ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED
MARCH 31, 2018

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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 (the "Bank") as of March 31, 2018, 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") guidance for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

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

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15 Sha'aban 1439H
(May 1, 2018)

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ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
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ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) (Restated) SAR'000	March 31, 2017 (Unaudited) (Restated) SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority		**9,263,486**	7,299,371	7,005,184
Due from banks and other financial institutions		**5,716,160**	9,788,857	15,011,223
Investments, net	5	**15,940,998**	15,066,199	6,153,690
Financing, net	6	**78,816,302**	79,062,597	73,541,679
Property and equipment, net		**1,863,851**	1,876,423	1,702,450
Other assets		**2,146,210**	1,658,229	1,662,834
TOTAL ASSETS		**113,747,007**	114,751,676	105,077,060
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**1,120,155**	1,352,887	1,473,574
Customers' deposits	7	**89,339,506**	89,064,751	81,445,098
Other liabilities		**3,108,629**	3,990,276	2,577,075
TOTAL LIABILITIES		**93,568,290**	94,407,914	85,495,747
SHAREHOLDERS' EQUITY				
Share capital		**15,000,000**	15,000,000	15,000,000
Statutory reserve		**2,259,457**	2,259,457	1,756,618
Fair value reserve for FVOCI / AFS investments		**(39,210)**	86,764	101,982
Other reserves		**16,758**	16,484	12,211
Retained earnings		**1,857,184**	1,896,529	2,076,932
Proposed dividends		**1,191,964**	1,191,964	744,978
Treasury shares		**(107,436)**	(107,436)	(111,408)
TOTAL SHAREHOLDERS' EQUITY		**20,178,717**	20,343,762	19,581,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**113,747,007**	114,751,676	105,077,060

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

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

	Note	For the three months period ended March 31, 2018 SAR'000	March 31, 2017 SAR'000
Income from investments and financing		**1,113,086**	1,007,509
Return on time investments		**(216,809)**	(193,083)
Income from investments and financing, net		**896,277**	814,426
Fees from banking services, net		**150,979**	143,033
Exchange income, net		**39,535**	33,810
Gain / (loss) from FVSI financial instruments, net		**13,174**	(906)
Gain from FVOCI / AFS investments, net	12	**-**	12,030
Dividend income		**9,794**	2,386
Other operating income		**1**	67
Total operating income		**1,109,760**	1,004,846
Salaries and employee related expenses		**227,010**	221,306
Rent and premises related expenses		**37,888**	36,479
Depreciation and amortization		**45,962**	63,624
Other general and administrative expenses		**132,327**	120,218
Charge for impairment of financing		**89,473**	124,236
Charge for impairment of other financial assets		**-**	14,526
Total operating expenses		**532,660**	580,389
Net operating income		**577,100**	424,457
Share of income / (loss) from an associate and a joint venture		**4,712**	(3,135)
Net income for the period		**581,812**	421,322
Basic and diluted earnings per share (SAR)	11	**0.39**	0.28

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

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

	For the three months period	
	March 31, 2018	March 31, 2017 (Restated)
	SAR'000	SAR'000
Net income for the period	**581,812**	**421,322**
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	**(555)**	-
Items that can be recycled back to consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuks investments	**(11,517)**	558
Net change in fair value of AFS equity investments	-	30,788
Net amount realized on sale of FVOCI investments	**2,354**	2,495
Total comprehensive income for the period	**572,094**	455,163

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

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

2018 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI / AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the 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	16	-	-	(253,391)	-	-	-	-	(253,391)
Effect of adopting IFRS-9 at January 01, 2018	4(c)	-	-	(113,902)	-	(608,966)	-	-	(722,868)
Restated balance as at January 01, 2018		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		-	-	(555)	-	-	-	-	(555)
Net changes in fair values of FVOCI sukuk instruments		-	-	(11,517)	-	-	-	-	(11,517)
Net amount realized on sale of FVOCI investments		-	-	-	-	2,354	-	-	2,354
Total comprehensive income		-	-	(12,072)	-	584,166	-	-	572,094
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 17 form an integral part of these interim condensed consolidated financial statements.

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

2017 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI/ AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period		15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460
Net income for the period		-	-	-	-	421,322	-	-	421,322
Net change in fair value of available for sale investments (restated)	16	-	-	31,346	-	-	-	-	31,346
Net amount realized on available for sale investments		-	-	2,495	-	-	-	-	2,495
Total comprehensive income		-	-	33,841	-	421,322	-	-	455,163
Zakat for the current period		-	-	-	-	(10,859)	-	-	(10,859)
Zakat-prior period		-	-	-	-	-	(42,070)	-	(42,070)
Employee share based plan reserve		-	-	-	619	-	-	-	619
Balance at the end of the period		15,000,000	1,756,618	101,982	12,211	2,076,932	744,978	(111,408)	19,581,313

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

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

	Note	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the period		**581,812**	421,322
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		**45,962**	63,624
Loss on disposal of property and equipment, net		**-**	226
Unrealized (gain) / loss from FVSI financial instruments, net		**(8,164)**	1,768
Dividend income		**(9,794)**	(2,386)
Charge for impairment of financing		**89,473**	124,236
Charge for impairment of other financial assets		**-**	14,526
Employee share based plan reserve		**274**	619
Share of (income) / loss from an associate and joint venture		**(4,712)**	3,135
		694,851	627,070
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**127,092**	(108,628)
Due from banks and other financial institutions, with original maturity of more than ninety days		**(54,099)**	1,012,559
Investments		**(882,523)**	18,063
Financing		**(548,889)**	(3,353,967)
Other assets		**(487,981)**	110,947
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(232,732)**	(958,230)
Customers' deposits		**274,755**	832,872
Other liabilities		**(896,192)**	16,776
Net cash used in operating activities		**(2,005,718)**	(1,802,538)
INVESTING ACTIVITIES			
Purchase of property and equipment, net		**(33,390)**	(28,482)
Dividends received		**9,794**	3,913
Net cash used in investing activities		**(23,596)**	(24,569)
Net decrease in cash and cash equivalents		**(2,029,314)**	(1,827,107)
Cash and cash equivalents at the beginning of the period		**10,702,200**	15,368,063
Cash and cash equivalents at the end of the period	9	**8,672,886**	13,540,956
Income received from investments and financing		**651,299**	811,006
Return paid on time investments		**168,433**	310,415
Supplemental non-cash information:			
Net change in fair value of FVOCI / AFS investments		**(12,072)**	31,346

The accompanying notes from 1 to 17 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 85 branches (March 31, 2017: 77) 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 Awaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)

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

b) Shariah Board

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

2. Basis of preparation

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

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

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

a) Statement of compliance

The interim condensed consolidated financial statements have been prepared;

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

ii) In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017.

b) Basis of measurement

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

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

c) **Functional and presentation currency**

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

d) **Basis of consolidation**

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

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

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

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim 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**

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

a) **Adoption of new standards**

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

New Standards	Effective date	Brief description of changes
IFRS-9 "Financial Instruments"	January 01, 2018	The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It also changes the impairment of financial assets from incurred loss to expected loss model.
IFRS-15 "Revenue from contracts with customers	January 01, 2018	IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It has established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The corresponding change in the accounting policies due to adoption of the above standards are explained below:

i) Classification and measurement of financial assets

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

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

Financial Asset at amortized cost

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

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

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

Financial Asset at FVOCI

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

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

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

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

Financial Asset at FVSI

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

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

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

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

ii) Classification and measurement of financial liabilities

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

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

iii) De-recognition of financial assets and financial liabilities

Financial assets

The Bank derecognizes a financial asset when:

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

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

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

Financial liabilities

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

iv) **Impairment**

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

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

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

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

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

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

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

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

v) **Transition**

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

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

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

4. Financial assets and financial liabilities

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

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

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

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

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

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

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

c) **Impact on retained earnings**

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

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

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

5. Investments

	Note	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) SAR'000	March 31, 2017 (Unaudited) SAR'000
Murabahas with SAMA (at amortized cost)		**1,906,813**	1,906,817	2,906,302
FVOCI / AFS - equity investments		**126,248**	1,755,776	872,451
FVOCI / AFS - sukuks		**3,139,869**	11,234,219	2,210,580
Sukuks - Amortised cost		**8,996,656**	-	-
FVSI investments		**1,685,240**	77,045	69,684
Investment in an associate	5.1	**82,876**	78,429	81,029
Investment in joint venture	5.2	**14,178**	13,913	13,644
Allowance for impairment		**(10,882)**	-	-
Total		**15,940,998**	15,066,199	6,153,690

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

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

6. Financing, net

	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) SAR'000	March 31, 2017 (Unaudited) SAR'000
Retail	**14,779,292**	14,601,023	13,941,221
Corporate	**65,469,925**	65,150,897	59,993,461
Performing financing	**80,249,217**	79,751,920	73,934,682
Impaired financing	**865,599**	814,007	676,798
Total financing, gross	**81,114,816**	80,565,927	74,611,480
Allowance for impairment	**(2,298,514)**	(1,503,330)	(1,069,801)
Financing, net	**78,816,302**	79,062,597	73,541,679

6.1 Movement in allowance for impairment of financing

	March 31, 2018 (Unaudited) SAR'000
Balance at December 31, 2017 (calculated under IAS 39)	**1,503,330**
Amounts restated through opening retained earnings	**705,711**
Opening allowance at January 01, 2018 (calculated under IFRS 9)	**2,209,041**
Charge for the period, net	**89,473**
Balance at the end of the period	**2,298,514**

7. Customers' deposits

	Note	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) SAR'000	March 31, 2017 (Unaudited) SAR'000
Demand deposits		**45,171,472**	45,316,467	45,848,608
Customers' time investments	7.1	**43,366,823**	42,987,385	34,534,958
Others	7.2	**801,211**	760,899	1,061,532
Total		**89,339,506**	89,064,751	81,445,098

7.1 This represents Murabaha and Mudaraba with customers.

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

8. Credit related commitments and contingencies

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

	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) SAR'000	March 31, 2017 (Unaudited) SAR'000
Letters of credit	**3,021,824**	3,023,080	2,039,962
Letters of guarantee	**7,965,466**	7,547,852	7,732,269
Acceptances	**165,211**	173,672	162,596
Irrevocable commitments to extend credit	**589,678**	488,627	722,176
Total	**11,742,179**	11,233,231	10,657,003

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

9. Cash and cash equivalents

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

	March 31, 2018 (Unaudited) SAR'000	December 31, 2017 (Audited) SAR'000	March 31, 2017 (Unaudited) SAR'000
Cash in hand	**2,155,924**	1,902,511	2,003,861
Balances with SAMA excluding statutory deposit	**2,288,887**	451,093	469,704
Due from banks and other financial institutions maturing within ninety days from the date of acquisition.	**4,228,075**	8,348,596	11,067,391
Total	**8,672,886**	10,702,200	13,540,956

10. Operating segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

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

c) Treasury

Murabahas and mudaraba with banks, investments and treasury services.

d) Investment and brokerage

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

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

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

SAR '000	**March 31, 2018 (Unaudited)**				
	Retail	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Total assets	**18,365,628**	**65,713,746**	**28,906,436**	**761,197**	**113,747,007**
Total liabilities	**57,804,697**	**9,956,617**	**25,735,210**	**71,766**	**93,568,290**
Income from investments and financing	**400,301**	**427,129**	**283,582**	**2,074**	**1,113,086**
Return on time investments	**(63,465)**	**(27,989)**	**(125,355)**	**-**	**(216,809)**
Income from investments and financing, net	**336,836**	**399,140**	**158,227**	**2,074**	**896,277**
Fees from banking services and other operating income	**70,761**	**22,670**	**53,570**	**66,482**	**213,483**
Total operating income	**407,597**	**421,810**	**211,797**	**68,556**	**1,109,760**
Charge for impairment of financing	**9,294**	**80,179**	**-**	**-**	**89,473**
Charge for impairment of other financial assets	**-**	**-**	**-**	**-**	**-**
Depreciation and amortization	**22,070**	**16,314**	**7,210**	**368**	**45,962**
Other operating expenses	**232,760**	**97,140**	**43,640**	**23,685**	**397,225**
Total operating expenses	**264,124**	**193,633**	**50,850**	**24,053**	**532,660**
Net operating income	**143,473**	**228,177**	**160,947**	**44,503**	**577,100**
Share of income from an associate and joint venture	**-**	**-**	**4,712**	**-**	**4,712**
Net income for the period	**143,473**	**228,177**	**165,659**	**44,503**	**581,812**

SAR '000	March 31, 2017 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	17,272,606	61,018,964	26,299,422	486,068	105,077,060
Total liabilities	54,066,007	7,459,241	23,901,202	69,297	85,495,747
Income from investments and financing	352,126	386,028	268,125	1,230	1,007,509
Return on time investments	(28,203)	(6,976)	(157,904)	-	(193,083)
Income from investments and financing, net	323,923	379,052	110,221	1,230	814,426
Fees from banking services and other operating income	57,288	45,781	37,364	49,987	190,420
Total operating income	381,211	424,833	147,585	51,217	1,004,846
Charge for impairment of financing	13,163	111,073	-	-	124,236
Charge for impairment of other financial assets	-	-	14,526	-	14,526
Depreciation and amortization	24,032	26,950	11,727	915	63,624
Other operating expenses	218,562	98,293	40,475	20,673	378,003
Total operating expenses	255,757	236,316	66,728	21,588	580,389
Net operating income	125,454	188,517	80,857	29,629	424,457
Share of loss from an associate and joint venture	-	-	(3,135)	-	(3,135)
Net income for the period	125,454	188,517	77,722	29,629	421,322

SAR '000	March 31, 2018 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
- External	227,450	753,342	60,412	68,556	1,109,760
- Inter-segment	180,147	(331,532)	151,385	-	-
Total operating income	**407,597**	**421,810**	**211,797**	**68,556**	**1,109,760**

SAR '000	March 31, 2017 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
- External	222,899	764,785	(34,055)	51,217	1,004,846
- Inter-segment	158,312	(339,952)	181,640	-	-
Total operating income	**381,211**	**424,833**	**147,585**	**51,217**	**1,004,846**

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

13. Fair values of financial assets and liabilities

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

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

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

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

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

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

13 (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, 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**
- Mutual funds	**-**			
- Sukuks	**75,654**	**3,064,215**	**-**	**3,139,869**
Total	**1,679,625**	**3,064,215**	**207,517**	**4,951,357**

				SAR '000
March 31, 2017 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	62,924	-	-	62,924
- Mutual funds	6,760	-	-	6,760
Financial assets held as available for sale				
- Equities	124,796	-	-	124,796
- Mutual funds	535,163	-	212,492	747,655
- Sukuks	37,831	2,172,749	-	2,210,580
Total	**767,474**	**2,172,749**	**212,492**	**3,152,715**

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

13 (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, 2018 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	**5,716,160**	**5,684,889**
Investments - at amortized cost	**10,892,587**	**10,690,545**
Financing, net	**78,816,302**	**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**

	SAR '000	
March 31, 2017 (Unaudited)	**Carrying value**	**Fair value**
ASSETS		
Due from banks and other financial institutions	15,011,223	14,946,504
Investments - at amortized cost	2,906,302	2,907,500
Financing, net	73,541,679	72,924,227
LIABILITIES		
Due to banks and other financial institutions	1,473,574	1,474,432
Customers' deposits	81,445,098	81,486,927

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

14. Financial Risk Management

Credit Risk

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

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

The 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 portfolios through customer acquisition across different industry and economic activities, through geographical presence across the country, through targeting large, medium and small corporate clients, through its diverse services to individuals. obligor and sector concentrations are monitored as are funding concentrations (Large Fund Providers). The Bank regularly stress tests its credit portfolios, used to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost and FVOCI investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	March 31, 2018 (Unaudited)				December 31, 2017 (audited)
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	Total	Total
	SAR '000				
Financing to customers at amortized cost					
Grades 1-4: investment grade	23,395,900	-	-	23,395,900	26,356,321
Grades 5-6: below investment grade	32,500,569	8,996,573	-	41,497,142	38,173,180
Grades 7: Watch-list	-	576,883	-	576,883	621,396
Unrated (Retail)	14,624,965	154,327	-	14,779,292	14,601,023
Impaired financing	-	-	865,599	865,599	814,007
Gross financing	**70,521,434**	**9,727,783**	**865,599**	**81,114,816**	**80,565,927**
Allowance for impairment (including for credit commitments)	(484,994)	(928,527)	(884,993)	(2,298,514)	(1,503,330)
Financing, net	**70,036,440**	**8,799,256**	**(19,394)**	**78,816,302**	**79,062,597**

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

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 categorize its financial assets into the following three stages in accordance with IFRS 9 methodology:

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

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

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

Definition of 'Default'

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

Loss allowance

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

	March 31, 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in '000'			
Balance at the beginning of the period	**438,525**	**976,364**	**794,152**	**2,209,041**
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 re-measurement of loss allowance	**(30,022)**	**18,345**	**88,286**	**76,609**
New financial assets originated	**67,782**	**19,651**	**1,551**	**88,984**
Financial Assets derecognized	**(29,502)**	**(39,708)**	**(6,910)**	**(76,120)**
Balance as at March 31, 2018	**484,994**	**928,527**	**884,993**	**2,298,514**

15. Capital adequacy

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

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

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)	March 31, 2017 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**94,086,906**	95,890,718	91,001,487
Operational risk weighted assets	**6,960,302**	6,727,186	5,884,662
Market risk weighted assets	**1,058,343**	870,356	1,211,786
Total Pillar-I Risk Weighted Assets	**102,105,551**	103,488,260	98,097,935
Tier I capital	**20,757,011**	20,343,762	19,581,313
Tier II capital	**1,031,672**	884,207	652,800
Total Tier I & II Capital	**21,788,683**	21,227,969	20,234,113
Capital Adequacy Ratio %			
Tier I ratio	**20%**	20%	20%
Tier I + Tier II ratio	**21%**	21%	21%

16. Prior period restatement

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

Consolidated statement of financial position — **December 31, 2017 (SAR '000)**

Account	Balance as previously reported	Effect of restatement	Balance as restated
Investments	15,319,590	(253,391)	15,066,199
Fair value reserve for available for sale investments	340,155	(253,391)	86,764

March 31, 2017 (SAR '000)

Investments	6,332,141	(178,451)	6,153,690
Fair value reserve for available for sale investments	280,433	(178,451)	101,982

Interim consolidated statement of comprehensive income

Period ended March 31, 2017 (SAR '000)

Net change in fair value reserve for available for sale investment during the period	209,797	(178,451)	31,346

17. Approval of the financial statements

These interim condensed consolidated financial statements were approved on 29 Rajab 1439H (corresponding to April 15, 2018).