ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

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

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Alinma Bank and its subsidiaries (the "Bank") as of March 31, 2019, and the related interim consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" as modified by the Saudi Arabian Monetary Authority's ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 14 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 14 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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20 Sha'aban 1440H
(April 25, 2019)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
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PRICEWATERHOUSECOOPERS
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شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

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

	Notes	**March 31, 2019 (Unaudited)**	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
		SAR'000	SAR'000	SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**7,486,167**	7,359,684	9,263,486
Due from banks and other financial institutions		**4,160,625**	8,293,206	5,717,478
Investments, net	5	**20,727,965**	18,399,178	15,940,998
Financing, net	6	**85,877,066**	83,889,150	79,012,848
Property and equipment, net	4	**2,345,251**	1,896,679	1,863,851
Other assets		**1,197,350**	1,700,073	2,146,210
TOTAL ASSETS		**121,794,424**	121,537,970	113,944,871
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**3,947,769**	6,318,336	1,120,155
Customers' deposits	7	**92,261,082**	90,128,138	89,339,506
Other liabilities	4	**5,126,709**	3,793,788	3,306,493
TOTAL LIABILITIES		**101,335,560**	100,240,262	93,766,154
SHAREHOLDERS' EQUITY				
Share capital		**15,000,000**	15,000,000	15,000,000
Statutory reserve		**2,888,815**	2,888,815	2,259,457
Fair value reserve for FVOCI investments		**(2,514)**	(22,377)	(39,210)
Other reserves		**47,509**	54,085	16,758
Retained earnings		**2,628,529**	1,990,693	1,857,184
Proposed dividends		**-**	1,489,967	1,191,964
Treasury shares		**(103,475)**	(103,475)	(107,436)
TOTAL SHAREHOLDERS' EQUITY		**20,458,864**	21,297,708	20,178,717
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**121,794,424**	121,537,970	113,944,871

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	Note	For the three months period ended	
		March 31, 2019	March 31, 2018
		SAR'000	SAR'000
Income from investments and financing		**1,307,113**	1,113,086
Return on time investments		**(314,014)**	(216,809)
Income from investments and financing, net		**993,099**	896,277
Fee from banking services - income		**268,132**	206,281
Fee from banking services - expense		**(61,920)**	(55,302)
Fees from banking services, net		**206,212**	150,979
Exchange income, net		**45,441**	39,535
Gain from FVSI financial instruments, net		**44,014**	13,174
Gain from FVOCI debt investments, net		**230**	-
Dividend income		**639**	9,794
Other operating income		**3**	1
Total operating income		**1,289,638**	1,109,760
Salaries and employee related expenses		**261,938**	227,010
Rent and premises related expenses		**34,216**	37,888
Depreciation and amortization		**66,726**	45,962
Other general and administrative expenses		**150,407**	132,327
Charge for credit impairment		**65,398**	89,473
Total operating expenses		**578,685**	532,660
Net operating income		**710,953**	577,100
Share of loss / income from an associate and a joint venture		**(2,433)**	4,712
Net income for the period		**708,520**	581,812
Basic and diluted earnings per share (SAR)	11	**0.48**	0.39

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	For the three months period	
	March 31, 2019	March 31, 2018
	SAR'000	SAR'000
Net income for the period	**708,520**	581,812
Other comprehensive income:		
Items that cannot be recycled back to consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI equity investments	**12,300**	1,799
Items that can be recycled back to consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	**7,793**	(11,517)
Net gain realized on sale of FVOCI sukuk investments	**(230)**	-
Total comprehensive income for the period	**728,383**	572,094

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31,

2019 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	2,888,815	(22,377)	54,085	1,990,693	1,489,967	(103,475)	21,297,708
Net income for the period	-	-	-	-	708,520	-	-	708,520
Net changes in fair value of FVOCI equity investments	-	-	12,300	-	-	-	-	12,300
Net changes in fair values of FVOCI sukuk investments	-	-	7,793	-	-	-	-	7,793
Net amount realized on sale of FVOCI sukuk investments	-	-	(230)	-	-	-	-	(230)
Total comprehensive income	-	-	19,863	-	708,520	-	-	728,383
Dividend approved for 2018						(1,489,967)	-	(1,489,967)
Zakat for the period	-	-	-	-	(70,684)	-	-	(70,684)
Social community reserve	-	-	-	(6,576)	-	-	-	(6,576)
Balance at the end of the period	15,000,000	2,888,815	(2,514)	47,509	2,628,529	-	(103,475)	20,458,864

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

2018 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	2,259,457	340,155	16,484	1,896,529	1,191,964	(107,436)	20,597,153
Effect of restatement	-	-	(253,391)	-	-	-	-	(253,391)
Effect of adopting IFRS-9 at January 01, 2018	-	-	(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 period	-	-	-	-	581,812	-	-	581,812
Net changes in fair value of FVOCI equity investments	-	-	1,799	-	-	-	-	1,799
Net changes in fair values of FVOCI sukuk investments	-	-	(11,517)	-	-	-	-	(11,517)
Total comprehensive income	-	-	(9,718)	-	581,812	-	-	572,094
Net gain realized on sale of FVOCI equity investments	-	-	(2,354)	-	2,354	-	-	-
Zakat for the period	-	-	-	-	(14,545)	-	-	(14,545)
Employee share based plan reserve	-	-	-	274	-	-	-	274
Balance at the end of the period	15,000,000	2,259,457	(39,210)	16,758	1,857,184	1,191,964	(107,436)	20,178,717

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	Note	2019 SAR'000	2018 SAR'000
OPERATING ACTIVITIES			
Net income for the period		**708,520**	581,812
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**66,726**	45,962
Unrealized gain from FVSI financial instruments, net		**(46,972)**	(8,164)
Dividend income		**(639)**	(9,794)
Charge for credit impairment		**65,398**	89,473
Employee share based plan reserve		**-**	274
Share of loss / income from an associate and a joint venture		**2,433**	(4,712)
		795,466	694,851
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**(42,819)**	127,092
Due from banks and other financial institutions, with original maturity of more than three months		**428,517**	(54,099)
Investments		**(2,260,344)**	(882,523)
Financing		**(2,044,345)**	(548,889)
Other assets		**454,768**	(487,981)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,370,567)**	(232,732)
Customers' deposits		**2,132,944**	274,755
Other liabilities		**(692,075)**	(896,192)
Net cash used in operating activities		**(3,598,455)**	(2,005,718)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(27,335)**	(33,390)
Dividends received		**639**	9,794
Net cash used in investing activities		**(26,696)**	(23,596)
Net decrease in cash and cash equivalents		**(3,625,151)**	(2,029,314)
Cash and cash equivalents at the beginning of the period		**9,540,679**	10,702,200
Cash and cash equivalents at the end of the period	9	**5,915,528**	8,672,886
Income received from investments and financing		**1,029,240**	651,299
Return paid on time investments		**282,084**	168,433
Supplemental non-cash information			
Net change in fair value of FVOCI investments		**19,863**	(9,718)
Dividend approved		**1,489,967**	-

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No. 173 and Commercial Registration No. 1010250808 both dated 21 Jumada-I 1429H (corresponding to May 26, 2008) and provides banking services through 91 branches (March 31, 2018: 85) in the Kingdom of Saudi Arabia. Its head office address is as follows:

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

The interim condensed consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the "Bank"):

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

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

b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah laws.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS - 34 "Interim Financial Reporting", using uniform accounting policies, estimates, judgment and valuation methods for similar transactions and other events in similar circumstances as disclosed in the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2018 except for the changes in accounting policies as explained in Note 3.

Since, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, therefore, these should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2018.

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

a) Statement of compliance

The interim condensed consolidated financial statements have been prepared;

i) In accordance with the International Accounting Standard 34 – "Interim Financial Reporting" as modified by SAMA for the accounting of zakat and income tax (relating to the application of International Accounting Standard 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to accounting for Saudi Arabian 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 the By-Laws of the Bank.

b) Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at Fair Value through Statement of Income ("FVSI"), Fair Value through Other Comprehensive Income ("FVOCI") investments and end of service benefits that are stated at the present value of the related obligation.

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

c) Functional and presentation currency

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

d) Basis of consolidation

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies

3.1 The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the new standards and corresponding changes in accounting policies as explained below:

Adoption of new standards

The Bank has adopted the following new standard that has become effective during the period:

New Standards	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 distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 uses a single on-balance sheet accounting model.

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

The corresponding change in the accounting policies due to the adoption of above standard is explained below:

i) Lease liability

For all the leases classified as operating leases' a 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.

ii) Right of use Asset

A 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 before the date of initial application.

iii) **Transition**

The Bank has adopted IFRS 16 with modified retrospective approach whereby the comparative information has not be restated and on the date of initial application i.e. January 1, 2019 the requirements of IFRS 16 have been applied. The Bank elected to use the exemptions allowed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has used a single discount rate to a portfolio of leases with reasonably similar characteristics.

3.2 General Authority of Zakat and Tax (GAZT) has prescribed a new criteria for calculation of zakat effective January 1, 2019. Due accrual has been made for the obligation up to March 31, 2019.

4. Impact of initial application of IFRS 16

The remaining lease obligations as of December 31, 2018 are reconciled to the recognized lease liabilities as of January 1, 2019 as follows:

	SAR in '000'
	(Unaudited)
Off-balance sheet lease obligations as of December 31, 2018	**529,907**
Current leases with a lease term of 12 months or less and low-value leases	**(2,652)**
Operating lease obligations as of January 1, 2019 (Gross before discounting)	**527,255**
Discounting to present value	**(80,212)**
Operating lease obligations as of January 1, 2019 (net, discounted)	**447,043**

4.1 The amount of Right of Use assets as of 31 March 2019 are SAR 466 million which have been included under Property and equipment, net in the interim consolidated statement of financial position.

4.2 The amount of lease liability as of 31 March 2019 is SAR 445 million which have been included under other liabilities in the interim consolidated statement of financial position.

5. Investments

	Note	**March 31, 2019 (Unaudited)**	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
		SAR'000	SAR'000	SAR'000
Held at Amortized Cost		**14,688,223**	12,948,903	10,903,469
Held at FVOCI		**3,747,627**	3,201,088	3,266,117
Held at FVSI		**2,221,930**	2,180,148	1,685,240
Investment in an associate	5.1	**70,878**	72,776	82,876
Investment in a joint venture	5.2	**13,797**	14,332	14,178
Less: Allowance for impairment		**(14,490)**	(18,069)	(10,882)
Total		**20,727,965**	18,399,178	15,940,998

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

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

6. Financing, net

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	**16,118,077**	15,709,601	14,779,292
Corporate	**70,810,722**	69,203,984	65,469,925
Performing financing	**86,928,799**	84,913,585	80,249,217
Non-performing loans	**1,306,903**	1,276,651	865,599
Total financing, gross	**88,235,702**	86,190,236	81,114,816
Allowance for impairment	**(2,358,636)**	(2,301,086)	(2,101,968)
Financing, net	**85,877,066**	83,889,150	79,012,848

6.1 The Allowance for impairment includes SAR 217 million (December 31, 2018: SAR 204 million and March 31, 2018: SAR 197 million) provided for credit related contingencies and commitments.

6.2 Movement in allowance for impairment of financing

	March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 01	**2,505,070**	2,209,041
Charge for the period, net	**71,276**	89,473
Write-off	**(1,119)**	-
Balance at the end of the period	**2,575,227**	2,298,514

7. Customers' deposits

	Note	**March 31, 2019 (Unaudited)**	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
		SAR'000	SAR'000	SAR'000
Current and Saving		**53,859,868**	53,510,669	45,171,472
Time investments	7.1	**37,380,874**	35,690,291	43,366,823
Margin deposits		**1,020,340**	927,178	801,211
Total		**92,261,082**	90,128,138	89,339,506

7.1 This represents Murabaha, Mudaraba and Wakala with customers.

8. **Commitments and contingencies**

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**2,946,971**	2,882,717	3,021,824
Letters of guarantee	**9,588,708**	8,837,299	7,965,466
Acceptances	**250,186**	255,025	165,211
Irrevocable commitments to extend credit	**256,496**	574,565	589,678
Total	**13,042,361**	12,549,606	11,742,179

9. **Cash and cash equivalents**

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,271,642**	2,209,434	2,155,924
Balances with SAMA excluding statutory deposit	**114,975**	93,519	2,288,887
Due from banks and other financial institutions maturing within ninety days from the date of acquisition.	**3,528,911**	7,237,726	4,228,075
Total	**5,915,528**	9,540,679	8,672,886

10. **Operating segments**

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

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

The Bank's reportable segments are as follows:

a) **Retail banking**

Financing, deposit and other products/services for individuals.

b) **Corporate banking**

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

c) **Treasury**

Investments, Interbank and other treasury services.

d) **Investment and brokerage**

Investment, asset management and brokerage services through dealing, managing, arranging, advising and custodial services.

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

Effective January 1, 2019, the Bank has enhanced the FTP compensation on Current Accounts and the basis of allocation of common expenses to segments to be more equitable and transparent. To ensure conformity, the comparative numbers have also been reclassified wherever applicable.

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

SAR '000	March 31, 2019 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	**15,594,990**	**69,854,930**	**35,065,655**	**1,278,849**	**121,794,424**
Total liabilities	**73,822,603**	**6,367,077**	**20,822,140**	**323,740**	**101,335,560**
Income from investments and financing	**604,802**	**409,522**	**286,888**	**5,901**	**1,307,113**
Return on time investments	**(178,635)**	**(27,848)**	**(107,531)**	**-**	**(314,014)**
Income from investments and financing, net	**426,167**	**381,674**	**179,357**	**5,901**	**993,099**
Fees from banking services and other operating income	**93,281**	**39,548**	**83,657**	**80,053**	**296,539**
Total operating income	**519,448**	**421,222**	**263,014**	**85,954**	**1,289,638**
Charge for credit impairment	**20,639**	**50,637**	**(5,878)**	**-**	**65,398**
Depreciation and amortization	**50,153**	**8,596**	**6,781**	**1,196**	**66,726**
Other operating expenses	**300,251**	**69,308**	**48,877**	**28,125**	**446,561**
Total operating expenses	**371,043**	**128,541**	**49,780**	**29,321**	**578,685**
Net operating income	**148,405**	**292,681**	**213,234**	**56,633**	**710,953**
Share of income from an associate and a joint venture	**-**	**-**	**(2,433)**	**-**	**(2,433)**
Net income for the period	**148,405**	**292,681**	**210,801**	**56,633**	**708,520**

SAR '000	March 31, 2018 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	14,578,431	64,346,090	34,272,167	748,183	113,944,871
Total liabilities	55,953,594	9,274,903	28,472,605	65,052	93,766,154
Income from investments and financing	444,897	390,123	276,512	1,554	1,113,086
Return on time investments	(63,465)	(27,989)	(125,355)	-	(216,809)
Income from investments and financing, net	381,432	362,134	151,157	1,554	896,277
Fees from banking services and other operating income	70,338	22,675	53,991	66,479	213,483
Total operating income	451,770	384,809	205,148	68,033	1,109,760
Charge for credit impairment	9,294	80,179	-	-	89,473
Depreciation and amortization	32,108	7,529	6,145	180	45,962
Other operating expenses	281,021	55,060	38,360	22,784	397,225
Total operating expenses	322,423	142,768	44,505	22,964	532,660
Net operating income	129,347	242,041	160,643	45,069	577,100
Share of income from an associate and a joint venture	-	-	4,712	-	4,712
Net income for the period	129,347	242,041	165,355	45,069	581,812

SAR '000	March 31, 2019 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	**123,855**	**940,992**	**138,837**	**85,954**	**1,289,638**
- Inter-segment	**395,593**	**(519,770)**	**124,177**	**-**	**-**
Total operating income	**519,448**	**421,222**	**263,014**	**85,954**	**1,289,638**

SAR '000	March 31, 2018 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	227,027	753,866	60,834	68,033	1,109,760
- Inter-segment	224,743	(369,057)	144,314	-	-
Total operating income	451,770	384,809	205,148	68,033	1,109,760

11. Earnings per share

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

12. Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

				SAR '000
March 31, 2019 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**53,019**	**-**	**-**	**53,019**
- Mutual funds	**-**	**1,970,318**	**208,134**	**2,178,452**
Financial assets held as FVOCI				
- Equities	**124,844**	**-**	**-**	**124,844**
- Sukuks	**86,435**	**3,536,348**	**-**	**3,622,783**
Total	**264,298**	**5,506,666**	**208,134**	**5,979,098**

				SAR '000
March 31, 2018 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	46,391	-	-	46,391
- Mutual funds	-	1,431,332	207,517	1,638,849
Financial assets held as FVOCI				
- Equities	126,248	-	-	126,248
- Sukuks	75,654	3,064,215	-	3,139,869
Total	248,293	4,495,547	207,517	4,951,357

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

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

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

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

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

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

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

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

	SAR '000	
March 31, 2019 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**4,160,625**	**4,157,373**
Investments - at amortized cost	**14,688,223**	**14,476,387**
Financing, net	**85,877,066**	**85,350,805**
LIABILITIES		
Due to banks and other financial institutions	**3,947,769**	**3,948,751**
Customers' deposits	**92,261,082**	**92,285,195**

	SAR '000	
March 31, 2018 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	5,717,478	5,684,889
Investments - at amortized cost	10,903,469	10,690,545
Financing, net	79,012,848	78,750,886
LIABILITIES		
Due to banks and other financial institutions	1,120,155	1,118,238
Customers' deposits	89,339,506	89,334,795

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

13. Financial Risk Management

Credit Risk

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

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

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

Expected credit Loss (ECL)

Credit risk grades

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

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

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

Point in time PD

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

Determining whether credit risk has increased significantly

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

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

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

- **Stage 1** – Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The Bank recognizes impairment allowance based on 12 months Probability of Default (PD).

- **Stage 2** – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. The trigger point for classifying accounts under Stage 2 and the consequent calculation of lifetime expected credit losses is based on past due payments (rebuttable assumption if payments are more than 30 days past due.) However, the most important consideration for Stage 2 classification is the decision by the Credit Committee that the Credit quality has deteriorated to the degree as defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment allowance based on life time PD, and the lifetime expected credit losses are recognized.

- **Stage 3** – Impaired assets: For impaired financial asset(s), the Bank recognize the impairment allowance based on life time PD and the lifetime expected credit losses are recognized.

Definition of 'Default'

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

Loss allowance

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

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

	March 31, 2018 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in '000'		
Balance at the beginning of the period	455,682	976,364	794,152	2,226,198
Transfer to 12 month ECL	38,499	(36,579)	(1,920)	-
Transfer to life time ECL, not credit impaired	(288)	3,899	(3,611)	-
Transfer to life time ECL, credit impaired	-	(13,445)	13,445	-
Net charge / (reversal) for the period	8,258	(1,712)	82,927	89,473
Write-off	-	-	-	-
Balance as at March 31, 2018	502,151	928,527	884,993	2,315,671

14. Capital adequacy

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

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

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**104,034,308**	101,696,007	94,086,906
Operational risk weighted assets	**8,188,122**	7,841,050	6,960,302
Market risk weighted assets	**503,356**	422,812	1,058,343
Total Pillar-I Risk Weighted Assets	**112,725,786**	109,959,869	102,105,551
Tier I capital	**20,892,584**	21,876,003	20,757,011
Tier II capital	**1,300,429**	1,271,200	1,031,672
Total Tier I & II Capital	**22,193,013**	23,147,203	21,788,683
Capital Adequacy Ratio %			
Tier I ratio	**19%**	20%	20%
Tier I + Tier II ratio	**20%**	21%	21%

15. 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 interim consolidated financial statements.

16. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on 11 Shabaan 1440H (corresponding to April 16, 2019).