ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 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 March 31, 2020, and the related interim consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three months period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi 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.

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

Mufaddal A. Ali
Certified Public Accountant
License No. 447

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

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

Rashid S. AlRashoud
Certified Public Accountant
License No. 366

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

27 Ramadan 1441H
(May 20, 2020)

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

	Notes	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**8,343,251**	8,039,748	7,486,167
Due from banks and other financial institutions, net		**3,669,834**	2,144,269	4,160,625
Investments, net	4	**24,621,371**	23,477,660	20,727,965
Financing, net	5	**97,783,545**	94,801,398	85,877,066
Property and equipment, net		**2,378,845**	2,413,893	2,345,251
Other assets		**1,224,492**	962,473	1,197,350
TOTAL ASSETS		**138,021,338**	131,839,441	121,794,424
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions	6	**7,585,946**	3,289,844	3,947,769
Customers' deposits	7	**103,874,426**	102,062,835	92,261,082
Amount due to Mutual Funds' unitholders		**40,442**	-	-
Other liabilities		**3,741,654**	4,041,838	5,126,709
TOTAL LIABILITIES		**115,242,468**	109,394,517	101,335,560
SHAREHOLDERS' EQUITY				
Share capital		**15,000,000**	15,000,000	15,000,000
Statutory reserve		**100,000**	100,000	2,888,815
Fair value reserve for FVOCI investments		**42,792**	77,372	(2,514)
Other reserves		**81,956**	83,725	47,509
Retained earnings		**2,657,597**	2,287,302	2,628,529
Proposed issue of bonus shares	15.1	**5,000,000**	5,000,000	-
Treasury shares		**(103,475)**	(103,475)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		**22,778,870**	22,444,924	20,458,864
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**138,021,338**	131,839,441	121,794,424

The accompanying notes from 1 to 20 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 MARCH 31,

	Notes	For the three months period ended March 31, 2020 SAR'000	March 31, 2019 (Restated) SAR'000
Income from investments and financing	6, 17	**1,395,092**	1,290,441
Return on time investments		**(273,937)**	(314,014)
Income from investments and financing, net		**1,121,155**	976,427
Fee from banking services – income		**308,967**	284,804
Fee from banking services – expense		**(86,916)**	(61,920)
Fees from banking services, net		**222,051**	222,884
Exchange income, net		**58,642**	45,441
(Loss) / gain from FVSI financial instruments, net		**(138,564)**	44,014
Gain from FVOCI debt investments, net		**574**	230
Dividend income		**882**	639
Other operating income		**3,292**	3
Total operating income		**1,268,032**	1,289,638
Salaries and employee related expenses		**271,499**	261,938
Rent and premises related expenses		**11,605**	34,216
Depreciation and amortization		**64,154**	66,726
Other general and administrative expenses		**164,974**	150,407
Charge for credit impairment	14	**342,585**	65,398
Total operating expenses		**854,817**	578,685
Net operating income		**413,215**	710,953
Share of (loss) from an associate and a joint venture		**(1,809)**	(2,433)
Income for the period before zakat		**411,406**	708,520
Zakat for the period	16	**(41,141)**	(70,684)
Net income for the period after zakat		**370,265**	637,836
Basic and diluted earnings per share (SAR)	11, 16	**0.25**	0.43

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

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

	For the three months period ended	
	March 31, 2020	March 31, 2019 (Restated)
	SAR'000	SAR'000
Net income for the period after zakat	**370,265**	637,836
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	**(46,141)**	12,300
Items that can be recycled back to interim consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	**12,172**	7,793
Net gain realized on sale of FVOCI sukuk investments	**(574)**	(230)
Total comprehensive income for the period	**335,722**	657,699

The accompanying notes from 1 to 20 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 THREE MONTHS PERIOD ENDED MARCH 31,

2020 (SAR '000)	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	-	-	-	-	370,265	-	-	370,265
Net changes in fair value of FVOCI equity investments	-	-	(46,141)	-	-	-	-	(46,141)
Net changes in fair values of FVOCI sukuk investments	-	-	12,172	-	-	-	-	12,172
Net gain realized on sale of FVOCI sukuk investments	-	-	(574)	-	-	-	-	(574)
Total comprehensive income	-	-	(34,543)	-	370,265	-	-	335,722
Net gain realized on sale of FVOCI equity investments	-	-	(37)	-	37	-	-	-
Employee share based plan and other reserve	-	-	-	(1,769)	(7)	-	-	(1,776)
Balance at the end of the period	**15,000,000**	**100,000**	**42,792**	**81,956**	**2,657,597**	**5,000,000**	**(103,475)**	**22,778,870**

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

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

2019 (SAR '000)	**Share capital**	**Statutory reserve**	**Fair value reserve for FVOCI investments**	**Other reserves**	**Retained earnings**	**Proposed dividends**	**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 - restated	-	-	-	-	637,836	-	-	637,836
Net changes in fair value of FVOCI equity investments	-	-	12,300	-	-	-	-	12,300
Net changes in fair values of FVOCI sukuk investments	-	-	7,793	-	-	-	-	7,793
Net amount realized on sale of FVOCI sukuk investments	-	-	(230)	-	-	-	-	(230)
Total comprehensive income	-	-	19,863	-	637,836	-	-	657,699
Dividend approved for 2018						(1,489,967)	-	(1,489,967)
Employee share based plan and other reserve	-	-	-	(6,576)	-	-	-	(6,576)
Balance at the end of the period	15,000,000	2,888,815	(2,514)	47,509	2,628,529	-	(103,475)	20,458,864

The accompanying notes from 1 to 20 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 THREE MONTHS PERIOD ENDED MARCH 31,

	Note	2020 SAR'000	2019 SAR'000
OPERATING ACTIVITIES			
Net income for the period before zakat		**411,406**	708,520
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**64,154**	66,726
Gain on disposal / retirement of property and equipment, net		**(1,635)**	-
Unrealized loss / (gain) from FVSI financial instruments, net		**144,634**	(46,972)
Gain from FVOCI debt investments, net		**(574)**	(230)
Dividend income		**(882)**	(639)
Charge for credit impairment		**342,585**	65,398
Loss from modification of contractual cash flows	17	**56,824**	-
Fair value benefit arising from interest free SAMA deposit	6	**(49,994)**	-
Employee share based plan reserve		**7,732**	-
Share of loss from an associate and joint venture		**1,809**	2,433
		976,059	795,236
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**(156,454)**	(42,819)
Due from banks and other financial institutions, with original maturity of more than three months		**-**	428,517
Investments held at FVSI		**(191,370)**	5,190
Financing		**(3,395,301)**	(2,044,345)
Other assets		**(265,966)**	454,768
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**4,346,096**	(2,370,567)
Customers' deposits		**1,811,591**	2,132,944
Other liabilities		**(301,080)**	(676,999)
Net cash used in operating activities		**2,823,575**	(1,318,075)
INVESTING ACTIVITIES			
Purchase of investments not held at FVSI		**(1,191,080)**	(2,270,534)
Proceeds from sales and maturities of investments not held at FVSI		**75,569**	5,230
Purchase of property and equipment, net		**(27,133)**	(27,335)
Proceeds from disposal of property and equipment		**4,326**	-
Dividends received		**3,695**	639
Net cash used in investing activities		**(1,134,623)**	(2,292,000)
FINANCING ACTIVITY			
Cash payment for principal portion of lease liability		**(12,215)**	(10,323)
Cash payment for financing cost portion of lease liability		**(4,123)**	(4,753)
Net cash used in financing activity		**(16,338)**	(15,076)
Net increase / (decrease) in cash and cash equivalents		**1,672,614**	(3,625,151)
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	**6,296,681**	5,915,528
Income received from investments and financing		**1,401,682**	1,029,240
Return paid on time investments		**297,254**	282,084
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		**(34,543)**	19,863
Dividend approved		**-**	1,489,967

The accompanying notes from 1 to 20 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 (March 31, 2019: 91) 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	97.8%	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").

During prior periods up to March 31, 2019 Zakat was being charged to equity in compliance with the guidance from Saudi Arabian Monetary Agency ("SAMA"). However, on July 17, 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. Accordingly, the Bank changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors" (as disclosed in note 3) and the effects of this change are disclosed in note 16 to the interim condensed consolidated financial statements.

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

The basis of preparation has been changed effective June 30, 2019. Previously, zakat was being recognized in the interim consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. But effective June 30, 2019, it is being recognized in the consolidated statement of income based on SAMA circular dated July 17, 2019. The Bank has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 16 to the interim condensed consolidated financial statements.

The change has resulted in reduction of the reported income of the Bank for the period ended March 31, 2019 by SAR 71 million. The change has no impact on the equity and the interim consolidated statement of cash flows for the period ended March 31, 2019.

The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the interim consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

b) 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.

c) 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 17. However, in view of the current uncertainty as explained in note 17, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

d) 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.

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.

4. Investments, net

	Notes	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Held at Amortized Cost		**18,508,092**	17,543,045	14,688,223
Held at FVOCI		**3,745,152**	3,628,656	3,747,627
Held at FVSI		**2,301,596**	2,254,860	2,221,930
Investment in an associate	**4.1**	**56,485**	60,128	70,878
Investment in a joint venture	**4.2**	**17,989**	16,156	13,797
Less: Allowance for impairment		**(7,943)**	(25,185)	(14,490)
Total		**24,621,371**	23,477,660	20,727,965

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

5. Financing, net

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	**20,511,041**	19,766,197	16,118,077
Corporate	**77,798,968**	75,777,225	70,810,722
Performing financing	**98,310,009**	95,543,422	86,928,799
Non-performing loans	**2,471,448**	1,842,734	1,306,903
Total financing, gross	**100,781,457**	97,386,156	88,235,702
Allowance for impairment	**(2,997,912)**	(2,584,758)	(2,358,636)
Financing, net	**97,783,545**	94,801,398	85,877,066

5.1 Movement in allowance for impairment of financing

	March 31, 2020 (Unaudited)	March 31, 2019 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 1	**2,584,758**	2,301,086
Charge for the period	**356,330**	58,669
Loss from modification of contractual cash flows (notes 17.1 and 17.2)	**56,824**	-
Write-off	**-**	(1,119)
Balance at the end of the period	**2,997,912**	2,358,636

6. Due to banks and other financial institutions

The Bank has received SAR 850 million interest free deposit from SAMA maturing after three years as part of regulatory relief package given by the government to SMEs in which banks were to consider deferring loan installment payments for six months (refer to note 17). As a result, the Bank's income from investments and financing for the three months period ended March 31, 2020 included the fair value benefit of SAR 50 million arising from the interest free deposit.

7. Customers' deposits

	Note	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Current and saving		**62,104,543**	57,962,288	53,859,868
Time investments	**7.1**	**40,659,334**	43,069,002	37,380,874
Margin deposits		**1,110,549**	1,031,545	1,020,340
Total		**103,874,426**	102,062,835	92,261,082

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:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**3,042,496**	2,884,336	2,946,971
Letters of guarantee	**11,111,529**	10,514,834	9,588,708
Acceptances	**656,519**	338,540	250,186
Irrevocable commitments to extend credit	**280,232**	417,788	256,496
Total	**15,090,776**	14,155,498	13,042,361

ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 182 million as at March 31, 2020 (December 31, 2019: SAR 180 million; March 31, 2019: SAR 217 million).

9. Cash and cash equivalents

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

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,579,168**	2,354,284	2,271,642
Balances with SAMA excluding statutory deposit	**47,679**	125,514	114,975
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**3,669,834**	2,144,269	3,528,911
Total	**6,296,681**	4,624,067	5,915,528

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

SAR ’000	March 31, 2019 (Unaudited)				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	15,594,990	69,854,930	35,065,655	1,278,849	121,794,424
Total liabilities	73,822,603	6,367,077	20,822,140	323,740	101,335,560
Income from investments and financing	676,987	409,546	198,007	5,901	1,290,441
Return on time investments	(178,635)	(27,848)	(107,531)	-	(314,014)
Income from investments and financing, net	498,352	381,698	90,476	5,901	976,427
Fees from banking services and other operating income	93,281	56,220	83,657	80,053	313,211
Total operating income	591,633	437,918	174,133	85,954	1,289,638
Depreciation and amortization	51,742	7,784	6,005	1,195	66,726
Other operating expenses	319,486	60,193	38,757	28,125	446,561
Charge for credit impairment	20,639	50,637	(5,878)	-	65,398
Total operating expenses	391,867	118,614	38,884	29,320	578,685
Net operating income	199,766	319,304	135,249	56,634	710,953
Share of loss from an associate and joint venture	-	-	(2,433)	-	(2,433)
Net income for the period before zakat	199,766	319,304	132,816	56,634	708,520

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

SAR '000	March 31, 2019 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	123,855	940,992	138,837	85,954	1,289,638
- Inter-segment	467,778	(503,074)	35,296	-	-
Total operating income	591,633	437,918	174,133	85,954	1,289,638

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 1,490 million shares at March 31, 2020 (March 31, 2019: 1,490 million shares) after accounting for treasury 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			
March 31, 2020 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**94,248**	**1,960**	**-**	**96,208**
- Mutual funds	**41,716**	**1,938,432**	**225,240**	**2,205,388**
Financial assets held as FVOCI				
- Equities	**223,702**	**-**	**20,264**	**243,966**
- Sukuks	**863,504**	**2,637,682**	**-**	**3,501,186**
Total	**1,223,170**	**4,578,074**	**245,504**	**6,046,748**

	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			
March 31, 2019 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	53,019	-	-	53,019
- Mutual funds	-	1,970,318	198,593	2,168,911
Financial assets held as FVOCI				
- Equities	124,844	-	-	124,844
- Sukuks	86,435	3,536,348	-	3,622,783
Total	264,298	5,506,666	198,593	5,969,557

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	
March 31, 2020 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**3,669,834**	**3,670,088**
Investments - at amortized cost	**18,508,092**	**18,598,650**
Financing, net	**97,783,545**	**97,451,312**
LIABILITIES		
Due to banks and other financial institutions	**7,585,946**	**7,581,327**
Customers' deposits	**103,874,426**	**104,045,319**

	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	
March 31, 2019 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	4,160,625	4,157,373
Investments - at amortized cost	14,688,223	14,476,387
Financing, net	85,877,066	85,350,805
LIABILITIES		
Due to banks and other financial institutions	3,947,769	3,948,751
Customers' deposits	92,261,082	92,285,195

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	2,181,819	809,791	1,437,875
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)	21.50	27	27
Fair value per share at grant date (SAR)	27	27	27
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	2.1 Years	4.1 Years	2.1 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
	March 31, 2020 (Unaudited)					
Beginning of the period	**21.50**	**1,937,017**	**27.00**	**809,791**	**27.00**	**1,437,875**
Granted during the period	**-**	**-**	**-**	**-**	**-**	**-**
Forfeited	**21.50**	**(34,428)**	**-**	**-**	**-**	**-**
Exercised/expired	**-**	**-**	**-**	**-**	**-**	**-**
End of the period	**21.50**	**1,902,589**	**27.00**	**809,791**	**27.00**	**1,437,875**
Exercisable at period end	**21.50**	**1,902,589**	**27.00**	**809,791**	**27.00**	**1,437,875**

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

Credit risk grades

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

To generate an internal risk rating, the Bank uses Moody's Risk Analyst system (MRA). The MRA is used by many leading banks globally and in the Kingdom. It enables the Bank to assign a risk rating to a single obligor. The risk rating is a point-in-time, 12-month probability of default (PD). The Bank assigns a rating from a 10-point rating scale with 1 as the best through 10 as the worst. The rating uses sub-grades (e.g. 3+, 3, and 3-) for a granular assessment of the PD. As part of the Bank's policy, only obligors with risk ratings of 6 or better are eligible for new financing facilities. The Bank reviews and validates the MRA rating system on a regular basis – calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to the specific obligor such as changes in the audited financial statements, compliance with covenants, management changes, as well as changes in the economic and business environment.

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

Point in time PD

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

Determining whether credit risk has increased significantly

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

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

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

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

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

- **Stage 3 Credit-impaired assets (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:

	March 31, 2020 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in '000'			
Balance at the beginning of the period	**779,463**	**799,024**	**1,212,923**	**2,791,410**
Transfer to 12 month ECL	**8,375**	**(6,759)**	**(1,616)**	**-**
Transfer to life time ECL, not credit impaired	**(898)**	**4,642**	**(3,744)**	**-**
Transfer to life time ECL, credit impaired	**(355)**	**(157,710)**	**158,065**	**-**
Net charge for the period	**39,314**	**216,805**	**86,466**	**342,585**
Loss from modification of contractual cash flows (notes 17.1 and 17.2)	**56,824**	**-**	**-**	**56,824**
Balance as at March 31, 2020	**882,723**	**856,002**	**1,452,094**	**3,190,819**

Loss from modification of contractual cash flows includes SAR 45.6 million loss arising from SAMA's deferral payments program for MSME's and SAR 11.2 million loss arising from health care sector support (refer to notes 17.1 and 17.2, respectively).

	March 31, 2019 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the period	799,671	771,127	956,863	2,527,661
Transfer to 12 month ECL	14,582	(11,283)	(3,299)	-
Transfer to life time ECL, not credit impaired	(1,983)	8,183	(6,200)	-
Transfer to life time ECL, credit impaired	(395)	(6,595)	6,990	-
Net (reversal) / charge for the period	(46,256)	42,977	68,677	65,398
Write-off	-	-	(1,119)	(1,119)
Balance as at March 31, 2019	765,619	804,409	1,021,912	2,591,940

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.

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	March 31, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**113,350,345**	109,989,481	104,034,308
Operational risk weighted assets	**9,560,939**	9,267,525	8,188,122
Market risk weighted assets	**6,301,692**	461,946	503,356
Total Pillar-I Risk Weighted Assets	**129,212,976**	119,718,952	112,725,786
Tier I capital	**23,500,837**	22,878,645	20,892,584
Tier II capital	**1,416,879**	1,374,869	1,300,429
Total Tier I & II Capital	**24,917,716**	24,253,514	22,193,013
Capital Adequacy Ratio %			
Tier I ratio	**18%**	19%	19%
Tier I + Tier II ratio	**19%**	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 Proposed issue of bonus shares

Subsequent to March 31, 2020, the Shareholders, in their Extraordinary General Assembly dated April 8, 2020, approved an increase of 33% to the existing capital of the Bank through issue of bonus shares in the ratio of 1:3. The total issued number of shares will increase by 500 million to reach 2,000 million shares while the share capital of the Bank will increase by SAR 5,000 million to reach SAR 20,000 million.

16. Zakat

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

As at and for the three month period ended March 31, 2019:				**SAR '000**
Financial statement impacted	**Line item**	**Amount before restatement**	**Effect of restatement**	**Amount after restatement**
Statement of income	Zakat for the period	-	70,684	70,684
Statement of income	Net income for the period	708,520	(70,684)	637,836
Statement of income	Earnings per share (basic and diluted) SAR	0.48	(0.05)	0.43
Statement of changes in shareholders' equity	Zakat for the period (retained earnings)	70,684	(70,684)	-

17. 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 have also witnessed significant volatility during the current period, 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 Bank has evaluated 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 potential business disruption due to COVID-19 outbreak that may have on its 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, country, counterparty etc., collateral protection, timely review 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.

These current events and the prevailing conditions require the Bank to review certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolved around either adjusting macroeconomic scenarios used by the Bank in estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Bank in ECL estimation. The adjustment to macroeconomic scenarios has resulted in an additional ECL of SAR 148 million for the Bank. 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.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Bank has therefore concluded that it was too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the PD and LGD determinations. The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

In addition, the Bank has given specific consideration to the relevant impact of COVID-19 and continues to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any additional ECL amounts need to be recognised.

17.1 SAMA programs and initiatives launched

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 as at March 31, 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, participation in this deferment 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 a maturity of 3 years. 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 recognised as at March 31, 2020 immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at March 31, 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact to the Bank's financial statements.

During April 2020, SAMA has issued a guidance around Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures. The Bank will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

17.2 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 as at March 31, 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.

18. 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 and 16 for the enhanced methodology and due to change in accounting policy respectively as explained in aforesaid notes.

19. Events after the reporting period

Except for the events mentioned in notes 6 and 17, there have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed consolidated financial statements as at and for the three month period ended March 31, 2020.

20. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 22 Ramadan 1441H (corresponding to May 15, 2020).