ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

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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 June 30, 2020, and the related interim consolidated statements of income and comprehensive income for three month and six month periods then ended and the changes in shareholders' equity and cash flows for the six month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 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 Arabian Monetary Authority ("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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20 Dhul Hijjah 1441H
(August 10, 2020)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص ٣٢٣/١١/٢٥/١
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

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

	Notes	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**8,546,876**	8,039,748	7,671,445
Due from banks and other financial institutions, net		**1,087,532**	2,144,269	3,580,740
Investments, net	4	**25,875,612**	23,477,660	21,288,320
Financing, net	5	**103,177,825**	94,801,398	87,666,853
Property and equipment, net		**2,343,125**	2,413,893	2,311,227
Other assets		**1,165,078**	962,473	960,872
TOTAL ASSETS		**142,196,048**	131,839,441	123,479,457
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions	6	**6,709,213**	3,289,844	6,186,856
Customers' deposits	7	**107,417,310**	102,062,835	92,816,449
Amount due to Mutual Funds' unitholders		**42,830**	-	-
Other liabilities		**4,640,806**	4,041,838	3,297,265
TOTAL LIABILITIES		**118,810,159**	109,394,517	102,300,570
SHAREHOLDERS' EQUITY				
Share capital		**20,000,000**	15,000,000	15,000,000
Statutory reserve		**100,000**	100,000	2,888,815
Fair value reserve for FVOCI investments		**76,655**	77,372	43,844
Other reserves		**73,090**	83,725	40,005
Retained earnings		**3,236,140**	2,287,302	3,309,698
Proposed issue of bonus shares	15.1	**-**	5,000,000	-
Treasury shares		**(99,996)**	(103,475)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		**23,385,889**	22,444,924	21,178,887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**142,196,048**	131,839,441	123,479,457

The accompanying notes from 1 to 19 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 three months period ended		For the six months period ended	
		June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	Notes	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Income from investments and financing	6, 16	**1,337,654**	1,364,941	**2,732,746**	2,655,381
Return on time investments		**(215,393)**	(298,936)	**(489,330)**	(612,950)
Income from investments and financing,		**1,122,261**	1,066,005	**2,243,416**	2,042,431
Fee from banking services – income		**213,748**	275,905	**522,715**	560,710
Fee from banking services – expense		**(62,094)**	(81,070)	**(149,010)**	(142,990)
Fees from banking services, net		**151,654**	194,835	**373,705**	417,720
Exchange income, net		**67,887**	52,404	**126,529**	97,845
(Loss) / gain from FVSI financial instruments, net		**(5,648)**	48,305	**(144,212)**	92,319
Gain from FVOCI debt investments, net		**-**	542	**574**	772
Dividend income		**3,950**	1,893	**4,832**	2,532
Other operating income	6	**6,378**	228	**9,670**	231
Total operating income		**1,346,482**	1,364,212	**2,614,514**	2,653,850
Salaries and employee related expenses		**262,342**	229,847	**533,841**	491,785
Rent and premises related expenses		**12,602**	15,872	**24,207**	50,088
Depreciation and amortization		**63,939**	68,278	**128,093**	135,004
Other general and administrative expenses		**176,423**	152,835	**341,397**	303,242
Charge for credit impairment	14	**192,114**	141,661	**534,699**	207,059
Total operating expenses		**707,420**	608,493	**1,562,237**	1,187,178
Net operating income		**639,062**	755,719	**1,052,277**	1,466,672
Share of loss from an associate and a joint venture		**(2,967)**	(4,977)	**(4,776)**	(7,410)
Income for the period before zakat		**636,095**	750,742	**1,047,501**	1,459,262
Zakat for the period		**(63,609)**	(75,076)	**(104,750)**	(145,760)
Net income for the period after zakat		**572,486**	675,666	**942,751**	1,313,502
Basic and diluted earnings per share (SAR)	11	**0.29**	0.34	**0.47**	0.66

The accompanying notes from 1 to 19 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 three months period ended		**For the six months period ended**	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period after zakat	**572,486**	675,666	**942,751**	1,313,502
Other comprehensive income:				
Items that cannot be recycled back to interim consolidated statement of income in subsequent periods				
Net change in fair value of FVOCI equity investments	**17,176**	8,889	**(28,965)**	21,189
Items that can be recycled back to interim consolidated statement of income in subsequent				
Net change in fair value of FVOCI sukuk investments	**17,127**	38,011	**29,299**	45,804
Net gain realized on sale of FVOCI sukuk investments	**-**	(542)	**(574)**	(772)
Total comprehensive income for the period	**606,789**	722,024	**942,511**	1,379,723

The accompanying notes from 1 to 19 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,

2020 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed issue of bonus shares	Treasury shares	Total
Balance at the beginning of the period		**15,000,000**	**100,000**	**77,372**	**83,725**	**2,287,302**	**5,000,000**	**(103,475)**	**22,444,924**
Net income for the period after zakat		-	-	-	-	**942,751**	-	-	**942,751**
Net changes in fair value of FVOCI equity investments		-	-	**(28,965)**	-	-	-	-	**(28,965)**
Net changes in fair values of FVOCI sukuk instruments		-	-	**29,299**	-	-	-	-	**29,299**
Gain on sale of FVOCI sukuk investments		-	-	**(574)**	-	-	-	-	**(574)**
Total comprehensive income		-	-	**(240)**	-	**942,751**	-	-	**942,511**
Net gain realised on sale of FVOCI equity investments		-	-	**(477)**	-	**477**	-	-	-
Issuance of bonus shares	15.1	**5,000,000**	-	-	-		**(5,000,000)**	-	-
Employee share based plan and other reserve		-	-	-	**(10,635)**	**5,610**	-	**3,479**	**(1,546)**
Balance at the end of the period		**20,000,000**	**100,000**	**76,655**	**73,090**	**3,236,140**	**-**	**(99,996)**	**23,385,889**

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

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

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

The accompanying notes from 1 to 19 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,

	Notes	**2020**	2019
		SAR'000	SAR'000
OPERATING ACTIVITIES			
Income for the period before zakat		**1,047,501**	1,459,262
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**128,093**	135,004
(Gain) / loss on disposal of property and equipment, net		**(2,212)**	1,651
Unrealized loss / (gain) from FVSI financial instruments, net		**232,679**	(29,316)
Gain from FVOCI debt investments, net		**(574)**	(772)
Dividend income		**(4,832)**	(2,532)
Charge for credit impairment		**534,699**	207,059
Loss from modification of contractual cash flows		**56,824**	-
Fair value benefit arising from interest free SAMA deposit		**(55,035)**	-
Employee share based plan reserve		**12,821**	-
Share of loss from an associate and joint venture		**4,776**	7,410
		1,954,740	1,777,766
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**(225,086)**	(72,073)
Due from banks and other financial institutions, with original maturity of more than three months		**-**	(479,619)
Investments held at FVSI		**(342,717)**	(158)
Financing		**(9,015,959)**	(3,949,432)
Other assets		**(205,418)**	727,614
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**3,474,404**	(131,480)
Customers' deposits		**5,354,475**	2,688,311
Other liabilities		**583,168**	(1,055,019)
Net cash generated from / (used in) operating activities		**1,577,607**	(494,090)
INVESTING ACTIVITIES			
Purchase of investments not held at FVSI		**(2,362,947)**	(3,135,106)
Proceeds from sales and maturities of investments not held at FVSI		**87,679**	274,899
Purchase of property and equipment, net		**(52,975)**	(69,596)
Proceeds from disposal of property and equipment		**5,279**	142
Dividends received		**7,645**	2,532
Net cash used in investing activities		**(2,315,319)**	(2,927,129)
FINANCING ACTIVITY			
Cash payment for principal portion of lease liability		**(28,761)**	(35,172)
Cash payment for financing cost portion of lease liability		**(8,096)**	(9,385)
Dividend paid		**-**	(1,489,967)
Net cash used in financing activity		**(36,857)**	(1,534,524)
Net decrease in cash and cash equivalents		**(774,569)**	(4,955,743)
Cash and cash equivalents at the beginning of the period		**4,624,067**	9,540,679
Cash and cash equivalents at the end of the period	9	**3,849,498**	4,584,936
Income received from investments and financing		**2,703,877**	2,481,459
Return paid on time investments		**534,670**	586,339
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		**(240)**	66,992
Issuance of bonus shares	15.1	**5,000,000**	-
Right of use assets at initial recognition		**-**	479,159

The accompanying notes from 1 to 19 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 97 branches (June 30, 2019: 92) 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	97.7%	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	79.7%	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. Sharia'a 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, 2019.

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 income and 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 in the interim condensed consolidated statement of income and within liability in the interim condensed consolidated statement of financial position, separately from the net assets attributable to the equity holders of the Bank.

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, 2019.

a) Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognized and measured in accordance with IFRS-9 *Financial Instruments*. The benefit of the below-market rate of profit is measured as the difference between the initial carrying value of the grant determined in accordance with IFRS-9 and the proceeds received. The benefit is accounted for in accordance with IAS-20. Government grant is recognized in the interim consolidated statement of income on a systematic basis over the periods in which the bank recognizes as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the bank. Where the customer is the ultimate beneficiary, the bank only records the respective receivable and payable amounts.

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, 2019, except for the estimates 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 14 and 16. However, in view of the current uncertainty as explained in note 16, 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. As the situation is rapidly evolving with future uncertainties, 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, 2020:

(a) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
(b) Definition of a Business (Amendments to IFRS 3)
(c) Definition of Material (Amendments to IAS 1 and IAS 8)
(d) Amendments to References to the Conceptual Framework in IFRS Standards.
(e) COVID-19-Related Rent Concessions - Amendment to IFRS 16 Leases

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 1 January 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.

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.

4. Investments, net

	Notes	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Held at Amortized Cost		**19,762,020**	17,543,045	15,221,007
Held at FVOCI		**3,685,285**	3,628,656	3,792,220
Held at FVSI		**2,364,898**	2,254,860	2,209,622
Investment in an associate	**4.1**	**52,508**	60,128	66,009
Investment in a joint venture	**4.2**	**18,999**	16,156	13,689
Less: Allowance for impairment		**(8,098)**	(25,185)	(14,227)
Total		**25,875,612**	23,477,660	21,288,320

4.1 Investment in an associate represents the Bank's share of ownership at 28.75% (December 31, 2019 and June 30, 2019: 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, 2019 and June 30, 2019: 50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post).

5. Financing, net

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	**21,535,083**	19,766,197	16,759,114
Corporate	**82,052,533**	75,777,225	71,590,829
Performing financing	**103,587,616**	95,543,422	88,349,943
Non-performing loans	**2,814,499**	1,842,734	1,792,750
Total financing, gross	**106,402,115**	97,386,156	90,142,693
Allowance for impairment	**(3,224,290)**	(2,584,758)	(2,475,840)
Financing, net	**103,177,825**	94,801,398	87,666,853

5.1 Movement in allowance for impairment of financing

	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 01	**2,584,758**	2,301,086
Charge for the period, net	**582,708**	177,779
Loss from modification of contractual cash flows (notes 16.1 and 16.2)	**56,824**	-
Write-off	**-**	(3,025)
Balance at the end of the period	**3,224,290**	2,475,840

6. Due to banks and other financial institutions

During the period, the Bank has received SAR 850 million and SAR 5 billion interest free deposit from SAMA with maturities of three years and one year, respectively, 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 16). As a result, the Bank's 'Income from investments and financing' and 'Other operating income' for the six months period ended June 30, 2020 included the fair value benefit of SAR 50 million and SAR 5 million, respectively, arising from the interest free deposits.

7. Customers' deposits

	Note	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Current and saving		**65,726,412**	57,962,288	56,884,968
Time investments	**7.1**	**40,708,923**	43,069,002	34,936,180
Margin deposits		**981,975**	1,031,545	995,301
Total		**107,417,310**	102,062,835	92,816,449

7.1 This represents Murabaha, Mudaraba and Wakala with customers.

8. Commitments and contingencies

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**1,986,413**	2,884,336	2,960,147
Letters of guarantee	**10,898,065**	10,514,834	9,932,952
Acceptances	**576,223**	338,540	288,001
Irrevocable commitments to extend credit	**882,501**	417,788	469,165
Total	**14,343,202**	14,155,498	13,650,265

ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 148 million as at June 30, 2020 (December 31, 2019: SAR 180 million; June 30, 2019: SAR 237 million).

9. Cash and cash equivalents

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,554,278**	2,354,284	2,465,769
Balances with SAMA excluding statutory deposit	**207,562**	125,514	76,872
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**1,087,658**	2,144,269	2,042,295
Total	**3,849,498**	4,624,067	4,584,936

10. Operating segments

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

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

Effective January 1, 2020, the computation of the behavioural maturity of current deposits and the basis of allocation of indirect expenses over segments has been enhanced in line with the best practices. Accordingly, the comparative numbers have been restated to ensure consistency and realistic comparison.

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	**June 30, 2020 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	**20,979,384**	**81,808,703**	**38,088,876**	**1,319,085**	**142,196,048**
Total liabilities	**80,331,577**	**6,205,772**	**32,098,649**	**174,161**	**118,810,159**
Income from investments and financing	**1,410,889**	**789,268**	**496,935**	**35,654**	**2,732,746**
Return on time investments	**(217,660)**	**(27,867)**	**(243,803)**	**-**	**(489,330)**
Income from investments and financing, net	**1,193,229**	**761,401**	**253,132**	**35,654**	**2,243,416**
Fees from banking services and other operating income	**109,480**	**69,348**	**(1,684)**	**193,954**	**371,098**
Total operating income	**1,302,709**	**830,749**	**251,448**	**229,608**	**2,614,514**
Depreciation and amortization	**111,071**	**8,746**	**5,601**	**2,675**	**128,093**
Other operating expenses	**636,378**	**125,279**	**82,490**	**55,298**	**899,445**
Charge for credit impairment	**48,285**	**503,192**	**(17,463)**	**685**	**534,699**
Total operating expenses	**795,734**	**637,217**	**70,628**	**58,658**	**1,562,237**
Net operating income	**506,975**	**193,532**	**180,820**	**170,950**	**1,052,277**
Share of loss from an associate and joint venture	**-**	**-**	**(4,776)**	**-**	**(4,776)**
Income for the period before zakat	**506,975**	**193,532**	**176,044**	**170,950**	**1,047,501**

SAR '000	June 30, 2019 (Unaudited)				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	16,268,321	71,091,733	34,994,806	1,124,597	123,479,457
Total liabilities	71,738,428	8,308,012	21,989,622	264,508	102,300,570
Income from investments and financing	1,343,026	824,873	477,379	10,103	2,655,381
Return on time investments	(329,347)	(58,474)	(225,129)	-	(612,950)
Income from investments and financing, net	1,013,679	766,399	252,250	10,103	2,042,431
Fees from banking services and other operating income	191,527	84,360	180,730	154,802	611,419
Total operating income	1,205,206	850,759	432,980	164,905	2,653,850
Depreciation and amortization	101,523	17,328	13,615	2,538	135,004
Other operating expenses	585,025	117,177	79,344	63,569	845,115
Charge for credit impairment	120,381	90,978	(3,605)	(695)	207,059
Total operating expenses	806,929	225,483	89,354	65,412	1,187,178
Net operating income	398,277	625,276	343,626	99,493	1,466,672
Share of income from an associate and joint venture	-	-	(7,410)	-	(7,410)
Income for the period before zakat	398,277	625,276	336,216	99,493	1,459,262

SAR '000	**June 30, 2020 (Unaudited)**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	**425,878**	**1,870,976**	**88,052**	**229,608**	**2,614,514**
- Inter-segment	**876,831**	**(1,040,227)**	**163,396**	**-**	**-**
Total operating income	**1,302,709**	**830,749**	**251,448**	**229,608**	**2,614,514**

SAR '000	June 30, 2019 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	285,738	1,911,714	291,493	164,905	2,653,850
- Inter-segment	919,468	(1,060,955)	141,487	-	-
Total operating income	1,205,206	850,759	432,980	164,905	2,653,850

11. 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 million shares at June 30, 2020 (June 30, 2019: 1,987 million shares) after accounting for treasury shares and issuance of bonus shares.

12. Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

				SAR '000
June 30, 2020 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**109,075**	**1,958**	**-**	**111,033**
- Mutual funds	**60,658**	**1,967,967**	**225,240**	**2,253,865**
Financial assets held as FVOCI				
- Equities	**237,922**	**-**	**17,894**	**255,816**
- Sukuks	**888,604**	**2,540,865**	**-**	**3,429,469**
Total	**1,296,259**	**4,510,790**	**243,134**	**6,050,183**

	SAR '000			
December 31, 2019 (Audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	57,688	1,960	-	59,648
- Mutual funds	78,820	1,899,880	216,512	2,195,212
Financial assets held as FVOCI				
- Equities	205,594	-	16,646	222,240
- Sukuk	790,564	2,615,852	-	3,406,416
Total	1,132,666	4,517,692	233,158	5,883,516

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

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

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

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

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

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

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

12 (b) Fair values of financial assets and liabilities not carried at fair value

Management adopts discounted cash flow method using the current yield curve to arrive at the fair value of financial instruments. Following table shows the fair value of financial instruments carried at amortized cost.

	SAR '000	
June 30, 2020 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**1,087,532**	**1,087,836**
Investments - at amortized cost	**19,762,020**	**19,811,320**
Financing, net	**103,177,825**	**102,888,681**
LIABILITIES		
Due to banks and other financial institutions	**6,709,213**	**6,737,182**
Customers' deposits	**107,417,310**	**107,550,006**

	SAR '000	
December 31, 2019 (Audited)	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	2,144,269	2,145,851
Investments - at amortized cost	17,543,045	17,236,014
Financing, net	94,801,398	94,373,405
LIABILITIES		
Due to banks and other financial institutions	3,289,844	3,289,889
Customers' deposits	102,062,835	102,118,314

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

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

13. 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
No. of outstanding Schemes	1	1	1
Grant date	1-May-19	1-May-19	1-May-19
Maturity date	30-Apr-22	30-Apr-24	30-Apr-22
Number of shares granted – adjusted after issuance of bonus issue	2,798,754	1,167,452	1,820,169
Vesting period	3 Years	5 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625
Strike price per share at grant date (SAR) – adjusted after issuance of bonus issue	16.13	20.25	20.25
Fair value per share at grant date (SAR) – adjusted after issuance of bonus issue	20.25	20.25	20.25
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
Method of settlement	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value
Weighted average remaining contractual life	1.8 Years	3.8 Years	1.8 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	
	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**
	June 30, 2020 (Unaudited)					
Beginning of the period	**21.50**	**1,937,017**	**27.00**	**877,198**	**27.00**	**1,370,467**
Issuance of bonus shares	**16.13**	**616,935**	**20.25**	**290,254**	**20.25**	**449,702**
Granted during the period	**-**	**-**	**-**	**-**	**20.25**	**(449,702)**
Forfeited	**16.13**	**(86,212)**	**22.13**	**(23,165)**	**27.00**	**(21,360)**
Exercised/expired	**-**	**-**	**-**	**-**	**-**	**-**
End of the period	**16.13**	**2,467,740**	**20.25**	**1,144,287**	**20.25**	**1,349,107**
Exercisable at period end	**16.13**	**2,467,740**	**20.25**	**1,144,287**	**20.25**	**1,349,107**

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 12.8 million (June 30, 2019: Nil).

14. Financial Risk Management

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.

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 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 (non-performing assets)** – Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD 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".

Loss allowance

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

	June 30, 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	**(4,275)**	**3,440**	**835**	**-**
Transfer to life time ECL, not credit impaired	**10,358**	**(182,958)**	**172,600**	**-**
Transfer to life time ECL, credit impaired	**3,456**	**3,770**	**(7,226)**	**-**
Net (reversal) / charge for the period	**(11,493)**	**335,151**	**211,041**	**534,699**
Modification loss arising from contractual cash flows of financial assets	**56,824**	**-**	**-**	**56,824**
Write-off	**-**	**-**	**-**	**-**
Balance as at June 30, 2020	**834,333**	**958,427**	**1,590,173**	**3,382,933**

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

Liquidity Risk

The Bank is aware of the need to keep a close focus on investment and liquidity management during this period and has enhanced its daily monitoring of liquidity and investment risks as well as frequent communications/coordination between the key members of Investment Committee and ALCO to assess, mitigate and remediate on a timely basis the potential and incurred treasury and investments losses. Further, Alinma fully acknowledges the timely action of SAMA and other government bodies in providing support and assurance to the financial markets.

Operational Risk

The Bank responded quickly to the crisis and established an internal group to invoke its Crises Management Team (CMT) which meet on a regular basis to focus and react on the impacts of the pandemic and the effects on the Bank. Furthermore, it put in place contingency plans allowing a significant proportion of employees to work from home. Employees considered essential to the operations of the Bank were permitted to visit the Bank's offices on a restricted basis whilst following government guidelines at all times. The Bank's substantial investment in its IT and digital infrastructure has allowed customers to use the Bank's facilities at minimal inconvenience during this period of branch closure whilst employees were able to work from home with minimal impact on effectiveness. Existing processes and controls have operated as normal throughout this period.

15. 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.

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)	June 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**115,722,130**	109,989,481	103,764,996
Operational risk weighted assets	**9,644,378**	9,267,525	8,528,325
Market risk weighted assets	**5,245,032**	461,946	300,689
Total Pillar-I Risk Weighted Assets	**130,611,540**	119,718,952	112,594,010
Tier I capital	**24,108,755**	22,878,645	21,612,608
Tier II capital	**1,450,890**	1,374,869	1,297,062
Total Tier I & II Capital	**25,559,645**	24,253,514	22,909,670
Capital Adequacy Ratio %			
Tier I ratio	18%	19%	19%
Tier I + Tier II ratio	20%	20%	20%

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).

15.1 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. Impact of COVID-19 and SAMA Programs

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

The Bank continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact of COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, counterparties and collateral protection, thereby, conducting timely reviews and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

The prevailing economic conditions post lock-down, required 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 Q1 2020, the Bank made certain adjustments to the macroeconomic factors and scenario weightings. During Q2 2020 and as more reliable data became available, the management has further made adjustments to the macroeconomic factors used by the Bank in the estimation of expected credit losses and revisions to the scenario probabilities.

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.

Furthermore, management has performed a detailed assessment to ascertain the specific effects of the pandemic and the resultant government and SAMA support measures, such as the repayment holidays and other mitigating packages, have had on the financing portfolio. The Bank has made updates within its ECL model to refine the application of the staging criteria due to Significant Increase in Credit Risks (SICR) on affected customers to be able to differentiate and reflect appropriately in its models:

- Customers whose credit quality appear to have deteriorated on a permanent basis and thus the Bank was required to recognize lifetime ECL losses on such exposures;
- Customers whose credit quality have either stayed stable (due to the offsetting nature of availing the government programs on offer) or have declined but the decline is deemed to be temporary as the customer may have sound fundamentals to emerge strongly post lockdown.

The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any further adjustment in the ECL is required in subsequent reporting periods.

The above macroeconomic factor and staging impacts resulted in an additional ECL of SAR 182 million for the three months period ended June 30, 2020. For the six months period ended June 30, 2020, the equivalent ECL totaled SAR 212 million.

The Bank has not booked any additional modification loss during Q2 2020. During the six months period ended 30 June 2020, SR 2.5 million has been credited to the statement of income relating to unwinding of modification losses.

16.1 SAMA programs and initiatives launched

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, the Bank is required to defer payments for six months 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 the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these 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 has resulted in the Bank recognising a day 1 modification loss of SAR 45.6 million for the period ended June 30, 2020 and this has been presented as part of 'Income from investments and financing' in the interim consolidated statement of income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

As disclosed in note 6, in order to compensate all the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received SAR 850 million of profit free deposit from SAMA with maturity of 3 years during Q1 2020. Management had 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 subsidised funding has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 50 million which has been recognised on Day 1 in the statement of income for the period ended March 31, 2020. The management has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended 30 June 30, 2020, SR 4.1 million has been charged to the statement of income on unwinding the day 1 income.

As at June 30, 2020, the Bank has participated in SAMA's funding for lending and loan guarantee programs. Furthermore, during the period March 14 to June 30, 2020, the Bank has waived POS and e-commerce service fee amounting to SAR 51.5 million. The Bank is under discussion with SAMA for the reimbursement of the above fee and the related VAT.

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 SAR 50 billion 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 SR 5 billion profit free deposit with a 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 subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 70 million, of which SR 5 million has been recognised in the statement of income as at June 30, 2020 and with the remaining amount deferred.

16.2 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 has resulted in the Bank recognising a day 1 modification loss of SAR 11.2 million for the period ended June 30, 2020 and this has been presented as part of 'Income from investments and financing' in the interim consolidated statement of income. In the absence of other factors, the health care sector support is not considered a significant increase in credit risk.

17. Comparative figures

Certain comparative figures have been rearranged or reclassified, wherever necessary, for the purpose of better presentation. However, no significant rearrangements or reclassifications have been made in these interim condensed consolidated financial statements other than in note 10 for the enhanced methodology as explained in aforesaid note.

18. Events after the reporting period

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 six month period ended June 30, 2020.

19. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 7 Dhul-Hijjah 1441H (corresponding to July 28, 2020).