

---

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**FOR THE NINE MONTHS PERIOD ENDED**  
**SEPTEMBER 30, 2018**

---



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

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

**Introduction**

We have reviewed the accompanying interim consolidated statement of financial position of Alinma Bank and its subsidiaries (the "Bank") as of September 30, 2018, the related interim consolidated statements of income and comprehensive income for the three months and nine month periods ended September 30, 2018 and the interim consolidated statements of changes in shareholders' equity and cash flows for the nine month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" as modified by the Saudi Arabian Monetary Authority's ("SAMA") guidance for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" as modified by SAMA's guidance for the accounting of zakat and income tax.

**Other regulatory matters**

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

**PricewaterhouseCoopers**

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

Omar M. Al Sagga  
Registration No. 369



**Ernst & Young**

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

Rashid S. Al Rashoud  
Registration No. 366



13 Safar 1440H  
(October 22, 2018)

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited) (Restated)	September 30, 2017 (Unaudited) (Restated)
Note	SAR'000	SAR'000	SAR'000
<b>ASSETS</b>			
Cash and balances with Saudi Arabian Monetary Authority	9,347,443	7,299,371	7,540,346
Due from banks and other financial institutions	6,096,639	9,788,857	9,066,712
Investments, net	5 17,641,201	15,066,199	13,041,318
Financing, net	6 82,970,714	79,062,597	77,811,524
Property and equipment, net	1,837,823	1,876,423	1,679,766
Other assets	2,111,075	1,658,229	1,981,156
<b>TOTAL ASSETS</b>	<b>120,004,895</b>	<b>114,751,676</b>	<b>111,120,822</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions	6,280,565	1,352,887	2,093,887
Customers' deposits	7 89,867,554	89,064,751	87,229,456
Other liabilities	3,644,395	3,990,276	1,948,469
<b>TOTAL LIABILITIES</b>	<b>99,792,514</b>	<b>94,407,914</b>	<b>91,271,812</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15,000,000	15,000,000	15,000,000
Statutory reserve	2,259,457	2,259,457	1,756,618
Fair value reserve for FVOCI / AFS investments	(52,894)	86,764	110,548
Other reserves	29,910	16,484	23,938
Retained earnings	3,079,383	1,896,529	3,065,342
Proposed dividends	-	1,191,964	-
Treasury shares	(103,475)	(107,436)	(107,436)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>20,212,381</b>	<b>20,343,762</b>	<b>19,849,010</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>120,004,895</b>	<b>114,751,676</b>	<b>111,120,822</b>

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

**ALINMA BANK**  
**(A Saudi Joint Stock Company)**  
**INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

	Note	<u>For the three months period ended</u>		<u>For the nine months period ended</u>	
		<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
		<u>SAR'000</u>	<u>Restated SAR'000</u>	<u>SAR'000</u>	<u>Restated SAR'000</u>
Income from investments and financing		<b>1,289,793</b>	1,061,800	<b>3,588,810</b>	3,090,450
Return on time investments		<b>(302,579)</b>	(184,631)	<b>(762,929)</b>	(564,636)
<b>Income from investments and financing, net</b>		<b>987,214</b>	877,169	<b>2,825,881</b>	2,525,814
Fees from banking services, net		<b>208,910</b>	130,701	<b>574,303</b>	401,082
Exchange income, net		<b>43,362</b>	40,339	<b>128,765</b>	112,830
(Loss) / Gain from FVSI financial instruments, net		<b>(28,735)</b>	7,537	<b>(10,895)</b>	5,144
Gain from FVOCI / AFS investments, net	12	-	170	-	12,492
Dividend income		<b>753</b>	5,980	<b>33,196</b>	16,016
Other operating income		<b>194</b>	851	<b>1,212</b>	918
<b>Total operating income</b>		<b>1,211,698</b>	1,062,747	<b>3,552,462</b>	3,074,296
Salaries and employee related expenses		<b>227,470</b>	201,343	<b>671,047</b>	614,824
Rent and premises related expenses		<b>40,070</b>	33,830	<b>118,290</b>	106,134
Depreciation and amortization		<b>46,067</b>	44,288	<b>138,127</b>	152,089
Other general and administrative expenses		<b>136,229</b>	125,244	<b>408,659</b>	367,293
Charge for impairment of financing		<b>92,369</b>	104,648	<b>340,190</b>	348,420
Charge for impairment of other financial assets		<b>10,174</b>	9,537	<b>14,985</b>	28,498
<b>Total operating expenses</b>		<b>552,379</b>	518,890	<b>1,691,298</b>	1,617,258
<b>Net operating income</b>		<b>659,319</b>	543,857	<b>1,861,164</b>	1,457,038
Share of loss from an associate and a joint venture		<b>(6,053)</b>	(2,100)	<b>(4,761)</b>	(5,735)
<b>Net income for the period</b>		<b>653,266</b>	541,757	<b>1,856,403</b>	1,451,303
<b>Basic and diluted earnings per share (SAR)</b>	11	<b>0.44</b>	0.36	<b>1.25</b>	0.97

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

**ALINMA BANK****(A Saudi Joint Stock Company)****INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)  
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

	<u>For the three months</u> <u>period ended</u>		<u>For the nine months</u> <u>period ended</u>	
	<u>September</u> <u>30, 2018</u> <u>SAR'000</u>	<u>September</u> <u>30, 2017</u> <u>SAR'000</u>	<u>September</u> <u>30, 2018</u> <u>SAR'000</u>	<u>September</u> <u>30, 2017</u> <u>SAR'000</u>
<b>Net income for the period</b>	<b>653,266</b>	541,757	<b>1,856,403</b>	1,451,303
<b>Other comprehensive income:</b>				
<i>Items that cannot be recycled back to consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI equity investments	<b>(9,540)</b>	-	<b>(24,550)</b>	-
Net amount realized on sale of FVOCI equity investments	-	-	<b>1,941</b>	-
<i>Items that can be recycled back to consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI sukuks investments	<b>361</b>	-	<b>(1,206)</b>	-
Net change in fair value of AFS equity investments	-	24,910	-	26,401
Net amount realized on sale of FVOCI sukuks /AFS investments	-	9,367	-	16,006
<b>Total comprehensive income for the period</b>	<b>644,087</b>	576,034	<b>1,832,588</b>	1,493,710

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

**ALINMA BANK**

**(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**(Unaudited)**

**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

2018 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI / AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
<b>Balance at the beginning of the period</b>		<b>15,000,000</b>	<b>2,259,457</b>	<b>340,155</b>	<b>16,484</b>	<b>1,896,529</b>	<b>1,191,964</b>	<b>(107,436)</b>	<b>20,597,153</b>
Effect of restatement	16	-	-	(253,391)	-	-	-	-	(253,391)
Effect of adopting IFRS-9 at January 01, 2018	4(c)	-	-	(113,902)	-	(608,966)	-	-	(722,868)
Restated balance as at January 01, 2018		<b>15,000,000</b>	<b>2,259,457</b>	<b>(27,138)</b>	<b>16,484</b>	<b>1,287,563</b>	<b>1,191,964</b>	<b>(107,436)</b>	<b>19,620,894</b>
Net income for the period		-	-	-	-	1,856,403	-	-	1,856,403
Net changes in fair value of FVOCI equity investments		-	-	(24,550)	-	-	-	-	(24,550)
Net changes in fair values of FVOCI sukuk instruments		-	-	(1,206)	-	-	-	-	(1,206)
Net amount realized on sale of FVOCI investments		-	-	-	-	1,941	-	-	1,941
Total comprehensive income		-	-	(25,756)	-	1,858,344	-	-	1,832,588
Zakat for the period		-	-	-	-	(46,410)	-	-	(46,410)
Dividend paid for 2017		-	-	-	-	-	(1,191,964)	-	(1,191,964)
Employee share based plan and other reserve		-	-	-	13,426	(20,114)	-	-	(6,688)
Net change in treasury shares		-	-	-	-	-	-	3,961	3,961
<b>Balance at the end of the period</b>		<b>15,000,000</b>	<b>2,259,457</b>	<b>(52,894)</b>	<b>29,910</b>	<b>3,079,383</b>	<b>-</b>	<b>(103,475)</b>	<b>20,212,381</b>

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

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

2017 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
<b>Balance at the beginning of the period</b>	15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460
Net income for the period	-	-	-	-	1,451,303	-	-	1,451,303
Net change in fair value of available for sale investments	-	-	26,401	-	-	-	-	26,401
Net amount realized on available for sale investments	-	-	16,006	-	-	-	-	16,006
Total comprehensive income	-	-	42,407	-	1,451,303	-	-	1,493,710
Zakat for current period	-	-	-	-	(37,407)	-	-	(37,407)
Zakat for prior period	-	-	-	-	-	(42,070)	-	(42,070)
Dividend paid for 2016	-	-	-	-	-	(744,978)	-	(744,978)
Employee share based plan reserve and others	-	-	-	12,346	(15,023)	-	-	(2,677)
Net change in treasury shares	-	-	-	-	-	-	3,972	3,972
<b>Balance at the end of the period</b>	15,000,000	1,756,618	110,548	23,938	3,065,342	-	(107,436)	19,849,010

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

**ALINMA BANK**  
**(A Saudi Joint Stock Company)**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

	Note	2018 SAR'000	2017 SAR'000
<b>OPERATING ACTIVITIES</b>			
Net income for the period		1,856,403	1,451,303
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Depreciation and amortization		138,127	152,089
(Gain)/ Loss on disposal of property and equipment, net		(3)	228
Unrealized loss from FVSI financial instruments, net		49,103	4,086
Dividend income		(33,196)	(16,016)
Charge for impairment of financing		340,190	348,420
Charge for impairment of other financial assets		14,985	28,498
Employee share based plan reserve		282	1,169
Share of loss from an associate and joint venture		4,761	5,735
		<u>2,370,652</u>	<u>1,975,512</u>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with Saudi Arabian Monetary Authority		71,722	(560,183)
Due from banks and other financial institutions, with original maturity of more than ninety days		333,018	3,520,252
Investments		(2,671,840)	(6,879,889)
Financing		(4,954,775)	(7,847,996)
Other assets		(457,147)	(207,375)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		4,927,678	(337,917)
Customers' deposits		802,803	6,617,230
Other liabilities		(392,291)	(596,308)
<b>Net cash generated / (used in) from operating activities</b>		<u>29,820</u>	<u>(4,316,674)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment, net		(99,806)	(94,265)
Proceeds from sale of property and equipment		282	-
Dividends received		33,196	17,669
<b>Net cash used in investing activities</b>		<u>(66,328)</u>	<u>(76,596)</u>
<b>FINANCING ACTIVITY</b>			
Dividend paid		(1,191,964)	(787,048)
<b>Net cash used in financing activity</b>		<u>(1,191,964)</u>	<u>(787,048)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(1,228,472)</u>	<u>(5,180,318)</u>
Cash and cash equivalents at the beginning of the period		10,702,200	15,368,063
<b>Cash and cash equivalents at the end of the period</b>	9	<u>9,473,728</u>	<u>10,187,745</u>
Income received from investments and financing		<u>3,347,002</u>	<u>3,140,466</u>
Return paid on time investments		<u>716,950</u>	<u>680,654</u>
<b>Supplemental non-cash information:</b>			
Net change in fair value of FVOCI / AFS investments		<u>(25,756)</u>	<u>29,431</u>

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



## **ALINMA BANK**

### **(A Saudi Joint Stock Company)**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **(Unaudited)**

## **FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018**

---

### **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 87 branches (September 30, 2017: 79) 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"):

<b>Subsidiaries</b>	<b>Bank's Ownership</b>	<b>Establishment date</b>	<b>Main Activities</b>
Alinma Investment Company	100%	07 Jumada - II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Al Awwaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)

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

#### **b) Shariah Board**

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

## **2. Basis of preparation**

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

Since, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, therefore, these should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2017.

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

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

The interim condensed consolidated financial statements have been prepared;

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

### **b) Basis of measurement**

These interim condensed consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at Fair Value through Statement of Income (“FVSI”), Fair Value through Other Comprehensive Income (“FVOCI”) investments and employees share based plan.

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

### **c) Functional and presentation currency**

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

### **d) Basis of consolidation**

These interim condensed consolidated financial statements comprise the financial statements of Alinma Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank.

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

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

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

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

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

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

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

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

### 3. Summary of significant accounting policies

The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of the new standards and corresponding changes in accounting policies as explained below:

#### a) Adoption of new standards

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

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

IFRS-15 “Revenue from contracts with customers” January 01, 2018, IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It has established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The corresponding change in the accounting policies due to adoption of the IFRS-9 are explained below:

**i) Classification and measurement of financial assets**

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

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

***Financial Asset at amortized cost***

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

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

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

***Financial Asset at FVOCI***

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

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

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

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair values are recognized in OCI. Upon de-recognition, except for FVOCI equity investments, any cumulative gain or loss previously recognized in OCI is charged to income in the interim consolidated statement of income.

### ***Financial Asset at FVSI***

Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term.

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

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

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

### **ii) Classification and measurement of financial liabilities**

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

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

### **iii) De-recognition of financial assets and financial liabilities**

#### ***Financial assets***

The Bank derecognizes a financial asset when:

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

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

Cumulative gain/loss recognized in OCI in respect of equity investments is not recognized in interim condensed consolidated statement of income on de-recognition of such investments.

#### ***Financial liabilities***

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

#### iv) **Impairment**

The Bank recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured at FVSI. This mainly includes financing, investments that are measured at amortized cost or at FVOCI (other than equity investments), inter-bank placements, financial guarantees, lease receivables and credit commitments. No impairment loss is recognized on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

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

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

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

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

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

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

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

#### v) **Transition**

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

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

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

#### 4. Financial assets and financial liabilities

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

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

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

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

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

	<b>IAS 39 carrying amount as at December 31, 2017</b>	<b>Re- classification</b>	<b>Re- measurement</b>	<b>IFRS 9 carrying amount as at January 01, 2018</b>
	<b>SAR in '000'</b>			
<b>Financial assets – amortized cost</b>				
Cash and balances with SAMA	7,299,371	-	-	7,299,371
Due from banks and other financial institutions	9,788,857	-	(6,275)	9,782,582
Investments - at amortised cost	1,906,817	8,131,299	(10,882)	10,027,234
Financing, net	79,062,597	-	(705,711)	78,356,886
Other assets	1,556,674	-	-	1,556,674
<b>Total financial assets – at amortized cost</b>	<b>99,614,316</b>	<b>8,131,299</b>	<b>(722,868)</b>	<b>107,022,747</b>
<b>Financial assets – at fair value</b>				
AFS / FVOCI – equity	112,095	20,270	-	132,365
AFS / FVOCI – sukuk	11,234,219	(8,131,299)	-	3,102,920
AFS / FVOCI – mutual funds	1,643,681	(1,643,681)	-	-
Investments in equity and mutual funds – FVSI	77,045	1,623,411	-	1,700,456
<b>Total financial assets – at fair value</b>	<b>13,067,040</b>	<b>(8,131,299)</b>	<b>-</b>	<b>4,935,741</b>
<b>Financial liabilities – amortized cost</b>				
Due to banks and other financial institutions	1,352,887	-	-	1,352,887
Customers' deposits	89,064,751	-	-	89,064,751
Other liabilities	3,108,240	-	-	3,108,240
<b>Total financial liabilities at amortized cost</b>	<b>93,525,878</b>	<b>-</b>	<b>-</b>	<b>93,525,878</b>



c) **Impact on retained earnings**

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

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

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

5. **Investments, net**

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited) Restated</b>	<b>September 30, 2017 (Unaudited) Restated</b>
<b>Note</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
Murabahas with SAMA (at amortized cost)	<b>1,907,540</b>	1,906,817	1,906,845
FVOCI / AFS - investments	<b>117,709</b>	1,755,776	1,048,466
FVOCI / AFS - sukuks	<b>3,143,848</b>	11,234,219	9,917,862
Sukuks at amortized cost	<b>10,752,498</b>	-	-
FVSI investments	<b>1,648,930</b>	77,045	76,072
Investment in an associate	<b>5.1 73,676</b>	78,429	78,929
Investment in joint venture	<b>5.2 13,905</b>	13,913	13,144
Allowance for impairment	<b>(16,905)</b>	-	-
<b>Total</b>	<b>17,641,201</b>	<b>15,066,199</b>	<b>13,041,318</b>

**5.1** Investment in an associate represents the Bank's share of ownership (28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million.

**5.2** Investment in joint venture represents the Banks's share of ownership (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post).

## 6. Financing, net

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)	September 30, 2017 (Unaudited)
	<b>SAR'000</b>	SAR'000	SAR'000
Retail	<b>15,677,914</b>	14,601,023	14,031,064
Corporate	<b>68,693,137</b>	65,150,897	64,292,696
<b>Performing financing</b>	<b>84,371,051</b>	79,751,920	78,323,760
Impaired financing	<b>1,148,137</b>	814,007	781,749
<b>Total financing, gross</b>	<b>85,519,188</b>	80,565,927	79,105,509
Allowance for impairment	<b>(2,548,474)</b>	(1,503,330)	(1,293,985)
<b>Financing, net</b>	<b>82,970,714</b>	79,062,597	77,811,524

### 6.1 Movement in allowance for impairment of financing

	<b>September 30, 2018 (Unaudited)</b>
	<b>SAR'000</b>
Balance at December 31, 2017 (calculated under IAS 39)	<b>1,503,330</b>
Amounts restated through opening retained earnings	<b>705,711</b>
Opening allowance at January 01, 2018 (calculated under IFRS 9)	<b>2,209,041</b>
Charge for the period, net	<b>340,190</b>
Write-off against provision	<b>(757)</b>
<b>Balance at the end of the period</b>	<b>2,548,474</b>

## 7. Customers' deposits

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)	September 30, 2017 (Unaudited)
	<b>SAR'000</b>	SAR'000	SAR'000
Demand deposits	<b>45,776,592</b>	45,316,467	49,257,572
Customers' time investments	<b>7.1 43,223,560</b>	42,987,385	37,309,039
Others	<b>7.2 867,402</b>	760,899	662,845
<b>Total</b>	<b>89,867,554</b>	89,064,751	87,229,456

**7.1** This represents Murabaha and Mudaraba with customers.

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

## 8. Credit related commitments and contingencies

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

	<b>September 30, 2018 (Unaudited) SAR'000</b>	December 31, 2017 (Audited) SAR'000	September 30, 2017 (Unaudited) SAR'000
Letters of credit	<b>2,632,897</b>	3,023,080	2,945,256
Letters of guarantee	<b>9,590,831</b>	7,547,852	7,145,258
Acceptances	<b>191,531</b>	173,672	151,751
Irrevocable commitments to extend credit	<b>534,107</b>	488,627	210,272
<b>Total</b>	<b><u>12,949,366</u></b>	<u>11,233,231</u>	<u>10,452,537</u>

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

## 9. Cash and cash equivalents

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

	<b>September 30, 2018 (Unaudited) SAR'000</b>	December 31, 2017 (Audited) SAR'000	September 30, 2017 (Unaudited) SAR'000
Cash in hand	<b>2,435,124</b>	1,902,511	2,245,126
Balances with SAMA excluding statutory deposit	<b>2,038,274</b>	451,093	312,046
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	<b>5,000,330</b>	8,348,596	7,630,573
<b>Total</b>	<b><u>9,473,728</u></b>	<u>10,702,200</u>	<u>10,187,745</u>

## 10. Operating segments

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

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

The Bank’s reportable segments are as follows:

**a) Retail banking**

Financing, deposit and other products/services for individuals.

**b) Corporate banking**

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

**c) Treasury**

Murabahas and mudaraba with banks, investments and treasury services.

**d) Investment and brokerage**

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

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

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

SAR '000	September 30, 2018 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
<b>Total assets</b>	<b>18,748,694</b>	<b>69,289,666</b>	<b>30,779,805</b>	<b>1,186,730</b>	<b>120,004,895</b>
<b>Total liabilities</b>	<b>59,328,346</b>	<b>9,831,151</b>	<b>30,299,158</b>	<b>333,859</b>	<b>99,792,514</b>
Income from investments and financing	1,210,507	1,427,953	939,757	10,593	3,588,810
Return on time investments	(240,341)	(92,763)	(429,825)	-	(762,929)
<b>Income from investments and financing, net</b>	<b>970,166</b>	<b>1,335,190</b>	<b>509,932</b>	<b>10,593</b>	<b>2,825,881</b>
Fees from banking services and other operating income	244,468	78,854	132,456	270,803	726,581
<b>Total operating income</b>	<b>1,214,634</b>	<b>1,414,044</b>	<b>642,388</b>	<b>281,396</b>	<b>3,552,462</b>
Charge for impairment of financing	61,880	278,310	-	-	340,190
Charge for impairment of other financial assets	4,302	-	10,683	-	14,985
Depreciation and amortization	66,535	48,545	21,677	1,370	138,127
Other operating expenses	680,988	307,086	132,979	76,943	1,197,996
<b>Total operating expenses</b>	<b>813,705</b>	<b>633,941</b>	<b>165,339</b>	<b>78,313</b>	<b>1,691,298</b>
<b>Net operating income</b>	<b>400,929</b>	<b>780,103</b>	<b>477,049</b>	<b>203,083</b>	<b>1,861,164</b>
Share of loss from an associate and joint venture	-	-	(4,761)	-	(4,761)
<b>Net income for the period</b>	<b>400,929</b>	<b>780,103</b>	<b>472,288</b>	<b>203,083</b>	<b>1,856,403</b>

SAR '000	September 30, 2017 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
<b>Total assets</b>	17,731,380	65,256,513	27,543,951	588,978	111,120,822
<b>Total liabilities</b>	55,781,030	9,910,855	25,466,271	113,656	91,271,812
Income from investments and financing	1,139,799	1,159,315	786,645	4,691	3,090,450
Return on time investments	(146,738)	(19,483)	(398,415)	-	(564,636)
<b>Income from investments and financing, net</b>	993,061	1,139,832	388,230	4,691	2,525,814
Fees from banking services and other operating income	196,937	101,105	110,230	140,210	548,482
<b>Total operating income</b>	1,189,998	1,240,937	498,460	144,901	3,074,296
Charge for impairment of financing	30,497	317,923	-	-	348,420
Charge for impairment of other financial assets	-	-	28,498	-	28,498
Depreciation and amortization	65,715	58,947	25,093	2,334	152,089
Other operating expenses	629,858	288,782	119,431	50,180	1,088,251
<b>Total operating expenses</b>	726,070	665,652	173,022	52,514	1,617,258
<b>Net operating income</b>	463,928	575,285	325,438	92,387	1,457,038
Share of loss from an associate and joint venture	-	-	(5,735)	-	(5,735)
<b>Net income for the period</b>	463,928	575,285	319,703	92,387	1,451,303

SAR '000	September 30, 2018 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
<b>Other information:</b>					
Revenue from:					
- External	643,871	2,499,346	127,849	281,396	3,552,462
- Inter-segment	570,763	(1,085,302)	514,539	-	-
<b>Total operating income</b>	1,214,634	1,414,044	642,388	281,396	3,552,462

SAR '000	September 30, 2017 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
<b>Other information:</b>					
Revenue from:					
- External	638,511	2,311,266	(20,382)	144,901	3,074,296
- Inter-segment	551,487	(1,070,329)	518,842	-	-
<b>Total operating income</b>	1,189,998	1,240,937	498,460	144,901	3,074,296

## 11. Earnings per share

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

## 12. Gain from FVOCI / AFS investments, net

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

## 13. Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

	SAR '000			
September 30, 2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	7,869	-	-	7,869
- Mutual funds	1,445,732	-	195,329	1,641,061
Financial assets held as FVOCI				
- Equities	117,709	-	-	117,709
- Mutual funds	-	-	-	-
- Sukuks	86,970	3,056,878	-	3,143,848
<b>Total</b>	<b>1,658,280</b>	<b>3,056,878</b>	<b>195,329</b>	<b>4,910,487</b>

	SAR '000			
September 30, 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	70,674	-	-	70,674
- Mutual funds	5,398	-	-	5,398
Financial assets held as available for sale				
- Equities	112,514	-	-	112,514
- Mutual funds	729,874	-	206,354	936,228
- Sukuks	6,751,251	3,166,335	-	9,917,586
<b>Total</b>	<b>7,669,711</b>	<b>3,166,335</b>	<b>206,354</b>	<b>11,042,400</b>

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

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

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

<b>September 30, 2018 (Unaudited)</b>	<b>SAR '000</b>	
	<b>Carrying value</b>	<b>Fair value</b>
<b>ASSETS</b>		
Due from banks and other financial institutions	6,096,639	6,079,384
Investments - at amortized cost	12,643,133	12,397,641
Financing, net	82,970,714	83,311,588
<b>LIABILITIES</b>		
Due to banks and other financial institutions	6,280,565	6,279,940
Customers' deposits	89,867,554	89,859,034

<b>September 30, 2017 (Unaudited)</b>	<b>SAR '000</b>	
	<b>Carrying value</b>	<b>Fair value</b>
<b>ASSETS</b>		
Due from banks and other financial institutions	9,066,712	9,024,613
Investments - at amortized cost	1,906,845	1,909,759
Financing, net	77,811,524	77,779,098
<b>LIABILITIES</b>		
Due to banks and other financial institutions	2,093,887	2,094,762
Customers' deposits	87,229,456	87,255,786

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

## 14. Financial Risk Management

### Credit Risk

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

An internal credit-rating model is used to determine the Obligor Risk Rating (ORR), a measure of the obligor's probability of default. Ratings by the major credit rating agencies are also considered, when available. Target Market (TM) is a key component of this process as it provides the first filter for prospective and existing obligors to avoid initiating or maintaining relationships that do not fit the Bank's strategy and desired risk profile. Risk Acceptance Criteria (RAC) is a set of variables indicating the terms under which the Bank is willing to initiate and/or maintain a credit relationship with an entity which meets the target market. The business team is a front-end marketing team responsible for originating, evaluating and recommending credit proposals. Approval is granted in accordance with the Board approved "Credit Approval Authority Delegation Matrix" through Credit Committee which is composed of CEO, Business and Risk Officers. Credits are extended based on the Corporate Banking and Retail Banking Credit Policies and Guidelines. Risk Management, (the CRO, the CCO and Risk Senior Credit Officers) acts as independent credit reviewers and approvers. Risk Management owns and controls the policies established for lending and are tasked with the responsibility of regularly reviewing, and revising the Bank's credit policies, guidelines and processes, to ensure that credits risk is managed and controlled within the Risk Appetite Criteria of the Bank and credit related losses are minimized. Risk Management also ensures that credit policies are aligned and adjusted in accordance with the actual economic, market and legal landscape.

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

### Expected credit Loss (ECL)

#### Credit risk grades

The Bank follows a well-defined credit evaluation process anchored in a clear Target Market and Risk Acceptance Criteria, strong credit policies, extensive due diligence, credit review and approval process combined with stringent credit administration and limit monitoring.

For generating the internal risk rating, the Bank uses Moody's Risk Analyst system (MRA). The MRA is used by many leading banks globally and in the Kingdom. It enables the Bank to assign internal risk ratings to a single obligor. The internal risk rating indicates the one year probability of default (PD). The Bank assigns a rating from a 10-point rating scale with 1 as the best through 10 as the worst. The rating uses sub-grades (e.g. 3+, 3, and 3-) to apply a more granular assessment of the probability of default. As part of the Bank's financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing. The Bank reviews and validates the MRA rating system on a regular basis - calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to a specific obligor such as changes in the audited financial statements, compliance with covenants, management changes – if any, changes in the political and business environment and the potential impact on the business activities of the obligor.

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



### Point in time PD

The term structure of PD describes the relationship between PD and time-to-maturity. The Bank formulated three forward-looking scenarios of the economic cycle to generate an estimate of Term Structure PD (which is the expected migration of PD up or down, depending on the various stages of the economic cycle.) For example, it can be expected that if the economic environment is on a down-swing, the PD of an obligor which is already stressed and is classified under Stage 2 with clear signs of credit weaknesses, may tend to deteriorate. Conversely, if the economic environment is on an up-swing, the PD of a similar obligor may improve. Based on this concept, the Bank then designed Long Term Survival Probability Adjusted PD which essentially means that if a stressed obligor survives over a longer period time, the probability of it defaulting reduces.

### Determining whether credit risk has increased significantly

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

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

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

- **Stage 1** – Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The Bank recognize impairment allowance based on 12 months Probability of Default (PD).
- **Stage 2** – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. The trigger point for classifying accounts under Stage 2 and the consequent calculation of lifetime expected credit losses is based on past due payments (rebuttable assumption if payments are more than 30 days past due.) However, the most important consideration for Stage 2 classification is the decision by the Credit Committee that the Credit quality has deteriorated to the degree as defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognize impairment allowance based on life time PD, and the lifetime expected credit losses are recognized.
- **Stage 3** – Impaired assets: For impaired financial asset(s), the Bank recognize the impairment allowance based on life time PD and the lifetime expected credit losses are recognized.

### **Definition of ‘Default’**

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

## Loss allowance

The following table shows reconciliations from the opening to the closing balance of the allowance for impairment for financing.

	<b>September 30, 2018</b>			
	<b>12 month ECL</b>	<b>Life time ECL</b>		<b>Total</b>
		<b>not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	
<b>SAR in '000'</b>				
Balance at the beginning of the period	438,525	976,364	794,152	2,209,041
Transfer to 12 month ECL	16,985	(13,264)	(3,721)	-
Transfer to life time ECL, not credit impaired	(14,800)	18,235	(3,435)	-
Transfer to life time ECL, credit impaired	(938)	(48,832)	49,770	-
Net charge for the period	226,721	(25,182)	138,651	340,190
Write-off	(757)	-	-	(757)
<b>Balance as at September 30, 2018</b>	<b>665,736</b>	<b>907,321</b>	<b>975,417</b>	<b>2,548,474</b>

The above includes loss allowance of SAR 203 million (January 01, 2018: SAR 197 million) related to credit related contingencies and commitments.

## 15. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires to hold and maintain a ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum of 8%.

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

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

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>	<b>September 30, 2017 (Unaudited)</b>
<b>SAR'000</b>			
Credit risk weighted assets	<b>99,062,637</b>	95,890,718	93,854,984
Operational risk weighted assets	<b>7,520,575</b>	6,727,186	6,366,341
Market risk weighted assets	<b>788,592</b>	870,356	724,828
<b>Total Pillar-I Risk Weighted Assets</b>	<b>107,371,804</b>	<b>103,488,260</b>	<b>100,946,153</b>
Tier I capital	<b>20,790,675</b>	20,343,762	20,101,154
Tier II capital	<b>1,238,283</b>	884,207	746,758
<b>Total Tier I &amp; II Capital</b>	<b>22,028,958</b>	<b>21,227,969</b>	<b>20,847,912</b>
<b>Capital Adequacy Ratio %</b>			
<b>Tier I ratio</b>	<b>19%</b>	20%	20%
<b>Tier I + Tier II ratio</b>	<b>21%</b>	21%	21%

## 16. Prior period restatement

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

<b>Consolidated statement of financial position</b>		<b>December 31, 2017 (SAR '000)</b>	
<b>Account</b>	<b>Balance as previously reported</b>	<b>Effect of restatement</b>	<b>Balance as restated</b>
Investments	15,319,590	(253,391)	15,066,199
Fair value reserve for available for sale investments	340,155	(253,391)	86,764
<b>September 30, 2017 (SAR '000)</b>			
Investments	13,293,462	(252,144)	13,041,318
Fair value reserve for available for sale investments	362,692	(252,144)	110,548
<b>Interim consolidated statement of comprehensive income</b>			
<b>Period ended September 30, 2017 (SAR '000)</b>			
Net change in fair value reserve for available for sale investment during the period	278,545	(252,144)	26,401

## 17. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 6 Safar 1440H (corresponding to October 15, 2018).