



Annual
Report
2018

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الْحَمْدِ
لِلَّهِ

The Custodian of the Two Holy Mosques
King Salman bin Abdulaziz Al Saud



Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud
Vice President of the Council of Ministers and Minister of Defense



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Greetings

Greetings

At Alinma Bank, our journey of growth and development continues, as we work to continuously improve on our previous achievements. We thank the bank's staff for their efforts and hard work on behalf of our valued partners.

The "We Care" slogan has continued to be our central theme. Through it we seek creativity, excellence, leadership, and distinction through respect, transparency, and service to our partners. All partners matter to us and we strive to provide personal attention to each of them through our network of 161 branches cross the kingdom. These branches are a living representation of Alinma's mission, vision and values; and they are managed by a professional team of qualified Saudi nationals who are dedicated to bringing "We Care" to life through interactions with partners.

2018 was an active year for Alinma Bank, with numerous new product and service launches as well as awards in recognition of its performance. By continuing to add to its suite of offerings, Alinma assures that it will remain relevant in an ever-changing and growing market. And awards function as affirmation that its strategy in this regard is on track.

Our efforts to provide the very best service to our partners will continue. We thank our partners for giving us the opportunity to serve them; and we promise to continue striving to meet their expectations and to support their aspirations.

Alinma Bank ... For Our Growth

Vision Mission Values

The Bank's Vision

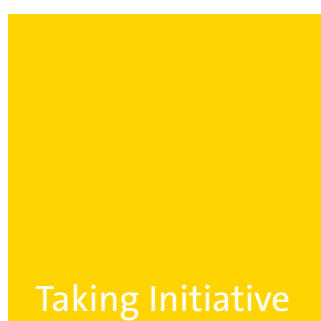
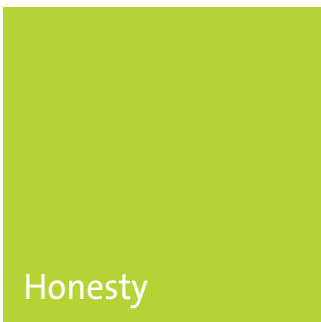
To be your preferred financial partner.

The Bank's Mission

To provide our partners with total Shariah-compliant financial solutions through the best workplace that achieves sustainable development and participates in serving our community.

The Bank's Values

The bank has established a work environment based on clear values to which all Alinma employees should commit:



Establishment

Establishment

Alinma Bank was established under Royal Decree No. M/15, dated 28 Safar 1427, corresponding to March 28, 2006, and under Commercial Registration No. 1010250808 dated 21 Jumada Al-Ula 1429, corresponding to May 26, 2008. The bank has been authorized to engage in all aspects of Shariah-compliant banking and investment services.

Capital

The bank was established with SAR 15,000,000,000 in capital, divided into 1,500,000,000 ordinary shares, each with a nominal value of SAR 10.

Founders

The founding shareholders of the bank are as follows: the Public Investment Fund, the Public Pension Agency and the General Organization for Social Insurance. Upon the establishment of the bank, 10% of its shares were allocated to each of the founding shareholders. The remaining 70% of the shares were offered for public subscription during Rabie II 1429 (April 2008).

Members of the Board of Directors



H.E. Engr.
Abdulaziz Abdulla Al-Zamil
Chairman



Dr.Saad Attiah Al-Ghamdi
Deputy Chairman



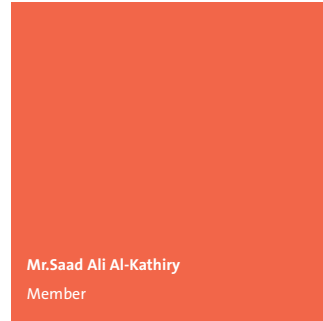
Mr.Abdulmohsen Abdulaziz Al-Fares
Managing Director & CEO



Mr.Saad Ali Al-Kathiry
Member



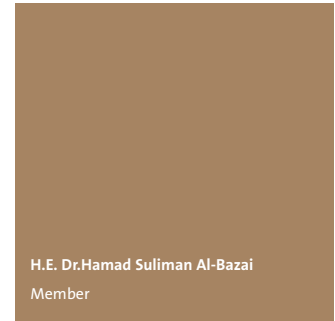
H.E. Dr.Hamad Suliman Al-Bazai
Member



Engr.Mutlaq Hamad Al-Morished
Member



Mr.Abdulmohsen Abdulaziz Al-Hussain
Member



Mr.Khalid Mohammed Al-Aboodi
Member



Mr.Mohammed sulaiman Abanumi
Member



Message from the Chairman of the Board of Directors



It is my pleasure to present to you, on behalf of myself and my colleagues on the Board of Directors of Alinma Bank, the annual report for the fiscal year that ended on December 31, 2018. The report highlights the results of the key activities of the bank, operational results, and financial statements for the past year.

At the outset, I would like to note the pride I have for the achievements and results accomplished during 2018; and I commend the efforts exerted and successes achieved, through which we managed to strengthen the bank's financial position despite intense competition and challenges facing national, regional and international economies. We affirm our determination to continue this effort in order to provide the very best Shariah-compliant products and services.

In 2018, Alinma Bank achieved positive, record financial and operational results:

- Alinma's net profit amounted to SAR 2,517 million, compared to SAR 2,011 million in 2017, an increase of 25%.
- The bank's assets increased during 2018 by more than 6 thousand million riyals and reached SAR 121 billion.
- The total operating profit during 2018 amounted to SAR 4,845 million, an increase of 11%.
- The financing portfolio and deposit portfolio at the end of 2018 amounted to SAR 83.7 billion and SAR 90 billion respectively, which represent new record figures in the history of the bank.

I would like to take this opportunity to extend my thanks and appreciation to my colleagues on the Board of Directors, the Managing Director/CEO, and all Alinma staff members, for their efforts and hard work this year and across previous years.

I would like to extend my thanks and gratitude to the Custodian of the Two Holy Mosques, King Salman Ibn Abdulaziz Al Saud; and HRH the Crown Prince, Deputy Prime Minister, and Minister of Defense, Prince Mohammed Ibn Salman Ibn Abdulaziz Al Saud, for their continued support of the development of the kingdom and the building of its economy, including supporting and strengthening the banking sector, which is a cornerstone of our national economy. I would also like to thank the Ministry of Finance, the

Ministry of Commerce and Investment, the Saudi Arabian Monetary Authority, the Capital Market Authority, and other related government authorities for their support of the Saudi banking sector, in particular, and the national economy, in general. My thanks and appreciation are extended to Alinma partners for their trust in Alinma Bank. We will continue to strive on their behalf for ever greater achievement.

Abdulaziz Bin Abdullah Al-Zamil
Chairman of the Board of Directors

Message from the Managing Director/CEO



2018 was a year filled with achievements; and Alinma Bank continues to strive to meet and exceed our partners' expectations, while simultaneously working to serve the national economy.

The challenges this past year were many, yet we succeeded in posting positive, record financial results, expanding our branch and ATM networks, and adding significant e-channel services to our already exemplary array of service offerings. And thanks to our diligent efforts on behalf of our partners, Alinma saw, in 2018, an increase in the number of new partners.

Our hard work has indeed paid off; and in 2018, Alinma Bank was recognized as the fastest growing bank in Saudi Arabia for the sixth time in the bank's 10-year history.

In terms of new services launched in 2018, Alinma Bank added online account opening for the first time in the kingdom; online national ID, Iqama, and address updating and verification; and

contactless NFC ATM withdrawals, also a first for Saudi Arabia.

In terms of technical advancement, Alinma was the first bank in the kingdom to adopt the "Active-Active" data center model, which is a vast data transformation improvement over the "Active-Passive" model still common in the region. Active-Active ensures that all partner data is replicated in real time across the bank's primary and back-up data center systems, thus eliminating down-time concerns and significantly mitigating risks related to disaster recovery scenarios. This accomplishment garnered the bank the Best IT Service Transformation award at the 2018 IDC Saudi CIO Excellence Awards.

The bank, working through its newly established FinTech unit, organized the Alinma FinTech Forum, which brought together key stakeholders in the emerging FinTech sector to discuss ways in which Alinma can contribute to enriching the local market with new and improved digital banking

products and services, with the assistance of innovative FinTech partners. Towards this end, Alinma launched, in 2018, its first 24/7, fully digital branch, giving partners the ultimate convenience in terms of access to self-service banking options.

2018 was also an important year for Alinma in terms of corporate social responsibility (CSR) activities. Some of these included:

- Blood donation campaigns.
- Home financing programs that supported government housing initiatives.
- No fee, no cost education financing agreements.
- The Alinma Shariah Publications smart device application and printed three-volume compendium, which shares the bank's Shariah rulings with the world .
- Support for the King Abdulaziz Project for Public Transport in Riyadh, through the bank's successful naming rights bid for the Alinma Bank Riyadh Metro station located at the intersection of Prince Mohammed Ibn Abdulaziz Street (Tahliyyah) and Musa Ibn Nusair Street.
- Commitment to national human capital

development through tailored talent identification and training programs.

In conclusion, I would like to extend my thanks and appreciation to the Custodian of the Two Holy Mosques, King Salman Ibn Abdulaziz Al Saud, and HRH Crown Prince Mohammed Ibn Salman Ibn Abdulaziz Al Saud, for their efforts to serve the kingdom and overcome and eliminate all obstacles that might impede its ongoing growth, development, and stability. I would also like to thank the Chairman and members of the Board of Directors, members of the Shariah Board and all employees of the bank for the efforts they have exerted to serve the bank's partners and shareholders. And last but not least, I extend my thanks to Alinma's partners for their continued trust in Alinma Bank.

Abdulmohsen Bin Abdulaziz Al-Fares
Managing Director/CEO

Key
Accomplishments
of 2018

Alinma Bank ... Development and Construction

Alinma Bank achieved rapid growth in 2018, adding numerous new partners to the Alinma Bank family, who were served through a total of 163 branches and 1485 ATMs by the end of the year. The bank also saw a significant increase in the number of transactions executed through its self-service banking channels.

In support of government efforts to develop the financial sector, and in support of Vision 2030 objectives, particularly the drive towards a cashless economy, Alinma Bank launched a number of key digital services, such as mada Pay and mada E-Trading for Alinma cardholders. Additionally, Alinma launched small denomination ATMs, coin deposit machines, and self-service ATM card issuance and renewal through Alinma ATMs. The bank also launched its multi-currency Traveler Card and its first 24/7 digital branch.

Also in line with Vision 2030, and to encourage and enable financial planning, Alinma Bank partnered with the Social Development Bank to launch the Zoad savings program. Along the same lines, the bank developed its own savings account and introduced new savings packages that meet the needs of various partner segments.

In order to facilitate affordable home ownership, Alinma launched a number of financing solutions that include flexible and innovative terms and conditions that address needs of specific segments of society such as on-the-job military personnel.

Other Vision 2030 objectives were also addressed in 2018, with a special focus on supporting the growth of the private sector, and small and medium-sized enterprises (SMEs) in particular. To this end, Alinma continued its support of the Kafalah program and the Miras initiative. The bank's commitment to SMEs was reflected in the growth of new SME partners, which increased by 144% in 2018, and by the close of fiscal year, Alinma's Corporate Banking Group had increased its SME financing portfolio by more than SAR 2.5 billion.

In addition, a number of other exemplary products and services were launched in 2018, including the Alinma Express transfer service, Western Union international cash transfers, syndicated financing, investment property financing, and debt purchasing and refinancing services.

Human Capital ... Continuous Investment in Talent

As part of its ongoing commitment to talent identification and development, Alinma launched the third wave of its Al Qawi Al Ameen program, which targets and trains talented young Saudi graduates, preparing them for work in the banking industry. This resulted in 1820 theoretical training days, 1700 practical training days, and 400 e-learning hours.

Regarding ongoing training and development at the bank, the following was achieved:

- The bank conducted 9009 training days for a total of 2066 participants. Training included knowledge, skill, and behavioral courses in banking, financial, legal and administrative areas. Other courses were also provided on technical systems as well as products and services offered by the bank. The courses were offered by a number of specialized training providers. Total training days conducted by the bank since its inception reached 74,075 training days and the total number of participants reached 16,284.
- A total of 18 female Alinma staff members successfully completed the bank's iLead managerial development program, which targets middle managers and prepares them for larger leadership roles within the organization.
- Alinma launched the Alinma Bank Academy for e-learning, which provides Alinma staff with e-learning services in collaboration with Knowledge City Corporation from the United States, in the fields of management, compliance, finance, marketing, sales, HR, and project management. Currently, the e-library contains 370 educational sessions totaling 5,000 hours of instruction.
- The third phase of Alinma's Measurement and Development Program was launched, with 70 participants. The program targets managers and executives and aims to develop and promote leadership, managerial and banking skills. The program is supervised by advisory and administrative bodies with expertise in performance measurement and delivery of appropriate development plans for executives and promising leaders. Approximately 275 individuals have participated in the program since its launch in 2015.

- The bank provided training for 15 leaders within the organization via its Leadership Competencies Program, which develops leadership capacities and teaches best international practices in the field of leadership.
- Alinma Bank's Coaching Program trained 100 managers in important leadership skills, such as listening, raising useful questions between managers and subordinates, and enhancing interpersonal communications.
- Alinma Bank achieved a Saudization rate of 91% in 2018, ensuring that the bank would continue to support the kingdom's job creation efforts for its citizens. Alinma stands as a leader in this regard among large corporates in the kingdom and is responsible for thousands of direct and indirect jobs for citizens.

Retail Banking Group: Modern Products and Services

Retail Banking achievements in 2018 included the growth of branch and ATM networks, as well distribution of Alinma POS terminals. As part of its digital transformation plans, the bank launched its first digital branch, which provides 24/7 branch services in a wholly digital, self-service environment. Through the digital branch, partners have comprehensive access to banking services including account opening, ATM card issuance, Internet and telephone banking registration, printing of checkbooks and certified checks, proof of deposit slips, balance certificates, account statements, and other cash services and operations.

As part of its effort to further develop its e-banking channels, the bank also introduced online account opening, which contributed to the growth of the number of accounts opened via the Internet. Self-service ATM card printing was also introduced at selected Alinma ATMs. Additionally, the bank launched services pertaining to online updating of national IDs, Iqamas, and national addresses, as well as contactless NFC ATM withdrawals.

The bank also launched its mada Pay and mada e-Trading services for Alinma cardholders, and expanded the number of self-service machines to renew and issue cards. Additionally, the bank launched its multi-currency Traveler Card to address currency needs while traveling internationally.

Other banking products and services launched included the Alinma Express transfer service, international transfers via Western Union, syndicated financing, investment property financing for businesspeople, debt purchasing and re-financing services, and the My Services product.

The Retail Banking Group was pleased to contribute to the overall success of the bank in 2018 through enhancing the bank's role in housing programs by providing financing solutions in collaboration with the Real Estate Development Fund and the Ministry of Housing. The bank also developed savings products in partnership with the Social Development Bank including the Zoad service, and enhanced SME efforts through the Kafalah and Miras.

Shared Services Group

1. Information Technology (IT):

In 2018, Alinma Bank continued the development and enhancement of its technical systems in service of the bank's vision to become the preferred financial partner for all. Toward this end, IT improved the performance and availability of banking systems in order to cope with significant increases in operational requests that resulted from the increase in the number of partners, branches, and ATMs. This positively affected the bank's 2018 achievements, which included:

First: New Systems and Services:

In 2018, the bank continued to show its commitment to Vision 2030 through a range of projects with a number of government agencies such as the Ministry of Finance and the Saudi Arabian Monetary Authority, the most important of which were:

1. **Launch of the New Alinma Investment Application for Smart Devices:** The redesigned application features a new look and feel, and user experience through the utilization of the latest technologies and designs. The bank also successfully automated corporate finance operations by re-engineering specific internal processes that increased efficiency and effectiveness by reducing execution time and cost, thus improving performance control

and reducing manual work.

2. **Archiving Management System:** The bank implemented a system for keeping records of assets and data related to investment funds, following up financial entitlements, archiving original copies of property documents, Sukuk documentation, service/security contracts, and subscribers' records of funds.
3. **My Services:** This service is a financing product that allows partners to obtain financing for various services at their original cost (without additional charges), including education, medical services, and travel services.
4. **Tanfeeth System Integration with SAMA:** In its first phase, the project aims to integrate with SAMA to implement its Tanfeeth system, which provides responses to queries received from SAMA with respect to deposits, safe deposit boxes, and partner obligations. Such responses are provided automatically without human intervention.
5. **Alinma Wareef Endowment Fund:** The fund was established in collaboration with the Charitable Foundation of King Faisal Specialist Hospital (Wareef Charity).

The Shared Services Group supported and developed numerous retail products and services, including the Traveler Card, the Alinma Express service for international transfers, and the Western Union international cash transfer service. The group also provided required support to enhance integration with the Real Estate Development Fund to serve partners. The group also supported integration with the Social Development Bank for the provision of the Zoad savings product, which targets social loan beneficiaries from the Social Development Bank. Finally, the group contributed to the automation of the many business procedures inside the bank allowing for the timely, efficient execution of tasks.

Second: Updates and Improvements to Infrastructure and Technical Support:

As part of the bank's efforts to develop service infrastructure and reduce operational costs Alinma implemented the "Active-Active" data center model, which is a vast data transformation improvement over the "Active-Passive" model still common in the region. Active-Active ensures that all partner data is replicated in real time across the bank's primary and back-up data center systems, thus eliminating down-time concerns and significantly mitigating risks related to disaster recovery scenarios. This accomplishment garnered the bank the Best IT Service Transformation award at the 2018 IDC Saudi CIO Excellence Awards.

The bank also continued its efforts to implement the latest infrastructure technology, which included upgrades to central storage units, main system servers, databases, and major network and security systems. This increased system efficiency, reduced operational costs, and improved performance.

Third: Technical Support:

Through service level agreements between Alinma Bank groups and Alinma Investment, outstanding issues were resolved and an end user monitoring system for internet services was implemented for ongoing monitoring of e-service performance. The foregoing has allowed the bank to resolve issues immediately without impacting service to partners.

2. Banking Operations:

As part of ongoing effort to develop operational procedures to increase efficiency, reduce costs, and minimize risks associated with manual execution of such procedures, a number of initiatives were adopted and several work procedures were automated, including:

- Development of Sukuk operations.
- Automation of asset valuations.
- Automation of periodic profit recording (quarterly or biannual).
- Automation of Wakala product operations.
- Automation of Wa'ad product exchanges of foreign currencies at a later maturity date.
- Automation of Murabaha alternative products operations.
- Configuration of Direct Investment and Nama systems to receive partner requests related to partial payment of Murabaha transactions.
- Development of dividend distribution procedures, which positively impacted partner satisfaction during the

distribution of year-end dividends.

- Processing of related systems and granting necessary powers to government sectors to transfer financial entitlements automatically as required by the Ministry of Finance.
- Development of LC Mushharaka acceptance in relevant banking systems.
- Development of Bai Ajel operations (first phase) in full, and automation of relevant contracts and bonds.
- Development of performance indicator dashboard reports to display all executed processes on a daily basis according to the various work units.
- Automation of default payments, ensuring that defaults are paid according to maturity dates.
- Development of procedures related to the matching of payments to beneficiaries with their corresponding financing.
- Development of procedures related to automatic issuance of balance certificates.

3. Engineering:

In 2018, support was provided for the continued expansion of Alinma infrastructure across the kingdom. Achievements were as follows:

- Finalization of the construction of eight (8) branches, with four (4) fully functional by the end of the year.
- Launch of the first digital branch.
- Installation of 86 ATMs across the kingdom.
- Execution of 6,733 maintenance requests for branches and ATMs.

4. Business Continuity Management:

Based on its vision to be the preferred financial partner for all, the bank continued to develop its administrative and technical capabilities to ensure readiness to address risks and threats that could affect the availability of services to partners. The bank also began to implement an integrated work system to raise awareness of the importance of business continuity, developing plans and proactive preparations to increase the level of readiness and response to crises based on the latest international and legislative standards in the area of business continuity.

5. Access Control

In order to protect the bank's assets, reduce risks related to illegal access to the main systems of the bank, and increase operational efficiency, improvement of controls and means related to legalizing and monitoring powers granted to employees continued, namely:

- Activating the automatic reactivation of T24 usernames and passwords to facilitate relevant procedures, reduce execution times, and to increase performance efficiency and security.
- Implementing the Identity Management System (IDAM), which controls the process of granting employees access powers to bank systems .
- Automating access rights requests to all banking systems in order to facilitate electronic applications and archiving.

Striving for Leadership in Serving Corporate Partners

Alinma Bank has excelled in providing financial solutions to the SME sector, including trade, cash management, financing, investment, and other contemporary banking services. Additionally, corporate sector needs, such as payroll management, POS services, e-payment gateway services, and corporate Internet services were also provided.

Alinma's Corporate Banking efforts also included analysis, on behalf of corporate partners, of cash flows and future cash flow projections, which assisted in the creation of services for those partners and helped them likewise to achieve their goals and reduce risks.

Treasury

The Treasury Group continued to adopt a flexible strategy that leverages a conservative, flexible model that anticipates market conditions and related fluctuations, while focusing on exploiting available economic opportunities throughout the year. The group continued to manage the bank's balance sheet efficiently and secured all requirements related to financing of the bank's main activities, allowing Alinma to benefit from all market opportunities, which were directly reflected in achieving outstanding results in 2018.

The group's Investment Department continued to establish diversified investment portfolios, which focused, in particular, on investing in Saudi government Sukuks. This contributed to achieving fixed and stable returns. The policy and strategy of establishing Sukuk portfolios were developed in a conservative and gradual manner and focused on capturing low-risk market opportunities. The portfolio achieved positive returns in most of its investments, and is well positioned currently as it takes advantage of the unique investment opportunities at the local, regional and global levels.

In line with the strategic plan, the Treasury Sales Desk showed positive expansion in the partner base, interacted directly with existing partners, and established new relationships in collaboration with other business sectors. Periodic visits were conducted to partners in key areas of Saudi Arabia to reflect the bank's role as a major partner of large, medium and small companies. This partnership led to the emergence of strong and strategic relationships that have positively impacted deposits and positive flows of currencies. In implementation of Treasury plans related to enhancing its presence with partners, a sales desk was opened in Jeddah to serve partners in the Western Region.

Foreign Exchange Management continued its efforts to maintain its superior position in terms of providing bank partners with the best exchange rates for foreign currencies. A number of new currencies were added to the list of existing ones to meet partner needs. Additionally, the Foreign Exchange Management's market share in the area of selling banknotes to banks and individuals grew substantially.

The Financial Institutions Department, under the umbrella of the Treasury Group, continued to strengthen trade relations with local, regional and global financial institutions as well as with government and semi-government entities, which was directly reflected in diversifying and securing liquidity sources. The team also endeavored to meet partner requirements through their close relationships with the worldwide network of correspondents, exploring new markets in developed and emerging countries, and marketing the bank's financial and commercial products in line with Shariah terms and conditions.

Among the most important achievements made in 2018 was the appointment by the Public Finance Bureau of the Ministry of Finance, of Alinma Bank as an initial trader of domestic issuances of government Sukuks out of five banks in the kingdom.

Alinma Investment: Fruitful Partnership

Alinma Investment Company, the investment arm of Alinma Bank, continued to offer its exemplary investment services to partners. The value of managed assets amounted to SAR 39.1 billion, with a growth rate of more than 11% compared to the previous year.

The company successfully launched the first open-ended endowment fund that is publicly offered in the kingdom for the Charitable Foundation of King Faisal Specialist Hospital (Wareef Charity). The fund aims to reinforce the developmental role of endowments.

Alinma Investment Co. continued to provide private equity portfolio services. The total private assets managed by the company reached SAR 7.2 billion in 2018, an increase of 24.13%. This led to an increase in the number of private

portfolios by 100% compared to the end of the previous year. Likewise, assets invested in private portfolios in local and GCC capital markets through locally listed shares, local Sukuks and Shariah-compliant liquidity investments were diversified.

In 2018, the Investment Banking Department acted as an underwriter and lead manager for the public offering of the National Company for Education, and also acted as a co-financial adviser, lead manager and underwriter to increase the capital of Bank Al Jazira by offering priority rights of SAR 3 billion.

Revenues from brokerage services until the end of November 2018 amounted to SAR 29 million compared to SAR 16.09 million in 2017, an increase of 80%. Trading in the capital market increased by 7% and market share increased from 1.68% to 2.1%. The value of margin financing with shares increased from SAR 66 million to SAR 415 million.

In terms of human resources, the company continued to add qualified staff members in order to meet partner needs. According to the Capital Market Authority, Alinma Investment Company surpassed other companies in the sector in terms of Saudization with a rate of 95%.

Social Responsibility

Community service is a pillar of the bank. Through it, Alinma expresses its values; and it impacts goal-setting, planning, and strategy building. It additionally enhances engagement and professionalism of employees. As the bank is an integral part of the society, it takes seriously its responsibilities to the communities it serves.

Alinma Bank Social Programs, Activities and Sponsorships in 2018

Since its establishment, Alinma Bank has strived to play an active role in community service. Below is a summary of contributions made by the bank in 2018:

Alinma Shariah Publications

As part of its commitment to advocacy for Shariah-compliant banking, Alinma Bank launched its Alinma Shariah Publications application for smart devices as well as a three-volume printed compendium reflecting the same content, which covers a broad range of Alinma's Shariah rulings since its establishment. Both efforts were made in order to share knowledge on Shariah-compliant banking as broadly as possible, and to give researchers invaluable insight into the practical application of the Shariah in financial matters.

Continued Support of Vision 2030 Housing Initiatives

In 2018, Alinma remained committed to the provision of affordable housing for Saudi nationals, in line with the various objectives and initiatives related to housing as part of Vision 2030. This included coordination and cooperation with the Ministry of Housing and the Real Estate Development Fund. Alinma additionally advocated for affordable housing through its participation in housing exhibitions across the kingdom. The banks financing products and services are designed to meet partner needs and aspirations and to ensure that appropriate housing can be obtained by all.

Education Financing

No fee, no profit margin Education Financing has been offered by Alinma Bank since 2009 as part of its ongoing commitment to support education in Saudi Arabia, which is vital the development of the kingdom and its citizens. In 2018, additional agreements were signed that added new educational institutions to the growing list of approved schools whose students are eligible for Education Financing. These included Oxford Aviation Academy and Prince Mohammed Ibn Fahad University in Dammam. Through the service, Alinma pays to schools, all approved tuition and fees when they fall due on behalf of families, who then repay the financing according to a convenient repayment plan that eliminates the burden of having to pay tuition and fees all at once at the beginning of the school year. Families pay no fees, no charges, and no profit margins, and the program is open to Saudis and legal foreign residents alike. Additionally, the program covers all educational levels.

Educational Tours of Alinma Bank for Schools

To increase awareness of financial issues among the public, Alinma Bank regularly hosts students from local schools, who tour the bank with their classes and are given insights into the workings of a modern Shariah-compliant financial institution. Dealing with personal finances is a responsibility of all individuals, and Alinma Bank believes that it can have a positive impact on society by exposing youth to financial matters early in life.

Workshops for Corporate Partners

Alinma Bank regularly holds workshops for its corporate banking partners in the main cities of the kingdom on an annual basis, and 2018 saw Alinma continue this activity. These workshops aim at introducing new Shariah-compliant products, including financial and banking solutions, that enable commercial entities to make use of cash flow and means of managing it. The workshops also provide awareness of e-banking services, which will contribute to the success and simplification of partners' businesses.

Co-op Training

During 2018, Alinma Bank hosted a total of 189 students from local Saudi universities as part of its formal Co-op Training program for male and female students. Alinma recognizes the value of on-the-job training, and works to give its co-op participants a comprehensive view of a number of work disciplines within the bank.

The Alinma FinTech Forum

The bank, working through its newly established FinTech unit, organized the Alinma FinTech Forum, which brought together key stakeholders in the emerging FinTech sector to discuss ways in which Alinma can contribute to enriching the local market with new and improved digital banking products and services, with the assistance of innovative FinTech partners. Alinma recognizes the importance of FinTech in achieving Vision 2030 objectives, and towards that end, hosted experts and professional who helped educate attendees on key concepts related to FinTech including payments and remittances, credit rating and financing, investment, blockchain, and digital currencies.

Riyadh Metro Station Naming Rights

Since its establishment, Alinma Bank has been keen to contribute to the economic development of the kingdom and has taken part in numerous projects that have had a positive impact on its development. In 2018, Alinma Bank participating in the Riyadh Development Authority's naming rights tender for the soon-to-be-launched stations for the Riyadh Metro project. Alinma proudly and successfully bid on a station that will bear the bank's name. It will be located at the intersection of Prince Mohammed Ibn Abdulaziz Street (Tahliyyah Street) and Musa Ibn Nusair Street. Alinma's involvement reflected its desire to support this pioneering project, which will have a significant impact on public transportation in the kingdom.

Blood Donation Campaigns

During 2018, Alinma Bank carried out a number of blood donation campaigns in cooperation with King Faisal Specialist Hospital and Research Center, and King Abdulaziz Medical City in Riyadh to raise awareness of the importance of blood donation and to raise awareness of health issues among staff. This initiative serves noble purposes that contribute to saving the lives of others. The campaigns received a great deal of interest from the bank's employees and each campaign lasted for several days to meet this growing demand.

Contribution to the Establishment of Endowment Funds

Alinma Bank contributed, in 2018, through Alinma Investment Company, to the promotion of institutional and investment work of endowments by establishing investment funds supervised and controlled by the Capital Market Authority and the General Authority of Endowments. These efforts resulted in the launch of the Alinma Wareef Investment Fund, which was the first endowment investment fund listed on the Saudi Stock Exchange during the fiscal year 2018. Revenues generated by the fund are allocated to beneficiaries of the Wareef Charity. In addition, other funds in the fields of health and education will be launched soon.

Supporting the Establishment of the Al Tammayuz Autism Center

During 2018, Alinma Bank supported the establishment of the Al Tammayuz Autism Center with a donation of SAR 2.14 million. The center will act as an important specialist reference center for all private autism centers in kingdom. The center will also transfer knowledge, train and rehabilitate patients, support social research, establish a national database, and provide a model for autism services kingdom. The center will also work to attract international experts who can transfer knowledge to local specialists. Vocational and social rehabilitation services will also be provided.

Job Localization and Saudization of the Banking Sector

Alinma Bank and its subsidiaries (Alinma Investment Co., Al Tanweer Real Estate Co., Alinma Agency for Cooperative Insurance, ERSAL Remittance Co., Alinma Tokio Marine Co.) have directly contributed in creating thousands of job opportunities for citizens in various disciplines, and have indirectly contributed to localizing thousands of other jobs through outsourcing and service companies with which the bank has concluded agreements to provide support services in different activities.

2018 Awards and Achievements

The Fastest Growing Bank Award

In recognition of its financial results, rapid growth in its operations and revenues and its ability to compete, the Banker Middle East Magazine named Alinma the Fastest Growing Bank in Saudi Arabia in 2018 for the sixth time in its history.

Alinma Bank Recognized for Excellence of its E-banking Services

The World Union of Arab Bankers recognized Alinma Bank as the Best Bank in Electronic Banking Services at the 2018 Banking Excellence and Achievement Awards. This confirms the distinct position of Alinma Bank and its continued leadership in the banking sector by providing quality, Shariah-compliant financial services, that address partner needs and aspirations.

Best Information Transformation Award

Alinma was the first bank in the kingdom to adopt the “Active-Active” data center model, which is a vast data transformation improvement over the “Active-Passive” model still common in the region. Active-Active ensures that all partner data is replicated in real time across the bank’s primary and back-up data center systems, thus eliminating down-time concerns and significantly mitigating risks related to disaster recovery scenarios. This accomplishment garnered the bank the Best IT Service Transformation award at the 2018 IDC Saudi CIO Excellence Awards.

Alinma Bank Named Most Innovative for 2018

Cambridge IFA, a leading international financial advisory firm, presented Alinma with the Most Innovative Bank in 2018 award. The selection of Alinma Bank for this award was based on the comprehensiveness of the banking services provided to the bank’s partners and the bank’s focus on innovation and leadership.

Most Trusted Islamic Banking Brand in Saudi Arabia for 2018

Alinma Bank was named the Most Trusted Islamic Banking Brand in the Kingdom for 2018, by Global Brands Magazine in recognition of the quality and durability of the bank’s Shariah-compliance. Global Brands Magazine monitors and evaluates leading brands around the world. The magazine is also a source of news and information on a wide range of business sectors.

CEO of the Year Award

Alinma Bank CEO, Mr. Abdulmohsen Al-Fares, was named the CEO of the Year 2018 by the Global Islamic Finance Awards as one of the most prominent bankers in Saudi Arabia and for his main role in establishing Alinma Bank and his contributions to its growth and success.

Directors' Report

The Board of Directors of Alinma Bank (“the Bank”) is pleased to present the Tenth Annual Report for the year ended December 31, 2018. This report provides information about the Bank’s operations, financial results and future plans together with information about the Board of Directors, its committees and other supplementary information designed to meet the needs of the audience of this report.

Capital and shares issued

The bank was established with SAR (15,000,000,000) in capital, divided into 1,500,000,000 ordinary shares, with a nominal value of SAR 10 each.

Principal Activities of the Bank

Alinma provides a comprehensive range of Sharia’a-compliant banking services. It takes care of the needs of its partners and strives to provide the best possible services through (161) locations (90 for men, 67 for women and 4 sales centers) as at the end of 2018, supported by the state of the art technology, professionally trained staff, and the best electronic channels including Alinma internet www.alinma.com, Alinma phone 8001208000, Alinma mobile and the wide network of (1,485) ATMs spread across all regions of the Kingdom of Saudi Arabia.

The below table show the activities of the Bank together with their respective contribution to the Gross Revenue:

	Activity’s profit (SAR million)	Percentage%
Income from investments and financing, net	3,798	78%
Fee from banking services	731	15%
Others	316	7%
Total operating income	4,845	100%

Subsidiary Companies

Alinma Bank owns three Subsidiary Companies that are operating different business activities. Following are the corporate details of Subsidiaries:

Name of Subsidiary	Main Activity	Capital	Percentage of Ownership	Country of establishment	principal place of business
Alinma Investment Company, (a Closed Joint Stock Company)	Authorized to deal in securities as Principal as well as Agent, and to provide Underwriting, Margin Financing, custodianship, Asset Management, Advisory and Arranging services	Authorized: SAR 1,000 million, Paid Up: SAR 250 million	100%	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Tanweer Real Estate Company (a Limited Liability Company)	Facilitates mortgage financing & to hold, on behalf of the Bank, the title to real-estate owned/pledged as collateral against financing extended by the Bank	SAR 100,000	100%	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Alinma Insurance Agency for Cooperative Insurance (a Limited Liability Co.)	The company operates under the relevant SAMA Regulations and the Sharia’a provisions. It acts as an insurance agency for Alinma Tokyo Marine (associate company)	SAR 3 million	100%	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

The below table summarizes the Operational activities and gross revenue of the Subsidiary Companies together with their contributions to the Bank's results:

	Activity's profit (SAR million)	Percentage%
Fund Management	255	72%
Investment banking and brokerage	24	7%
Others	73	21%
Total operating income	352	100%

Shares and Debt Instruments issued by each Subsidiary Companies

Name of Subsidiary Company	Shares		Debt Instruments	
	Number of Shares	Bank's Ownership	Number of Debt Instruments	Bank's Ownership
Alinma Investment Company	25,000,000	100 %	-	-
Tanweer Real Estate Company	10,000	100 %	-	-
Alinma Insurance Agency for Cooperative Insurance	300,000	100 %	-	-

Credit Rating of the Bank

During 2018, Fitch Rating has reaffirmed the credit rating for Alinma Bank as (BBB+) with a stable outlook.

Financial highlights

Financial highlights of the Bank for the last five years are given below:

(SAR Million)

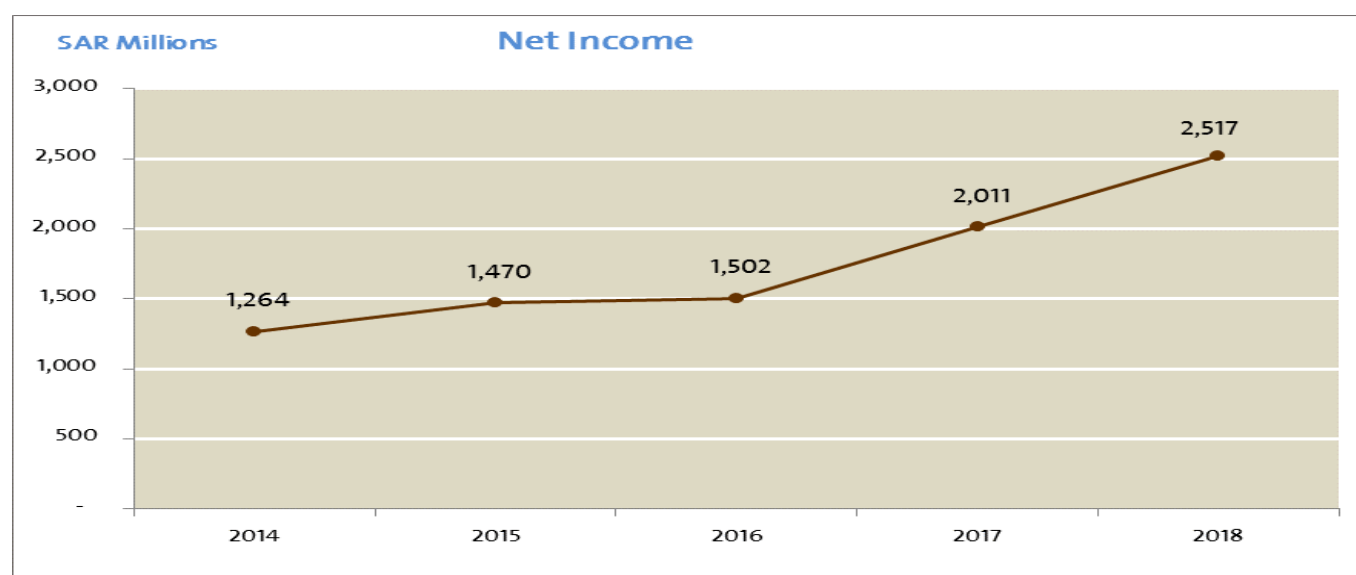
Financial Position	2018	2017	2016	2015	2014
Financing, net	83,685	79,063	70,312	57,006	53,637
Investments	18,399	15,066	6,157	6,468	8,036
Total Assets	121,333	114,752	104,730	88,725	80,862
Customers' Deposits	90,128	89,065	80,612	65,695	59,428
Total Liabilities	100,036	94,408	85,551	70,372	62,923
Shareholders' Equity	21,298	20,344	19,178	18,352	17,939

(SAR Million)

Operating Results	2018	2017	2016	2015	2014
Income from investment and financing	3,798	3,493	2,652	2,279	2,075
Fee, Exchange and other income	1,047	880	676	784	545
Total operating income	4,845	4,373	3,328	3,063	2,620
Operating expenses	(1,861)	(1,751)	(1,513)	(1,285)	(1,194)
Net income before provisions	2,984	2,622	1,815	1,778	1,426
Provision for financing and other assets	(467)	(611)	(313)	(308)	(162)
Net Income	2,517	2,011	1,502	1,470	1,264

Operating Results

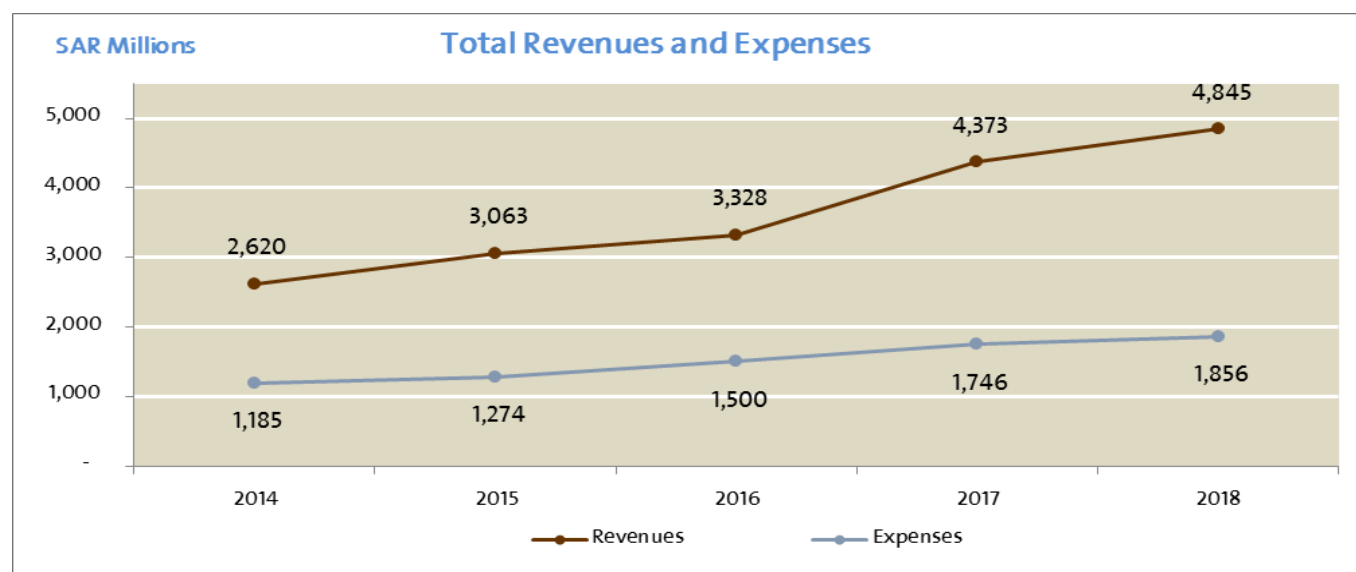
The Bank registered a net income of SAR 2,517 million for the financial year ended December 31, 2018 compared to SAR 2,011 million earned during 2017 registering a growth of 25%.



The growth in net income compared to previous year was mainly due to the growth in financing and investments portfolio and increase in other core banking activities.

Total operating income for the year ended December 31, 2018 amounted to SAR 4,845 million compared to SAR 4,373 million last year, showing a growth of 11%. Income from investment and financing increased to SAR 3,798 million reflecting a growth of 9% over SAR 3,493 million earned last year. Income from Fee, Exchange and Equity Investments also registered a cumulative growth of 19% to reach to SAR 1,047 million compared to SAR 880 million earned last year. On the other hand, the Operating expenses increased relatively at a lower pace of 6% to reach at SAR 1,856 million compared to SAR 1,746 million for the previous year.

Moreover, in addition to SAR 722 million provided for on January 1, 2019 for impairment through Retained Earnings under IFRS 9, the Bank has made additional provision of SAR 467 million during the year to reach to SAR 2,505 million compared to SAR 1,503 million for last year. The Bank continued with its strategic expansion plans by adding 5 new locations for men and 4 for women; 49 new ATMs were also installed to reach total 1,485 by December 31, 2018.

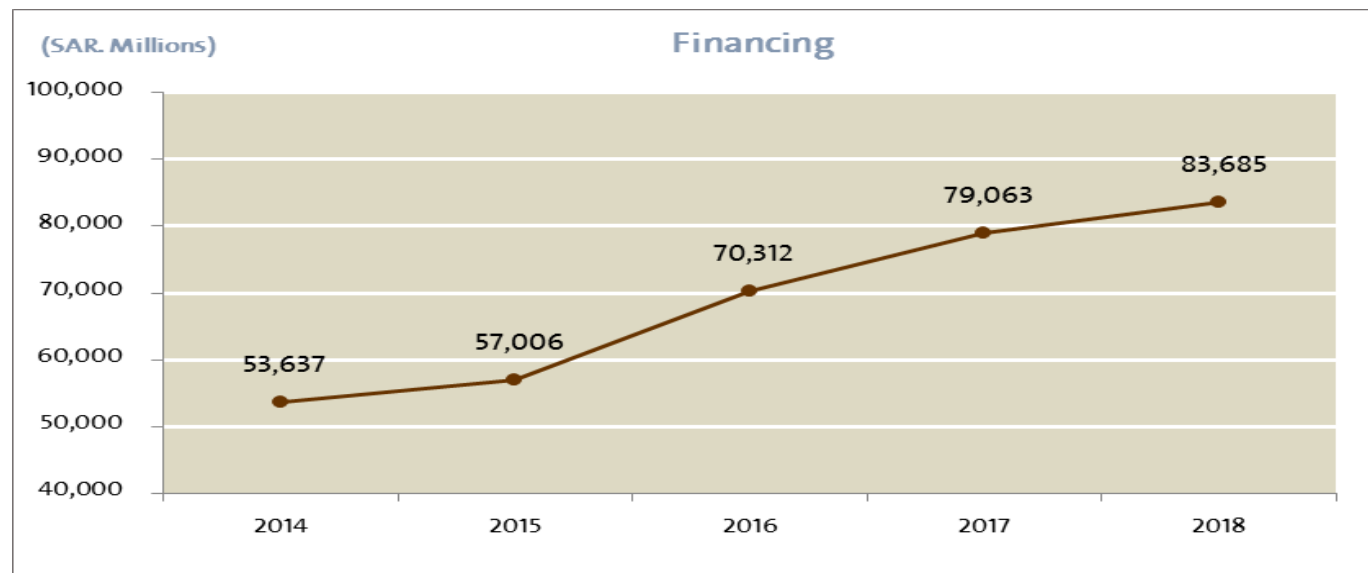
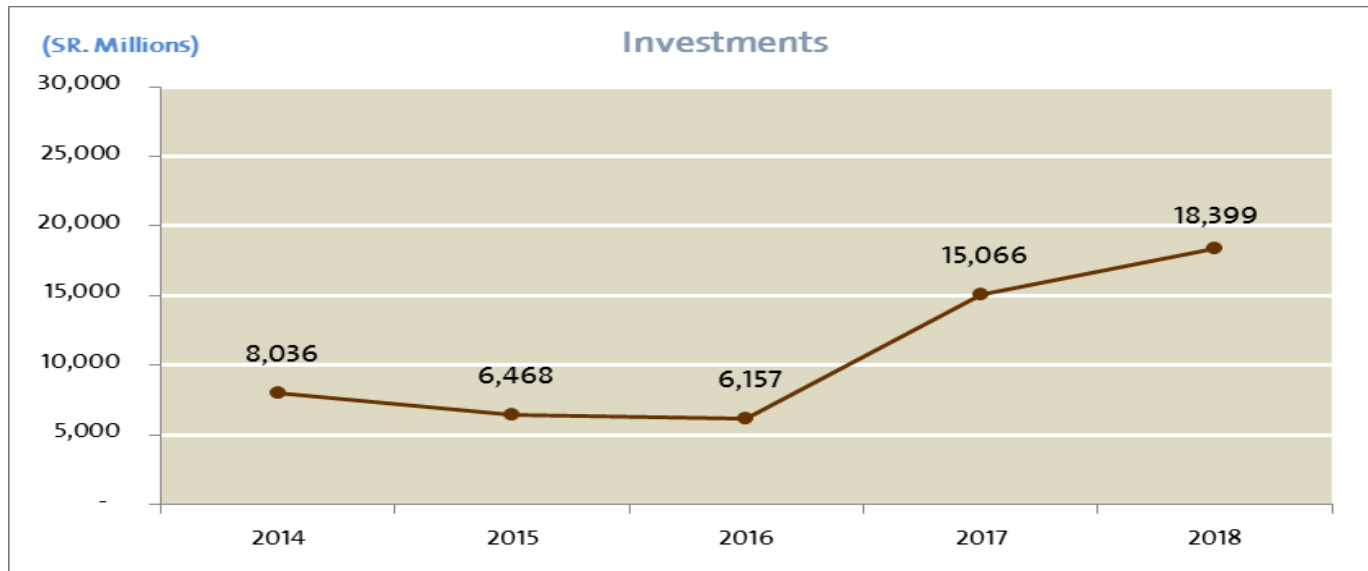


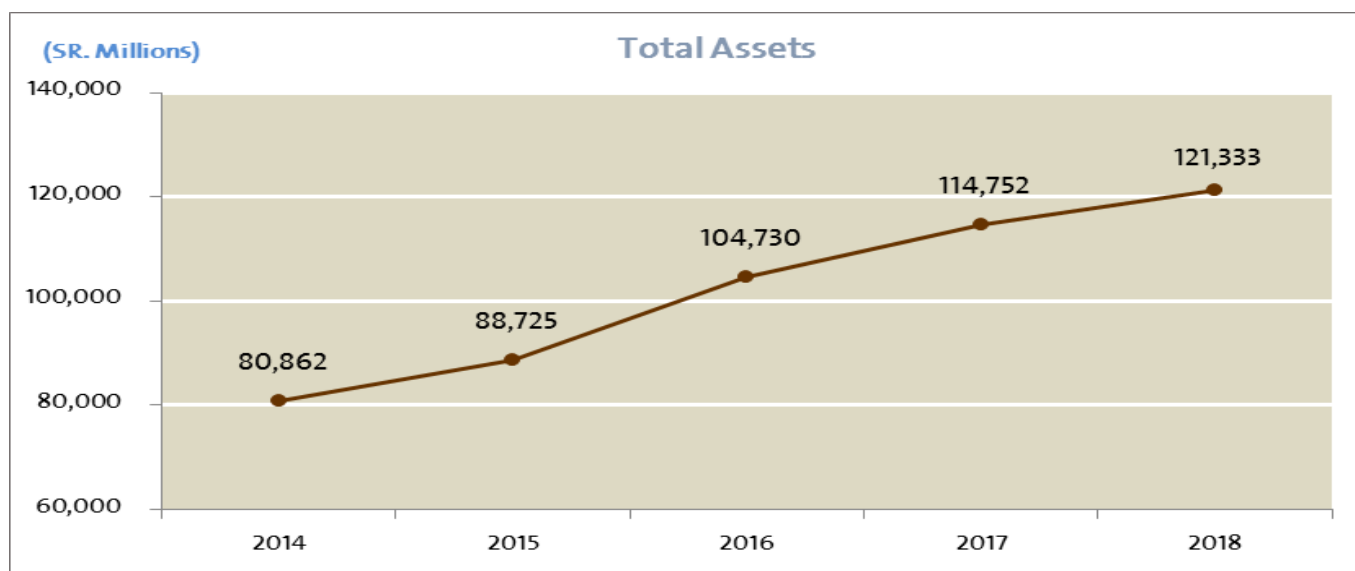
Earnings per Share

Earnings per share for the year 2018 amounted to SAR 1.69 compared to SAR 1.35 for 2017, an increase of 25%.

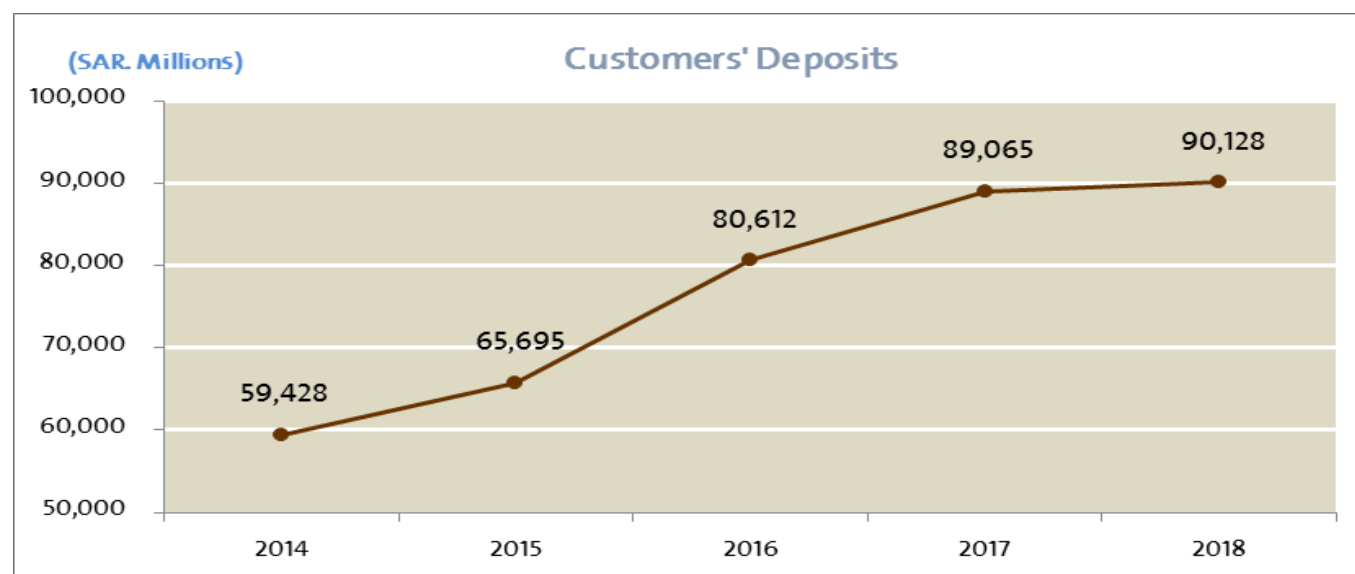
Financial Position

Investments grew by 22% to SAR 18,399 million, Financing by 6% to SAR 83,685 million while the Total Assets registered an overall growth of 6% to SAR 121,333 million as of the year ended Dec 31, 2018 compared to SAR 114,752 million last year





Further, the new methodology for computing LDR ratio prescribed by SAMA effective April, 2018 helped save costs as the Bank increased the overall deposits to SAR 90,128 million compared to SAR 89,065 million as of Dec 31, 2017.



Shareholder's equity and Capital Adequacy

The shareholders' equity rose to SAR 21,298 million at end of year 2018 compared to SAR 20,344 million as at December 31, 2017. Despite the consistent growth in financing and investments portfolio, the Bank continues to be one of the highest in the industry in terms of CAR at 21% and has significant edge over the minimum Basel requirement of 8%.

Change in Major Shareholding

Following are the change in the composition of the major shareholders holding more than 5% of the shares:

S	Name	Beginning of the year		End of the year	
		Shares	Ownership	Shares	Ownership
1	Public Pension Agency	163,337,438	10.89%	160,701,000	10.71%
2	Public Investments Fund	150,000,000	10.00%	150,000,000	10.00%
3	General Organization for Social Insurance	76,500,000	5.10%	76,500,000	5.10%

Financial Position by Segments

Following is the financial analysis across its major business segments of the Bank.

2018 - (SAR Million)

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	18,548	69,716	31,790	1,279	121,333
Total Liabilities	70,893	6,873	21,882	388	100,036
Total Operating Income	1,752	1,770	968	355	4,845

2017 - (SAR Million)

Particulars	Retail	Corporate	Treasury	Investment & Brokerage	Total
Total Assets	17,703	65,936	30,385	728	114,752
Total Liabilities	59,482	9,166	25,689	71	94,408
Total Operating Income	1,622	1,700	717	334	4,373

Geographic Analysis of Revenue

Almost the entire revenue has been derived from the banking activities in the Kingdom of Saudi Arabia. The bank's business locations are divided into five regions. The following table shows the bank's revenue allocation across regions:

SAR Million

Total revenue	Western Region	Eastern Region	Northern Region	Southern Region	Central Region	Total
Financial year ended December 31, 2018	718	440	57	48	3,582	4,845
Financial year ended December 31, 2017	641	427	41	36	3,228	4,373

Branches and ATM networks

The Bank opened 5 new locations for men, 4 for women and 4 sales centers during the year 2018 to bringing the total number of locations to 161. In addition, the Bank also added 49 new ATMs bringing the total to 1,485 ATMs by end of the year 2018.

Due to banks and other financial institutions

Total outstanding funding from the financial sector as of December 31, 2018 amounted to SAR 6,318 million and are maturing maximum by December 2019. The aggregate maximum exposure during the year was SAR 8,871 million. These borrowings represent short term interbank deposits that are used for the day-to-day liquidity management. Neither the Bank nor any of its subsidiaries has obtained any loans maturing upon demand.

Dividend Distribution Policy

As stipulated in article (43) of Alinma bank's By-Laws, the Bank distributes its net income after deducting all general expenses, other costs, providing necessary reserves for bad debts, investment losses and any other items that BOD may consider appropriate in accordance with the Banking Control Law and SAMA directives, as follows:

1. The shareholders' Zakat and tax liability is computed and paid by the bank to the concerned authorities.
2. Not less than 25% is transferred to the Statutory Reserve until such reserve becomes equal to the paid up capital.
3. At least 5% of the paid up capital may be distributed to shareholders when proposed by the Board of Directors and approved by the General Assembly. If the remaining profits are not sufficient to pay 5%, shareholders shall

have no right to claim the payment during next or subsequent year/(s).The General Assembly shall have no right to increase the dividends beyond the one recommended by the Board of Directors.

4. Remaining balance of profits (after allocating the amounts referred to in paragraphs 1, 2 and 3 above) shall be appropriated as recommended by the Board of Directors and approved by the General Assembly.
5. Based on a recommendation made from the Board of Directors, the General Assembly may allocate amounts from the net profits to establish social services for the employees of the “Bank” or to support existing services.

The Board of Directors has recommended the following appropriations, including a proposed dividend for the year 2018 amounting to SAR 1,490 million (10% of nominal value).

Particulars	2018	2017
	SAR Millions	
Net income for the year	2,517	2,011
Retained earnings-brought forward	1,897	1,666
Additions/Exclusions as per the regulatory and accounting requirements*	(259)	(70)
Amount available for appropriation	4,155	3,607
Transfer to statutory reserve (25% of net income)	(629)	(503)
Proposed Dividend for 2018	(1,490)	(1,192)
Transferred to the Social Services Reserve and Others	(45)	(15)
Retained earnings-carried forward	1,991	1,897

* The statement of Changes in Equity of the financial statements of the Bank for the year 2018 contains additional details about the movements in the Retained Earnings.

Accounting Framework

The International Financial Reporting Standards (IFRS), SAMA guidance on accounting for Zakat, provisions of the Banking Control Law and Regulations for Companies in the Kingdom of Saudi Arabia have been followed in preparation of financial statements.

Financial Reporting

The Board of Directors confirms the following:

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Appropriate accounting policies have been consistently applied in preparation of financial statements, except for the changes as disclosed in note 3 to the Financial Statements. Key accounting estimates, judgments and assumptions as used in the preparation of financial statements have been duly disclosed under note 2 (d) to the Consolidated Financial Statements.
3. Proper books of accounts have been maintained as required by law.
4. The system of internal controls is sound in design and has been effectively implemented.
5. There are no doubts about the Bank’s ability to continue as a going concern.
6. Apart from the information provided in note (33) to the consolidated financial statements, there are no contracts entered into by the Bank during the financial year 2018, in which any of the members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer or any other related party has any material interest.

Board of Directors

The Bank is being managed by a Board of directors consisting of nine (9) members who are appointed by the shareholders in Ordinary General Assembly for a period of 3 years.

Qualifications, Jobs and Experience of Board Members:

Name	Current Jobs	Previous Jobs	Qualifications
Eng. AbdulAziz Abdullah Al-Zamil (Board of Directors' Chairman)	Chairman of Al-Zamil Group	Minister of Industry and Electricity, Managing Director – SABIC, Deputy General Manager of the Center for Research and Social Development.	Master of Industrial Engineering – University of Southern California
Dr. Saad Attia Al-Ghamdi (Board of Directors' Deputy Chairman)	First Deputy Chairman - Abdul Latif Jameel Limited company	General Manager - Saudi Public Transport Company "SAPTCO", General Manager - The National Shipping Company of Saudi Arabia (Bahri)	Ph.D. Philosophy and Accounting - Oklahoma State University
Mr. AbdulMohsen Abdul Aziz Al-Fares (CEO - Managing Director)	Chief Executive Officer - Alinma Bank.	General Manager of Abdul Latif Jameel Financial Services Co., General Manager of General Authority of Zakat and Tax, Manager of General Accounting Dept. - SAMA, Assistant Manager of Internal Audit - SAMA.	Master of Accounting - Western Illinois University, (CPA) from USA.
Dr. Hamad Suleiman Al-Bazai	Deputy Minister of Finance	Undersecretary of Ministry of Finance for Economic Affairs, General Coordinator for (GCC) negotiations	Ph.D. Economics - Colorado State University.
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	Director of Local Shares Trading- Hassana Investment Company	Senior Financial Analyst at GOSI.	Bachelor of Accounting – King Saud University
Mr. Saad Ali Al-Kathiry	Financial Adviser - Public Pension Agency	Internal Controller - Public Pension Agency, Economic Adviser - Undersecretary of Ministry of Finance for International Financial Affairs, Finance division supervisor - Public Pension Agency, Financial Controller - Ministry of Finance	Master of Accounting - University of Dundee
Eng. Mutlaq Hamad Al Morished	CEO of National Industrialization Company (Tasnee)	Executive Vice President, Finance – SABIC Executive Vice President, Shared Services – SABIC	Master of Business Administration - Stanford University Master of Engineering - Princeton University
Mr. Khalid Mohammed Al-Aboodi	Managing Director- Saudi Agricultural and Livestock investment company (SALIC)	CEO of Islamic corporation for the development of the private sector - Islamic Development Bank, Deputy CEO of Islamic corporation for the development of the private sector - Islamic Development Bank, Senior Economists – Ministry of Finance, Alternate Executive director for Saudi Arabia - The World Bank	Master of Economics - Northeastern University
Mr. Mohammed Sulaiman Abanumay	Businessman	CEO of Abanumay Industrial Est.	Bachelor of Business Administration - Southern Illinois University

Qualifications, Jobs and Experience of the Non-Board Committee Members:

Name	Current Jobs	Previous Jobs	Qualifications
Dr. Saud Muhammad Al Nemer	Professor – Retired	Dean of College of Business Administration	PhD in Public Administration - Florida State University
Dr. Ahmed Abdullah Al Moneef	Faculty Member, Accounting Department, King Saud University	Lecturer, Accounting Department - King Saud University, Assistant Account Auditor – Saudi Industrial Fund.	PhD in Accounting and Finance - University of Dundee

Board of Directors' Meetings

The Board held five (5) meetings during the financial year 2018 as shown in the table below:

Member Name	Membership status	Other Directorship	Meetings Date					Total
			06/02/2018	10/04/2018	15/05/2018	27/09/2018	09/12/2018	
Eng. AbdulAziz Abdullah Al-Zamil (Chairman)	Independent	Al-Sahara, Sipchem, & Al-Zamil Group	√	√	√	√	-	4
Dr. Saad Attia Al-Ghamdi (Deputy Chairman)	Independent	-	√	√	-	√	√	4
Mr. AbdulMohsen Abdul Aziz Al-Fares, Managing Director/ (CEO)	Executive	Alinma Investment Co, Alinma Tokyo Marine Co, Ersal Money Transfer	√	√	√	√	√	5
Dr. Hamad Suleiman Al-Bazai	Non- Executive	Southern Province Cement Co, Tatweer Company	√	√	√	√	√	5
Mr. Saad Ali Al-Kathiry	Non- Executive	Saudi Industrial Investment Group	√	√	√	√	√	5
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	Non- Executive	-	√	√	√	√	√	5
Eng. Mutlaq Hamad Al Morished	Independent	Alinma Tokyo Marine Co, City Group, Maadaniyah Co.	√	√	√	√	√	5
Mr. Khalid Mohammed Al-Aboodi	Independent	ANFAAL Capital, Saudi Agricultural and Livestock investment company (SALIC)	√	√	√	√	√	5
Mr. Mohammed Sulaiman Abanumay	Independent	-	√	√	√	√	√	5

Committees of the Board of Directors

The Board has formed various committees to assist in discharging its duties and responsibilities, as follows:

- Executive Committee
- Nominations and Remuneration Committee
- Audit Committee
- Risk Management Committee

Executive Committee

The Executive Committee has been formed by the Board of Directors, as stipulated by Article (20) of the Bank's Articles of Association. The Executive Committee exercises all powers conferred upon it by the Board of Directors. The committee is composed of five (5) members and headed by the Chairman of the Board of Directors. Its meetings are deemed valid if attended by at least three (3) members.

The committee held eight (8) meetings during the financial year 2018 as shown in the table below:

Name	Meeting date								Total
	30/01/2018	13/03/2018	03/04/2018	15/05/2018	11/09/2018	27/09/2018	31/11/2018	09/12/2018	
Eng. AbdulAziz Abdullah Al-Zamil (Chairman)	√	√	√	√	√	√	√	-	7
Mr. AbdulMohsen Abdul Aziz Al-Fares	√	√	√	√	√	√	√	√	8
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	√	√	√	√	√	√	√	√	8
Mr. Khalid Mohammed Al-Aboodi	√	√	√	√	-	√	√	√	7
Mr. Mohammed Sulaiman Abanumay	√	√	√	√	√	√	√	√	8

Nominations and Remuneration Committee

The Benefits and Compensations Committee has been formed by the Board of Directors and is composed of four (4) members. The Committee is responsible for nominating Board members and ensuring their independence. It is also responsible to formulate policies for benefits and compensation of Board members and senior executives.

Two meetings were held during the financial year 2018, and were attended by members as shown in the table below:

Name	Meeting date		Total
	29/01/2018	27/09/2018	
Dr. Saad Attia Al-Ghamdi (Chairman)	√	√	2
Mr. Saad Ali Al-Kathiry	√	√	2
Eng. Mutlaq Hamad Al Morished	√	√	2
Mr. Mohammed Sulaiman Abanumay	√	√	2

Audit Committee

The Audit Committee is composed of three (3) non-executive members, two of them are independent on- Board members. It is responsible for review of the financial statements and accounting policies, supervision of the internal audit function, and to recommend the appointment of external auditors. The committee held five (5) meetings during the financial year 2018 as shown in the following table:

Name	Meeting date					Total
	24/01/2018	27/03/2018	15/04/2018	16/07/2018	15/10/2018	
Dr. Saad Attia Al-Ghamdi (Chairman)	√	√	√	√	√	5
Dr. Saud Muhammad Al Nemer *	√	√	√	√	√	5
Dr. Ahmed Abdullah Al Moneef *	√	√	√	√	√	5

* Not Board member

Risk Management Committee

Risk Management Committee has been formed to assist the Board in overseeing the enterprise risk management process and to discharge other related responsibilities. The Risk Management Committee is composed of four (4) members. It has held two (2) meetings during the financial year 2018 as shown in the following table:

Name	Meeting date		Total
	05/02/2018	17/10/2018	
Dr. Hamad Suleiman Al-Bazai (Chairman)	√	√	2
Mr. AbdulMohsen Abdul Aziz Al-Fares	√	√	2
Mr. Saad Ali Al-Kathiry	√	√	2
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	√	√	2

Sharia'h Board

Alinma Bank is committed to conduct its business in compliance with Sharia'h. Article (50) of the Articles of Association stipulates that "all the company's business shall be subject to the provisions and controls of Sharia'h". The bank appointed a Sharia'h Board to provide guidance, supervision and monitoring of all business conducted by the Bank. The Sharia'h Board has the following three members, all of whom are specialized in the jurisprudence of Islamic finance and economics:

- Dr. Abdul Rahman Ben Saleh Al Atram – Chairman
- Dr. Abdullah Ben Wakeel Al Sheikh – Deputy Chairman
- Dr. Suleiman Ben Turkey Al Turkey – Member
- Dr. Yousef Ben Abdullah Al-Shubaily – Member

To achieve its objectives, Sharia'a Board is supported by Sharia'a group, which is one of the important groups within the organizational structure of the Bank.

Executive Management

The executive management is composed of a number of executives headed by the CEO who manage the day-to-day business of the Bank.

Qualifications, Jobs and experience of Executive Management:

	Name	Current Jobs	Previous Jobs	Qualifications
1	Mr. AbdulMohsen Abdul Aziz Al-Fares (CEO - Managing Director)	Chief Executive Officer - Alinma Bank.	General Manager of Abdul Latif Jameel Financial Services Co. General Manager of General Authority of Zakat and Tax, Manager of General Accountant Dept. – SAMA, Manager of Internal Audit – SAMA.	Master of Accounting - Western Illinois University, (CPA)
2	Mr. Ibrahim Suleiman AlSayari	VP, Retail Banking Group	General Manager Information Technology and Operations- Alinma Bank, Head of Data Security, Systems Analyst at Saudi Arabian Monetary Agency.	Computer Science - Boston University
3	Mr. Emad AbdulRahman AlButairi	VP, Corporate Banking Group	General Manager Corporate Banking- Bank Albilad, Head of Commercial Banking -Eastern Region NCB, Head of Corporate Banking Services United Saudi Commercial Bank	Master of Business Administration – King Fahad University
4	Mr. Abdullah Jamaan Al Zahrani	VP, Treasury Group	Head of Investment and Treasury-Gulf International Bank, Senior Deputy Treasurer-Riyad Bank, Assistant General Manager of Portfolios-ANB	Bachelor of Industrial Management – King Fahad University
5	Mr. Meshary AbdulAziz AlJubair	VP, Shared Services	General Manager-Information Technology-Alinma Bank, Deputy General Manager- Information Technology-Alinma Bank, Head of Information Security-Saudi Telecom Company, Head of the Systems Section-Saudi Arabian Monetary Authority	Bachelor of Science-Computer Engineering-King Saud University
6	Mr. Fahad Mohammed AlSemari	VP, Strategy and Business Excellence	GM-Retail Banking Group Alinma Bank, General Manager of Retail Banking – ANB, Deputy General Manager of Banking Systems Development – ANB.	Master of Business Administration - Washington University
7	Mr. Felipe Montalban Cortijos	CRO & VP, Risk Management	Head of Risk – Central Region – SAMBA. Deputy Manager Risk – Central Region – SAMBA, Head of Corporate Risk and advisor – SAMBA.	Master of Business Administration - University of Manila
8	Mr. Muhammad Iqbal Ibrahim	General Manager Finance Division.	CFO and Executive Vice President of Finance at Faysal Bank Ltd. – Pakistan. CFO and Company Secretary at Prudential Group – Pakistan, CFO and Company Secretary at Group Dawood - Pakistan	-Bachelor of Commerce from Karachi University, Pakistan, Fellow Member of the Institute of Chartered Accountants of Pakistan (FCA).
9	Dr. Sulaiman Ali AlHudaif	General Manager Human Capital Division	CEO of Elite World Co for Professional Recruitment and Human Resource Services, Vice President of Human Resources Group Samama, Head of Human Resources and Development Al Rajhi Bank.	Ph.D. Business Administration – Lyceum Northwestern University
10	Dr. Mohammed Sultan Alsehali	General Manager, Internal Audit	Executive Manager-PwC, Head of Accounting Department, King Saud University, Head of the Control Project Team – KSU.	Ph.D. Accounting
11	Mr. Ghurmallah Khader Al-Zahrani	General Manager, Operations Division	Deputy General Manager, Corporate Banking Operations, Alinma Bank, Assistant General Manager, Operations and Technology Samba, Senior Operations and Technology Manager, Samba	High School

Notifying the Board of Directors of shareholders' suggestions and observations:

The Board of Directors' are regularly updated on all comments and suggestions received from the shareholders

Boards' Remunerations

Members of Board of Directors		First: Independent Directors					Second: Non- Executive Directors					Third: Executive Directors	
		Eng. Abdulkaziz Abdullah AlZamil	Dr. Saad Atta Al-Chamdi	Mr. Khalid Mohammed Al-Othidi	Mr. Mohammed Sulaiman Al-Anamny	Total	Dr. Hamad Sulaiman Al-Bazal	Mr. Saad Ali Al-Kathby	Mr. Abdulmuhsein Abdul Kazz Al-Husein	Eng. Muhib Hamad Al-Morished	Total	Mr. Abdulmuhsein Abdul Kazz Al-Fares	Total
Fixed remunerations	Specific amount	-	450,000	450,000	439,000	1,339,000	450,000	450,000	439,000	450,000	1,789,000	-	-
	Allowance for attending Board meetings	12,000	12,000	15,000	15,000	54,000	15,000	15,000	15,000	15,000	60,000	15,000	15,000
	Total Allowance for attending committee meetings committee	30,000	21,000	35,000	46,000	132,000	6,000	12,000	46,000	6,000	70,000	46,000	46,000
	In-kind benefits	-	-	-	-	-	-	-	-	-	-	-	-
	Remunerations for technical, managerial and consultative work	-	-	-	-	-	-	-	-	-	-	-	-
	Remunerations of the chairman, Managing Director or Secretary, if a member	450,000	-	-	-	450,000	-	-	-	-	-	439,000	439,000
	Total	492,000	483,000	500,000	500,000	1,975,000	471,000	477,000	500,000	471,000	1,919,000	500,000	500,000
Variable remunerations	Percentage of the profits	-	-	-	-	-	-	-	-	-	-	-	
	Periodic remunerations	-	-	-	-	-	-	-	-	-	-	-	
	Short-term incentive plans	-	-	-	-	-	-	-	-	-	-	-	
	Long-term incentive plans	-	-	-	-	-	-	-	-	-	-	-	
	Granted shares	-	-	-	-	-	-	-	-	-	-	-	
	Total	-	-	-	-	-	-	-	-	-	-	-	-
End-of-service award	-	-	-	-	-	-	-	-	-	-	-	-	
Aggregate Amount	492,000	483,000	500,000	500,000	1,975,000	471,000	477,000	500,000	471,000	1,919,000	500,000	500,000	
Expenses Allowance	-	11,960	1,522	-	13,482	-	-	-	-	-	-	-	

Board Members and Executive Management Compensation Policy

The Bank complies with the provisions of the Companies Law and instructions issued by supervisory authorities on the banking sector in the Kingdom of Saudi Arabia. Total remuneration received by a Board member during the fiscal year, including financial or in-kind benefits and privileges, shall not exceed SAR 500,000 in total. Compensations of employees and senior executives shall be determined in accordance with contracts, policies, and resolutions approved by the Board of Directors in this regard in light of relevant rules and regulations issued by supervisory bodies on the banking sector in the Kingdom of Saudi Arabia.

Remuneration of Members of Committees

	Fixed Remuneration (Except for the allowance for attending Board meetings)	Allowance for attending Board meetings	Total SAR
Audit Committee Members			
Dr. Saad Attia Al-Ghamdi	-	15,000	15,000
Dr. Saud Muhammad Al Nemer	100,000	15,000	115,000
Dr. Ahmed Abdullah Al Moneef	100,000	15,000	115,000
Total	200,000	45,000	245,000
Nomination and Remuneration Committee Members			
Dr. Saad Attia Al-Ghamdi	-	6,000	6,000
Mr. Mohammed Sulaiman Abanumay	-	6,000	6,000
Eng. Mutlaq Hamad Al Morished	-	6,000	6,000
Mr. Saad Ali Al-Kathiry	-	6,000	6,000
Total	-	24,000	24,000
Risk Committee Members			
Dr. Hamad Suleiman Al-Bazai	-	6,000	6,000
Mr. AbdulMohsen Abdul Aziz Al-Fares	-	6,000	6,000
Mr. Saad Ali Al-Kathiry	-	6,000	6,000
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	-	6,000	6,000
Total	-	24,000	24,000
Executive Committee Members			
Eng. AbdulAziz Abdullah Al-Zamil	-	30,000	30,000
Mr. AbdulMohsen Abdul Aziz Al-Fares	-	40,000	40,000
Mr. AbdulMuhsin Abdul Aziz Al-Hussein	-	40,000	40,000
Mr. Mohammed Sulaiman Abanumay	-	40,000	40,000
Mr. Khalid Mohammed Al-Aboodi	-	35,000	35,000
Total	-	185,000	185,000

Remunerations of Senior Executives

Top Six Senior Executives who received the highest compensation and remuneration from the bank, including the CEO and CFO		Total SAR
Fixed remunerations	Salaries	14,595,029
	Allowances	3,447,252
	In-kind benefits	-
	Totals	18,042,281
Variable remunerations	Periodic remunerations	8,415,173
	Profits	-
	Short-term incentive plans	-
	Long-term incentive plans	-
	Granted shares (Market value at the vesting date)	1,349,833
Totals	9,765,006	
End-of service award		5,407,035
Total remunerations for Board executives		439,000
Aggregate Amount		33,653,322

Ownership of the Bank's shares by the Chairman and members of the Board of Directors and Senior Executives and their spouses and minor children

Description of all ownership by members of the Board of Directors, their spouses and minor children in the shares, Sukuks and other instruments issued by the Bank or any of its subsidiaries

S	Member's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Eng. AbdulAziz Abdullah Al-Zamil	990,572	-	990,572	-	-	-
2	Mr. AbdulMohsen AbdulAziz Al-Fares	641,000	-	710,000	-	69,000	10.76%
3	Mr. Saad Ali Al-Kathiry	1,290	-	1,290	-	-	-
4	Dr. Saad Attia Al-Ghamdi	10,143	-	10,143	-	-	-
5	Mr. Mohammed Sulaiman Abanumay	120,859	-	120,859	-	-	-
6	Dr. Hamad Suleiman Al-Bazai	46,000	-	46,000	-	-	-
7	Eng. Mutlaq Hamad Al Morished	21,000	-	21,000	-	-	-
8	Mr. Khalid Muhammad Al Obudi	1,000	-	1,000	-	-	-

Description of all ownership by senior executives, their spouses and minor children in the shares, Sukuks and other instruments issued by the Bank or any of its subsidiaries

S	Senior executive's Name	Beginning of the year		End of the year		Net change	% change
		No. of Share	Sukuks	No. of Share	Sukuks		
1	Mr. Ibrahim Suleiman AlSayari	18,300	-	36,600	-	18,300	100%
2	Mr. Emad AbdulRahman AlButairi	114,759	-	134,859	-	20,100	17.51%
3	Mr. Abdullah Jamaan Al Zahrani	6,359	-	3,359	-	(3,000)	(47.18%)
4	Mr. Meshary AbdulAziz AlJubair	-	-	86,086	-	86,086	100%
5	Mr. Fahad Mohammed AlSemari	90,950	-	-	-	(90,950)	(100%)
6	Mr. Muhammad Iqbal Ibrahim	7,500	-	15,000	-	7,500	100%
7	Dr. Mohammed Sultan AlSehali	1,200	-	1,200	-	-	-

Legal Penalties and Sanctions

The bank has not been imposed to any material penalties during the year. Following are the penalties imposed on Alinma bank during 2018:

First: SAMA penalties:

Violation	Current Financial Year	
	Number of penalties	Total amount of financial penalties in Saudi Riyals
Violation of Supervisory directives	3	275,000
Violation of directives for conducting due diligence related to the Anti- Money laundering and the Financing of Terrorism	1	145,000

Second: Sanctions and penalties imposed by other supervisory bodies:

Penalties amount SAR	Violation reason	Regulator
10,600	Not obtaining the required licenses	Riyadh Region Municipality
668,000	ATM rooms space rules and advertisement posters	Riyadh Region Municipality

These penalties were mainly related to operational issues that have been rectified subsequently.

Corporate Governance provisions implementation

In general, the bank ensures compliance with the guidance provided by the Corporate Governance Regulations issued by the Capital Market Authority as well as the Saudi Arabian Monetary Authority (SAMA).

Social contribution to the Society

The Extraordinary General Assembly of the Bank approved on April 6th 2017 an allocation not exceeding 1% of the net profit each year towards a Reserve for Community Service. The above Reserve will be utilized as per criteria and approved procedures prescribed by Board.

During the year 2018, following payments have been made by the bank:

S	Social contribution	Amount (SAR)
1	Alinma Bank contribution in the Committee for Information and Banking Awareness - KAFALA Program	1,289,497
2	Donation to the King Abdulaziz Endowment library compound in Medina	3,000,000
3	Donation to the Wareef Endowment Fund – King Faisal specialist hospital	1,000,000
	Total	5,289,497

General Assembly Meetings during the year

The General Assembly held an extra ordinary meeting during the year 2018. Following table provides the names of the members of the Board who attended the meeting:

Attendance *		
	Name	Assembly meeting 10/04/2017
1	Eng. AbdulAziz Abdullah Al-Zamil	√
2	Dr. Saad Attia Al-Ghamdi	√
3	Mr. AbdulMohsen Abdul Aziz Al-Fares	√
4	Mr. AbdulMuhsin Abdul Aziz Al-Hussein	√
5	Mr. Saad Ali Al-Kathiry	√
6	Dr. Hamad Suleiman Al-Bazai	√
7	Eng. Mutlaq Hamad Al Morished	√
8	Mr. Khalid Mohammed Al-Aboodi	√
9	Mr. Mohammed Sulaiman Abanumay	√

Regulatory accrued obligation

The estimated Zakat for the financial year ended December 31, 2018 amounted to SAR 217 million while the withholding tax and VAT payable at the end of financial year 2018 amounted to SAR 1 million and SAR 3 millions respectively.

As a major event, during the year the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle all pending Zakat appeals/assessments until the financial year ended 2017. Consequently, a net refund of SAR 263 million is due from GAZT, which will be settled from future zakat liabilities. The Bank has also withdrawn all pending appeals against the above assessment years.

As a result of above settlement, an amount of SAR 556 million has been credited to retained earnings.

Further, the Zakat for the year ended December 31, 2018 has been agreed to be calculated using the same basis as for the settlement of past years.

Staff Benefits

Benefits and compensation are paid to employees in accordance with the provisions of the Saudi Labor Law. As at December 31, 2018, the accumulated balance due to employees on account of the end of service benefits obligation amounted to SAR 287 million. Additionally, the Bank and its employees make monthly contributions towards the General Organization for Social Insurance (GOSI) for staff welfare as per the Saudi Labor Law.

Treasury Shares

As required by the CMA new guidance document, below are the details of treasury shares held by the Bank along with its intended use in future.

Number of treasury shares held by the Bank as on December 31, 2018	Value	Date of acquisition	Usage details
10,036,372	103,475,000	2012	For future Employee share based plans

Shareholders' Records Requests

Below are the details of the number and dates of the Company's requests for the Shareholders Records:

Number of Shareholders Records requests	Date of request	Reasons
1	12/04/2018	For responding to the queries received from shareholders about their dividends
2	18/12/2018	For the preparation of the Board of Directors' Report for 2018

Transactions with related parties

Following are transactions with related parties being the Board members of the Bank Mr. AbdulMohsen Abdul Aziz Al-Fares and Eng. Mutlaq Hamad Al Morished, and an executive of the bank Mr. Fahad Mohammed AlSemari who have an indirect interest as a members of the Board of Directors of Alinma Tokyo Marine Company. The bank owns 28.75% of the shares in Alinma Tokyo Marine Company as shown in the below table:

To be updated later.

Related party	Relation type	Transaction type	Duration	Value
Alinma Tokyo Marine Co	Contractual	A Service Level Agreement between the Company and the Secretariat of the Shari'a Board of Alinma Bank	1 Year	Transactions in 2018 amounted to SAR 75 thousand
	Contractual	Hosting the systems infrastructure of Alinma Tokyo Marine Co, under which Alinma Bank hosts the company's data	5 Years	SAR 831,321 per annum
	Contractual	Renting a site from Al Tanweer Company (owned by Alinma Bank) to be used for archiving works	5 Years	SAR 65,500 per annum
	Contractual	Insurance	1 Year	The transactions in 2018 were related to the issuance of insurance policies for the bank with a total amount of SR 28,934 thousand and claims in the amount of SR 16,822 thousand
Alinma Tokyo Marine Co and Alinma Insurance Agency	Contractual	Insurance agency commission to AIA (owned by Alinma Bank)	1 Year	The transactions made in 2018 through an agreement for commission to the insurance agency with total premiums of SAR 1,807 thousand
Alinma Tokyo Marine Co and Alinma Investment Co.	Contractual	Investment Agreement	1 Year	The transactions made in 2018 as an investment agreement of SAR 34,085 thousand

Waiver of rights/interest by Board Members, Senior Executives or Shareholders

The Bank does not have any information about any arrangement or agreement by virtue of which any Board member(s), senior executive(s) or Shareholder(s) has waived its right to receive dividend or any other interest in the Bank.

Internal Control System

The management is responsible for establishing and maintaining an adequate and effective system of internal controls for implementing strategies and policies as approved by Board of Directors. The system of internal controls is based on what management considers to be appropriate for the Bank's activities, considering the materiality of the financial and other risks inherent in those activities and the relative costs and benefits of implementing specific controls. It is designed to manage rather than eliminate the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against material misstatement and loss. In addition, the General Assembly has formed an Audit Committee, which periodically reviews the reports submitted by the internal/external auditors. Such reports also include the evaluation of the effectiveness or otherwise of the internal controls. In view of the above, we believe that the bank has a reasonably sound and effective system of internal controls in force, both in design and implementation. During the year, there have been no material observations in respect of the effectiveness of internal control system and procedures of the Bank.

Work ethics

Since its inception, Alinma Bank has been pursuing a business environment which is committed to the highest ethical standards stemming from the rules, regulations and guidance issued by the Sharia and regulatory authorities. It is continuously striving to inculcate amongst its employees the ethics to improve service quality for its partners. The Bank also encourages its employees through training and awareness programs to demonstrate accountability, honesty, innovation and respect to all partners and colleagues at work, together with avoiding any acts that may contradict the Islamic values, the bank image or regulations and supervisory controls.

Risk identification and Management:

During normal course of business, the Bank is exposed to various risks. Systems and procedures are in place in Alinma to identify, control and report the major risks that could be encountered by the bank. The major risk types that might be encountered by the bank are as follows:

Credit risk:

Credit risk is the risk that counterparty may fail to meet its obligations towards the Bank and, therefore, could result in a financial loss for the Bank. The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies and procedures which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, review and approval process, concentration limits in addition to the day to day account management.

Market risk:

Market risk is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.

The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the Market risks including liquidity risk of the bank.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity into consideration, maintaining an adequate balance of cash and cash equivalents.

Exposure to above mentioned risks is monitored by various committees of directors and management. The Board of Directors has also constituted a Risk Management Committee to assist the Board in overseeing the Enterprise risk management process and to discharge related responsibilities. A detailed discussion on significant risks and mitigation strategies is included in notes 25 to 30 of attached consolidated financial statements.

Small and Medium Enterprises

SMEs shall be defined as follows:

Type of Enterprise	Revenues	Staff
Micro Enterprise	0 to 3 M	1 to 5
Small Enterprise	3 to 40 M	6 to 49
Medium Enterprise	40 to 200 M	50 to 249
Large Enterprise	Above	

Total number of employees in the SME sector in the bank stood at 34 employees at the end of the fiscal year 2018. During the year, the bank focused on developing the business of the SME sector through:

- Expanding the SME services in all regions of the Kingdom of Saudi Arabia
- Expansion through Kafalah program for financing Small and Medium Enterprises;
- Designing and developing new products and services tailored to meet the needs of the SME sector
- Designing and implementing unique training programs targeting partners, employees, and fresh graduates in order to train and prepare them to serve the SME sector. Training days were as follows:

Type of Enterprise	Revenues	No of Training Day
Number of man-days training provided to staff		9,090 man-days training provided for which 174 were for SME
Number of man-days training provided to partners		3 man-days training provided all for SME

The following are the main performance indicators of the SME sector during the year 2018 compared to 2017:

	2018 (SAR Thousand)				
	Micro Enterprise	Small Enterprise	Medium Enterprise	Large Enterprise	Total
Small and Medium enterprises Financing - On Balance Sheet	-	124,977	1,566,859	864,105	2,555,941
Small and Medium enterprises Financing - Off the Balance Sheet	-	17,348	133,424	121,631	272,403
SMEs Financing as a percentage of total financing on Balance Sheet	-	0.15%	1.87%	1.03%	3.05%
SMEs Financing as a percentage of total financing - off Balance Sheet	-	0.14%	1.06%	10%	2.17%
Number of Financing transactions (on/off Balance Sheet)	-	65	759	420	1,244
Number of Financing customers (on/off Balance Sheet)	-	12	113	39	164
Number of Financing transactions guaranteed by Kafalah program	2	35	1	-	38
Total Financing amount guaranteed by Kafalah program	1,261	49,113	2,000	-	52,374

	2017 (SAR Thousand)				
	Micro Enterprise	Small Enterprise	Medium Enterprise	Large Enterprise	Total
Small and Medium enterprises Financing - On the Balance Sheet	-	185,570	1,320,004	912,000	2,417,573
Small and Medium enterprises Financing - Off the Balance Sheet	-	7,590	106,586	95,450	209,626
SMEs Financing as a percentage of total financing on the financial position	-	0.23%	1.67%	1.15%	3.06%
SMEs Financing as a percentage of total financing off the financial position	-	0.07%	0.95%	0.85%	1.87%
Number of Financing transactions (on/off Balance Sheet)	-	49	1,352	1,326	2,727
Number of Financing customers (on/off Balance Sheet)	-	9	118	41	168
Number of Financing transactions guaranteed by Kafalah program	2	14	-	-	16
Total Financing amount guaranteed by Kafalah program	1,502	15,110	-	-	16,612

Kafalah program:

On 25/07/2018, Alinma Bank signed the updated cooperation agreement with the Kafalah program for financing the Small and Medium Enterprises. The updated agreement included the addition of the Medium and Micro Enterprises to the program. The market share of Alinma Bank of the total value of financing guaranteed by the Kafalah program reached at the end of the third quarter of 2018 around 3.3%.

Key achievements of the Kafala program during 2018:

- The program's financing portfolio growth by 275% compared to the year 2017.
- The program's number of clients rose by 144% compared to the year 2017.
- Launching the financing products to the local pilgrim's service companies.
- Launching the financing program for the Points of Sales.

Future Plans:

The Bank will continue to enhance its operations through introduction of more Sharia'a compliant products and services, expansion of branches/ ATMs networks and growth in number of Retail and Corporate relationships. Alinma has also the plans to launch additional Assets Management Funds through its investment arm (Alinma Investment Company). The expansion of the SME Business in addition to the remittance business through ERSAL, a joint venture with the Saudi Post company, are also under consideration.

Gratitude:

The Board of Directors is proud of the bank's performance for the year 2018 in terms of the expansion in branches, ATMs, electronic channels and the banking products and services made available to its customers that in turn have reflected in the improved operational results and the customer base.

The board also expresses its sincere gratitude and appreciation to the honorable shareholders, customers, and the governmental and supervisory authorities in the Kingdom of Saudi Arabia for their support, trust and cooperation, which led to the aforesaid achievements and that will surely play a vital role in further advancement and prosperity for the Bank. The Board would also like to place on record the sincere appreciation for the loyalty and dedication of the Alinma group employees in accomplishment of their tasks.

On this occasion, the Board of Directors and the bank's employees would like to express their gratitude to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud and to His Royal Highness the Deputy Prime Minister and the Minister of Defense Prince Mohamed Bin Salman Bin Abdulaziz Al Saud for the extensive efforts exerted by them for the country and the citizens. May Allah bless them and guide to lead the Kingdom in the best manner and protect our precious country in all aspects.

The Board of Directors

Internal Control System

Management is responsible for establishing and maintaining an adequate and effective internal control system. An internal control system includes the policies, procedures and processes, which are designed under the supervision of the Board to achieve the strategic objectives of the Bank.

The scope of the Internal Audit department, independent from line management, includes the assessment of the adequacy and the effectiveness of the internal control system across the Bank, as well as to assess compliance with prescribed policies and procedures. All significant and material findings of Internal Audit assessments are reported to the Audit Committee. Bank's internal audit function forms an opinion on the adequacy and effectiveness of the control processes and reports to the Audit Committee and senior management at least once a year. The opinion is based on sufficient audit evidence obtained through completion of audits and, where appropriate, reliance on the work of other assurance providers.

Concerted and integrated efforts are made by all functions of the Bank to improve the Control Environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The compliance function, through centrally automated applications, self-assessment and compliance testing ensures adherence to regulatory requirements and the Bank's internal policies and procedures.

The Bank's Internal controls system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Management has adopted the Internal Controls integrated framework as recommended by SAMA through its guidelines on internal controls.

The Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the Internal Audit Department of the Bank. The report on assessment of Internal controls does not contain material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

Based on the results of the ongoing evaluation of internal controls carried out by Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the management continuously endeavors to enhance and further strengthen the internal control system of the bank. Based on the above, the Board of Directors has duly endorsed Management's evaluation of the internal control system, as prescribed by SAMA.

Audit Committee’s Report to the General Assembly For the year ended 31 December 2018

The Audit Committee “the Committee” undertakes responsibilities of reviewing Bank’s financial statements, accounting policies and overseeing the work of internal and external auditors. The Committee held four meetings during the financial year 2017 and carried out the following main tasks within its scope:

- Reviewing and approving Internal Audit plan for the year 2017.
- Overseeing the Internal Audit function and the execution of Internal Audit plan.
- Reviewing Internal Audit reports issued during 2017.
- Reviewing annual financial statements as of 31/12/2017, quarterly reviews and providing recommendations for approval to the Board of Directors.
- Reviewing the “Management Letter” issued by External Auditors.
- Evaluating External Auditors’ proposals and providing recommendation on appointment of External Auditors for the year ended 31/12/2017.
- Reviewing quarterly compliance reports reflecting Bank’s adherence to the regulatory requirements.
- Reviewing and revising of “Audit Committee Charter” to include latest requirements of regulatory and supervisory bodies and providing recommendation for approval to the Board of Directors.

Internal Control System

The Management is responsible for establishing and maintaining an adequate and effective system of internal controls for implementing strategies and policies as approved by Board of Directors. The system of internal controls is based on what management considers to be appropriate for the Bank’s activities, to the materiality of the financial and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage rather than eliminate the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against the material misstatement and loss. In addition, the Board of Directors has formed an Audit Committee, which periodically reviews the reports submitted by the internal/external auditors. Such reports also include the evaluation of the effectiveness or otherwise of the internal controls.

In view of the above, we believe that the bank has reasonably sound and effective system of internal controls in force, both in design and implementation. During the year, there have been no material observations in respect of effectiveness of internal control system and procedures of the Bank.

Dr. Saad Attia Al-Ghamdi	(Chairman)
Dr. Saud Mohammed Al Nemer	(Member)
Dr. Ahmed Abdullh Al Monief	(Member)

Auditors'
Report
& Financial
Statements



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company)**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alinma Bank and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The description below is how our audit addressed the matter in that context:

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of financing</i></p> <p>At December 31, 2018, the gross financing of the Bank was Saudi Riyals 86,190 million against which a credit impairment allowance of Saudi Riyals 2,505 million was maintained.</p> <p>During the year, the Bank adopted IFRS 9 which introduced forward looking expected credit loss (ECL) impairment model. On adoption, the Bank applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment of Saudi Riyals 723 million to the Bank's equity as at January 1, 2018 and the impact of transition are explained in note 4 to the consolidated financial statements.</p> <p>We considered this as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Bank. The key areas of judgement include:</p> <ul style="list-style-type: none"> > Categorisation of financing in Stage 1, 2 and 3 based on identification of: <ul style="list-style-type: none"> (a) exposures with a significant increase in credit risk since their origination (b) individually impaired / default exposures 	<p>We have obtained an understanding of management's assessment of impairment of financing including the IFRS 9 implementation process, the Bank's internal rating model, the Bank's impairment allowance policy and the ECL modelling methodology.</p> <p>We compared the Bank's impairment allowance policy and the ECL methodology with the requirements of IFRS 9.</p> <p>We assessed the design and implementation, and tested the operating effectiveness of controls over:</p> <ul style="list-style-type: none"> > the modelling process including governance over monitoring of the model and approval of key assumptions; > the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR") and determination of default / individually impaired exposures; and > integrity of data input into the ECL system. <p>We assessed the Bank's criteria for determination of significant increase in credit risk and the identification of impaired / default exposures and their classification into various stages.</p>



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of financing (continued)</i></p> <ul style="list-style-type: none"> ➤ The assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors, etc. ➤ The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model. <p><i>Refer note 4 to the consolidated financial statements for the impacts of adoption of IFRS 9 – Financial Instruments, note 3(h) for policy relating to impairment of financial assets, note 2 (d) which contains the disclosure of critical accounting judgement, estimates and assumptions, note 8 which contains the disclosure of impairment against financing and note 26 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<p>For a sample of customers, we assessed:</p> <ul style="list-style-type: none"> ➤ the internal ratings determined by the management based on Bank's internal rating model; ➤ the staging as identified by management; and ➤ management's computations for ECL. <p>We assessed the underlying assumptions including forward looking assumptions used by the Bank in the ECL calculations.</p> <p>Where management overlays were used, we assessed those overlays and the governance process around such overlays.</p> <p>We tested the completeness of exposures used by the management for the ECL calculation as of December 31, 2018.</p> <p>Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity.</p> <p>As the Bank has used the modified retrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of the adjustment to the Bank's equity as at January 1, 2018 (as a result of adoption of IFRS 9).</p> <p>We assessed the disclosures included by management in the consolidated financial statements.</p>



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Bank's 2018 Annual Report

The Board of Directors of the Bank (the "Directors") is responsible for the other information. The other information consists of the information included in the Bank's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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Registration No. 366

2 Jumad Thani, 1440 H
(February 7, 2019)



CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2018 and 2017	Notes	2018 SAR'000	2017 SAR'000 (Restated)
Assets			
Cash and balances with Saudi Arabian Monetary Authority	5	7,359,684	7,299,371
Due from banks and other financial institutions	6	8,292,547	9,788,857
Investments, net	7	18,399,178	15,066,199
Financing, net	8	83,685,166	79,062,597
Property and equipment, net	9	1,896,679	1,876,423
Other assets	10	1,700,073	1,658,229
TOTAL ASSETS		121,333,327	114,751,676
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	6,318,336	1,352,887
Customers' deposits	12	90,128,138	89,064,751
Other liabilities	13	3,589,145	3,990,276
TOTAL LIABILITIES		100,035,619	94,407,914
SHAREHOLDERS' EQUITY			
Share capital	14	15,000,000	15,000,000
Statutory reserve	15	2,888,815	2,259,457
Fair value reserve for FVOCI/AFS investments		(22,377)	86,764
Other reserves		54,085	16,484
Retained earnings		1,990,693	1,896,529
Proposed dividend	22	1,489,967	1,191,964
Treasury shares	16	(103,475)	(107,436)
TOTAL SHAREHOLDERS' EQUITY		21,297,708	20,343,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		121,333,327	114,751,676

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME For the years ended December 31, 2018 and 2017	Notes	2018 SAR'000	2017 SAR'000
Income from investments and financing	18	4,893,617	4,254,739
Return on time investments	18	(1,095,785)	(761,715)
Income from investments and financing activities, net	18	3,797,832	3,493,024
Fee from banking services - income	19	986,755	875,627
Fee from banking services - expense	19	(255,701)	(199,191)
Fees from banking services, net		731,054	676,436
Exchange income, net		176,616	152,857
Gain from FVIS financial instruments, net		131,338	4,553
Gain from FVOCI / AFS investments, net		-	20,241
Dividend income		4,204	22,426
Other operating income		3,878	3,419
Total operating income		4,844,922	4,372,956
Salaries and employee related expenses	20	939,583	876,009
Rent and premises related expenses		159,209	148,563
Depreciation and amortization	9	178,192	199,601
Other general and administrative expenses		578,719	520,560
Charge for impairment of financing	8.1	392,796	558,482
Charge for impairment of other assets		73,756	52,918
Total operating expenses		2,322,255	2,356,133
Net operating income		2,522,667	2,016,823
Share of loss from an associate and a joint venture	7.4, 7.5	(5,234)	(5,466)
Net income for the year		2,517,433	2,011,357
Basic and diluted earnings per share (SAR)	21	1.69	1.35

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the years ended December 31, 2018 and 2017	2018 SAR'000	2017 SAR'000
Net income for the year	2,517,433	2,011,357
Other comprehensive income:		
Items that cannot be reclassified back to consolidated statement of income in subsequent periods		
Change in fair value of FVOCI equity investments	(23,820)	-
Gain on sale of FVOCI equity investments	1,941	-
Actuarial gain/(loss) on re-measurement of End of Service Benefits Scheme balances	8,851	(9,381)
Items that can be reclassified back to consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	28,581	-
Net change in fair value of AFS equity investments	-	10,367
Gain on sale of FVOCI / AFS sukuk investments	-	8,256
Total comprehensive income for the year	<u>2,532,986</u>	<u>2,020,599</u>

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY									SAR'000
For the years ended December 31, 2018 and 2017									
2018	Notes	Share capital	Statutory reserve	Fair value reserve for FVOCI/AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year (restated)	36	15,000,000	2,259,457	86,764	16,484	1,896,529	1,191,964	(107,436)	20,343,762
Effect of adopting IFRS-9 at January 01, 2018	4(c)	-	-	(113,902)	-	(608,966)	-	-	(722,868)
Restated balance as at January 01, 2018		15,000,000	2,259,457	(27,138)	16,484	1,287,563	1,191,964	(107,436)	19,620,894
Net income for the year		-	-	-	-	2,517,433	-	-	2,517,433
Net changes in fair value of FVOCI equity investments		-	-	(23,820)	-	-	-	-	(23,820)
Net changes in fair values of FVOCI sukuk investments		-	-	28,581	-	-	-	-	28,581
Gain on sale of FVOCI investments		-	-	-	-	1,941	-	-	1,941
Actuarial gain on re-measurement of End of Service Benefits Scheme balances	24.2	-	-	-	-	8,851	-	-	8,851
Total comprehensive income		-	-	4,761	-	2,528,225	-	-	2,532,986
Transfer to statutory reserve	15	-	629,358	-	-	(629,358)	-	-	-
Zakat for the year	22	-	-	-	-	(217,061)	-	-	(217,061)
Zakat for prior years	22	-	-	-	-	556,579	-	-	556,579
Dividend paid for 2017	22	-	-	-	-	-	(1,191,964)	-	(1,191,964)
Final dividend paid for 2018	22	-	-	-	-	(1,489,967)	1,489,967	-	-
Employee share based plan and other reserve	16	-	-	-	37,601	(45,288)	-	-	(7,687)
Net change in treasury shares		-	-	-	-	-	-	3,961	3,961
Balance at the end of the year		15,000,000	2,888,815	(22,377)	54,085	1,990,693	1,489,967	(103,475)	21,297,708

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY									SAR'000
For the years ended December 31, 2018 and 2017									
2017	Notes	Share capital	Statutory reserve	Fair value reserve for AFS investment	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460
Net income for the year		-	-	-	-	2,011,357	-	-	2,011,357
Net change in fair value of available for sale investments (restated)	36	-	-	10,367	-	-	-	-	10,367
Net amount realized on available for sale investments		-	-	8,256	-	-	-	-	8,256
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	24.2	-	-	-	-	(9,381)	-	-	(9,381)
Total comprehensive income		-	-	18,623	-	2,001,976	-	-	2,020,599
Transfer to statutory reserve	15	-	502,839	-	-	(502,839)	-	-	-
Zakat for current year	22	-	-	-	-	(62,090)	-	-	(62,090)
Zakat for prior year		-	-	-	-	-	(42,070)	-	(42,070)
Proposed dividend	22	-	-	-	-	(1,191,964)	1,191,964	-	-
Final dividend paid for 2016		-	-	-	-	-	(744,978)	-	(744,978)
Employee share based plans reserve and others	16	-	-	-	4,892	(15,023)	-	-	(10,131)
Net change in treasury shares		-	-	-	-	-	-	3,972	3,972
Balance at the end of the year		15,000,000	2,259,457	86,764	16,484	1,896,529	1,191,964	(107,436)	20,343,762

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS For the years ended December 31, 2018 and 2017		Notes	2018	2017
			SAR' 000	SAR' 000
OPERATING ACTIVITIES				
			2,517,433	2,011,357
Net income for the year				
Adjustments to reconcile net income to net cash from operating activities:				
	9	178,192		199,601
Depreciation and amortization				
		(274)		228
(Gain) / loss on disposal of property and equipment, net				
		(32,370)		6,223
Unrealised (gain) / loss from FVIS financial instruments, net				
		(4,203)		(22,426)
Dividend income				
	8.1	392,796		558,482
Charge for impairment of financing, net				
		73,756		52,918
Charge for impairment of other assets				
		282		1,444
Employees share based plans reserve				
	7.4, 7.5	5,234		5,466
Share of loss from an associate and a joint ventures				
		3,130,846		2,813,293
Net (increase)/decrease in operating assets:				
		(110,964)		(522,776)
Statutory deposit with Saudi Arabian Monetary Authority				
		389,960		3,516,130
Due from banks and other financial institutions with original maturity of more than three months				
		(3,327,430)		(8,930,422)
Investments				
		(5,624,310)		(9,309,133)
Financing				
		(66,831)		91,133
Other assets				
Net increase/(decrease) in operating liabilities:				
		4,965,449		(1,078,917)
Due to banks and other financial institutions				
		1,063,387		8,452,525
Customers' deposits				
		(195,694)		1,403,833
Other liabilities				
		224,413		(3,564,334)
Net cash from / (used in) operating activities				
INVESTING ACTIVITIES				
	9	(198,456)		(338,434)
Purchase of property and equipment				
		282		-
Proceeds from disposal of property and equipment				
		4,204		23,953
Dividends received				
		(193,970)		(314,481)
Net cash used in investing activities				
FINANCING ACTIVITIES				
		(1,191,964)		(787,048)
Dividend and zakat paid				
		(1,191,964)		(787,048)
Net cash used in financing activities				
		(1,161,521)		(4,665,863)
Net (decrease) / increase in cash and cash equivalents				
		10,702,200		15,368,063
Cash and cash equivalents at beginning of the year				
	23	9,540,679		10,702,200
Cash and cash equivalents at end of the year				
		4,558,755		3,995,808
Income received from investments and financing				
		1,065,492		905,022
Return paid on time investments				
		4,761		10,367
Net changes in fair value of FVOCI/AFS investments				

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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, 1429 (corresponding to May 26, 2008) and provides banking services through 90 branches (2017: 85) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank
Head Office
King Fahad Road
P.O. Box 66674
Riyadh 11586
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (the Bank) which are register in KSA:

Subsidiary	Bank 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 Awaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associate company)

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Sharia'a, it's 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

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

- 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; and

- ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

b) Basis of measurement and presentation

The consolidated financial statements are 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 (“FVIS”), investments carried at fair value through other comprehensive income (FVOCI) and end of service benefits.

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are valuation of financial assets & financial liabilities (3f), impairment of financial assets at amortized cost and FVOCI sukuku (3h), valuation of end of service benefits (3p), assessment of control over investees (3s) and zakat (3q).

e) Going concern

The Bank’s management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that the Bank has the intention and resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2017, except for change in accounting policies as explained below:

Adoption of new standards

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

Standards and amendments	Effective date	Brief description of changes
IFRS 9 – “Financial Instruments”	January 01, 2018	The requirements of IFRS 9 represent a significant change from IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

		IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It also changes the impairment of financial assets from incurred loss to expected loss model.
IFRS15 – “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 recognized 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 by banks for the accounting years beginning on or after January 1, 2019 (note 37).

The corresponding change in accounting policy due to adoption of new standards are presented in 3(f) and 3(h).

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

a) Basis of consolidation

The 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 year as that of Alinma Bank.

Subsidiaries are the entities that are controlled by Alinma Bank. The control over an entity arises when, someone has power over the investee entity, it is exposed, 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 equity 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 consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries

are consistent with that of 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. The functional currency of all subsidiaries is Saudi Arabian Riyal ("SAR").

Inter-group balances and any income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

b) Trade date accounting

All regular way purchases and sales of financial assets are initially recognized and derecognized on the trade date (i.e. the date on which the Bank becomes a party to the contractual provisions of the instrument). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial assets and liabilities are also initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Exchange gains or losses on settlement and translation are recognized in the consolidated statement of income.

d) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a currently legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and to settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required by any accounting standard.

e) Revenue/ expenses recognition

Income from investments and financing

Revenue and expenses related to profit bearing financial instruments are recognized in the consolidated statement of income using effective yield. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount. When calculating the effective yield the Bank estimates future cash flows considering all contractual terms including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the future financing losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recorded as income/expense.

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

Fees from banking services that are not an integral part of the effective yield calculation on the financial assets are recognized when the related service is rendered i.e. when the performance obligation is satisfied. In all other cases,

the fee is recognized as part of the effective yield on financial assets. Commitment fee is recognized over the commitment period.

Fees and commission expense relate mainly to transaction and services, and are expensed as the transaction is completed or the services are received.

Dividend income

Dividend income is recognized in consolidated statement of income, when the right to receive income is established.

Income/ (Loss) from FVSI financial instruments, net

Net income/ (loss) from FVIS financial instruments relates to financial assets designated as FVIS and includes all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

f) Financial assets and financial liabilities

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 FVIS.

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 FVIS:

- 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 Assets at FVOCI

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

- 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.

Financial Assets at FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS 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 FVIS 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 FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statements of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are expensed through consolidated statement of income. Dividend income on financial assets held as FVIS is reflected as “Gain/(loss) from FVIS financial instruments, net” in the consolidated statement 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 interbank deposits and customers’ 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 amortized 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 expires,
- 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 consolidated statement of income.

However, the cumulative gain/loss recognized in OCI in respect of equity investments is not recognized in 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.

Subsequently, all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of income.

g) Financing

Financing assets are originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantially all risk and rewards of ownership.

All financing assets are initially measured at fair value including any incremental associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

Financing primarily includes Murabaha, Ijarah, Musharaka and Bei Ajel products. A brief description of these products is as follows:

Murabaha: is an agreement whereby the Bank sells to a customer certain commodity or an asset, which the Bank has initially purchased. The selling price comprises of cost plus an agreed profit margin.

Ijarah: is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent over a specific period.

Ijarah could conclude either by transferring the ownership of the leased asset to the lessee at an agreed amount or by termination of lease and re-possession of underlying asset.

Musharaka: is an agreement between the Bank and the customer to contribute to a project, investment enterprise or property and concludes by transferring the full ownership of the underlying investment to the customer. The profit or loss is shared as per the terms of the agreement.

Bei Ajel: is an agreement whereby the Bank sells on a deferred payment basis, to a customer certain commodity or an asset on a negotiated price.

h) Impairment of financial assets

The Bank recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured at FVIS. This mainly includes financing, investments that are measured at amortized cost or at FVOCI (other than equity investments), interbank 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 and historical data which 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 investments to have low credit risk as their credit risk rating is equivalent to the globally accepted definition of 'investment grade'.

i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Furniture, equipment (including intangibles)	5-10 years
Leasehold improvements	the shorter of lease period or 10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the date of addition (when asset is available for use) and up till the date preceding disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

All assets are reviewed for impairment at each reporting date whenever that events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

j) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate properties in settlement of due financing. Such properties are considered as assets held for sale and are initially stated at the lower of carrying amount of due financing and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such properties.

Subsequent to initial recognition, any write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized in the consolidated statement of income. Gains or losses on disposal are recognized in the consolidated statement of income.

k) Financial liabilities

In the ordinary course of business, the Bank issues financial guarantees, consisting of letter of credit, guarantees, standby letter of credits and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is recognized as "charge for impairment of financing", in the consolidated statement of income.

The premium received is recognized in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

Credit commitments are measured at ECL. For contracts that include both financing and undrawn commitments which are not distinctly identifiable, the ECL is recognized together with the loss allowance for the financing.

l) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources embodying economic benefit will be required to settle the obligation.

m) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under Ijarah, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

Leases that do not transfer to the bank substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, “cash and cash equivalents” are defined as amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition.

o) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short term cash bonus or share based plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided to the Bank and the obligation can be estimated reliably.

p) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position. The liability recognized is the present value of the defined benefit obligation discounted at the yield on government bonds that have terms approximating the related obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income directly.

q) Zakat

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia. Due accruals are made on a quarterly basis through a charge to retained earnings. The Bank, being a Saudi Company, is subject to zakat only.

r) Treasury Shares

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

s) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Determining whether the Bank controls such a mutual fund usually depends on the assessment of the aggregate economic interests of the Bank in the fund (comprising its investments, any carried profit and expected management fees) and the investor’s rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. Fee earned are disclosed in consolidated statement of income. The Bank’s share of investments is included under FVIS “investments, net” in the consolidated statement of financial position.

t) 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 shareholders’ 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 year under IFRS 9. The impact on these consolidated financial statements due to adoption of IFRS 9 is explained in note 4 below.

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

For accounting policies before the adoption of IFRS-9, please refer note (3) of annual consolidated financial statement for the year ended December 31, 2017.

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

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

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

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

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

c) Impact on retained earnings

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

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

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

5. Cash and balances with Saudi Arabian Monetary Authority

	2018 SAR'000	2017 SAR'000
Cash in hand	2,209,434	1,902,511
Statutory deposit	5,056,731	4,945,767
Placement with SAMA	-	371,000
Current accounts	585	249
Others	92,934	79,844
Total	7,359,684	7,299,371

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customers' deposits as calculated at the end of each month. The statutory deposit is not available to finance the Bank's day to day operations and therefore does not form part of cash and cash equivalents.

6. Due from banks and other financial institutions

	Notes	2018 SAR'000	2017 SAR'000
Current accounts		162,707	288,368
Murabaha and Wakala with banks	6.1	8,134,362	9,500,489
Less: Allowance for impairment	6.2	(4,522)	-
Total		8,292,547	9,788,857

6.1 These are investment grade exposures in the range of “substantially credit risk free to very good credit risk quality” based on external credit ratings.

6.2 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:

	December 31, 2018	
	12 month ECL	
Balance as at January 01, 2018		6,275
Reversal for the year		(1,753)
Write-offs		-
Balance as at December 31, 2018		4,522

7. Investments, net

	Notes	2018 SAR'000	2017 SAR'000
Murabahas with SAMA (at amortized cost)		1,907,707	1,906,817
Sukuks (at amortized cost)	7.1	11,041,196	-
FVOCI / AFS investments	7.2	3,201,088	12,989,995
FVIS investments	7.3	2,180,148	77,045
Investment in an associate	7.4	72,776	78,429
Investment in a joint venture	7.5	14,332	13,913
Less: Allowance for impairment	7.9	(18,069)	-
Total		18,399,178	15,066,199

7.1 The fair value of sukuks (at amortized cost) as at December 31, 2018 was SAR 10,840 million.

7.2 FVOCI / AFS investments

	2018 SAR'000	2017 SAR'000
Sukuk	3,088,529	11,234,219
Equities	112,559	112,095
Funds	-	1,643,681
Total	3,201,088	12,989,995

7.3 Held as FVIS investment

	2018 SAR'000	2017 SAR'000
Equities	50,763	44,710
Funds	2,129,385	32,335
Total	2,180,148	77,045

FVOCI and FVIS investments are mainly in quoted securities and include investment amounting to SAR 508 million (2017: SAR 463 million) in mutual funds and sukuk operating outside the Kingdom of Saudi Arabia.

7.4 Investment in an associate

Investment in an associate represents the Bank's share of investment of 28.75%, (2017: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid up share capital of SAR 300 million (2017: 300 million). It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2018 SAR'000	2017 SAR'000
Opening balance	78,429	81,029
Share of loss for the year	(5,653)	(2,600)
	72,776	78,429

The fair value of the above investment based on quoted value as at December 31, 2018 is SAR 141 million (2017: SAR 188 million).

The table below provides summarized financial information of the associate based on its latest published financial statements.

	September 30, 2018 SAR 000'	December 31, 2017 SAR 000'
	(un-audited)	(Audited)
Current assets	598,592	618,345
Total assets	670,586	678,856
Current liabilities	388,131	384,050
Total liabilities	410,250	396,083
Total equity	260,336	282,773
Total revenue	164,759	164,887
Total expenses	183,146	168,423

7.5 Investment in a joint venture

The Bank had invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company was established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of income for the year is SAR 0.4 million (2017: loss of SAR 2.9 million).

7.6 Analysis of investments by type

	2018 SAR'000	2017 SAR'000
Fixed-rate investments	12,120,403	9,174,083
Floating-rate investments	3,898,960	3,966,953
Equities	163,323	156,805
Others	2,216,492	1,768,358
Total	18,399,178	15,066,199

7.7 Analysis of investments by counter-parties

	2018 SAR'000	2017 SAR'000
Government and quasi government	13,929,455	10,038,117
Banks and Other financial institutions	1,624,336	531,315
Corporate	2,845,387	4,496,767
Total	18,399,178	15,066,199

7.8 Analysis of investments by credit quality

	2018 SAR'000	2017 SAR'000
Government and quasi government	13,929,455	10,038,117
Investment grade	2,089,908	3,102,919
Equities and others	2,379,815	1,925,163
Total	18,399,178	15,066,199

Investment grade includes exposures in the range of “substantially credit risk free to very good credit risk quality”.

7.9 The following table shows reconciliations from the opening to the closing balance of the allowance for impairment for investments:

	December 31, 2018
	12 month ECL
Balance as at January 01, 2018	10,882
Charge for the year	7,187
Write-offs	-
Balance as at December 31, 2018	18,069

8. Financing, net (at amortized cost)

SAR'000					
2018	Performing	Non-performing	Total	Allowance for impairment	Financing, net
Retail	15,709,601	566,526	16,276,127	(627,933)	15,648,194
Corporate	69,203,984	710,125	69,914,109	(1,877,137)	68,036,972
Total	84,913,585	1,276,651	86,190,236	(2,505,070)	83,685,166

SAR'000					
2017	Performing	Non-performing	Total	Allowance for impairment	Financing, net
Retail	14,601,023	398,095	14,999,118	(365,209)	14,633,909
Corporate	65,150,897	415,912	65,566,809	(1,138,121)	64,428,688
Total	79,751,920	814,007	80,565,927	(1,503,330)	79,062,597

8.1 Movement in allowance for impairment of financing:

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment of financing:

December 31, 2018	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Retail				
Balance at the beginning of the year				365,209
Remeasurement at adoption of IFRS 9				148,327
Balance at the beginning of the year (restated)	72,641	71,705	369,190	513,536
Transfer to 12 month ECL	43,181	(38,708)	(4,473)	-
Transfer to life time ECL, not credit impaired	(505)	3,903	(3,398)	-
Transfer to life time ECL, credit impaired	(1,053)	(12,243)	13,296	-
Net charge for the year	134,973	17,651	(36,157)	116,467
Write-off	-	-	(2,070)	(2,070)
Balance as at December 31, 2018	249,237	42,308	336,388	627,933
Corporate				
Balance at the beginning of the year				1,138,121
Remeasurement at adoption of IFRS 9				557,384
Balance at the beginning of the year (restated)	365,883	904,659	424,963	1,695,505
Transfer to 12 month ECL	102,474	(102,474)	-	-
Transfer to life time ECL, not credit impaired	(67,256)	67,256	-	-
Transfer to life time ECL, credit impaired	(998)	(239,829)	240,827	-
Net charge for the year	127,740	99,207	49,382	276,329
Write-off	-	-	(94,697)	(94,697)
Balance as at December 31, 2018	527,843	728,819	620,475	1,877,137
Total				
Balance at the beginning of the year				1,503,330
Remeasurement at adoption of IFRS 9				705,711
Balance at the beginning of the year (restated)	438,524	976,364	794,153	2,209,041
Transfer to 12 month ECL	145,655	(141,182)	(4,473)	-
Transfer to life time ECL, not credit impaired	(67,761)	71,159	(3,398)	-
Transfer to life time ECL, credit impaired	(2,051)	(252,072)	254,123	-
Net charge for the year	262,713	116,858	13,225	392,796
Write-off	-	-	(96,767)	(96,767)
Balance as at December 31, 2018	777,080	771,127	956,863	2,505,070

2017	SAR'000		
	Retail	Corporate	Total
Balance at the beginning of the year	277,067	94,698	371,767
Provided during the year	72,713	214,216	286,929
Bad debts written off	(717)	-	(717)
Reversals/recoveries of amounts previously provided	(38,854)	-	(38,854)
Balance at the end of the year	310,209	308,914	619,123
Collective provision	55,000	829,207	884,207
Total	365,209	1,138,121	1,503,330

8.2 Financing includes Ijarah as follows:

	2018 SAR'000	2017 SAR'000
Less than 1 year	2,845,852	2,736,786
1 to 5 years	17,281,150	16,469,588
Over 5 years	23,925,895	22,886,112
Gross receivables from Ijarah	44,052,897	42,092,486
Unearned future finance income on Ijarah	(11,289,272)	(11,385,052)
Specific provision	(56,947)	(33,784)
Net receivables from Ijarah	32,706,678	30,673,650

9. Property and equipment, net

	SAR'000				
	Land and buildings	Leasehold improvements	Furniture and equipment	Total 2018	Total 2017
Cost:					
Balance at beginning of the year	1,234,492	387,481	1,481,575	3,103,548	2,779,575
Additions	67,681	20,305	110,470	198,456	338,434
Disposals	-	(170)	(70,636)	(70,806)	(14,461)
Balance at end of the year	1,302,173	407,616	1,521,409	3,231,198	3,103,548
Accumulated depreciation:					
Balance at beginning of the year	69,203	201,636	956,286	1,227,125	1,041,757
Charge for the year	14,973	36,619	126,600	178,192	199,601
Disposals	-	(67)	(70,731)	(70,798)	(14,233)
Balance at end of the year	84,176	238,188	1,012,155	1,334,519	1,227,125
Net book value-as at December 31, 2018	1,217,997	169,428	509,254	1,896,679	
Net book value-as at December 31, 2017	1,165,289	185,845	525,289		1,876,423

Property and equipment includes work in progress as at December 31, 2018 amounting to SAR 227 million (2017: SAR 216 million).

Furniture and equipment includes information technology-related assets as follows:

Information technology related assets:	SAR'000		
	Tangible	Intangible	Total
Cost	551,509	800,988	1,352,497
Accumulated depreciation/amortization	(333,108)	(545,993)	(879,101)
Net book value-as at December 31, 2018	218,401	254,995	473,396
Net book value-as at December 31, 2017	242,235	268,779	511,014

10. Other assets

	Note	2018 SAR'000	2017 SAR'000
Prepaid rental		40,125	40,196
Financing inventory		581,290	617,236
Other real estate	10.1	442,884	436,780
Other prepayments		93,673	51,855
Fee receivable from asset management services		255,164	153,210
Zakat refundable		46,432	2,118
Others		240,505	356,834
Total		1,700,073	1,658,229

10.1 This represents the properties held for sale which were acquired in settlement of financing due from customers. During the year, properties valuing SAR 46.5 million have been acquired in settlement of financing claims.

11. Due to banks and other financial institutions

	Note	2018 SAR'000	2017 SAR'000
Time investments from banks and other financial institutions	11.1	6,100,926	1,269,734
Others		217,410	83,153
Total		6,318,336	1,352,887

11.1 It represents Murabaha, Mudaraba and Wakala with banks.

12. Customers' deposits

i) Customers' deposits include the following:

	Note	2018 SAR'000	2017 SAR'000
Demand		53,510,669	45,316,467
Customers' time investments	12.1	35,690,291	42,987,385
Others	12.2	927,178	760,899
Total		90,128,138	89,064,751

12.1 It represents Murabaha and Mudaraba with customers.

12.2 Others represent cash margins for letters of credit and guarantees.

ii) The above includes foreign currency deposits as follows:

	2018 SAR'000	2017 SAR'000
Demand	912,193	1,057,621
Customers' time investments	5,383,686	4,222,959
Other	81,137	17,369
Total	6,377,016	5,297,949

13. Other liabilities

	2018 SAR'000	2017 SAR'000
Accrued expenses	244,428	224,485
Outward drafts payable	1,549,956	1,888,222
Accounts payable	343,752	385,210
Advance rentals against financing	849,976	882,038
End of service liability (note 24.2)	287,044	219,553
Others	313,989	390,768
Total	3,589,145	3,990,276

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2017: 1,500 million shares) of SAR 10 each.

The ownership of the Bank's share capital is as follows:

	2018	2017
	Percentage	
Public Pension Agency ("PPA")	10.71	10.89
Public Investment Fund ("PIF")	10.00	10.00
General Organization for Social Insurance ("GOSI")	5.10	5.10
General public and others	74.19	74.01
Total	100.00	100.00

15. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, and Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 629.3 million (2017: SAR 502.9 million) has been transferred from the net income for the year to the statutory reserve. The statutory reserve is not available for distribution.

16. Treasury shares and other reserves

Treasury shares have been acquired, after due approvals, for discharging the obligations of employees share based plans.

During the year an amount of SAR 45 million for 2017 and 2018 (2017: SAR 15 million) was appropriated from retained earnings to other reserves. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2018 and 2017, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2018 the Bank had capital commitments of SAR 123 million (2017: SAR 145.1 million) relating to acquisition of property and equipment.

c) Credit related commitments and contingencies

Credit related commitments and contingencies comprise letters of guarantee, letters of credit, acceptances and unused irrevocable commitments to extend financing facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as investments and financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to invoke such commitments.

Documentary letters of credit are generally collateralized by the underlying assets to which they relate, and therefore have significantly lower risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of approved credit, principally in the form of financing, guarantees and letters of credit. With respect to these commitments, the Bank is exposed to an insignificant potential credit risk as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

2018	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,386,902	1,480,661	14,887	267	2,882,717
Letters of guarantee	1,525,816	4,431,268	2,836,234	43,981	8,837,299
Acceptances	158,635	96,390	-	-	255,025
Irrevocable commitments to extend credit	-	574,565	-	-	574,565
Total	3,071,353	6,582,884	2,851,121	44,248	12,549,606

2017	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,730,135	802,337	490,385	223	3,023,080
Letters of guarantee	2,781,836	2,152,009	2,545,021	68,986	7,547,852
Acceptances	159,762	13,910	-	-	173,672
Irrevocable commitments to extend credit	-	488,627	-	-	488,627
Total	4,671,733	3,456,883	3,035,406	69,209	11,233,231

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2018 SAR'000	2017 SAR'000
Government and quasi government	376,871	720
Corporate	11,376,046	9,590,562
Banks and other financial institutions	796,689	1,641,949
Total	12,549,606	11,233,231

iii) The outstanding unused portion of commitments as at December 31, 2018, which can be revoked unilaterally at any time by the Bank, amounts to SAR 30,326 million (2017: SAR 26,717 million).

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Bank is lessee are as follows:

	2018 SAR'000	2017 SAR'000
Less than one year	96,718	5,437
One year to five years	276,481	35,263
Over five years	109,879	186,847
Total	483,078	227,547

18. Income from investments and financing, net

	2018 SAR'000	2017 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	41,295	41,099
Investments in Sukuk	416,970	177,011
Murabaha with banks and other financial institutions	135,381	183,325
Financing	4,299,971	3,853,304
Total	4,893,617	4,254,739
Return on time investments:		
Customers' time investments	(1,012,174)	(729,791)
Time investments from banks and other financial institutions	(83,611)	(31,924)
Total	(1,095,785)	(761,715)
	3,797,832	3,493,024

19. Fees from banking services, net

	2018 SAR'000	2017 SAR'000
Income on:		
Trade finance services	91,750	94,517
Card services	496,125	385,729
Fund management and other banking services	398,880	395,381
	986,755	875,627
Expense on:		
Card services	(249,576)	(192,891)
Other fees	(6,125)	(6,300)
	(255,701)	(199,191)
	731,054	676,436

20. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

Categories of employees	SAR'000									
	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Senior executives requiring SAMA no objections	17	15	44,221	31,060	9,130	11,076	3,961	1,662	13,091	12,738
Employees engaged in risk taking activities	678	552	240,511	191,913	43,385	36,233	-	871	43,385	37,104
Employees engaged in control functions	172	149	72,136	58,249	11,244	9,756	-	470	11,244	10,226
Other employees	1,550	1,542	368,584	326,043	55,603	47,630	-	1,028	55,603	48,658
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-	-	-	-	-	-
	2,417	2,258	725,452	607,265	119,362	104,695	3,961	4,031	123,323	108,726
Variable compensation accrued	-	-	127,804	134,854	-	-	-	-	-	-
Other employee related benefits	-	-	86,327	133,890	-	-	-	-	-	-
Total	2,417	2,258	939,583	876,009	119,362	104,695	3,961	4,031	123,323	108,726

20.1 Salient features of Compensation Policy

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a "Compensation & Allowances" policy approved by the Board of Directors (the "Board").

The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank.

While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

21. 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 (Basic and diluted): 1,490 million shares at the end of the year, after accounting for treasury shares.

22. Proposed dividend and zakat

	2018 SAR'000	2017 SAR'000	2018	2017
	SAR per share			
Proposed dividend	1,489,967	1,191,964	1.00	0.80

As a major event, during the year the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle all pending Zakat claims/assessments up till the financial year ended 2017. Consequently a net refund of SAR 263 million is due from GAZT which will be settled from future zakat liabilities. The Bank has also withdrawn all pending appeals against the above assessment years.

As a result of above settlement an amount of SAR 557 million has been credited to retained earnings.

The estimated zakat for the year ended December 31, 2018 amounted to SAR 217 million (2017: SAR 62 million) which has been charged to retained earnings.

23. Cash and cash equivalents

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

	2018 SAR'000	2017 SAR'000
Cash in hand	2,209,434	1,902,511
Balances with SAMA excluding statutory deposit	93,519	451,093
Due from banks and other financial institutions maturing within three months of acquisition	7,237,726	8,348,596
Total	9,540,679	10,702,200

24. Employee benefit obligations

24.1 General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

24.2 The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2018 SAR'000	2017 SAR'000
Defined benefit obligation at the beginning of the year	219,553	129,977
Service cost	74,644	81,766
Interest cost	10,608	7,148
Benefits paid	(8,910)	(8,719)
Actuarial (gain) / loss on re-measurement	(8,851)	9,381
Defined benefit obligation at the end of the year	287,044	219,553

The current service cost for the year was SAR 44.9 million (2017: 50.9 million).

24.3 Principal actuarial assumptions (in respect of the end of service benefit plan)

	2018	2017
Discount rate	5.20% p.a.	5.00% p.a.
Expected rate of salary increase	5.00% p.a.	5.00% p.a.
Normal retirement age	60 years	60 years

The assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

24.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2018 to the discount rate (5.20%) and salary escalation rate (5.00%).

2018	SAR 000'		
	Impact on defined benefit obligation – Increase / (Decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Base Scenario			
Discount rate	1%	(31,763)	38,165
Expected rate of salary increase	1%	37,850	(32,098)

2017	SAR 000'		
	Impact on defined benefit obligation – Increase / (Decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Base Scenario			
Discount rate	1%	(25,749)	31,114
Expected rate of salary increase	1%	30,791	(25,974)

The above sensitivity analyses is based on a change in an assumption holding all other assumptions constant.

24.5 Expected maturity

Expected maturity analysis of undiscounted defined benefit obligation for the end of service benefit plan is as follows:

December 31, 2018 SAR 000'				
Less than a year	1-2 years	2-5 years	Over 5 years	Total
22,715	38,576	70,818	1,582,683	1,714,792

December 31, 2017 SAR 000'				
Less than a year	1-2 years	2-5 years	Over 5 years	Total
18,502	16,576	61,183	1,299,419	1,395,680

The weighted average duration of the defined benefit obligation is 14.9 years (2017: 15.6 years).

25. 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. 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 with banks, investments and treasury services.

d) Investment and brokerage

Asset Management, custodianship, advisory, underwriting and brokerage 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:

2018	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	18,547,975	69,716,177	31,789,573	1,279,602	121,333,327
Total liabilities	70,893,110	6,872,293	21,882,246	387,970	100,035,619
Income from investments and financing	1,782,554	1,806,705	1,285,509	18,849	4,893,617
Return on time investments	(365,838)	(127,826)	(602,121)	-	(1,095,785)
Income from investments and financing, net	1,416,716	1,678,879	683,388	18,849	3,797,832
Fees from banking services and other income	334,989	91,254	285,015	335,832	1,047,090
Total operating income	1,751,705	1,770,133	968,403	354,681	4,844,922
Charge for impairment of financing	89,227	301,698	-	1,871	392,796
Charge for impairment of other assets	-	69,302	4,454	-	73,756
Depreciation and amortization	86,960	59,408	27,227	4,597	178,192
Other operating expenses	949,479	423,804	191,070	113,158	1,677,511
Total operating expenses	1,125,666	854,212	222,751	119,626	2,322,255
Net operating income	626,039	915,921	745,652	235,055	2,522,667
Share of loss from an associate and a joint venture	-	-	(5,234)	-	(5,234)
Net income for the year	626,039	915,921	740,418	235,055	2,517,433

2017	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	17,703,057	65,936,266	30,385,077	727,276	114,751,676
Total liabilities	59,482,498	9,165,695	25,688,531	71,190	94,407,914
Income from investments and financing	1,556,501	1,696,162	995,373	6,703	4,254,739
Return on time investments	(202,166)	(126,505)	(433,044)	-	(761,715)
Income from investments and financing, net	1,354,335	1,569,657	562,329	6,703	3,493,024
Fees from banking services and other income	267,545	130,340	154,480	327,567	879,932
Total operating income	1,621,880	1,699,997	716,809	334,270	4,372,956
Charge for impairment of financing	36,997	521,485	-	-	558,482
Charge for impairment of other assets	-	24,420	28,498	-	52,918
Depreciation and amortization	88,855	73,680	34,304	2,762	199,601
Other operating expenses	874,660	408,847	182,266	79,359	1,545,132
Total operating expenses	1,000,512	1,028,432	245,068	82,121	2,356,133
Net operating income	621,368	671,565	471,741	252,149	2,016,823
Share of loss from an associate and a joint venture	-	-	(5,466)	-	(5,466)
Net income for the year	621,368	671,565	466,275	252,149	2,011,357

SAR '000	December 31, 2018				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Other information:					
Income from:					
-External customers	816,185	3,398,662	275,394	354,681	4,844,922
-Inter-segment	935,520	(1,628,529)	693,009	-	-
Total operating income	1,751,705	1,770,133	968,403	354,681	4,844,922

SAR '000	December 31, 2017				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Other information:					
Income from:					
-External customers	869,471	3,047,191	122,024	334,270	4,372,956
-Inter-segment	752,409	(1,347,194)	594,785	-	-
Total operating income	1,621,880	1,699,997	716,809	334,270	4,372,956

The Bank's credit exposure by operating segments is as follows:

2018	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	15,255,752	67,994,110	31,129,973	983,984	115,363,819
Commitments and Contingencies	-	7,014,316	-	-	7,014,316
Total	15,255,752	75,008,426	31,129,973	983,984	122,378,135

2017	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	14,581,166	64,417,318	29,934,216	717,673	109,650,373
Commitments and Contingencies	-	6,562,400	-	-	6,562,400
Total	14,581,166	70,979,718	29,934,216	717,673	116,212,773

Credit exposure comprises the carrying value of balance sheet assets, excluding cash, property and equipment, equity investments and other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.

26. 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 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 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 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 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.

Impairment Framework

The Bank compares the risk of default at the reporting date with the risk of default at the date of origination. If the change in credit assessment is significant, the obligor is moved from Stage 1 to Stage 2 or Stage 2 to Stage 3. The PD is then changed from a 12-month point-in-time PD to a lifetime PD. The Bank groups its credit exposures on the basis of shared credit risk characteristics with the objective of facilitating analysis designed to identify significant increases in the credit risk on a timely basis. Given below are the most important types of the shared credit risk characteristics:

- a) type of exposure
- b) obligor risk rating
- 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 three stages of impairment, 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 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”.

Write offs

The Bank writes off any financing exposure in whole or in part, only when it has exhausted all practical recovery and remedial efforts and has concluded that there is no reasonable expectation of recovery in the foreseeable future. The write off are made after obtaining required approval. The write-off does not dilute the Bank’s recovery and collection efforts including legal recourse.

Impairment – Stage Assessment and Expected Credit Loss Estimation

The Bank recognizes impairment on an on-going basis by calculating the expected credit loss (ECL) at each reporting period. While impairment requirements as per IAS-39 were based on an incurred loss approach, with an account recognized as ‘impaired’ only upon actual loss, the IFRS 9 methodology requires a forward looking approach considering ECL for impairment rather than incurred losses.

By definition, all accounts in the financing portfolio of the Bank are categorized as Stage 1, unless these assets qualify under the rules and guidelines for impairment under the two stages which are “underperforming” Stage 2, and “Impaired,” Stage 3. The levels of Credit Risk are described below:

Credit Losses (CL)

Credit Loss simply defined, is the difference between all the contractual cash flows that are due to the Bank and the reduced cash flows that it actually expects to receive from the borrower, in view of certain circumstances that affect

the borrower's ability to repay its original obligations. Credit loss could be the total contractual cash flows (100% credit loss), or a portion of the contractual cash flows.

Lifetime expected credit losses

Lifetime expected credit loss is the expected present value of losses that may arise if a borrower defaults on its obligations at some time during the life of the financial asset. This is equivalent to the shortfalls in contractual cash flows, taking into account the potential or the probability of default at any point in time during the life of the asset.

12- Month Expected credit losses

The 12 – month expected credit loss is a portion of the lifetime expected credit loss which is calculated by multiplying the probability of default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default. They are not the expected cash shortfalls over the next 12 months or the forecast of default in next 12 months but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. An asset moves from 12 – month expected credit losses (Stage 1) to lifetime expected credit loss (Stage 2) when there has been a significant deterioration in credit quality since initial recognition. Lifetime expected credit loss is also applied for obligors classified in stage 3.

Probability of Default

Probability of Default (“PD”) is a critical attribute in credit risk assessment. It is used to compute the expected credit loss. Alinma Bank starts by using its credit risk models to assign a risk rating for an obligor (obligor risk rating). Each obligor risk rating is mapped to a probability of default, a point-in-time estimate of the probability of default over a 12-month period. A macroeconomic forecast is then used to calculate a multi-period probability of default; these multi-period (or term structure PD) are then used in the calculation of lifetime expected credit losses. The Bank formulates three forward-looking scenarios of the economic cycle to generate an estimate of the 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, will tend to deteriorate. Conversely, if the economic environment is on an up-swing, the PD of a similar obligor will tend to improve. The Bank has incorporated in its lifetime PD an adjustment for survivability which recognizes that if a stressed obligor survives over a longer period of time, the probability of default is reduced.

Loss Given Default

Loss Given Default (“LGD”) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Alinma uses the following LGD Rules matrix:

For Non Secured exposures, Alinma uses an LGD of 50% as the minimum for ECL IFRS 9 calculation covering all 3 stage classifications.

For Secured exposures, the LGD Rules grid for retail and corporate facilities takes advantage of the eligible collateral values starting with an LGD of 20% as the minimum considering the following factors:

- forecast of future collateral valuations, including expected sale discounts.
- time to realization of collateral (and other recoveries).
- external costs of realization of collateral.

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank:

2018	SAR '000		
	Due from banks and other financial institutions	Investments	Financing
Base case (most likely)	4,522	18,069	2,505,070
Up turn	4,042	16,704	2,462,296
Down turn	4,228	17,373	2,512,726

26.1.1 Financing to customers by risk rating

	SAR'000				
	December 31, 2018				December 31, 2017
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	Total	Total
Financing to customers (at amortized cost)					
Grades 1-4: investment grade	20,653,401	-	-	20,653,401	26,356,321
Grades 5-6: below investment grade	37,322,070	10,065,533	-	47,387,603	38,173,180
Grades 7: Watch-list	-	1,162,980	-	1,162,980	621,396
Unrated (Retail)	15,567,639	141,962	-	15,709,601	14,601,023
Impaired financing	-	-	1,276,651	1,276,651	814,007
Gross financing	73,543,110	11,370,475	1,276,651	86,190,236	80,565,927
Allowance for impairment (including for credit commitments and financial guarantee contracts)	(777,080)	(771,127)	(956,863)	(2,505,070)	(1,503,330)
Financing, net	72,766,030	10,599,348	319,788	83,685,166	79,062,597

Rating Scale (1 – 4) represents:

Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.

Rating Scale (5 – 6) represents:

Good to Satisfactory credit quality.

Rating Scale (7) represents:

Watch list category.

26.1.2 Aging of financing (Past due but not impaired):

2018	SAR '000		
	Retail	Corporate	Total
From 1 day to 30 days	853,394	1,684,147	2,537,541
From 31 days to 90 days	214,274	348,438	562,712
From 91 days to 180 days	-	-	-
More than 180 days	-	733,503	733,503
Total	1,067,668	2,766,088	3,833,756

2017	SAR '000		
	Retail	Corporate	Total
From 1 day to 30 days	936,823	7,834,412	8,771,235
From 31 days to 90 days	267,966	1,083,295	1,351,261
From 91 days to 180 days	-	191,609	191,609
More than 180 days	-	375,311	375,311
Total	1,204,789	9,484,627	10,689,416

26.2 Economic sectors risk concentration for financing and allowance for impairment are as follows:

2018	SAR'000			
	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	4,390,735	-	-	4,390,735
Manufacturing	10,272,628	99,778	(59,825)	10,312,581
Electricity, water, gas & health services	1,801,280	-	-	1,801,280
Building, construction and real estate	23,151,304	219,646	(242,252)	23,128,698
Services	8,086,619	49,050	(31,998)	8,103,671
Mining	490,868	-	-	490,868
Agriculture	2,736,475	-	-	2,736,475
Consumer financing	15,709,601	566,526	(336,388)	15,939,739
Transportation and communication	4,442,966	-	-	4,442,966
Commerce	10,225,538	341,651	(286,400)	10,280,789
Others	3,605,571	-	-	3,605,571
	84,913,585	1,276,651	(956,863)	85,233,373
ECL against performing financing				(1,548,207)
Financing, net				83,685,166

2017	SAR'000			
	Performing	Non-performing	Allowance for impaired financing	Financing, net
Government and quasi government	6,265,258	-	-	6,265,258
Manufacturing	8,998,871	-	-	8,998,871
Electricity, water, gas & health services	1,301,411	-	-	1,301,411
Building, construction and real estate	19,815,539	94,698	(94,698)	19,815,539
Services	7,534,505	54,177	(8,745)	7,579,937
Mining	490,945	-	-	490,945
Agriculture	2,147,890	-	-	2,147,890
Consumer financing	14,601,024	398,095	(310,209)	14,688,910
Transportation and communication	4,597,817	-	-	4,597,817
Commerce	9,998,331	267,037	(205,471)	10,059,897
Others	4,000,329	-	-	4,000,329
	79,751,920	814,007	(619,123)	79,946,804
Collective provision				(884,207)
Financing, net				79,062,597

Credit exposures to Banks, financial institutions and investment in sukuks are investment grade exposures in the range of “substantially risk free to very good credit risk quality” based on external credit ratings, hence are measured at 12 month ECL.

26.3 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers’ deposits, financial guarantees, equities, real estate and other fixed assets. As at December 31, 2018 the Bank held collaterals of SAR 134,715 million (2017: SAR 126,766 million) against its secured financing.

The amount of collaterals held as security for financing that are credit-impaired as at December 31, 2018 are as follows:

	2018 SAR'000	2017 SAR'000
Collateral coverage		
Less than 50%	883,869	679,753
51% to 70%	92,922	49,205
More than 70%	299,860	85,049
Total	1,276,651	814,007

The Bank’s policies regarding obtaining collateral have not significantly changed during the year and there has been no significant change in the overall quality of the collaterals held by the Bank.

26.4 Geographical concentration of financial assets, financial liabilities, commitments and contingencies are as follows:

2018	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	7,359,684	-	-	-	7,359,684
Due from banks and other financial institutions					
Current accounts	-	7,209	99,732	55,766	162,707
Murabaha and Wakala with banks	5,890,712	1,556,468	682,660	-	8,129,840
Investments, net					
Investments at amortized cost	12,878,544	56,415	-	-	12,934,959
FVOCI investments	3,111,128	85,067	768	-	3,196,963
FVIS investments	1,757,212	-	-	422,936	2,180,148
Other	87,108	-	-	-	87,108
Financing, net					
Retail	15,648,194	-	-	-	15,648,194
Corporate	65,681,763	-	-	2,355,209	68,036,972
Other assets	1,562,515	-	-	-	1,562,515
Total financial assets	113,976,860	1,705,159	783,160	2,833,911	119,299,090
Financial liabilities					
Due to banks and other financial institutions					
Demand	99,506	559	-	117,345	217,410
Time investments	5,759,771	85,429	-	255,726	6,100,926
Customers' deposits					
Demand	54,437,847	-	-	-	54,437,847
Customer's time investments	35,690,291	-	-	-	35,690,291
Other liabilities	2,739,169	-	-	-	2,739,169
Total financial liabilities	98,726,584	85,988	-	373,071	99,185,643
Commitments and contingencies:					
Letters of credit	2,882,717	-	-	-	2,882,717
Letters of guarantee	8,837,299	-	-	-	8,837,299
Acceptances	255,025	-	-	-	255,025
Irrevocable commitments to extend credit	574,565	-	-	-	574,565
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	7,014,316	-	-	-	7,014,316

2017	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	7,299,371	-	-	-	7,299,371
Due from banks and other financial institutions					
Current accounts	-	11,917	179,165	97,286	288,368
Murabaha and Wakala with banks	7,016,127	1,788,115	696,247	-	9,500,489
Investments, net					
Available for sale	12,433,459	94,076	14	462,446	12,989,995
Held as FVSI	77,045	-	-	-	77,045
Other	1,999,159	-	-	-	1,999,159
Financing, net					
Retail	14,633,909	-	-	-	14,633,909
Corporate	61,977,626	-	-	2,451,062	64,428,688
Other assets	1,556,674	-	-	-	1,556,674
Total financial assets	106,993,369	1,894,108	875,426	3,010,794	112,773,698
Financial liabilities					
Due to banks and other financial institutions					
Demand	77,344	2,568	-	3,241	83,153
Time investments	977,329	25,110	-	267,295	1,269,734
Customers' deposits					
Demand	46,077,366	-	-	-	46,077,366
Customer's Time investments	42,987,385	-	-	-	42,987,385
Other liabilities	3,108,240	-	-	-	3,108,240
Total financial liabilities	93,227,664	27,678	-	270,536	93,525,878
Commitments and contingencies:					
Letters of credit	3,023,080	-	-	-	3,023,080
Letters of guarantee	7,547,852	-	-	-	7,547,852
Acceptances	173,672	-	-	-	173,672
Irrevocable commitments to extend credit	488,627	-	-	-	488,627
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	6,562,400	-	-	-	6,562,400

26.5 The distributions by geographical concentration of non performing financing and allowances for impairment on financing are as follows:

2018	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non-performing financing, net	1,276,651	-	-	-	1,276,651
Allowances for impairment on financing	2,505,070	-	-	-	2,505,070

2017	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non performing financing, net	814,007	-	-	-	814,007
Allowances for impairment on financing	1,503,330	-	-	-	1,503,330

27. Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices. The Bank classifies exposures to market risks into either trading or non-trading (or banking book).

i. Market risk – trading book

The Bank is exposed to an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into consolidated statement of income.

ii. Market risk – non trading book

Market risks on non-trading book mainly arise from profit rate movements and, to a minor extent, from currency fluctuations. The Bank also faces price risks on investments held at “FVOCI”.

a) Profit rate risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits which are regularly monitored by ALCO. Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

Following table depicts the sensitivity on the Bank’s consolidated statement of income or shareholders’ equity due to reasonably possible changes in profit rates, with other variables held constant. The sensitivity is the effect of the assumed changes in profit rates on the net income or equity, based on profit bearing non-trading financial assets and financial liabilities as of the reporting date after taking in to account their respective maturities and re-pricing structure. Due to insignificant foreign currency exposures of profit bearing financial assets and liabilities in banking book, all the banking book exposures are monitored only in reporting currency.

2018		Sensitivity of equity (SAR '000)				
Increase/decrease in basis points	Sensitivity of net income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
+10	19,765	3,239	(4,845)	(7,914)	(82,429)	(91,949)
-10	(19,765)	(3,239)	4,845	7,914	82,429	91,949

2017		Sensitivity of equity (SAR '000)				
Increase/decrease in basis points	Sensitivity of net income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
+10	9,857	(195)	(14,154)	(72,549)	(42,310)	(129,208)
-10	(9,857)	195	14,154	72,549	42,310	129,208

Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost of fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2018	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,359,684	7,359,684
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	162,707	162,707
Murabaha and Wakala with banks	7,074,891	664,829	390,120	-	-	8,129,840
Investments, net						
Investments at amortized cost	902,541	-	5,890,293	6,142,125	-	12,934,959
FVOCI investments	642,370	263,015	119,911	2,059,108	112,559	3,196,963
FVIS investments FVIS	-	-	-	-	2,180,148	2,180,148
Others	-	-	-	-	87,108	87,108
Financing, net						
Retail	780,945	2,147,557	7,941,582	4,778,110	-	15,648,194
Corporate	21,141,232	34,715,017	11,132,368	1,048,355	-	68,036,972
Property and equipment, net	-	-	-	-	1,896,679	1,896,679
Other assets	-	-	-	-	1,700,073	1,700,073
Total assets	30,541,979	37,790,418	25,474,274	14,027,698	13,498,958	121,333,327
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	-	-	-	-	217,410	217,410
Time investments	5,613,731	487,195	-	-	-	6,100,926
Customers' deposits						
Demand	4,125,357	-	-	-	50,312,490	54,437,847
Customer's Time investments	27,629,721	6,901,564	1,159,006	-	-	35,690,291
Other liabilities	-	-	-	-	3,589,145	3,589,145
Shareholders' equity	-	-	-	-	21,297,708	21,297,708
Total liabilities & shareholders' equity	37,368,809	7,388,759	1,159,006	-	75,416,753	121,333,327
Yield sensitivity - On statement of financial position	(6,826,830)	30,401,659	24,315,268	14,027,698	(61,917,795)	-
Yield sensitivity - Off statement of financial position	3,071,353	6,582,884	2,851,121	44,248	-	12,549,606
Total yield sensitivity gap	(3,755,477)	36,984,543	27,166,389	14,071,946		
Cumulative yield sensitivity gap	(3,755,477)	33,229,066	60,395,455	74,467,401		

2017	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,299,371	7,299,371
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	288,368	288,368
Murabaha and Wakala with banks	8,060,229	391,888	1,048,372	-	-	9,500,489
Investments, net						
Available for sale	647,065	1,425,140	3,633,126	5,528,888	1,755,776	12,989,995
Held as FVSI	-	-	-	-	77,045	77,045
Others	901,650	-	1,005,167	-	92,342	1,999,159
Financing, net						
Retail	891,146	3,670,787	8,603,838	1,468,138	-	14,633,909
Corporate	22,203,499	30,782,632	9,977,669	1,464,888	-	64,428,688
Property and equipment, net	-	-	-	-	1,876,423	1,876,423
Other assets	-	-	-	-	1,658,229	1,658,229
Total assets	32,703,589	36,270,447	24,268,172	8,461,914	13,047,554	114,751,676
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	-	-	-	-	83,153	83,153
Time investments	769,508	500,226	-	-	-	1,269,734
Customers' deposit						
Demand	595,822	-	-	-	45,481,544	46,077,366
Customer's Time investments	29,778,887	13,123,315	85,183	-	-	42,987,385
Other liabilities	-	-	-	-	3,990,276	3,990,276
Shareholders' equity	-	-	-	-	20,343,762	20,343,762
Total liabilities & shareholders' equity	31,144,217	13,623,541	85,183	-	69,898,735	114,751,676
Yield sensitivity - On statement of financial position	1,559,372	22,646,906	24,182,989	8,461,914	(56,892,181)	-
Yield sensitivity - Off statement of financial position	4,671,734	3,456,883	3,035,405	69,209	-	11,233,231
Total yield sensitivity gap	6,272,106	26,103,789	27,218,394	8,631,123		
Cumulative yield sensitivity gap	6,272,106	32,375,895	59,594,289	68,225,412		

b) Currency risk

Currency risk represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Bank's Risk Appetite Framework and policies contain limits for positions by currencies. However, the Bank has negligible exposure in foreign currencies because its assets and liabilities are primarily denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies.

The Bank has the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2018 SAR'000	2017 SAR'000
Assets		
Cash & balances with SAMA	143,207	106,703
Due from banks and other financial institutions	3,782,709	3,026,013
Investments, net	566,254	809,606
Financing, net	2,505,822	2,604,553
Other assets	7,963	38,581
Total currency risk on assets	7,005,955	6,585,456
Liabilities		
Due to banks and other financial institutions	515,458	288,610
Customers' deposits	6,360,781	5,297,949
Other liabilities	385,048	367,106
Total currency risk on liabilities	7,261,287	5,953,665

The table below shows the currencies to which the Bank has a significant exposure as at December 31:

	2018 SAR'000	2017 SAR'000
USD	(209,962)	622,712
Euro	(112)	(4,530)
UAE Dirham	(22,301)	9,645
BHD	(4,370)	(14)
QAR	132	692
Others	(18,719)	3,286
Total	(255,332)	631,791

Equity price risk

Equity price risk refers to the risk of decrease in fair values of equities as a result of changes in the levels of equity index and the value of individual stocks.

The effect on the Bank's equity investments held at FVOCI due to reasonable possible change in equity index, with all other variables held constant is as follows:

	2018		2017	
	SAR'000		SAR'000	
Market index-(Tadawul)	Increase/decrease in market prices%	Effect on equity	Increase/decrease in market prices%	Effect on equity
Impact of change in market prices	±10%	± 9,590	±10%	± 10,359

28. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, the Bank has diversified funding sources and assets are managed taking liquidity into consideration, maintaining an adequate balance of cash and cash equivalents. The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the liquidity risk of the Bank.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appearing in the consolidated statement of financial position.

2018	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions						
Demand	217,410	-	-	-	-	217,410
Time investments	5,616,296	500,825	-	-	-	6,117,121
Customers' deposits						
Demand	54,437,847	-	-	-	-	54,437,847
Customer's time investments	27,692,582	6,994,564	1,267,605	-	-	35,954,751
Other liabilities	-	-	-	-	3,589,145	3,589,145
Total liabilities	87,964,135	7,495,389	1,267,605	-	3,589,145	100,316,274

2017	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions						
Demand	83,153	-	-	-	-	83,153
Time investments	769,710	510,290	-	-	-	1,280,000
Customers' deposits						
Demand	46,077,366	-	-	-	-	46,077,366
Customer's time investments	29,835,815	13,272,277	88,848	-	-	43,196,940
Other liabilities	-	-	-	-	3,990,276	3,990,276
Total liabilities	76,766,044	13,782,567	88,848	-	3,990,276	94,627,735

b) The tables below show the maturity profile of the assets and liabilities:

The maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date and does not reflect the effective maturities as indicated by the historical experience.

2018	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,359,684	-	-	-	-	7,359,684
Due from banks and other financial institutions:						
Current accounts	162,707	-	-	-	-	162,707
Murabaha and Wakala with banks	7,074,891	664,829	390,120	-	-	8,129,840
Investments, net						
Investments at amortized cost	902,541	-	5,890,293	6,142,125	-	12,934,959
FVOCI investments	642,370	358,913	119,911	2,059,108	16,661	3,196,963
FVIS investments FVIS	-	2,180,148	-	-	-	2,180,148
Others	-	-	-	-	87,108	87,108
Financing, net						
Retail	774,928	2,147,727	7,942,678	4,782,860	-	15,648,193
Corporate	12,816,400	18,625,378	23,166,441	13,428,754	-	68,036,973
Property and equipment, net	-	-	-	-	1,896,679	1,896,679
Other assets	-	-	-	-	1,700,073	1,700,073
Total	29,733,521	23,976,995	37,509,443	26,412,847	3,700,521	121,333,327
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	217,410	-	-	-	-	217,410
Time investments	5,613,731	487,195	-	-	-	6,100,926
Customers' deposits						
Demand	54,437,847	-	-	-	-	54,437,847
Customer's Time investments	27,629,721	6,901,564	1,159,006	-	-	35,690,291
Other liabilities	-	-	-	-	3,589,145	3,589,145
Shareholders' equity	-	-	-	-	21,297,708	21,297,708
Total	87,898,709	7,388,759	1,159,006	-	24,886,853	121,333,327
Commitments & contingencies						
Letters of credit	1,386,902	1,480,661	14,887	267	-	2,882,717
Letters of guarantee	1,525,816	4,431,268	2,836,234	43,981	-	8,837,299
Acceptances	158,635	96,390	-	-	-	255,025
Irrevocable commitments to extend credit	-	574,565	-	-	-	574,565

2017	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,299,371	-	-	-	-	7,299,371
Due from banks and other financial institutions:						
Current accounts	288,368	-	-	-	-	288,368
Murabaha and Wakala with banks	8,060,228	391,888	1,048,373	-	-	9,500,489
Investments, net						
Available for sale	647,065	2,950,635	3,855,000	5,528,888	8,407	12,989,995
Held as FVSI	-	77,045	-	-	-	77,045
Others	901,650	-	1,005,167	-	92,342	1,999,159
Financing, net						
Retail	656,648	1,937,431	7,409,626	4,630,204	-	14,633,909
Corporate	13,000,479	18,323,191	21,565,090	11,539,928	-	64,428,688
Property and equipment, net	-	-	-	-	1,876,423	1,876,423
Other assets	-	-	-	-	1,658,229	1,658,229
Total	30,853,809	23,680,190	34,883,256	21,699,020	3,635,401	114,751,676
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	83,153	-	-	-	-	83,153
Time investments	769,508	500,226	-	-	-	1,269,734
Customers' deposits						
Demand	46,077,366	-	-	-	-	46,077,366
Customer's Time investments	29,778,887	13,123,315	85,183	-	-	42,987,385
Other liabilities	-	-	-	-	3,990,276	3,990,276
Shareholders' equity	-	-	-	-	20,343,762	20,343,762
Total	76,708,914	13,623,541	85,183	-	24,334,038	114,751,676
Commitments & contingencies						
Letters of credit	1,730,135	802,337	490,385	223	-	3,023,080
Letters of guarantee	2,781,836	2,152,009	2,545,021	68,986	-	7,547,852
Acceptances	159,762	13,910	-	-	-	173,672
Irrevocable commitments to extend credit	-	488,627	-	-	-	488,627

29. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the Bank and from almost any activity.

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the operational risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

30. Shariah non-compliance risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'a non-compliance. To mitigate such risk, extensive Sharia'a policies and procedures are in place. Further, the Bank has established a Sharia'a Board and a Sharia'a Compliance Audit Unit to monitor such risk.

31. Reputational risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of reputational risk is Sharia'a non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions and negative perceptions about the Bank's financial condition. The Bank has put in place controls around reputational risk in order to mitigate and avoid such risks. Currently, the Bank measures the reputational risk through a Scorecard based approach, where Risk Management Group compiles the results of assessments made by business heads to derive the Bank's overall reputational risk indicators.

32. Fair values of financial assets and liabilities

Fair value is the price that would be received on sale of 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 fair values of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2018	SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	50,763	-	-	50,763
- Mutual funds	1,934,463	-	194,922	2,129,385
Financial assets held as FVOCI				
- Equities	112,559	-	-	112,559
- Mutual funds	-	-	-	-
- Sukuk	85,161	3,003,368	-	3,088,529
Total	2,182,946	3,003,368	194,922	5,381,236

2017	SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	44,710	-	-	44,710
- Mutual funds	32,334	-	-	32,334
Financial assets held as available for sale				
- Equities	112,095	-	-	112,095
- Mutual funds	1,437,398	-	206,283	1,643,681
- Sukuk	8,922,889	2,311,330	-	11,234,219
Total	10,549,427	2,311,330	206,283	13,067,040

The movement in Level 3 financial instrument represents movement due to fair value changes only.

(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	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Due from banks and other financial institutions	8,297,069	8,284,595	9,788,857	9,755,746
Investments – Murabaha with SAMA	1,907,707	1,909,840	1,906,817	1,896,071
Sukuks – Amortized Cost	11,041,196	10,839,633	-	-
Financing, net	83,685,166	83,491,292	79,062,597	79,054,001
Liabilities				
Due to banks and other financial institutions	6,318,336	6,318,519	1,352,887	1,352,251
Customers' deposits	90,128,138	90,133,444	89,064,751	89,093,574

33. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

(i) The balances as at December 31, resulting from such transactions included in the consolidated financial statements are as follows:

	2018 SAR'000	2017 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing to key management personnel	36,977	41,480
Customers' deposits	1,988,705	11,490,257
Investments in associate and joint venture	87,108	92,342
Financing and investments in mutual funds	8,489,165	2,794,093
Deposits from mutual funds	368,640	687,550
Borrowings from mutual fund	250,000	-

Customers' deposits mainly include from major shareholders and directors.

(ii) Income and expenses pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	2018 SAR'000	2017 SAR'000
Income on financing	354,027	98,185
Return on time investments	239,628	320,937
Fee from banking services, net	255,448	193,726
Directors' remuneration	4,394	4,257

The advances and expenses related to executives are in line with the normal employment terms.

(iii) The total amount of compensation to key management personnel during the year is as follow:

	2018 SAR'000	2017 SAR'000
Short-term employees benefits	60,024	53,259
End of service benefit	3,363	2,216
Shares under employee share based scheme	3,961	1,662

34. 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 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 has issued the framework and guidance for implementation of capital reforms under Basel III, which are effective from January 01, 2013. Accordingly, the risk weighted assets, total capital and related ratios are calculated using Basel III framework.

Particulars	2018 SAR'000	2017 SAR'000
Credit Risk Weighted Assets	101,696,007	95,890,718
Operational Risk Weighted Assets	7,841,050	6,727,186
Market Risk Weighted Assets	422,812	870,356
Total Pillar-I Risk Weighted Assets	109,959,869	103,488,260
Tier I Capital	21,876,003	20,343,762
Tier II Capital	1,271,200	884,207
Total Tier I & II Capital	23,147,203	21,227,969
Capital Adequacy Ratio %		
Tier I ratio	20%	20%
Tier I + Tier II ratio	21%	21%

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 38,926 million (2017: SAR 31,510 million).

36. Prior year restatement

The bank has an investment in a fund whose fair value is determined based on fund's Net Asset Value (NAV). During the year, the fund manager has restated the prior year 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 year. The effect of restatements is as follows:

Consolidated statement of financial position			
SAR'000		December 31, 2017	
Account	Balance as previously reported	Effect of restatement	Balance as restated
Investments	15,319,590	(253,391)	15,066,199
Fair value reserve for available for sale investments	340,155	(253,391)	86,764

Consolidated statement of comprehensive income			
SAR'000		December 31, 2017	
Account	Balance as previously reported	Effect of restatement	Balance as restated
Net change in fair value reserve for available for sale investment during the year	263,758	(253,391)	10,367

37. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the standards and amendments which have been published and are mandatory for compliance by the Bank effective from accounting period beginning on or after January 1, 2019.

Standard, and amendments	Effective date	Brief description of changes
IFRS 16 – “Leases”	January 01, 2019	The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.
Amendments to IAS 19 -- “Employee Benefits”	January 01, 2019	The amendments cover the accounting for when a plan amendment, curtailment or settlement occurs during a reporting period.

Implementation and Impact Analysis of IFRS 16 – “Leases”

The Bank plans to adopt IFRS 16 with modified retrospective approach where the comparative information will not be restated and on the date of initial application i.e. January 1, 2019 the requirements of IFRS 16 will be applied.

For all the leases classified as operating leases a lease liability will be recognized at the date of initial application measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. Corresponding right-of-use asset will be recorded by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

During 2018, the Bank has performed a detailed impact assessment of IFRS 16. Based on this assessment, it is expected that the total assets and liabilities will increase by 0.34% and 0.42% respectively. There will be no material impact on consolidated statement of income

38. Comparative figures

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 consolidated financial statements.

39. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 22 Jumada I, 1440H (corresponding to 28 January, 2019).

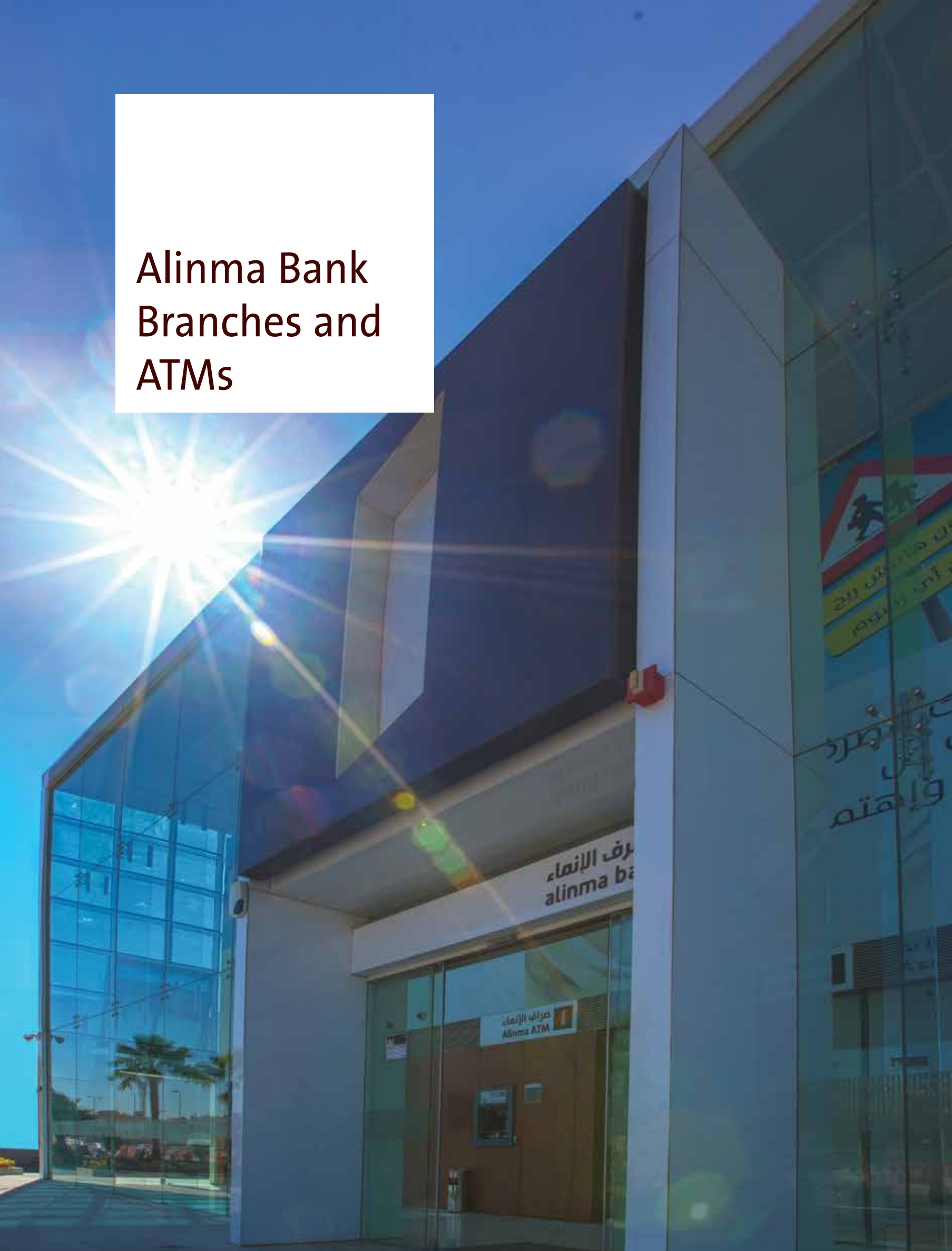
Disclosures under Basel III framework

Following additional disclosures are required under Basel III framework.

Disclosures	Frequency
Pillar III, Qualitative disclosures	Annually
Pillar III, Quantitative disclosures	Semi-annually
Capital Structure	Quarterly
Liquidity coverage ratio	Quarterly
Leverage ratio	Quarterly

These disclosures will be made available to the public on the Bank's website (www.alinma.com) within prescribed time as required by SAMA.

Alinma Bank Branches and ATMs



Alinma Bank Branches

The following are Alinma locations that are operating as of printing of this report:

Riyadh

Branch	Area	Street
Head Office	Al Olaya	King Fahad Road
Dharat Al Badiyah (Gent's & Ladies)	Dharat Al-Badiyah	Al Madinah Al-Munawara Road
Takhassusi (Gent's & Ladies)	Al Olaya	Takhassusi street
Al Malaz	Al Malaz	Salah Al Deen Al-Ayoubi Road (Siteen)
Al Suwaidi (Gent's & Ladies)	Al Suwaidi	Al Suwaidi street
Al Rabwah (Gent's & Ladies)	Al Rabwah	Omar Bin Abdulaziz Road
Al Nahda (Gent's & Ladies)	Al Nahda	Prince Bandar Ibn Abdulaziz street
Al Aziziyah (Gent's & Ladies)	Al Aziziyah	Al Nasr street
Al Ghadeer (Gent's & Ladies)	Al Ghadeer	King Abdulaziz Road
Al Nassem	Al Nassem	Hassan Bin Thabit street
Al Raya'an (Gent's & Ladies)	Al Raya'an	Imam Shafi street
King Faisal (Gent's & Ladies)	King Faisal	King Abdullah Road
Al Muraba'a	Al Muraba'a	Faisal Bin Turkey Ibn Abdulaziz Road
Al Amal (Batha)	Al Amal	Assad Ibn Alforat street
Al Rawabi (Gent's & Ladies)	Al Rawabi	Imam Saad Bin Abdulrahman Road
Al Nozha (Gent's & Ladies)	Al Nozha	Imam Saud Bin Abdulaziz Bin Mohammed
Al Shaifa'a Branch Derab Road	Al Shaifa'a	Derab Road
Al Shifa'a (Gent's & Ladies)	Al Shifa'a	Ibn Taymiya street
Al Yasmine (Gent's & Ladies)	Al Yasmine	Anas Ibn Malek street
Al Rowda (Gent's & Ladies)	Al Rowda	Intersection of Al Hassan Ibn Ali and Obada Ibn Al Samit
Qurtoba (Gent's & Ladies)	Qurtoba	Dammam High Way, Khalid Ibn Al Walid Exit
Western Swaide (Gent's & Ladies)	Western Swaide Dist.	Western Ring Road Exit 27
King khaled Airport	King khaled Airport	King khaled Airport - domestic arrival terminal
Al Deerah	Al Deerah district	Al Imam Mohammed bin Saud bin Moqren St.
Al Morouj (Gent's & Ladies)	Al Morouj	Imam Saud Bin AbdulAziz Bin Mohammad Road
Al Yarmouk	Al Yarmouk	Imam Abdullah Bin Saud Bin Abdulaziz Road
Prince Mohammad bin AbdulAziz Hospital (Gent's & Ladies)	Al Rawabi	Inside Prince Mohammad Hospital
Takhassusi Sales	Al Mohamdiyyah	Takhassusi street
Exchange Center - Inside King Khalid Airport	King khaled Airport	Departure Terminal - International Flights
King Fahad Sales	King Fahad District	King Abdulaziz Road
Second Industrial City «Male»	Industrial City in Riyadh Dist	108 street
Ar Rabi Sales	Ar Rabi	Thumamah Road
King Fahad Dist. Branch	King Fahad Dist	King Abdul Aziz Road
AL Nassem Sales Branch	AL Nassem Dist	saed bin abi waqas
Al Farouq Branch	Alfaruq Dist	Eastern Ring Rd - exit 13
Hitteen Branch	Hitteen Dist	Prince Mohamaed bin Saad Road
Dhart Laban Branch (Gent's & Ladies)	Dhart Laban	Al shifa street
Prince Mohammed bin Abdulaziz Road branch (AlTahlia)	Al Sulaimania	Prince Mohammed Bin Abdulaziz street

Alinma Bank Branches

Dariyyah

Branch	Area	Street
Dariyyah Branch	Al Khaldiya	King Abdulaziz Road

Kharj

Branch	Area	Street
Kharj Branch (Gent's & Ladies)	Al Nahda	King Fahad Road

Majmaah

Branch	Area	Street
Majmaah Branch (Gent's & Ladies)	King Fahd Dist	King Fahd Road

Zulfi

Branch	Area	Street
Zulfi Branch Branch (Gent's & Ladies)	Khalidia	King Fahad Road

Al Dawadmi

Branch	Area	Street
Al Dawadmi Branch	Al Haramain dest.	King Abdulaziz Road

Shaqra

Branch	Area	Street
Shaqra Branch (Gent's & Ladies)	Rawdha dest	King Saud Road

Makkah

Branch	Area	Street
Al Aziziyah Branch (Gent's & Ladies)	Al Aziziyah	Al Aziziyah - Al-Aql Tower
Al Shawqia Branch (Gent's & Ladies)	Al Shawqia dest.	Ibraheem AlKhaleel street
Al Awali Branch	Al Awali	Ibrahim Aljfailly street

Jeddah

Branch	Area	Street
Al Rabwah Branch (Gent's & Ladies)	Al Rabwah	King Fahad street (Siteen)
Al Rawdah Branch (Gent's & Ladies)	Al Rawdah	Sari street
Al Balad Branch	Al Balad	King Abdulaziz Road
Al Safa Branch (Gent's & Ladies)	Al Safa	Prince Miteb street
Al Marwa Branch (Gent's & Ladies)	Al Marwa	Hira'a street
Al Shati Branch (Gent's & Ladies)	Al shati district	King Abdulaziz Road
Aziziah Branch	Aziziah Dist	Al Madinah Al Munawarah Road
Al Rehab Branch	Al Rehab Dest.	Palastine Road
Al Manar Branch (Gent's & Ladies)	Al Manar Dist	Al Ajwad street

Taif

Branch	Area	Street
Taif Branch (Gent's & Ladies)	Moeashi	Al Jaish street

Madinah

Branch	Area	Street
Al Khaledya Branch (Gent's & Ladies)	Al Khaledya	Ring Road near Al Naghi Agency
Al Defa Branch (Gent's & Ladies)	Al Defa Dest.	Alimam Albukhari street
Prince Mohammed bin Abdulaziz Airport Branch	Inside Prince Mohammad Bin Abdulaziz Airport in Medina	between arrival Hall and departure lounge

Yanbu

Branch	Area	Street
Yanbu Branch (Gent's & Ladies)	Al Nakheel Dist	King Fahd Road

Dammam

Branch	Area	Street
Al Tubaishi Branch (Gent's & Ladies)	Al Tubaishi	Prince Mohammad Bin Fahad (First Street)
Rayaan Branch (Gent's & Ladies)	Rayaan	Ali Bin Abi Talib street
Uhod Branch (Gent's & Ladies)	Uhod	King Fahad Road
Gurnata Branch (Gent's & Ladies)	Ghirmatah Dist	King Saud Road
Taybah Branch	Taybah Dist	Southern Ring Road
King Fahad Airport Branch	King Fahad Airport	International arrivals Gate (5)
Currency Exchange counter	King Fahad Airport	International departures terminal

Khobar

Branch	Area	Street
Al Raka Branch	Al Raka	Dammam - Khobar Coastal Road
Al Yarmouk Branch (Gent's & Ladies)	Al Yarmouk	Prince Turki street
Al Thoqba Branch	Al Thoqba	Makkah AlMokarramah street
Al Tahliah Branch (Gent's & Ladies)	Al Tahliah	King Khalid Street

Dhahran

Branch	Area	Street
Doha Branch (Gent's & Ladies)	Doha District	Abdullah bin Abbas intersection with Prince Sultan District
Al Qusour Branch	Al Qusoor Dist	Prince Mohammed Bin Fahd Road

Al QATIF

Branch	Area	Street
Al Qatif Branch	Fifth Area	Al Quds street

Jubail

Branch	Area	Street
Jubail Branch (Gent's & Ladies)	Al Fanateer	Al Khamis street

Ras Tanura

Branch	Area	Street
Ras Tanura Branch (Gent's & Ladies)	Al Fayha Dist	King Abdulaziz Road

Hafr Al Batin

Branch	Area	Street
Hafr Al Batin Branch (Gent's & Ladies)	Al Baladiya	King Faisal Road
King Khalid Military City Branch	King Khalid Military City Dist	King Khaled Road

Mubarraz

Branch	Area	Street
Mubarraz (Gent's & Ladies)	Al Khars	King Fahad Road

Al Hofouf

Branch	Area	Street
Al Souq Branch	Al Souq	King Abdulaziz Road
Al Rodah Branch (Gent's & Ladies)	AlRodha Dest.	Al Khaleeg Road

Buraidah

Branch	Area	Street
Buraidah (Gent's & Ladies)	Al Safra	King Abdullah Road
AlRayyan Branch (Gent's & Ladies)	Al Rayyan dest.	Umar ben AlKhatib street

Onaiza

Branch	Area	Street
Onaiza Branch (Gent's & Ladies)	Al Ahrafia	Al Zolfi Road

Al Rass

Branch	Area	Street
Al Rass Branch (Gent's & Ladies)	King Abdulaziz	King Abdulaziz Road

Al Bukayriah

Branch	Area	Street
Khalidiya Branch	Al Khaldiyeh Dist	King Abdulaziz Road

Abha

Branch	Area	Street
Abha Branch (Gent's & Ladies)	Al Sad	Al Hozam Ring Road

Khamis Mushait

Branch	Area	Street
Khamis Mushait Branch (Gent's & Ladies)	Al Rowda	King Khalid near King Fahad Mosque

Bisha

Branch	Area	Street
Bisha Branch (Gent's & Ladies)	Al Matar District	King Saud Road

Al Baha

Branch	Area	Street
Al Baha Branch (Gent's & Ladies)	Al Dfeer Dist	King Saud Road

Najran

Branch	Area	Street
Najran Branch (Gent's & Ladies)	Prince Mishal	King Abdulaziz Road

Jazan

Branch	Area	Street
Al Shati Branch (Gent's & Ladies)	Al Shati Dist.	Allmam Mohammed ben Abdulaziz Road

Sabia

Branch	Area	Street
Sabia Branch (Gent's & Ladies)	Muhammadiyah area	King Abdulaziz Road

Hail

Branch	Area	Street
Hail Branch (Gent's & Ladies)	Al Matar	King Abdulaziz Road

Tabouk

Branch	Area	Street
Tabouk Branch (Gent's & Ladies)	Al Morouj	King Abdullah Road

Skaka

Branch	Area	Street
Skaka Branch (Gent's & Ladies)	Al Shelhob Area	King Fahad Road

Arar

Branch	Area	Street
Arar (Gent's & Ladies)	Al Rowda	Intersection of King Saud with Prince Abdulaziz Bin Masa'ad

Alinma ATMs

The bank has a kingdom-wide network of more than 1,485 state-of-the-art ATMs. For more information about the bank's branches and ATMs, please visit our website www.alinma.com or call the Alinma Phone service at 800 120 8000.



800 120 8000

www.alinma.com



alinmabankSA

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الرياض 11586 Riyadh

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