financial instruments".

b) Changes in judgement estimates

In preparing this interim condensed consolidated financial statements, the significant judgments made by the management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2020 except for the estimate described below:

Measurement of the expected credit loss allowance

In the preparation of the interim condensed consolidated financial statements management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in notes 15 and 17. However, in view of the current uncertainty as explained in note 17, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. The management will continue to assess the impact based on prospective developments.

c) Adoption of new standards

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2021:

(a) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7)

In addition, below are the amendments to accounting standards and interpretations which will become applicable for annual reporting periods commencing on or after January 1, 2022:

(a) IFRS 17 – "Insurance contracts", applicable for period beginning on or after January 1, 2023,
(b) Amendment to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January 1, 2022,
(c) Onerous contracts – Cost of Fulfilling a contract (Amendment to IAS 37) applicable for the period beginning on or after January 1, 2022,
(d) Property, plant and equipment: Proceeds before intended use (Amendment to IAS 16) applicable for the period beginning on or after January 1, 2022.
(e) Reference to Conceptual Framework (Amendments to IFRS 3) applicable for the period beginning on or after January 1, 2022.

The management has assessed that the above amendments have no significant impact on the Bank's interim condensed consolidated financial statements.

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

IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 1, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase (2) - The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

The Bank of England and the Financial Conduct Authority (FCA) have set out clear expectations for regulated firms to remove their reliance on LIBOR in all new business and in legacy contracts, where feasible. The primary way for market participants to have certainty over the economic terms of their contracts is to actively transition them away from LIBOR.

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

In addition, the above announcement, as confirmed by the International Swaps and Derivatives Association ("ISDA"), constitutes an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings. As a result, the fallback spread adjustment (i.e. to the adjusted risk-free rate plus spread) published by Bloomberg is fixed as of the date of this announcement (i.e. 5 March 2021) for all euro, sterling, Swiss franc, US dollar and yen LIBOR settings. The fallbacks will automatically occur for outstanding derivatives contracts that incorporate the IBOR Fallbacks Supplement or are subject to adherence of the ISDA 2020 IBOR Fallbacks Protocol on the following dates:

- After December 31, 2021: For outstanding derivatives referenced to all euro, sterling, Swiss franc and yen LIBOR settings.
- After June 30, 2023: For outstanding derivatives referenced to all US dollar LIBOR settings.

Regulatory authorities and public and private sector working groups in several jurisdictions, including the International Swaps and Derivatives Association (ISDA), the Sterling Risk-Free Rates Working Group, the Working Group on Euro Risk-Free Rates, and the Alternative Reference Rates Committee (ARRC), have been discussing alternative benchmark rates to replace the IBORs. These working groups are also considering how to support a transition to alternative rates and the development of new products referencing them.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear.

Management is running a project on the bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project will not have significant impact to the Bank. As at March 31, 2021, the carrying value of non-derivative financial assets using LIBOR as benchmark rates amounted to SAR 2,847 million.

4. Investments, net

	Notes	**March 31, 2021 (Unaudited)**	December 31, 2020 (Audited)	March 31, 2020 (Unaudited)
		SAR'000	SAR'000	SAR'000
Held at FVSI		**2,220,349**	2,185,553	2,301,596
Held at FVOCI		**5,400,971**	4,516,121	3,745,152
Held at Amortized Cost		**21,128,353**	22,752,291	18,508,092
Investment in an associate	**4.1**	**56,069**	59,930	56,485
Investment in a joint venture	**4.2**	**20,865**	20,888	17,989
Less: Allowance for impairment		**(7,464)**	(8,989)	(7,943)
Total		**28,819,143**	29,525,794	24,621,371

4.1 Investment in an associate represents the Bank's share of ownership at 28.75% (December 31, 2020 and March 31, 2020: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million.

4.2 Investment in a joint venture represents the Banks's share of ownership at 50% (December 31, 2020 and March 31, 2020: 50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post).

5. Derivative financial instruments

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

	Derivative financial instruments March 31, 2021 SAR'000		
	Positive fair value	**Negative fair value**	**Total notional amount**
Held for trading:			
Profit rate swaps	-	138	10,000

As at March 31, 2021, there are no outstanding foreign exchange forward contracts.

6. Financing, net

	Note	**March 31, 2021 (Unaudited)**	December 31, 2020 (Audited)	March 31, 2020 (Unaudited)
		SAR'000	SAR'000	SAR'000
Retail	**6.1**	**25,709,577**	23,932,878	20,499,863
Corporate	**6.1**	**92,327,111**	87,675,393	77,753,322
Performing financing		**118,036,688**	111,608,271	98,253,185
Non-performing loans		**2,712,360**	2,852,978	2,471,448
Total financing, gross		**120,749,048**	114,461,249	100,724,633
Allowance for impairment	**6.1**	**(3,600,192)**	(3,265,690)	(2,941,088)
Financing, net		**117,148,856**	111,195,559	97,783,545

6.1 Movement in allowance for impairment of financing

	March 31, 2021 (Unaudited)	March 31, 2020 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 1	**3,265,690**	2,584,758
Charge for the period	**334,502**	356,330
Balance at the end of the period	**3,600,192**	2,941,088

For better presentation, the Bank reclassified the presentation of modification loss arising from the deferral of MSME financing by deducting the modification loss directly against the gross financing instead of adding them in the allowance for impairment. Presentation for comparative periods have also been reclassified.

7. Due to SAMA, banks and other financial institutions

As of March 31, 2021, the Bank received profit free deposits from SAMA with gross amount of SAR 6.8 billion (December 31, 2020: SAR 6.6 billion; March 31, 2020: SAR 850 million) with varying maturities in order to support the Bank in its implementation of various regulatory relief packages given by the government in response to COVID-19 (refer to note 17).

As a result, the Bank's 'Income from investments and financing' and 'Fee from banking services' for the three months period ended March 31, 2021 included the fair value benefit of SAR 45.2 million and SAR 2.5 million, respectively (March 31, 2020: SAR 50 million and nil, respectively) arising from the profit free deposits.

8. Customers' deposits

	Note	**March 31, 2021 (Unaudited)**	December 31, 2020 (Audited)	March 31, 2020 (Unaudited)
		SAR'000	SAR'000	SAR'000
Demand		**63,422,385**	62,839,786	57,114,779
Savings	**8.1**	**7,616,202**	5,360,542	2,450,135
Customers' time investments		**48,555,174**	50,179,027	43,198,963
Others		**1,113,274**	1,074,923	1,110,549
Total		**120,707,035**	119,454,278	103,874,426

8.1 This represents Murabaha, Mudaraba and Wakala with customers.

9. Commitments and contingencies

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

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)	March 31, 2020 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**2,696,368**	2,206,196	3,042,496
Letters of guarantee	**11,224,052**	11,185,117	11,111,529
Acceptances	**532,011**	461,108	656,519
Irrevocable commitments to extend credit	**69,441**	69,441	280,232
Total	**14,521,872**	13,921,862	15,090,776

ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 367.2 million as at March 31, 2021 (December 31, 2020: SAR 348.5 million; March 31, 2020: SAR 182.3 million).

10. Cash and cash equivalents

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

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)	**March 31, 2020 (Unaudited)**
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,435,563**	2,428,303	2,579,168
Balances with SAMA excluding statutory deposit	**563,919**	3,396,715	47,679
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**1,105,206**	443,764	3,669,834
Total	**4,104,688**	6,268,782	6,296,681

11. 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.

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

SAR '000	**March 31, 2021 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	**24,445,770**	**91,847,899**	**41,659,324**	**1,998,046**	**159,951,039**
Total liabilities	**83,480,675**	**6,697,988**	**44,227,443**	**463,801**	**134,869,907**
Income from investments and financing	**621,533**	**462,498**	**244,349**	**20,402**	**1,348,782**
Return on time investments	**(47,314)**	**(3,069)**	**(93,947)**	**-**	**(144,330)**
Income from investments and financing, net	**574,219**	**459,429**	**150,402**	**20,402**	**1,204,452**
Fees from banking services and other operating income	**115,287**	**45,549**	**93,439**	**160,416**	**414,691**
Total operating income	**689,506**	**504,978**	**243,841**	**180,818**	**1,619,143**
Depreciation and amortization	**52,491**	**4,069**	**2,877**	**1,438**	**60,875**
Other operating expenses	**340,992**	**69,742**	**50,866**	**33,165**	**494,765**
Charge / (reversal) for credit impairment	**(55,383)**	**402,152**	**(2,769)**	**-**	**344,000**
Total operating expenses	**338,100**	**475,963**	**50,974**	**34,603**	**899,640**
Net operating income	**351,406**	**29,015**	**192,867**	**146,215**	**719,503**
Share of loss from an associate and joint venture	**-**	**-**	**(3,885)**	**-**	**(3,885)**
Income for the period before zakat	**351,406**	**29,015**	**188,982**	**146,215**	**715,618**

SAR '000	March 31, 2020 (Unaudited)				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	19,868,241	77,475,238	39,369,140	1,308,719	138,021,338
Total liabilities	77,841,934	5,659,005	31,540,321	201,208	115,242,468
Income from investments and financing	735,915	399,653	240,407	19,117	1,395,092
Return on time investments	(126,257)	(15,112)	(132,568)	-	(273,937)
Income from investments and financing, net	609,658	384,541	107,839	19,117	1,121,155
Fees from banking services and other operating income	95,152	38,365	(75,153)	88,513	146,877
Total operating income	704,810	422,906	32,686	107,630	1,268,032
Depreciation and amortization	49,590	7,460	5,754	1,350	64,154
Other operating expenses	325,698	62,718	40,742	18,920	448,078
Charge / (reversal) for credit impairment	(2,229)	360,923	(16,109)	-	342,585
Total operating expenses	373,059	431,101	30,387	20,270	854,817
Net operating income / (loss)	331,751	(8,195)	2,299	87,360	413,215
Share of loss from an associate and joint venture	-	-	(1,809)	-	(1,809)
Income / (loss) for the period before zakat	331,751	(8,195)	490	87,360	411,406

SAR '000	March 31, 2021 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	**396,285**	**851,973**	**190,067**	**180,818**	**1,619,143**
- Inter-segment	**293,221**	**(346,995)**	**53,774**	**-**	**-**
Total operating income	**689,506**	**504,978**	**243,841**	**180,818**	**1,619,143**

SAR '000	March 31, 2020 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	242,446	955,184	(37,228)	107,630	1,268,032
- Inter-segment	462,364	(532,278)	69,914	-	-
Total operating income	704,810	422,906	32,686	107,630	1,268,032

12. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were 1,987.4 million shares at March 31, 2021. Basic and diluted earnings per share as at March, 2020 were divided by 1,987.1 million shares to give a retrospective effect of change in the number of shares increased as a result of issuance of bonus shares. The diluted earnings per share is the same as the basic earnings per share.

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.

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

The Bank uses various valuation techniques used in measuring level 2 and Level 3 fair values at March 31, 2021, December 31, 2020 and March 31, 2020, as well as the significant unobservable inputs used.

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

For the valuation of unquoted sukuk investments, the Bank utilizes valuation techniques such as discounted cash flows.

13 (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
March 31, 2021 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**111,643**	**1,958**	**-**	**113,601**
- Mutual funds	**98,412**	**1,794,229**	**214,107**	**2,106,748**
Financial assets held as FVOCI				
- Equities	**171,944**	**-**	**17,930**	**189,874**
- Sukuks	**1,556,582**	**3,654,515**	**-**	**5,211,097**
Total	**1,938,581**	**5,450,702**	**232,037**	**7,621,320**

	SAR '000			
December 31, 2020 (Audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	92,784	1,958	-	94,742
- Mutual funds	96,820	1,793,211	200,780	2,090,811
Financial assets held as FVOCI				
- Equities	157,403	-	17,967	175,370
- Sukuk	1,196,088	3,144,663	-	4,340,751
Total	1,543,095	4,939,832	218,747	6,701,674

				SAR '000
March 31, 2020 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	94,248	1,960	-	96,208
- Mutual funds	41,716	1,938,432	225,240	2,205,388
Financial assets held as FVOCI				
- Equities	223,702	-	20,264	243,966
- Sukuks	863,504	2,637,682	-	3,501,186
Total	1,223,170	4,578,074	245,504	6,046,748

The movement in Level 3 FVSI financial instrument represents movement due to unrealized fair value gain of SAR 13.3 million (March 31, 2020: fair value gain of SAR 8.7 million) which is included within the "Income / (loss) from FVSI financial instruments, net" in the consolidated statement of income. There are no transfers between Stage 1, 2 and 3 during the period.

13 (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 which is categorized within Level 2 of the fair value hierarchy. Following table shows the fair value of financial instruments carried at amortized cost.

	SAR '000	
March 31, 2021 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**1,155,306**	**1,155,887**
Investments – Murabaha with SAMA	**1,404,207**	**1,389,538**
Sukuks – Amortized Cost	**19,724,146**	**19,758,459**
Financing, net	**117,148,856**	**117,322,569**
LIABILITIES		
Due to SAMA, banks and other financial institutions	**8,862,813**	**8,816,868**
Customers' deposits	**120,707,035**	**120,791,040**

	SAR '000	
December 31, 2020 (Audited)	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	443,002	443,002
Investments – Murabaha with SAMA	4,905,571	4,973,438
Sukuks – Amortized Cost	17,846,720	17,903,361
Financing, net	111,195,559	110,668,600
LIABILITIES		
Due to SAMA, banks and other financial institutions	7,312,034	7,341,092
Customers' deposits	119,454,278	119,553,624

	SAR '000	
March 31, 2020 (Unaudited)	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	3,669,834	3,670,088
Investments – Murabaha with SAMA	1,907,106	1,958,317
Sukuks – Amortized Cost	16,600,986	16,640,333
Financing, net	97,783,545	97,451,312
LIABILITIES		
Due to SAMA, banks and other financial institutions	7,585,946	7,581,327
Customers' deposits	103,874,426	104,045,319

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. Employee share based plans

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

Nature of scheme	ESPS (Jana)	ESGS Plan A	ESGS Plan B	Deferred bonus
No. of outstanding Schemes	1	1	1	1
Grant date	May 1, 2019	May 1, 2019	May 1, 2019	March 4, 2021
Maturity date	April 30, 2022	April 30, 2024	April 30, 2022	March 4, 2024
Number of shares granted – adjusted after issuance of bonus issue	2,798,754	1,167,452	1,820,169	699,985
Vesting period	3 Years	5 years	3 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625	11,535,753
Strike price per share at grant date (SAR) – adjusted after issuance of bonus issue	16.13	-	-	-
Fair value per share at grant date (SAR) – adjusted after issuance of bonus issue	20.25	20.25	20.25	16.48
Vesting condition	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value	Market Value
Weighted average remaining contractual life	1.1 Year	3.1 Years	1.1 Year	2.9 Years

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

	ESPS (Jana)		ESGS Plan A		ESGS Plan B		Deferred bonus	
	Weighted average exercise price (SAR)	**Number of shares in scheme**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**
	March 31, 2021 (Unaudited)							
Beginning of the period	**16.13**	**2,117,037**	**20.25**	**1,112,381**	**20.25**	**1,349,107**	**-**	**-**
Granted during the period	**-**	**-**	**-**	**-**	**-**	**-**	**16.48**	**699,985**
Vested during the period	**-**	**-**	**-**	**-**	**20.25**	**(371,293)**	**-**	**-**
Expired during the period	**16.13**	**(94,578)**	**-**	**-**	**-**	**-**	**-**	**-**
End of the period	**16.13**	**2,022,459**	**20.25**	**1,112,381**	**20.25**	**977,814**	**16.48**	**699,985**
Exercisable at period end	**16.13**	**2,022,459**	**20.25**	**1,112,381**	**20.25**	**977,814**	**16.48**	**699,985**

	ESPS (Jana)		ESGS Plan A		ESGS Plan B	
	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme	Weighted average exercise price (SAR)	Number of shares in scheme
	March 31, 2020 (Unaudited)					
Beginning of the period	21.50	1,937,017	27.00	809,791	27.00	1,437,875
Granted during the period	-	-	-	-	-	-
Forfeited	21.50	(34,428)	-	-	-	-
Exercised/expired	-	-	-	-	-	-
End of the period	21.50	1,902,589	27.00	809,791	27.00	1,437,875
Exercisable at period end	21.50	1,902,589	27.00	809,791	27.00	1,437,875

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized during the period in these interim condensed consolidated financial statements in respect of these schemes was SAR 5.8 million (March 31, 2020: SAR 7.7 million).

15. Financial Risk Management

(a) Credit Risk

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

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

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

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

The Bank has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required. In respect of retail portfolio these include close monitoring of mix of loan types, employer concentrations, the trends in unemployment and the projected levels collateral, delinquencies and timing of government support are going to greatly weigh on performance in this area. All such measures are discussed and approved by the Risk Committee.

(b) 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 processes combined with stringent credit administration and monitoring and control of credit limits.

To generate an 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 a risk rating to a single obligor. The risk rating is a point-in-time, 12-month probability of default (PD). The Bank assigns a rating from a 10-point rating scale with 1 as the best through 10 as the worst. The rating uses sub-grades (e.g. 3+, 3, and 3-) for a granular assessment of the PD. As part of the Bank's policy, only obligors with risk ratings of 6- or better are eligible for new financing facilities. The Bank reviews and validates the 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 the specific obligor such as changes in the audited financial statements, compliance with covenants, management changes, as well as changes in the economic and business environment.

Credit risks in the retail portfolio are estimated based on individual credit-worthiness scores, derived from an automated credit scoring platform and is not subject to the 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
i) industry

The Bank categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:

- **Stage 1 Performing assets** – Financial asset(s) at origination or existing financial assets, at the reporting date, with no significant increase in credit risk since origination: The Bank recognizes an impairment allowance amounting to 12-month expected credit losses using a point-in-time PD (an estimate of the probability of default over the next 12 months). Profits associated with the asset are recognized on the basis of gross carrying value.

- **Stage 2 Underperforming assets** – Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Credit Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value.

- **Stage 3 Credit-impaired assets** – Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD as in stage 2. Profits associated with the asset are recognized on the basis of net carrying value.

Definition of 'Default'

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

(c) 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:

	March 31, 2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in '000'			
Balance at the beginning of the period	**864,997**	**1,011,779**	**1,748,725**	**3,625,501**
Transfer to 12 month ECL	**22,017**	**(15,092)**	**(6,925)**	**-**
Transfer to life time ECL, not credit impaired	**(755)**	**6,103**	**(5,348)**	**-**
Transfer to life time ECL, credit impaired	**(79)**	**(6,464)**	**6,543**	**-**
Total (reversal) / charge for the period	**(216,570)**	**356,595**	**210,377**	**350,402**
Balance as at March 31, 2021	**669,610**	**1,352,921**	**1,953,372**	**3,975,903**

	March 31, 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the period	779,463	799,024	1,212,923	2,791,410
Transfer to 12 month ECL	8,375	(6,759)	(1,616)	-
Transfer to life time ECL, not credit impaired	(898)	4,642	(3,744)	-
Transfer to life time ECL, credit impaired	(355)	(157,710)	158,065	-
Total charge for the period	39,314	216,805	86,466	342,585
Balance as at March 31, 2020	825,899	856,002	1,452,094	3,133,995

(d) Reconciliation of 'Charge for impairment of financing and other financial assets'

	March 31, 2021 SAR'000	March 31, 2020 SAR'000
Charge for impairment on financing (note 6.1)	**334,502**	356,330
Charge for impairment of non-funded financing and credit related commitments	**18,669**	2,364
Reversal of impairment of other financial assets	**(2,769)**	(16,109)
Total charge for the period before recoveries from written off bad debts	**350,402**	342,585
Recoveries from written off bad debts	**(6,402)**	-
Total charge for period, net of recoveries	**344,000**	342,585

16. Capital and 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.

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)	March 31, 2020 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**128,091,128**	123,738,743	113,350,345
Operational risk weighted assets	**10,436,720**	10,118,355	9,560,939
Market risk weighted assets	**4,012,164**	4,491,592	6,301,692
Total Pillar-I Risk Weighted Assets	**142,540,012**	138,348,690	129,212,976
Tier I capital	**25,803,998**	25,151,654	23,500,837
Tier II capital	**1,601,139**	1,546,734	1,416,879
Total Tier I & II Capital	**27,405,137**	26,698,388	24,917,716

Capital Adequacy Ratio %			
Tier I ratio	**18%**	18%	18%
Tier I + Tier II ratio	**19%**	19%	19%

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

Until December 31, 2019, the Bank was applying the ECL accounting transitional arrangement for regulatory capital that allowed banks to transition Day 1 impact of IFRS9 (applicable from 1 January 2018) on regulatory capital over (5) years by using the dynamic approach to reflect the impact of the transition in accordance with SAMA Circular no. 391000029731 dated 15 Rabi-I 1439H (corresponding to December 3, 2017).

16.1 Issuance of bonus shares

In light of the Board of Directors' recommendation dated 14 December 2019 and the Shareholders' approval, in their Extraordinary General Assembly dated April 8, 2020, and after obtaining the required regulatory approvals, the Bank increased its share capital by 33% through issuance of bonus shares in the ratio of 1:3. Accordingly, the total shares increased by 500 million shares to be 2,000 million shares and share capital increased by SAR 5,000 million to be SAR 20,000 million.

16.2 Proposed dividends

The Board of Directors in their meeting held on March 4, 2021 has proposed a final 2020 dividend of SAR 596.2 million for 2020 (2019: SR Nil). This will yield a net payment of SAR 0.3 per share to the shareholders of the Bank (2019: SR Nil). The proposed final dividend is included within equity. Subsequent to the quarter end, this dividend is approved in the extraordinary general assembly meeting held on April 7, 2021 (corresponding to 25 Sha'aban 1442H).

17. Impact of COVID-19 and SAMA Programs

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience second/third waves of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government. The Government has approved number of vaccines for mass immunizations. The drive is in full swing and it is expected that majority of the population will be vaccinated in near future.

The Bank continues to evaluate the current situation through conducting stress-testing scenarios on expected movements of oil prices and other macroeconomic variables and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management includes ongoing review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programs.

The prevailing economic conditions, which are severely affected by the ongoing pandemic, require the Bank to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of expected credit losses and revisions to the scenario probabilities currently being used by the Bank in ECL estimation. In Q4 2020, the Bank made certain adjustments to the macroeconomic factors and scenario weightings which are the same factors and weightings used in Q1 2021. As a result, for the period ended 31 March 2021, no additional ECL were recorded related to the macroeconomic factors update.

The Bank's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Bank will continue to reassess its position and the related impact on a regular basis.

The Bank continues to monitor the Micro Small and Medium Enterprises ("MSME") Deferred Payment Program ("DPP") lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves.

17. 1 SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")
In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Bank is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected this further extension of deferred payment program by extending the tenure of the applicable financing granted with no additional costs to be borne by the customer. The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk.

The accounting impact of above changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 142.2 million of which SAR 86.5 million has been recorded in the current quarter which have been presented as part of net financing income. During the three months period ended 31 March 2021, SAR 14.7 million (March 31, 2020: Nil) has been charged to the interim consolidated statement of income relating to unwinding of modification losses.

As disclosed in note 7, in order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during 2020 the Bank received profit free deposits from SAMA amounting to SAR 1,247 million with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Total income of SAR 83.5 million out of which SAR 27.9 million has been recognized in the statement of income in Q1 2021 and the remaining amount was recognized as income for the year ended December 31, 2020. The management has exercised certain judgements in the recognition and measurement of this grant income. During the three months period ended March 31, 2021, SAR 5.2 million has been charged to the interim consolidated statement of income relating to unwinding (March 31, 2020: Nil).

Facility Guarantee Program:

As at March 31, 2021, the Bank has participated in SAMA's facility guarantee program. The Bank has received SAR 567 million from SAMA for providing concessional financing to eligible MSMEs under Facility Guarantee program. As the guarantee under the Kafala program forms integral part of the financing arrangement; therefore, the funding received from SAMA does not qualify for government grant and is recognized as financial liability under IFRS 9. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with IFRS. This resulted in a total income of SAR 8.4 million out of which SAR 2.5 million was recognized in the statement of income in Q1 2021 and the remaining amount was recognized for the year ended December 31, 2020. During the three months period ended March 31, 2021, SAR 1.4 million has been charged to the interim consolidated statement of income relating to unwinding (March 31, 2020: Nil).

17.2 SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during Q2 2020, the Bank received SAR 5 billion profit free deposit with one year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 70.9 million, of which SAR 17.4 million has been recognized in the statement of income as at March 31, 2021, SAR 40.5 million was recognized for the year ended December 31, 2020 and with the remaining amount deferred. During the three months period ended March 31, 2021, SAR 17.4 million has been charged to the interim consolidated statement of income relating to unwinding (March 31, 2020: Nil).

17.3 Bank's initiative - Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognizing a day 1 modification loss of SAR 11.2 million in March 2020, which was presented as part of net financing income.

18. Comparative figures

Certain comparative figures have been rearranged or reclassified, wherever necessary, for the purpose of better presentation. However, except for those disclosed in note 6.1, no other significant rearrangements or reclassifications have been made in these interim condensed consolidated financial statements.

19. Events after the reporting period

Except for those disclosed in note 16.2, there have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed consolidated financial statements as at and for the three months period ended March 31, 2021.

20. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 6th Ramadan, 1442H (corresponding to April 18th, 2021).