ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

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INDEPENDENT AUDITORS' REVIEW REPORT ON
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Alinma Bank and its subsidiaries (collectively referred to as "the Bank") as of September 30, 2020, and the related interim consolidated statements of income and comprehensive income for three months and nine months periods then ended and the interim consolidated statement of changes in shareholders' equity and cash flows for the nine month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

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

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

	Notes	**September 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**9,970,321**	8,039,748	7,791,099
Due from banks and other financial institutions, net		**2,568,705**	2,144,269	3,063,247
Investments, net	4	**26,460,284**	23,477,660	22,744,574
Financing, net	5	**105,325,102**	94,801,398	90,784,681
Property and equipment, net		**2,318,655**	2,413,893	2,296,463
Other assets		**1,206,914**	962,473	1,329,651
TOTAL ASSETS		**147,849,981**	131,839,441	128,009,715
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions	6	**8,041,804**	3,289,844	2,898,135
Customers' deposits	7	**111,318,008**	102,062,835	99,837,277
Amount due to Mutual Funds' unitholders		**47,202**	-	-
Other liabilities		**4,404,126**	4,041,838	3,343,159
TOTAL LIABILITIES		**123,811,140**	109,394,517	106,078,571
SHAREHOLDERS' EQUITY				
Share capital		**20,000,000**	15,000,000	15,000,000
Statutory reserve		**100,000**	100,000	2,888,815
Fair value reserve for FVOCI investments		**77,226**	77,372	69,688
Other reserves		**77,953**	83,725	53,113
Retained earnings		**3,883,658**	2,287,302	4,023,003
Proposed issue of bonus shares	15.1	**-**	5,000,000	-
Treasury shares		**(99,996)**	(103,475)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		**24,038,841**	22,444,924	21,931,144
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**147,849,981**	131,839,441	128,009,715

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

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Notes	For the three months period ended **September 30, 2020**	 September 30, 2019	For the nine months period ended **September 30, 2020**	 September 30, 2019
		SAR'000	SAR'000	**SAR'000**	SAR'000
Income from investments and financing	6, 16	**1,337,217**	1,443,485	**4,069,963**	4,098,866
Return on time investments		**(169,776)**	(304,626)	**(659,106)**	(917,576)
Income from investments and financing, net		**1,167,441**	1,138,859	**3,410,857**	3,181,290
Fee from banking services – income		**327,223**	292,978	**849,938**	853,688
Fee from banking services – expense		**(79,913)**	(78,473)	**(228,923)**	(221,463)
Fees from banking services, net		**247,310**	214,505	**621,015**	632,225
Exchange income, net		**47,784**	56,889	**174,313**	154,734
(Loss) / gain from FVSI financial instruments, net		**(33)**	26,613	**(144,245)**	118,932
Gain from FVOCI debt investments, net		**414**	406	**988**	1,178
Dividend income		**6,609**	2,560	**11,441**	5,092
Other operating income	6	**19,463**	1,138	**29,133**	1,369
Total operating income		**1,488,988**	1,440,970	**4,103,502**	4,094,820
Salaries and employee related expenses		**279,703**	263,342	**813,544**	755,127
Rent and premises related expenses		**14,346**	17,539	**38,553**	67,627
Depreciation and amortization		**59,348**	68,898	**187,441**	203,902
Other general and administrative expenses		**193,245**	187,609	**534,642**	490,851
Operating expenses before charge for credit impairment		**546,642**	537,388	**1,574,180**	1,517,507
Charge for credit impairment	14	**233,797**	108,307	**768,496**	315,366
Total operating expenses		**780,439**	645,695	**2,342,676**	1,832,873
Net operating income		**708,549**	795,275	**1,760,826**	2,261,947
Share of gain /(loss) from an associate and a joint venture		**6,421**	(3,109)	**1,645**	(10,519)
Income for the period before zakat		**714,970**	792,166	**1,762,471**	2,251,428
Zakat for the period		**(85,723)**	(79,383)	**(190,473)**	(225,143)
Net income for the period after zakat		**629,247**	712,783	**1,571,998**	2,026,285
Basic and diluted earnings per share (SAR)	11	**0.32**	Restated 0.36	**0.79**	Restated 1.02

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

ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	For the three months period ended		**For the nine months period ended**	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
	SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period after zakat	**629,247**	712,783	**1,571,998**	2,026,285
Other comprehensive income:				
Items that cannot be recycled back to interim consolidated statement of income in subsequent periods				
Net change in fair value of FVOCI equity investments	**33,661**	17,173	**4,696**	38,362
Items that can be recycled back to interim consolidated statement of income in subsequent				
Net change in fair value of FVOCI sukuk investments	**(14,405)**	9,596	**14,894**	55,400
Net gain realized on sale of FVOCI sukuk investments	**(414)**	(406)	**(988)**	(1,178)
Total comprehensive income for the period	**648,089**	739,146	**1,590,600**	2,118,869

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

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

2020 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed issue of bonus shares	Treasury shares	Total
Balance at the beginning of the period		**15,000,000**	**100,000**	**77,372**	**83,725**	**2,287,302**	**5,000,000**	**(103,475)**	**22,444,924**
Net income for the period after zakat		-	-	-	-	1,571,998	-	-	1,571,998
Net changes in fair value of FVOCI equity investments		-	-	4,696	-	-	-	-	4,696
Net changes in fair values of FVOCI sukuk instruments		-	-	14,894	-	-	-	-	14,894
Gain on sale of FVOCI sukuk investments		-	-	(988)	-	-	-	-	(988)
Total comprehensive income		-	-	18,602	-	1,571,998	-	-	1,590,600
Net gain realized on sale of FVOCI equity investments		-	-	(18,748)	-	18,748	-	-	-
Issuance of bonus shares	15.1	5,000,000	-	-	-	-	(5,000,000)	-	-
Employee share based plan and other reserve		-	-	-	(5,772)	5,610	-	3,479	3,317
Balance at the end of the period		**20,000,000**	**100,000**	**77,226**	**77,953**	**3,883,658**	**-**	**(99,996)**	**24,038,841**

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

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

2019 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	2,888,815	(22,377)	54,085	1,990,693	1,489,967	(103,475)	21,297,708
Net income for the period after zakat	-	-	-	-	2,026,285	-	-	2,026,285
Net changes in fair value of FVOCI equity investments	-	-	38,362	-	-	-	-	38,362
Net changes in fair values of FVOCI sukuk investments	-	-	55,400	-	-	-	-	55,400
Net gain realized on sale of FVOCI sukuk investments	-	-	(1,178)	-	-	-	-	(1,178)
Total comprehensive income	-	-	92,584	-	2,026,285	-	-	2,118,869
Net gain realized on sale of FVOCI equity investments	-	-	(519)	-	519	-	-	-
Dividend paid for 2018	-	-	-	-	-	(1,489,967)	-	(1,489,967)
Social community and other reserve	-	-	-	(972)	5,506	-	-	4,534
Balance at the end of the period	15,000,000	2,888,815	69,688	53,113	4,023,003	-	(103,475)	21,931,144

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

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

	Notes	**2020**	2019
		SAR'000	SAR'000
OPERATING ACTIVITIES			
Income for the period before zakat		**1,762,471**	2,251,428
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**187,441**	203,902
(Gain) / loss on disposal of property and equipment, net		**(2,212)**	1,651
Unrealized loss / (gain) from FVSI financial instruments, net		**236,989**	(61,821)
Gain from FVOCI debt investments, net		**(988)**	-
Dividend income		**(11,441)**	(5,092)
Charge for credit impairment		**768,496**	315,366
Loss from modification of contractual cash flows, net of unwinding		**28,806**	-
Fair value benefit arising from interest free SAMA deposit, net of unwinding		**82,720**	-
Employee share based plan reserve		**17,684**	13,108
Share of (gain) / loss from an associate and joint venture		**(1,645)**	10,519
		3,068,321	2,729,061
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**(476,052)**	(357,552)
Due from banks and other financial institutions, with original maturity of more than three months		**-**	(629,479)
Investments held at FVSI		**(280,170)**	(97,299)
Financing		**(11,291,610)**	(7,204,959)
Other assets		**(247,254)**	365,329
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**4,669,240**	(3,420,201)
Customers' deposits		**9,255,173**	9,709,139
Other liabilities		**340,231**	(927,153)
Zakat paid		**(139,843)**	(108,383)
Net cash generated from operating activities		**4,898,036**	58,503
INVESTING ACTIVITIES			
Purchase of investments not held at FVSI		**(3,128,205)**	(4,467,159)
Proceeds from sales and maturities of investments not held at FVSI		**224,078**	274,899
Purchase of property and equipment, net		**(76,365)**	(115,921)
Proceeds from disposal of property and equipment		**5,277**	143
Dividends received		**14,254**	5,092
Net cash used in investing activities		**(2,960,961)**	(4,302,946)
FINANCING ACTIVITY			
Cash payment for principal portion of lease liability		**(46,172)**	(39,611)
Cash payment for financing cost portion of lease liability		**(11,946)**	(13,883)
Dividend paid		**-**	(1,489,967)
Net cash used in financing activity		**(58,118)**	(1,543,461)
Net increase / (decrease) in cash and cash equivalents		**1,878,957**	(5,787,904)
Cash and cash equivalents at the beginning of the period		**4,624,067**	9,540,679
Cash and cash equivalents at the end of the period	9	**6,503,024**	3,752,775
Income received from investments and financing		**4,043,798**	3,936,786
Return paid on time investments		**796,432**	859,762
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		**18,602**	93,762
Issuance of bonus shares	15.1	**5,000,000**	-
Financing written-off during the period	5.1	**582,715**	3,025
Right of use assets at initial recognition		**-**	479,159

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

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No. 173 and Commercial Registration No. 1010250808 both dated 21 Jumada-I 1429H (corresponding to May 26, 2008) and provides banking services through 98 branches (September 30, 2019: 93) in the Kingdom of Saudi Arabia. Its head office address is as follows:

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

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

Subsidiaries	Bank's Ownership	Establishment date	Main Activities
Alinma Investment Company	100%	07 Jumada - II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Al Awwal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)
Saudi Fintech Company	100%	6 Dhul Qa'da 1440H (corresponding to July 9, 2019)	Provide Financial technology products and services to Alinma and others.
Esnad Company	100%	24 Ramadan 1440H (corresponding to May 29, 2019)	To provide outsourced staff to the Bank.

In addition to above subsidiaries, the management has concluded that the Bank has effective control of the below Funds and started consolidating the Funds' financial statements at the dates of effective control:

Funds	Bank's Ownership	Establishment date	Date of effective control	Purpose
Alinma Sukuk ETF	97.7%	January 22, 2020	January 22, 2020	To invest in a basket of local sovereign Sukuks issued by the Kingdom of Saudi Arabia

Alinma IPO Fund	79.7%	April 26, 2015	January 1, 2020	To develop capital over the long term by investing mainly in Saudi joint stock companies

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

b) Shariah Board

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard-34 Interim Financial Reporting (IAS-34) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

Since, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, therefore, these should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2019.

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

a) Basis of measurement

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

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

b) Functional and presentation currency

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

c) Basis of consolidation

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

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

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

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

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

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

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

Amounts due to Mutual Funds' unitholders represent the portion of net assets of the mutual funds which are attributable to interests which are not owned, directly or indirectly, by the Bank or its subsidiaries and are presented separately within liability in the interim condensed consolidated statement of financial position.

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

3. Summary of significant accounting policies

The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2019.

a) Government grant

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

b) Changes in judgement estimates

In preparing this interim condensed consolidated financial statements, the significant judgments made by the management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2019, except for the estimates described below:

Measurement of the expected credit loss allowance

In the preparation of the interim condensed consolidated financial statements management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in notes 14 and 16. However, in view of the current uncertainty as explained in note 16, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

c) Adoption of new standards

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020:

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

The management has assessed that the above amendments have no significant impact on the Bank's interim condensed consolidated financial statements.

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

IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase (2) - The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

Management is running a project on the bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project will not have significant impact to the Bank.

4. Investments, net

	Notes	**September 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Held at Amortized Cost		**19,670,747**	17,543,045	16,582,711
Held at FVOCI		**4,424,671**	3,628,656	3,833,706
Held at FVSI		**2,298,041**	2,254,860	2,277,447
Investment in an associate	**4.1**	**57,306**	60,128	61,771
Investment in a joint venture	**4.2**	**20,622**	16,156	14,817
Less: Allowance for impairment		**(11,103)**	(25,185)	(25,878)
Total		**26,460,284**	23,477,660	22,744,574

4.1 Investment in an associate represents the Bank's share of ownership at 28.75% (December 31, 2019 and September 30, 2019: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million.

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

5. Financing, net

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	**22,940,329**	19,766,197	17,965,006
Corporate	**82,936,317**	75,777,225	73,710,188
Performing financing	**105,876,646**	95,543,422	91,675,194
Non-performing loans	**2,218,539**	1,842,734	1,723,027
Total financing, gross	**108,095,185**	97,386,156	93,398,221
Allowance for impairment	**(2,770,083)**	(2,584,758)	(2,613,540)
Financing, net	**105,325,102**	94,801,398	90,784,681

5.1 Movement in allowance for impairment of financing

	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 01	**2,584,758**	2,301,086
Charge for the period, net	**739,234**	315,479
Loss from modification of contractual cash flows, net of unwinding (notes 16.1 and 16.2)	**28,806**	-
Write-off	**(582,715)**	(3,025)
Balance at the end of the period	**2,770,083**	2,613,540

6. Due to banks and other financial institutions

During the period, the Bank has received SAR 850 million and SAR 5 billion interest free deposit from SAMA with maturities of three years and one year respectively, in order to support the Bank in its implementation of various regulatory relief packages given by the government in response to COVID-19. In addition, during the quarter, the Bank received an additional SAR 396 million interest free deposit from SAMA with maturity of 18 months to support the Bank in its implementation of the extension of the Deferred Payment Program by additional three months (refer to note 16.1).

As a result, the Bank's 'Income from investments and financing' and 'Other operating income' for the nine months period ended September 30, 2020 included the fair value benefit of SAR 40.3 million and SAR 22.8 million, respectively, arising from the interest free deposits.

7. Customers' deposits

	Note	**September 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
		SAR'000	SAR'000	SAR'000
Current and saving		**65,367,222**	57,962,288	61,821,799
Time investments	**7.1**	**44,977,597**	43,069,002	37,061,454
Margin deposits		**973,189**	1,031,545	954,024
Total		**111,318,008**	102,062,835	99,837,277

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:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**2,322,832**	2,884,336	**2,809,135**
Letters of guarantee	**11,120,819**	10,514,834	**10,331,992**
Acceptances	**463,077**	338,540	**303,233**
Irrevocable commitments to extend credit	**70,565**	417,788	**396,070**
Total	**13,977,293**	14,155,498	**13,840,430**

ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 223 million as at September 30, 2020 (December 31, 2019: SAR 180 million; September 30, 2019: SAR 198 million).

9. Cash and cash equivalents

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,514,973**	2,354,284	2,296,889
Balances with SAMA excluding statutory deposit	**1,419,346**	125,514	79,927
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**2,568,705**	2,144,269	1,375,959
Total	**6,503,024**	4,624,067	3,752,775

10. Operating segments

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

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

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

c) Treasury

Investments, Interbank and other treasury services.

d) Investment and brokerage

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

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

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

SAR '000	**September 30, 2020 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	**22,215,874**	**82,652,231**	**41,549,176**	**1,432,700**	**147,849,981**
Total liabilities	**77,269,463**	**5,052,936**	**41,332,871**	**155,870**	**123,811,140**
Income from investments and financing	**2,044,101**	**1,253,118**	**730,013**	**42,731**	**4,069,963**
Return on time investments	**(284,065)**	**(31,734)**	**(343,307)**	**-**	**(659,106)**
Income from investments and financing, net	**1,760,036**	**1,221,384**	**386,706**	**42,731**	**3,410,857**
Fees from banking services and other operating income	**160,928**	**140,650**	**64,096**	**326,971**	**692,645**
Total operating income	**1,920,964**	**1,362,034**	**450,802**	**369,702**	**4,103,502**
Depreciation and amortization	**162,517**	**12,740**	**8,158**	**4,026**	**187,441**
Other operating expenses	**975,240**	**193,234**	**126,008**	**92,257**	**1,386,739**
Charge / (reversal) for credit impairment	**110,170**	**672,307**	**(14,666)**	**685**	**768,496**
Total operating expenses	**1,247,927**	**878,281**	**119,500**	**96,968**	**2,342,676**
Net operating income	**673,037**	**483,753**	**331,302**	**272,734**	**1,760,826**
Share of gain from an associate and joint venture	**-**	**-**	**1,645**	**-**	**1,645**
Income for the period before zakat	**673,037**	**483,753**	**332,947**	**272,734**	**1,762,471**

SAR '000	September 30, 2019 (Unaudited)				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	17,387,881	72,972,500	36,515,858	1,133,476	128,009,715
Total liabilities	77,373,796	8,854,758	19,631,055	218,962	106,078,571
Income from investments and financing	2,018,242	1,294,018	771,180	15,426	4,098,866
Return on time investments	(479,489)	(89,073)	(349,014)	-	(917,576)
Income from investments and financing, net	1,538,753	1,204,945	422,166	15,426	3,181,290
Fees from banking services and other operating income	302,729	124,348	252,457	233,996	913,530
Total operating income	1,841,482	1,329,293	674,623	249,422	4,094,820
Depreciation and amortization	153,184	26,156	20,507	4,055	203,902
Other operating expenses	910,262	193,888	132,716	76,739	1,313,605
Charge / (reversal) for credit impairment	174,383	135,264	6,414	(695)	315,366
Total operating expenses	1,237,829	355,308	159,637	80,099	1,832,873
Net operating income	603,653	973,985	514,986	169,323	2,261,947
Share of loss from an associate and joint venture	-	-	(10,519)	-	(10,519)
Income for the period before zakat	603,653	973,985	504,467	169,323	2,251,428

SAR '000	**September 30, 2020 (Unaudited)**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	**678,253**	**2,832,685**	**222,862**	**369,702**	**4,103,502**
- Inter-segment	**1,242,711**	**(1,470,651)**	**227,940**	**-**	**-**
Total operating income	**1,920,964**	**1,362,034**	**450,802**	**369,702**	**4,103,502**

SAR '000	September 30, 2019 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	516,494	2,909,910	418,994	249,422	4,094,820
- Inter-segment	1,324,988	(1,580,617)	255,629	-	-
Total operating income	1,841,482	1,329,293	674,623	249,422	4,094,820

11. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were 1,987 million shares at September 30, 2020 (September 30, 2019: 1,987 million shares) after accounting for treasury shares and issuance of bonus shares during the current period.

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
September 30, 2020 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**131,043**	**1,958**	**-**	**133,001**
- Mutual funds	**59,652**	**1,904,608**	**200,780**	**2,165,040**
Financial assets held as FVOCI				
- Equities	**162,461**	**-**	**17,928**	**180,389**
- Sukuks	**1,482,528**	**2,761,754**	**-**	**4,244,282**
Total	**1,835,684**	**4,668,320**	**218,708**	**6,722,712**

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

				SAR '000
September 30, 2019 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	44,441	-	-	44,441
- Mutual funds	-	2,022,929	210,077	2,233,006
Financial assets held as FVOCI				
- Equities	148,918	-	-	148,918
- Sukuks	88,606	3,596,182	-	3,684,788
Total	281,965	5,619,111	210,077	6,111,153

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 comparable to the security.

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

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

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

The movement in Level 3 financial assets held at FVSI and FVOCI during the period relates to fair value movement only recognized in net income and other comprehensive income, respectively.

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	
September 30, 2020 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**2,568,571**	**2,568,731**
Investments - at amortized cost	**19,670,747**	**19,910,845**
Financing, net	**105,325,102**	**105,474,272**
LIABILITIES		
Due to banks and other financial institutions	**8,041,804**	**8,067,564**
Customers' deposits	**111,318,008**	**111,430,169**

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

	SAR '000	
September 30, 2019 (Unaudited)	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	3,063,247	3,071,125
Investments - at amortized cost	16,582,711	15,996,201
Financing, net	90,784,681	90,835,001
LIABILITIES		
Due to banks and other financial institutions	2,898,135	2,899,061
Customers' deposits	99,837,277	99,903,049

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

13. Employee share based plans

Significant features of the Employee Share based schemes outstanding at the end of the period are as follows:

Nature of scheme	ESPS (Jana)	ESGS Plan A	ESGS Plan B
No. of outstanding Schemes	1	1	1
Grant date	1-May-19	1-May-19	1-May-19
Maturity date	30-Apr-22	30-Apr-24	30-Apr-22
Number of shares granted – adjusted after issuance of bonus issue	2,798,754	1,167,452	1,820,169
Vesting period	3 Years	5 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625
Strike price per share at grant date (SAR) – adjusted after issuance of bonus issue	16.13	20.25	20.25
Fair value per share at grant date (SAR) – adjusted after issuance of bonus issue	20.25	20.25	20.25
Vesting condition	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value
Weighted average remaining contractual life	1.6 Years	3.6 Years	1.6 Years

The movement in weighted average price and in the number of shares in the employees share participation scheme is as follows:

	ESPS (Jana)		ESGS Plan A		ESGS Plan B	
	Weighted average exercise price (SAR)	**Number of shares in scheme**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**
	September 30, 2020 (Unaudited)					
Beginning of the period	**21.50**	**1,937,017**	**27.00**	**877,198**	**27.00**	**1,370,467**
Issuance of bonus shares	**16.13**	**616,935**	**20.25**	**290,254**	**20.25**	**449,702**
Granted during the period	**-**	**-**	**-**	**-**	**20.25**	**(449,702)**
Forfeited	**16.13**	**(283,453)**	**22.13**	**(23,165)**	**27.00**	**(21,360)**
Exercised/expired	**-**	**-**	**-**	**-**	**-**	**-**
End of the period	**16.13**	**2,270,499**	**20.25**	**1,144,287**	**20.25**	**1,349,107**
Exercisable at period end	**16.13**	**2,270,499**	**20.25**	**1,144,287**	**20.25**	**1,349,107**

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized during the period in these interim condensed consolidated financial statements in respect of these schemes was SAR 17.7 million (September 30, 2019: SAR 13.1 million).

14. Financial Risk Management

Credit Risk

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

An internal credit-rating model is used to determine the Obligor Risk Rating (ORR), a measure of the obligor's probability of default. Ratings by the major credit rating agencies are also considered, when available. Target Market is a key component of this process as it provides the first filter for prospective and existing obligors to avoid initiating or maintaining relationships that do not fit the Bank's strategy and desired risk profile. Risk Acceptance Criteria (RAC) is a set of variables indicating the terms under which the Bank is willing to initiate and/or maintain a credit relationship with an obligor that meets the target market. The business team is a front-end marketing team responsible for originating, evaluating and recommending credit proposals. Approval is granted in accordance with the Board approved "Credit Approval Authority Delegation Matrix" through the Credit Committee which is composed of the CEO, Business and Risk Officers. Credits are extended based on the Corporate Banking and Retail Banking Credit Policies and Guidelines.

Risk Management owns and controls the policies established for financing and are tasked with the responsibility of regularly reviewing, and revising the Bank's credit policies, guidelines and processes, to ensure that credits risk is managed and controlled within the Risk Appetite Criteria of the Bank and credit related losses are minimized. Risk Management also ensures that credit policies are aligned and adjusted in accordance with the economic, market, regulatory and legal landscape.

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

The Bank has strengthened its credit risk management policies to address the fast changing and evolving risks posed by the current circumstances. These include review of concentrations at granular economic sector, region, counterparty level including consideration of impacts of government and SAMA support, collateral protection, timely review and rating action and appropriately restructuring loans where required. In respect of retail portfolio these include close monitoring of mix of loan types, employer concentrations, the trends in unemployment and the projected levels collateral, delinquencies and timing of government support are going to greatly weigh on performance in this area. All such measures are discussed and approved by the Risk Committee.

Expected credit Loss (ECL)

<u>Credit risk grades</u>

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

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

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

Point in time PD

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

Determining whether credit risk has increased significantly

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

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

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

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

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

- **Stage 3 Credit-impaired assets** – Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD as in stage 2. Profits associated with the asset are recognized on the basis of net carrying value.

Definition of 'Default'

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

Loss allowance

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

	September 30, 2020			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in '000'		
Balance at the beginning of the period	**779,463**	**799,024**	**1,212,923**	**2,791,410**
Transfer to 12 month ECL	**57,118**	**(52,958)**	**(4,160)**	**-**
Transfer to life time ECL, not credit impaired	**(15,656)**	**21,069**	**(5,413)**	**-**
Transfer to life time ECL, credit impaired	**(849)**	**(160,635)**	**161,484**	**-**
Net (reversal) / charge for the period	**(29,232)**	**417,856**	**379,872**	**768,496**
Modification loss arising from contractual cash flows of financial assets, net of unwinding	**28,508**	**298**	**-**	**28,806**
Write-off	**-**	**-**	**(582,715)**	**(582,715)**
Balance as at September 30, 2020	**819,352**	**1,024,654**	**1,161,991**	**3,005,997**

	September 30, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
		SAR in '000'		
Balance at the beginning of the period	799,671	771,127	956,863	2,527,661
Transfer to 12 month ECL	100,091	(85,795)	(14,296)	-
Transfer to life time ECL, not credit impaired	(8,343)	14,922	(6,579)	-
Transfer to life time ECL, credit impaired	(1,274)	(22,028)	23,302	-
Net charge for the period	(68,117)	149,641	233,842	315,366
Write-off	-	-	(3,025)	(3,025)
Balance as at September 30, 2019	822,028	827,867	1,190,107	2,840,002

Liquidity Risk

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

Operational Risk

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

15. Capital and capital adequacy

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

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

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	**September** 30, 2019 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**118,214,914**	109,989,481	106,873,413
Operational risk weighted assets	**9,910,778**	9,267,525	8,910,986
Market risk weighted assets	**4,986,800**	461,946	1,310,199
Total Pillar-I Risk Weighted Assets	**133,112,492**	119,718,952	117,094,598
Tier I capital	**24,761,707**	22,878,645	22,364,864
Tier II capital	**1,477,686**	1,374,869	1,335,918
Total Tier I & II Capital	**26,239,393**	24,253,514	23,700,782
Capital Adequacy Ratio %			
Tier I ratio	**19%**	19%	19%
Tier I + Tier II ratio	**20%**	20%	20%

In accordance with SAMA's Guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures issued on April 26, 2020, SAMA allowed the banks to add-back up to 100% of the Day 1 impact of IFRS-9 transitional adjustment amount to Common Equity Tier 1 (CET1) for the two years period comprising 2020 and 2021. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. The Bank has applied the aforementioned transitional arrangement in the calculation of the Bank's capital adequacy ratios effective March 31, 2020.

Until December 31, 2019, the Bank was applying the ECL accounting transitional arrangement for regulatory capital that allowed banks to transition Day 1 impact of IFRS9 (applicable from 1 January 2018) on regulatory capital over (5) years by using the dynamic approach to reflect the impact of the transition in accordance with SAMA Circular no. 391000029731 dated 15 Rabi-I 1439H (corresponding to December 3, 2017).

15.1 Issuance of bonus shares

In light of the Board of Directors' recommendation dated 14 December 2019 and the Shareholders' approval, in their Extraordinary General Assembly dated April 8, 2020, and after obtaining the required regulatory approvals, the Bank increased its share capital by 33% through issuance of bonus shares in the ratio of 1:3. Accordingly, the total shares increased by 500 million shares to be 2,000 million shares and share capital increased by SAR 5,000 million to be SAR 20,000 million.

16. Impact of COVID-19 and SAMA Programs

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Bank has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Bank in its ECL model including observed default rates;
- revisions to the scenario probabilities; and
- Refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement evaluation based over periodic independent model validation and back-testing exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by various assumptions, management expert judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

The above macroeconomic factor and staging impacts resulted in an additional ECL of SR 32 million for the three months period ended September 30, 2020. For the nine months period ended September 30, 2020, the equivalent ECL totaled SR 244 million.

16.1 SAMA programs and initiatives launched

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Bank recognizing an additional modification loss of SR 7.3 million during the period ended 30 September 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognized SR 28.6 million of related modification losses of which SR 11 million have been unwound.

As disclosed in note 6, in order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the nine months period ended 30 September 2020 the Bank received profit free deposits from SAMA amounting to SR 1.2 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of 30 September 2020, total income of SR 40.3 million has been recognized in the statement of income and SR 17.5 million deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the nine months period ended 30 September 2020, SR 8.2 million has been charged to the statement of income relating to unwinding.

As at 30 September 2020, the Bank has participated in SAMA’s facility guarantee programs. Furthermore, during the nine months period ended 30 September 2020, the Bank has recognized reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SR 21.5 million.

During first half of 2020, the Bank accounted for the modification loss by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. However, off late, the Bank considered it to be more appropriate to align with the industry practice and has now updated the said deferrals to be without the extension of the facility tenure. Accordingly the previously recognized day 1 modification loss as well as the corresponding fair value benefit on interest free SAMA deposits have been updated.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of SAR 50 billion in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- Provide relief for a number of banking fees that have been waived for customers.

In this regard, during Q2 2020, the Bank received SR 5 billion profit free deposit with a one year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 70 million, of which SR 22.8 million has been recognized in the interim consolidated statement of income for the nine months period ended September 30, 2020 and with the remaining amount deferred.

16.2 Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank voluntarily postponed payments for all public and private health care workers who have credit facilities with the Bank for three months. This has resulted in the Bank recognizing a day 1 modification loss of SAR 11.2 million for the period ended September 30, 2020 and this has been presented as part of ‘Income from investments and financing’ in the interim consolidated statement of income. In the absence of other factors, the health care sector support is not considered a significant increase in credit risk.

17. Comparative figures

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

18. Events after the reporting period

There have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed consolidated financial statements as at and for the nine months period ended September 30, 2020.

19. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on Rabia I 5, 1442H (corresponding to October 22, 2020).