
ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2019



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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alinma Bank and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

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

Key Audit Matters

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

Independent auditors’ report on the audit of the consolidated financial statements to the shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of financing</i></p> <p>At December 31, 2019, the gross financing of the Bank was Saudi Riyals 97,386 million against which a credit impairment allowance of Saudi Riyals 2,585 million was maintained.</p> <p>We considered impairment of financing as a key audit matter as the determination of expected credit loss (“ECL”) involves significant management judgment and this has a material impact on the consolidated financial statements of the Bank. The key areas of judgment include:</p> <ul style="list-style-type: none"> ➤ Categorisation of financing in Stage 1, 2 and 3 based on identification of: <ul style="list-style-type: none"> (a) exposures with a significant increase in credit risk (“SICR”) since their origination; and (b) individually impaired / default exposures. 	<p>We have obtained an understanding of management’s process of assessment of impairment of financing as per IFRS 9, the Bank’s internal rating model, impairment allowance policy and the ECL modelling methodology.</p> <p>We compared the Bank’s impairment allowance policy and ECL methodology with the requirements of IFRS 9.</p> <p>We assessed the design and implementation, and tested the operating effectiveness of controls over:</p> <ul style="list-style-type: none"> ➤ the modelling process, including governance over monitoring of the model and approval of key assumptions; ➤ the classification of borrowers in various stages and timely identification of SICR and determination of default / individually impaired exposures; and ➤ the integrity of data input into the ECL model. <p>We assessed the Bank’s criteria for determination of SICR and identification of impaired / default exposures and their classification into various stages.</p>

Independent auditors’ report on the audit of the consolidated financial statements to the shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of financing (continued)</i></p> <ul style="list-style-type: none"> ➤ Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. ➤ The need to apply overlays to reflect current or future external factors that might not be captured by the ECL model. ➤ Disclosures relating to IFRS 9 and the related incremental disclosures of IFRS 7. <p><i>Refer to, note 2 (d) (i) which contains the disclosure of critical accounting judgment, estimates and assumptions, note 7 which contains the disclosure of impairment against financing and note 26.1 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<p>For a sample of customers, we assessed:</p> <ul style="list-style-type: none"> ➤ the internal ratings determined by the management based on Bank’s internal rating model and assessed these ratings were in line with the ratings used in the ECL model; ➤ the staging as identified by management; and ➤ management’s computations for ECL. <p>We assessed the reasonableness of underlying assumptions including forward looking assumptions used by the Bank in the ECL model.</p> <p>Where management overlays were used, we assessed the appropriateness of those overlays.</p> <p>We tested the completeness of data underlying the ECL calculations as of December 31, 2019.</p> <p>Where relevant, we involved specialists to assist us in reviewing model calculations.</p> <p>We assessed the disclosures included in the consolidated financial statements.</p>

Other Information included in the Bank’s 2019 Annual Report

The Board of Directors of the Bank (the “Directors”) is responsible for the other information. Other information consists of the information included in the Bank’s 2019 annual report, other than the consolidated financial statements and our auditors’ report thereon. The annual report is expected to be made available to us after the date of this auditors’ report.

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



Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)

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

Other Information included in the Bank's 2019 Annual Report (continued)

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)

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

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

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

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

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

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



Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Alinma Bank (A Saudi Joint Stock Company) (continued)

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

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

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

Report on other legal and regulatory requirements

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

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15 Jumad Thani, 1441H
(February 9, 2020)



ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

ASSETS	Notes	2019 SAR'000	2018 SAR'000
Cash and balances with Saudi Arabian Monetary Authority	4	8,039,748	7,359,684
Due from banks and other financial institutions, net	5	2,144,269	8,293,206
Investments, net	6	23,477,660	18,399,178
Financing, net	7	94,801,398	83,889,150
Property and equipment, net	8	2,413,893	1,896,679
Other assets	9	962,473	1,700,073
TOTAL ASSETS		131,839,441	121,537,970
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	3,289,844	6,318,336
Customers' deposits	11	102,062,835	90,128,138
Other liabilities	12	4,041,838	3,793,788
TOTAL LIABILITIES		109,394,517	100,240,262
SHAREHOLDERS' EQUITY			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	100,000	2,888,815
Fair value reserve for FVOCI investments		77,372	(22,377)
Other reserves	15	83,725	54,085
Retained earnings		2,287,302	1,990,693
Proposed issue of bonus shares	13, 21	5,000,000	-
Proposed dividend	21	-	1,489,967
Treasury shares	15	(103,475)	(103,475)
TOTAL SHAREHOLDERS' EQUITY		22,444,924	21,297,708
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		131,839,441	121,537,970

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

	Notes	2019 SAR'000	2018 SAR'000 (Restated)
Income from investments and financing	17	5,608,762	4,893,617
Return on time investments	17	(1,214,303)	(1,095,785)
Income from investments and financing, net	17	4,394,459	3,797,832
Fees from banking services-income	18	1,127,259	986,755
Fees from banking services-expense	18	(306,676)	(255,701)
Fees from banking services-net	18	820,583	731,054
Exchange income, net		207,970	176,616
Gain from FVSI financial instruments, net		166,155	131,338
Gain from FVOCI sukuk investments, net		8,916	-
Dividend income		9,136	4,204
Other operating income		2,942	3,878
Total operating income		5,610,161	4,844,922
Salaries and employee related expenses	19	1,001,641	939,583
Rent and premises related expenses		80,679	159,209
Depreciation and amortization	8	273,258	178,192
Other general and administrative expenses		720,985	578,719
Operating expenses before provisions for credit and other losses		2,076,563	1,855,703
Charge for impairment of financing		700,480	392,796
Charge for impairment of other assets		5,837	73,756
Total operating expenses		2,782,880	2,322,255
Net operating income		2,827,281	2,522,667
Share of loss from an associate and a joint venture	6.4, 6.5	(10,825)	(5,234)
Net income for the year before zakat		2,816,456	2,517,433
Zakat			
- Current year	22	(281,646)	(217,061)
- Prior years	22	-	556,579
		(281,646)	339,518
Net income for the year after zakat		2,534,810	2,856,951
Basic and diluted earnings per share (SAR)	20	1.70	1.92

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31

	Note	<u>2019</u> SAR'000	<u>2018</u> SAR'000
Net income for the year after zakat		2,534,810	2,856,951
Other comprehensive income:			
<i>Items that cannot be reclassified back to consolidated statement of income in subsequent periods</i>			
Net change in fair value of FVOCI equity investments		49,567	(23,820)
Gain on sale of FVOCI equity investments		7,044	1,941
Actuarial (loss)/gain on re-measurement of End of Service Benefits Scheme balances	24.2	(14,218)	8,851
<i>Items that can be reclassified back to consolidated statement of income in subsequent periods</i>			
Net change in fair value of FVOCI sukuk investments		59,098	28,581
Net gain realized on sale of FVOCI sukuk investments		(8,916)	-
Total comprehensive income for the year		<u><u>2,627,385</u></u>	<u><u>2,872,504</u></u>

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31

2019 (SAR '000)	Notes	Share capital	Statutory reserve	Fair value reserve for FVOCI investments	Other reserves	Retained earnings	Proposed issue of bonus shares / dividend	Treasury shares	Total
Balance at the beginning of the year		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 year after zakat		-	-	-	-	2,534,810	-	-	2,534,810
Net change in fair value of FVOCI equity investments		-	-	49,567	-	-	-	-	49,567
Gain on sale of FVOCI equity investments		-	-	-	-	7,044	-	-	7,044
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	24.2	-	-	-	-	(14,218)	-	-	(14,218)
Net change in fair values of FVOCI sukuk investments		-	-	59,098	-	-	-	-	59,098
Net gain realized on sale of FVOCI sukuk investments		-	-	(8,916)	-	-	-	-	(8,916)
Total comprehensive income		-	-	99,749	-	2,527,636	-	-	2,627,385
Transfer to statutory reserve	14	-	633,703	-	-	(633,703)	-	-	-
Dividend paid for 2018	21	-	-	-	-	-	(1,489,967)	-	(1,489,967)
Proposed issue of bonus shares for 2019	13, 21	-	(3,422,518)	-	-	(1,577,482)	5,000,000	-	-
Employee share based plan and other reserve	15	-	-	-	29,640	(19,842)	-	-	9,798
Balance at the end of the year		15,000,000	100,000	77,372	83,725	2,287,302	5,000,000	(103,475)	22,444,924

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31

2018 (SAR '000)	Notes	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 year (restated)		15,000,000	2,259,457	86,764	16,484	1,896,529	1,191,964	(107,436)	20,343,762
Effect of adopting IFRS-9 at January 01, 2018		-	-	(113,902)	-	(608,966)	-	-	(722,868)
Restated balance as at January 01, 2018		15,000,000	2,259,457	(27,138)	16,484	1,287,563	1,191,964	(107,436)	19,620,894
Net income for the year after zakat - restated	22	-	-	-	-	2,856,951	-	-	2,856,951
Net change in fair value of FVOCI equity investments		-	-	(23,820)	-	-	-	-	(23,820)
Gain on sale of FVOCI equity investments		-	-	-	-	1,941	-	-	1,941
Actuarial gain on re-measurement of End of Service Benefits Scheme balances	24.2	-	-	-	-	8,851	-	-	8,851
Net change in fair values of FVOCI sukuk investments		-	-	28,581	-	-	-	-	28,581
Total comprehensive income		-	-	4,761	-	2,867,743	-	-	2,872,504
Transfer to statutory reserve	14	-	629,358	-	-	(629,358)	-	-	-
Dividend paid for 2017		-	-	-	-	-	(1,191,964)	-	(1,191,964)
Proposed dividend for 2018	21	-	-	-	-	(1,489,967)	1,489,967	-	-
Employee share based plan and other reserve		-	-	-	37,601	(45,288)	-	-	(7,687)
Net change in treasury shares	19	-	-	-	-	-	-	3,961	3,961
Balance at the end of the year		15,000,000	2,888,815	(22,377)	54,085	1,990,693	1,489,967	(103,475)	21,297,708

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	2019 SAR' 000	2018 SAR' 000
OPERATING ACTIVITIES			
Net income for the year before zakat		2,816,456	2,517,433
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	8	273,258	178,192
Gain on disposal of property and equipment, net		(966)	(274)
Unrealised gain from FVSI financial instruments, net		(6,971)	(32,370)
Gain from FVOCI sukuk investments, net		(8,916)	-
Dividend income		(9,136)	(4,204)
Charge for impairment of financing		700,480	392,796
Charge for impairment of other assets		5,837	73,756
Employees share based plans reserve		20,772	282
Share of loss from an associate and a joint venture	6.4, 6.5	10,825	5,234
		3,801,639	3,130,845
Net (increase)/decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		(503,219)	(110,964)
Due from banks and other financial institutions with original maturity of more than three months		1,057,813	389,960
Investments held at FVSI		(67,741)	(172,196)
Financing		(11,638,738)	(5,624,310)
Other assets		705,237	(66,830)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(3,028,492)	4,965,449
Customers' deposits		11,934,697	1,063,387
Other liabilities		(432,276)	(195,694)
Net cash from operating activities		1,828,920	3,379,647
INVESTING ACTIVITIES			
Purchase of investments not held at FVSI		(5,810,082)	(3,281,060)
Proceeds from sales and maturities of investments not held at FVSI		904,080	125,826
Purchase of property and equipment	8	(267,311)	(198,456)
Proceeds from disposal of property and equipment		3,355	282
Dividends received		9,384	4,204
Net cash used in investing activities		(5,160,574)	(3,349,204)
FINANCING ACTIVITIES			
Cash payment for principal portion of lease liability		(77,124)	-
Cash payment for financing cost portion of lease liability		(17,867)	-
Dividend paid		(1,489,967)	(1,191,964)
Net cash used in financing activities		(1,584,958)	(1,191,964)
Net decrease in cash and cash equivalents		(4,916,612)	(1,161,521)
Cash and cash equivalents at beginning of the year		9,540,679	10,702,200
Cash and cash equivalents at end of the year	23	4,624,067	9,540,679
Income received from investments and financing		5,281,801	4,558,755
Return paid on time investments		1,131,501	1,065,492
Supplemental non-cash information:			
Net changes in fair value of FVOCI investments		99,749	4,761
Financing written-off during the year	7.1	442,818	96,767
Right of use assets at date of initial recognition	8	479,159	-
Lease liabilities at date of initial recognition	3(a)	447,043	-

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21 Jumada I, 1429 (corresponding to May 26, 2008) and provides banking services through 95 branches (2018: 90) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

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

The consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the "Bank") which are registered in KSA:

Subsidiary	Bank's ownership	Establishment date	Main Activities
Alinma Investment Company	100%	7 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 associate 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.

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

b) Sharia'a Board

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

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared:

- i) in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”); and,
- ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

The consolidated financial statements of the Bank as at and for the period and year ended March 31, 2019 and December 31, 2018, respectively, were prepared in compliance with the International Financial Reporting Standards (“IFRS”) as modified by Saudi Arabian Monetary Authority (“SAMA”) for the accounting of zakat and income tax (relating to the application of IAS-12 “Income Taxes” and IFRIC-21 “Levies” so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On July 17, 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the SOCPA.

Accordingly, the Bank changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3(a)) and the effects of this change are disclosed in note 22 to the consolidated financial statements). The Bank has adopted IFRS-16 Leases from January 1, 2019. The change in accounting policies due to this new standard and treatment of Zakat are disclosed in the Note 3(a).

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through statement of income (“FVSI”), investments carried at fair value through other comprehensive income (“FVOCI”) and end of service benefits.

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS as endorsed in KSA and other standards and pronouncements issued by SOCPA requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on financial assets (Note 3(i))

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The Bank's internal credit grading model, which assigns PDs to the individual grades
2. The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
3. The segmentation of financial assets when their ECL is assessed on a collective basis
4. Development of ECL models, including the various formulas and the choice of inputs
5. Determination of associations between macroeconomic scenarios and, economic inputs, such as price of oil and collateral values, and the effect on PDs, EADs and LGDs
6. Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

- ii. Fair value measurement (Note 32)
- iii. Useful lives of property and equipment (Note 3(j))
- iv. Assessment of control over investees (Note 3(b))
- v. Valuation of End of Service benefits scheme (Note 24)

e) **Going concern**

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

3. Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the adoption of the following new standard and other amendments to the accounting treatment of Zakat explained below.

i. IFRS-16 “Leases”

The Bank adopted IFRS-16 “Leases”. Before January 1, 2019, the Bank followed the below Accounting for Leases:

Where the Bank is the lessee

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

Where the Bank is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise) the present value of the lease payments is recognised as a receivable and disclosed under “Financing”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

IFRS-16 ‘Leases’ replaces the existing guidance on leases, including IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Bank’s financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 “Leases” into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first-time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability using the interest rate at the time of first-time application. IFRS 16 transition disclosures also requires the Bank to present the reconciliation of off-balance sheet lease obligations as of December 31, 2018 to the recognized lease liabilities as of January 1, 2019.

Reconciliation of Lease Liabilities

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

	2019	2018 (Restated)
Maturity Analysis – Contractual Undiscounted cash flows		
Less than one year	90,220	99,440
One to five years	248,878	312,915
More than five years	128,535	117,552
Total undiscounted lease liabilities at 31 December	467,633	529,907

ii. Zakat

As mentioned in note 2 (a), the basis of preparation has been changed from the period ended June 30, 2019 as a result of the issuance of instructions from SAMA dated July 17, 2019. Previously, zakat were recognized in the consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat shall be recognized in the consolidated statement of comprehensive income. The Bank has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 22 to the consolidated financial statements.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Alinma Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of Alinma Bank, using consistent accounting policies.

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Bank had directly disposed of the related assets or liabilities.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries are consistent with that of Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed. The functional currency of all subsidiaries is Saudi Arabian Riyal ("SAR").

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

Funds management

The Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Bank controls the entity.

c) Trade date accounting

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

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

d) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Exchange gains or losses on settlement and translation are recognized in the consolidated statement of income.

e) Offsetting

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

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

f) Revenue / expenses recognition

Income from investments and financing and return on time deposits

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

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

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

Fees from banking services that are not an integral part of the EIR calculation on the financial assets are recognized when the related service is rendered i.e. when the performance obligation is satisfied. In all other cases, the fee is recognized as part of the EIR of the financial assets. Commitment fee is recognized over the commitment period.

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

Dividend income

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

Income / (loss) from FVSI financial instruments, net

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

g) Financial assets and financial liabilities

i) Classification and measurement of financial assets

The classification and measurement of financial instruments under IFRS-9 is a result of two main assessments, namely, business model assessment and analysis of contractual cash flows.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank changes the classification of the remaining financial assets held in that business model.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

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 Assets at FVOCI

Sukuk and like instruments: are measured at FVOCI only if they meet both of the following conditions and are not designated at 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 with gains and losses arising due to changes in fair values are recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

Financial Assets at FVSI

All other financial assets are classified as measured at FVSI. Financial assets in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Financial assets classified as held 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.

Financial assets 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 “Gain/(loss) from FVSI financial instruments, net” in the consolidated statement of income.

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

ii) Classification and measurement of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds and costs that are an integral part of financial liabilities’ effective interest rate (EIR).

Financial guarantees and loan commitments are measured at higher of amortized cost or allowance for impairment.

iii) De-recognition of financial assets and financial liabilities

Financial assets

The Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expires 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 consolidated statement of income.

However, the cumulative gain/loss recognized in OCI in respect of equity investments is not recognized in consolidated statement of income on de-recognition of such investments.

Financial liabilities

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

iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as 'Income from financing'.

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the consolidated statement of income.

v) Fair value measurement

The Bank measures financial instruments, such as financial assets measured at FVSI and FVOCI, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

Fair value is the price that would be received upon sale of an asset or paid to transfer 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 to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in note 32.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

h) **Financing**

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

All financing assets are initially measured at fair value including any incremental associated acquisition charges. Subsequently, these are measured at amortized cost less allowance for impairment.

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

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

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

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

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

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

i) **Impairment of financial assets**

The Bank recognizes impairment allowances based on a forward-looking Expected Credit Loss (ECL) approach on financial assets that are not measured at 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 Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- a- Financial assets that are determined to have low credit risk at the reporting date; and
- b- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Bank considers a financial asset to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers its exposure to other banks, financial institutions and Sukuk investments to have low credit risk as their credit risk rating is equivalent to the globally accepted definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the present value of cash shortfalls being the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of cash shortfalls being the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The key inputs into the measurement of ECL are the term structure of the following variables;

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

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

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

- **Stage 3: Credit-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.

Credit-impaired assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign sukuk is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the sukuk yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new sukuk issuance.
- The probability of sukuk being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision which is reported under ‘Other liabilities’;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under ‘Other liabilities’; and
- sukuk and like instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to ‘Charge for credit impairment’.

j) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. Land is not depreciated. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

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

k) Other real estate

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

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional real estate appraisers and brokers, or based on housing price indices.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

l) Financial guarantees and loan commitments

In the ordinary course of business, the Bank issues financial guarantees (consisting of letter of credit, guarantees, standby letter of credits and acceptances) and credit commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Credit commitments' are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of ECL. The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Bank recognizes loss allowance. Any increase in the liability relating to the financial guarantee is recognized as "charge for impairment of financing", in the consolidated statement of income.

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

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

m) Provisions

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

n) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under Islamic lease arrangements (e.g., Ijarah), the present value of the lease payments is recognized as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned income from financing. Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Bank applies cost model, and measure right of use asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

Generally, right of use asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use asset value.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

After the commencement date, Bank measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;

Re-measuring the carrying amount to reflect any re-assessment or lease modification. The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

o) Cash and cash equivalents

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

p) Short term employee benefits

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

q) End of service benefits

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

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

r) Zakat

The basis of preparation has been changed for the period ended December 31, 2019 based on latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat shall be recognized in the consolidated statement of income. The Bank has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 22 to the consolidated financial statements.

The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax (“GAZT”). Zakat expense is charged to the consolidated statement of income.

GAZT has prescribed a new criteria for calculation of Zakat effective January 1, 2019. Due accruals have been made for the obligation up to December 31, 2019. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to Zakat.

s) Treasury shares

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

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its employee share-based payment plans.

t) Investment management services

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

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

Any assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the consolidated financial statements.

u) Investments in an associate and a joint venture

Investments in an associate and a joint venture are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. A joint venture is an entity in which the Bank exercises joint control.

Under the equity method, the investments in an associate and a joint venture is carried on the statement of financial position at cost plus post acquisition changes in the Bank’s share of net assets of the associate/joint venture. The Bank’s share of profit of an associate and a joint venture is shown on the face of the consolidated statement of income.

The consolidated statement of income reflects the Bank’s share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains on transactions are eliminated to the extent of the Bank’s interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Bank’s share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate / joint venture and its carrying value and recognises the amount in the 'share of profit/loss from an associate and a joint venture' in the consolidated statement of income.

v) **Share based payments**

The Bank offers its eligible employees two types of plans (the "Plans"). Brief description of the plans as approved by SAMA are as follows:

Employee Share Participation Scheme (ESPS)

Under the terms of Employee Share Participation Scheme (ESPS), the eligible employees are offered shares at a pre-determined strike price on the grant date. Deductions are made on monthly basis from the employees' salary over the vesting period of three years. On the completion of vesting period, should the employees decide not to exercise their options, they will be entitled to receive their contribution along with any profit earned thereon.

Employee Share Grant Scheme (ESGS)

Under the terms of Employee Share Grant Scheme, eligible employees are granted shares with a vesting period of 3-5 years. At the maturity of vesting period, the Bank delivers the underlying allotted shares to the employee.

The cost of the shares in the scheme is measured by reference to the fair value at the grant date. The management is of the view that the fair value at grant date approximates its market value.

The cost of the scheme is recognized over the period during which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for the schemes at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a reporting period represents the movement in cumulative expense recognized as at the beginning and end of that reporting period.

4. Cash and balances with Saudi Arabian Monetary Authority

	2019 SAR'000	2018 SAR'000
Cash in hand	2,354,284	2,209,434
Statutory deposit	5,559,950	5,056,731
Money market placements	59,000	-
Current accounts	5,295	585
Others	61,219	92,934
Total	8,039,748	7,359,684

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

5. Due from banks and other financial institutions, net

	Notes	2019 SAR'000	2018 SAR'000
Current accounts		257,802	162,707
Murabaha and Wakala with banks	5.1	1,887,997	8,134,362
Less: Allowance for impairment	5.2	(1,530)	(3,863)
Total		2,144,269	8,293,206

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

5.2 The following table shows reconciliations from the opening to the closing balance of the allowance for impairment for due from banks and other financial institutions:

	2019 SAR'000	2018 SAR'000
	12-month ECL	12-month ECL
Balance as at January	3,863	6,275
Reversal for the year	(2,333)	(2,412)
Balance as at December 31	1,530	3,863

6. Investments, net

	Notes	2019 SAR'000	2018 SAR'000
Murabahas with SAMA (at amortized cost)		1,912,152	1,907,707
Sukuks (at amortized cost)	6.1	15,630,893	11,041,196
FVOCI investments	6.2	3,628,656	3,201,088
FVSI investments	6.3	2,254,860	2,180,148
Investment in an associate	6.4	60,128	72,776
Investment in a joint venture	6.5	16,156	14,332
Less: Allowance for impairment	6.10	(25,185)	(18,069)
Total		23,477,660	18,399,178

6.1 The fair value of sukuku (at amortized cost) as at December 31, 2019 was SAR 15,322 million (2018: SAR 10,840 million).

6.2 FVOCI investments

	2019 SAR'000	2018 SAR'000
Sukuk	3,406,416	3,088,529
Equities	222,240	112,559
Total	3,628,656	3,201,088

During the year, the Bank sold FVOCI sukuk instruments with a principal value of SAR 116 million (2018: SAR 10 million). Additionally, out of the Bank's FVOCI sukuk portfolio, instruments with a principal of SAR 385 million matured (2018: SAR 95 million). In relation to this, the Bank transferred SAR 8.9 million unrealised gains related to FVOCI sukuk instruments from OCI to the consolidated statement of income.

6.3 FVSI investments

	2019 SAR'000	2018 SAR'000
Equities	59,648	52,721
Funds	2,195,212	2,127,427
Total	2,254,860	2,180,148

All of the Bank's FVSI and FVOCI investments are in Shariah-compliant products.

6.4 Investment in an associate

Investment in an associate represents the Bank's share of investment of 28.75%, (2018: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million (2018: SAR 300 million). It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2019 SAR'000	2018 SAR'000
Opening balance	72,776	78,429
Share of loss for the year	(12,648)	(5,653)
	60,128	72,776

The fair value of the above investment based on quoted value as at December 31, 2019 is SAR 108 million (2018: SAR 141 million).

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

	September 30, 2019 SAR'000 (un-audited)	December 31, 2018 SAR'000 (Audited)
Current assets	721,328	502,649
Total assets	814,987	578,662
Current liabilities	555,522	309,389
Total liabilities	597,520	333,664
Total equity	217,467	244,998
Total revenue	141,344	226,495
Total expenses	165,844	258,241

6.5 Investment in a joint venture

The Bank had invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company was established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of income for the year is SAR 1.8 million (2018: income of SAR 0.4 million).

6.6 Analysis of investments by type and location

	Domestic SAR'000		International SAR'000		Total SAR'000	
	2019	2018	2019	2018	2019	2018
Fixed-rate investments	17,284,413	12,036,068	144,583	84,335	17,428,996	12,120,403
Floating-rate investments	3,495,280	3,898,960	-	-	3,495,280	3,898,960
Equities	357,419	251,620	753	768	358,172	252,388
Funds	1,800,991	1,704,491	394,221	422,936	2,195,212	2,127,427
Total	22,938,103	17,891,139	539,557	508,039	23,477,660	18,399,178

6.7 Analysis of investments by composition

	Quoted SAR'000		Unquoted SAR'000		Total SAR'000	
	2019	2018	2019	2018	2019	2018
Fixed-rate investments	9,423,668	11,114,381	8,005,328	1,006,022	17,428,996	12,120,403
Floating-rate investments	3,902	36,930	3,491,378	3,862,030	3,495,280	3,898,960
Equities	211,070	146,659	147,102	105,729	358,172	252,388
Funds	1,296,219	1,289,641	898,993	837,786	2,195,212	2,127,427
Total	10,934,859	12,587,611	12,542,801	5,811,567	23,477,660	18,399,178

6.8 Analysis of investments by counter-parties

	2019 SAR'000	2018 SAR'000
Government and quasi government	19,363,260	13,929,455
Banks and other financial institutions	504,656	1,624,336
Corporate	3,609,744	2,845,387
Total	23,477,660	18,399,178

6.9 Analysis of investments by credit quality

	2019 SAR'000	2018 SAR'000
Government and quasi government	19,363,260	13,929,455
Investment grade	1,561,016	2,089,908
Equities and funds	2,553,384	2,379,815
Total	23,477,660	18,399,178

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

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

	2019 SAR'000 12-month ECL	2018 SAR'000 12-month ECL
Balance as at January	18,069	10,882
Charge for the year	7,116	7,187
Balance as at December 31	25,185	18,069

7. Financing, net

	SAR'000				
	Performing	Non- performing	Total	Allowance for impairment (note 7.1)	Financing, net
2019					
Retail	19,766,197	340,493	20,106,690	(568,606)	19,538,084
Corporate	75,777,225	1,502,241	77,279,466	(2,016,152)	75,263,314
Total	95,543,422	1,842,734	97,386,156	(2,584,758)	94,801,398
	SAR'000				
2018	Performing	Non- performing	Total	Allowance for impairment (note 7.1)	Financing, net
Retail	15,709,601	566,526	16,276,127	(627,933)	15,648,194
Corporate	69,203,984	710,125	69,914,109	(1,673,153)	68,240,956
Total	84,913,585	1,276,651	86,190,236	(2,301,086)	83,889,150

Retail financing comprise mainly of consumer financing and credit cards. Corporate financing comprise mainly of commercial financing.

Financing, net include financing products in compliance with Shariah rules mainly Murabaha of SAR 18,447 million (2018: SAR 12,999 million), Ijara of SAR 34,904 million (2018: SAR 32,707 million) and Bei Ajel of SAR 43,173 million (2018: SAR 40,043 million) as at December 31, 2019.

7.1 Movement in allowance for impairment of financing:

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

	December 31, 2019			
	Life time ECL			Total
	12-month ECL	not credit impaired	Lifetime ECL credit impaired	
SAR in '000'				
Retail				
Balance at the beginning of the year	249,237	42,308	336,388	627,933
Transfer to 12-month ECL	29,738	(12,672)	(17,066)	-
Transfer to life time ECL, not credit impaired	(608)	3,632	(3,024)	-
Transfer to life time ECL, credit impaired	(484)	(9,956)	10,440	-
Net charge for the year	18,526	32,464	89,859	140,849
Write-off	-	-	(200,176)	(200,176)
Balance as at December 31, 2019	296,409	55,776	216,421	568,606
Corporate				
Balance at the beginning of the year	411,014	682,297	579,842	1,673,153
Transfer to 12-month ECL	108,339	(103,452)	(4,887)	-
Transfer to life time ECL, not credit impaired	(3,425)	3,425	-	-
Transfer to life time ECL, credit impaired	(2,440)	(179,315)	181,755	-
Net (reversal) / charge for the year	(106,454)	289,398	402,697	585,641
Write-off	-	-	(242,642)	(242,642)
Balance as at December 31, 2019	407,034	692,353	916,765	2,016,152
Total				
Balance at the beginning of the year	660,251	724,605	916,230	2,301,086
Transfer to 12-month ECL	138,077	(116,124)	(21,953)	-
Transfer to life time ECL, not credit impaired	(4,033)	7,057	(3,024)	-
Transfer to life time ECL, credit impaired	(2,924)	(189,271)	192,195	-
Net (reversal) / charge for the year	(87,928)	321,862	492,556	726,490
Write-off	-	-	(442,818)	(442,818)
Balance as at December 31, 2019	703,443	748,129	1,133,186	2,584,758

December 31, 2018

	Life time ECL			Total
	12-month ECL	not credit impaired	Lifetime ECL credit impaired	
SAR in '000'				
Retail				
Balance at the beginning of the year				365,209
Remeasurement at adoption of IFRS 9				148,327
Balance at the beginning of the year (restated)	72,641	71,705	369,190	513,536
Transfer to 12-month ECL	43,181	(38,708)	(4,473)	-
Transfer to life time ECL, not credit impaired	(505)	3,903	(3,398)	-
Transfer to life time ECL, credit impaired	(1,053)	(12,243)	13,296	-
Net charge / (reversal) for the year	134,973	17,651	(36,157)	116,467
Write-off	-	-	(2,070)	(2,070)
Balance as at December 31, 2018	249,237	42,308	336,388	627,933
Corporate				
Balance at the beginning of the year				1,138,121
Remeasurement at adoption of IFRS 9				341,366
Balance at the beginning of the year (restated)	261,066	875,304	343,117	1,479,487
Transfer to 12-month ECL	79,248	(79,248)	-	-
Transfer to life time ECL, not credit impaired	(42,020)	42,020	-	-
Transfer to life time ECL, credit impaired	(722)	(239,829)	240,551	-
Net charge for the year	113,442	84,050	90,871	288,363
Write-off	-	-	(94,697)	(94,697)
Balance as at December 31, 2018	411,014	682,297	579,842	1,673,153
Total				
Balance at the beginning of the year				1,503,330
Remeasurement at adoption of IFRS 9				489,693
Balance at the beginning of the year (restated)	333,707	947,009	712,307	1,993,023
Transfer to 12-month ECL	122,429	(117,956)	(4,473)	-
Transfer to life time ECL, not credit impaired	(42,525)	45,923	(3,398)	-
Transfer to life time ECL, credit impaired	(1,775)	(252,072)	253,847	-
Net charge for the year	248,415	101,701	54,714	404,830
Write-off	-	-	(96,767)	(96,767)
Balance as at December 31, 2018	660,251	724,605	916,230	2,301,086

The loss allowance in these tables includes ECL on loan commitments which the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2019 and that are still subject to enforcement activity is SAR 442.8 million (2018: SAR 96.8 million).

7.2 Financing includes Ijarah as follows:

	2019 SAR'000	2018 SAR'000
Less than 1 year	9,109,359	2,845,852
1 to 5 years	12,517,680	17,281,150
Over 5 years	23,046,101	23,925,895
Gross receivables from Ijarah	44,673,140	44,052,897
Unearned future finance income on Ijarah	(9,730,650)	(11,289,272)
Specific provision	(38,815)	(56,947)
Net receivables from Ijarah	34,903,675	32,706,678

8. Property and equipment, net

	SAR'000					
	Land and buildings	Leasehold improvements	Furniture and equipment	Right-of- Use asset	Total 2019	Total 2018
Cost:						
Balance at beginning of the year	1,302,173	407,616	1,521,409	-	3,231,198	3,103,548
Effect of adoption of IFRS-16 at January 1, 2019	-	-	-	479,159	479,159	-
Additions during the year	96,196	15,416	155,699	50,652	317,963	198,456
Disposals during the year	-	-	(11,330)	(4,264)	(15,594)	(70,806)
Balance at end of the year	1,398,369	423,032	1,665,778	525,547	4,012,726	3,231,198
Accumulated depreciation:						
Balance at beginning of the year	84,176	238,188	1,012,155	-	1,334,519	1,227,125
Charge for the year	16,827	35,213	133,883	87,335	273,258	178,192
Disposals	-	-	(8,941)	(3)	(8,944)	(70,798)
Balance at end of the year	101,003	273,401	1,137,097	87,332	1,598,833	1,334,519
Net book value-as at December 31, 2019	1,297,366	149,631	528,681	438,215	2,413,893	
Net book value-as at December 31, 2018	1,217,997	169,428	509,254	-		1,896,679

Property and equipment includes work in progress as at December 31, 2019 amounting to SAR 248 million (2018: SAR 227 million).

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

Information technology related assets:	Tangible	Intangible	Total
	SAR'000		
Cost			
January 1, 2019	551,717	808,838	1,360,555
Additions during the year	39,962	104,367	144,329
Disposals during the year	(10,009)	-	(10,009)
December 31, 2019	581,670	913,205	1,494,875
Accumulated depreciation/amortization			
January 1, 2019	333,198	548,043	881,241
Charge during the year	44,964	76,357	121,321
Disposals during the year	(7,670)	-	(7,670)
December 31, 2019	370,492	624,400	994,892
Net book value-as at December 31, 2019	211,178	288,805	499,983
Net book value-as at December 31, 2018	218,519	260,795	479,314

Right of Use asset pertains mainly to leases of the Bank's head office, branches and ATM kiosks.

9. Other assets

	Note	2019 SAR'000	2018 SAR'000
Prepaid rental		893	40,125
Financing inventory		47,036	581,290
Other real estate	9.1	487,745	442,884
Other prepayments		75,543	93,673
Fee receivable from asset management services		195,191	255,164
Zakat refundable	22	-	46,432
Others		156,065	240,505
Total		962,473	1,700,073

9.1 This represents the properties held for sale which were acquired in settlement of financing due from customers. During the year ended December 31, 2019, properties valuing SAR 45.1 million have been acquired in settlement of financing claims (2018: SR 46.5 million).

10. Due to banks and other financial institutions

	Note	2019 SAR'000	2018 SAR'000
Time investments from banks and other financial institutions	10.1	3,224,773	6,100,926
Current accounts		65,071	217,410
Total		3,289,844	6,318,336

10.1 This balance represents Murabaha, Mudaraba and Wakala with banks.

11. Customers' deposits

	Notes	2019 SAR'000	2018 SAR'000
Demand		57,962,288	53,510,669
Customers' time investments	11.1	43,069,002	35,690,291
Others	11.2	1,031,545	927,178
Total		102,062,835	90,128,138

11.1 It represents Murabaha and Mudaraba with customers.

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

11.3 The above includes foreign currency deposits as follows:

	2019 SAR'000	2018 SAR'000
Demand	1,036,898	912,193
Customers' time investments	3,557,515	5,383,686
Others	38,696	81,137
Total	4,633,109	6,377,016

12. Other liabilities

	Notes	2019 SAR'000	2018 SAR'000
Accounts payable		1,315,050	343,752
Outward drafts payable		868,886	1,549,956
Lease liability	12.1	416,307	-
End of service liability	24.2	347,217	287,044
Advance rentals against financing		310,797	849,976
Accrued expenses		277,985	244,428
Provision for zakat	22	126,831	-
Provision for credit-related commitments	16	179,937	204,643
Others		198,828	313,989
Total		4,041,838	3,793,788

12.1 Lease-related expenses

Other general and administrative expenses include finance cost of SAR 17.9 million and payments for leases excluded in the calculation of lease liability (i.e., short term leases and leases of low value assets) of SAR 8.2 million.

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2018: 1,500 million shares) of SAR 10 each.

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

	<u>2019</u>	<u>2018</u>
	Percentage	
Public Investment Fund ("PIF")	10.00	10.00
Public Pension Agency ("PPA")	5.81	10.71
General Organization for Social Insurance ("GOSI")	-	5.10
General public and others	84.19	74.19
Total	100.00	100.00

The Board of Directors of the Bank has recommended on December 14, 2019 (corresponding to Rabia II 17, 1441H) to an Extraordinary General Shareholders Assembly, an increase of 33% of the Bank's existing capital through bonus shares with 1 bonus share for every 3 shares owned. The number of shares will increase by 500 million shares to reach 2,000 million shares and the capital of the Bank will increase by SAR 5,000 million to reach SAR 20,000 million subject to approval from the official authorities and the Extraordinary General Shareholders Assembly.

14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, and Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 633.7 million (2018: SAR 629.4 million) has been transferred from the net income for the year to the statutory reserve. Moreover, an amount of SAR 3,423 million has been transferred to the Proposed Dividends / Bonus Issue of Shares (note 13). The statutory reserve is not available for cash distribution.

15. Treasury shares and other reserves

a) Treasury shares

Treasury shares have been acquired, after due approvals, for discharging the obligations of employees share based plans (refer to note 19.2).

b) Other reserves

	<u>2019</u>	<u>2018</u>
	SAR'000	SAR'000
Employee share-based plan (note 19.2)	20,772	5,504
Social community contribution reserve	62,953	48,581
Total	83,725	54,085

During the year an amount of SAR 25.3 million for 2019 (2018: SAR 45 million) was appropriated from retained earnings to other reserves. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2019 and 2018, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2019, the Bank had capital commitments of SAR 112 million (2018: SAR 123 million) relating to acquisition of property and equipment.

c) Credit related commitments and contingencies

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

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

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

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

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

2019	SAR'000				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,343,158	1,432,839	108,072	267	2,884,336
Letters of guarantee	1,656,355	5,502,165	3,305,392	50,922	10,514,834
Acceptances	294,166	43,827	547	-	338,540
Irrevocable commitments to extend credit	-	417,788	-	-	417,788
Total	3,293,679	7,396,619	3,414,011	51,189	14,155,498

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

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

	2019 SAR'000	2018 SAR'000
Government and quasi government	376,478	376,871
Corporate	12,726,568	11,376,046
Banks and other financial institutions	1,052,452	796,689
Total	14,155,498	12,549,606

iii) The outstanding unused portion of commitments as at December 31, 2019 which can be revoked unilaterally at any time by the Bank, amounts to SAR 25,350 million (2018: SAR 30,326 million).

iv) The following table shows reconciliations from the opening to the closing balance of the 'Provision for credit-related commitments':

	December 31, 2019			
	Life time ECL		Lifetime ECL credit impaired	Total
	12-month ECL	not credit impaired		
SAR in '000'				
Balance at the beginning of the year	117,488	46,522	40,633	204,643
Transfer to 12-month ECL	7,787	(7,787)	-	-
Transfer to life time ECL, not credit impaired	(2,656)	2,656	-	-
Transfer to life time ECL, credit impaired	(80)	(528)	608	-
Net (reversal) / charge for the year	(73,234)	10,032	38,496	(24,706)
Balance as at December 31, 2019	49,305	50,895	79,737	179,937

December 31, 2018

	Life time ECL			Total
	12-month ECL	not credit impaired	Lifetime ECL credit impaired	
SAR in '000'				
Balance at the beginning of the year				-
Remeasurement at adoption of IFRS 9				216,018
Balance at the beginning of the year - restated	104,817	29,355	81,846	216,018
Transfer to 12-month ECL	23,226	(23,226)	-	-
Transfer to life time ECL, not credit impaired	(25,236)	25,236	-	-
Transfer to life time ECL, credit impaired	(276)	-	276	-
Net charge / (reversal) for the year	14,957	15,157	(41,489)	(11,375)
Balance as at December 31, 2018	117,488	46,522	40,633	204,643

17. Income from investments and financing, net

	2019 SAR'000	2018 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	44,791	41,295
Investments in Sukuk	575,770	416,970
Murabaha with banks and other financial institutions	78,001	135,381
Financing	4,910,200	4,299,971
Total	5,608,762	4,893,617
Return on time investments:		
Customers' time investments	(1,107,949)	(1,012,174)
Time investments from banks and other financial institutions	(106,354)	(83,611)
Total	(1,214,303)	(1,095,785)
	4,394,459	3,797,832

18. Fees from banking services, net

	2019 SAR'000	2018 SAR'000
Income on:		
Trade finance services	98,832	91,750
Card services	584,424	496,125
Fund management and other banking services	444,003	398,880
	1,127,259	986,755
Expense on:		
Card services	(298,446)	(249,576)
Other fees	(8,230)	(6,125)
	(306,676)	(255,701)
	820,583	731,054

19. Salaries and employee related expenses

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

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Senior executives requiring SAMA no objections	21	17	32,069	44,221	11,136	9,130	-	3,961	11,136	13,091
Employees engaged in risk taking activities	712	678	255,720	240,511	48,309	43,385	-	-	48,309	43,385
Employees engaged in control functions	182	172	71,922	72,136	13,119	11,244	-	-	13,119	11,244
Other employees	1,603	1,550	395,120	368,584	62,436	55,603	-	-	62,436	55,603
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-	-	-	-	-	-
	2,518	2,417	754,831	725,452	135,000	119,362	-	3,961	135,000	123,323
Variable compensation accrued	-	-	148,309	127,804	-	-	-	-	-	-
Other employee related benefits	-	-	98,501	86,327	-	-	-	-	-	-
Total	2,518	2,417	1,001,641	939,583	135,000	119,362	-	3,961	135,000	123,323

19.1 Salient features of Compensation Policy

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

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

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

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

19.2 Employee share-based plans

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

Nature of scheme	ESPS (Jana)	ESGS Plan A	ESGS Plan B
No. of outstanding Schemes	1	1	1
Grant date	1-May-19	1-May-19	1-May-19
Maturity date	30-Apr-22	30-Apr-24	30-Apr-22
Number of shares granted	2,181,819	809,791	1,437,875
Vesting period	3 Years	5 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625
Strike price per share at grant date (SAR)	21.50	27	27
Fair value per share at grant date (SAR)	27	27	27
Vesting condition	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value
Weighted average remaining contractual life	2.6 Years	4.6 Years	2.6 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
December 31, 2019						
Beginning of the period	-	-	-	-	-	-
Granted during the period	21.50	2,181,819	27	809,791	27	1,437,875
Forfeited/withdrawn	21.50	(244,802)	-	-	-	-
Exercised/expired	-	-	-	-	-	-
End of the period	21.50	1,937,017	27	809,791	27	1,437,875
Exercisable at period end	21.50	1,937,017	27	809,791	27	1,437,875

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized during the year ended December 31, 2019 in respect of these schemes was SAR 20.8 million (2018: SAR 5.5 million).

20. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were 1,490 million shares at December 31, 2019 (2018: 1,490 million shares) after accounting for treasury shares.

21. Proposed issue of bonus shares / dividend

	SAR'000		SAR per share	
	2019 (note 13)	2018	2019	2018
Proposed issue of bonus shares	5,000,000	-	3.33	-
Proposed dividend	-	1,489,967	-	1.00

22. Zakat

a) Movement of zakat liability / (refundable):

	2019 SAR'000	2018 SAR'000 (Restated)
Opening balance	(46,432)	293,086
Zakat expense		
- current year	281,646	217,061
- prior years	-	(556,579)
	281,646	(339,518)
Payments during the year	(108,383)	-
Ending balance	126,831	(46,432)

b) Zakat settlement

As a major event, during 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle all pending Zakat claims/assessments up till the financial year ended 2017. Consequently, a net refund of SAR 263 million was due from GAZT which was settled from subsequent zakat liabilities. The Bank had also withdrawn all pending appeals against the above assessment years. As a result of the settlement, an amount of SAR 557 million was credited in the consolidated statement of income for the year ended December 31, 2018.

c) Impact of change in accounting treatment

On 17 July 2019, SAMA instructed banks in the Kingdom of Saudi Arabia to account for the zakat in the statement of income instead of equity which aligns with IFRS and its interpretations as endorsed in the Kingdom of Saudi Arabia. Accordingly, the Bank changed its accounting treatment for zakat by retrospectively adjusting the impact in line with IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors". These retrospective adjustments resulted in a SAR 340 million increase in reported net income for the previous year i.e 2018 to SAR 2,857 million and an increase in earnings per share of SAR 0.23 to SAR 1.92.

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

As at and for the year ended December 31, 2018:				SAR '000
Financial statement impacted	Line item	Amount before restatement	Effect of restatement	Amount after restatement
Consolidated statement of income	Reversal of zakat expense for the year	-	339,518	339,518
Consolidated statement of income	Net income for the year	2,517,433	339,518	2,856,951
Consolidated statement of income	Earnings per share (basic and diluted) SAR	1.69	0.23	1.92
Consolidated statement of changes in shareholders' equity	Provision for zakat (retained earnings)	(339,518)	339,518	-

23. Cash and cash equivalents

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

	2019 SAR'000	2018 SAR'000
Cash in hand	2,354,284	2,209,434
Balances with SAMA excluding statutory deposit	125,514	93,519
Due from banks and other financial institutions maturing within three months of acquisition	2,144,269	7,237,726
Total	4,624,067	9,540,679

24. Employee benefit obligations

24.1 General description of Defined Benefit Plan

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

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

	2019 SAR'000	2018 SAR'000
Defined benefit obligation at the beginning of the year	287,044	219,553
Charge for the year	43,964	74,644
Interest cost	14,598	10,608
Benefits paid	(12,607)	(8,910)
Actuarial loss / (gain) on re-measurement recognized in OCI	14,218	(8,851)
Defined benefit obligation at the end of the year	347,217	287,044

Charge for the year is comprised of:

	2019 SAR'000	2018 SAR'000
Current service cost	43,964	43,149
Past service cost	-	31,495
	43,964	74,644

Actuarial loss / (gain) on re-measurement recognized in OCI is comprised of:

	<u>2019</u> <u>SAR'000</u>	<u>2018</u> <u>SAR'000</u>
Loss / (gain) from change in experience assumptions	9,790	(1,775)
Loss / (gain) from change in financial assumptions	4,428	(7,076)
	<u>14,218</u>	<u>(8,851)</u>

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

	<u>2019</u>	<u>2018</u>
Discount rate	3.23% p.a.	5.20% p.a.
Expected rate of salary increase	5% for the next three years and 3% thereafter	5.00% p.a.
Normal retirement age	60 years	60 years

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

24.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2019 and 2018:

2019	<u>SAR 000'</u>		
	<u>Impact on defined benefit obligation – Increase / (Decrease)</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Base Scenario			
Discount rate	1%	(30,197)	35,535
Expected rate of salary increase	1%	36,895	(31,903)
2018	<u>SAR 000'</u>		
	<u>Impact on defined benefit obligation – Increase / (Decrease)</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Base Scenario			
Discount rate	1%	(31,763)	38,165
Expected rate of salary increase	1%	37,850	(32,098)

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

24.5 Expected maturity

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

	2019 SAR'000	2018 SAR'000
Less than a year	48,776	22,715
1-2 years	17,396	38,576
2-5 years	62,014	70,818
Over 5 years	357,937	1,582,683
	486,123	1,714,792

The weighted average duration of the defined benefit obligation is 15.8 years (2018: 14.9 years).

24.6 Defined contribution plan

The Bank makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SAR 44.5 million (2018: SAR 41.2 million).

25. Operating segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

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

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

Asset Management, custodianship, advisory, underwriting and brokerage services.

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

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

2019	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	19,175,780	75,263,314	36,344,226	1,056,121	131,839,441
Total liabilities	74,389,387	7,043,829	27,741,547	219,754	109,394,517
Income from investments and financing	2,543,960	1,792,244	1,251,172	21,386	5,608,762
Return on time investments	(626,718)	(108,789)	(478,796)	-	(1,214,303)
Income from investments and financing, net	1,917,242	1,683,455	772,376	21,386	4,394,459
Fees from banking services and other income	423,999	97,228	339,502	354,973	1,215,702
Total operating income	2,341,241	1,780,683	1,111,878	376,359	5,610,161
Charge for impairment of financing	216,971	484,646	-	(1,137)	700,480
Charge for impairment of other assets	-	-	5,837	-	5,837
Depreciation and amortization	205,861	34,973	27,360	5,064	273,258
Other operating expenses	1,254,798	264,706	181,805	101,996	1,803,305
Total operating expenses	1,677,630	784,325	215,002	105,923	2,782,880
Net operating income	663,611	996,358	896,876	270,436	2,827,281
Share of loss from an associate and a joint venture	-	-	(10,825)	-	(10,825)
Net income for the year before zakat	663,611	996,358	886,051	270,436	2,816,456

2018	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	15,255,752	68,208,752	37,166,893	906,573	121,537,970
Total liabilities	68,596,428	6,352,496	24,962,623	328,715	100,240,262
Income from investments and financing	1,931,034	1,621,361	1,326,320	14,902	4,893,617
Return on time investments	(365,838)	(127,826)	(602,121)	-	(1,095,785)
Income from investments and financing, net	1,565,196	1,493,535	724,199	14,902	3,797,832
Fees from banking services and other income	334,068	87,791	289,463	335,768	1,047,090
Total operating income	1,899,264	1,581,326	1,013,662	350,670	4,844,922
Charge for impairment of financing	89,227	301,698	-	1,871	392,796
Charge for impairment of other assets	-	69,302	4,454	-	73,756
Depreciation and amortization	124,665	27,542	22,477	3,508	178,192
Other operating expenses	1,168,258	244,892	165,898	98,463	1,677,511
Total operating expenses	1,382,150	643,434	192,829	103,842	2,322,255
Net operating income	517,114	937,892	820,833	246,828	2,522,667
Share of loss from an associate and a joint venture	-	-	(5,234)	-	(5,234)
Net income for the year before zakat	517,114	937,892	815,599	246,828	2,517,433

SAR '000	December 31, 2019				
Other information:	Retail	Corporate	Treasury	Investment & brokerage	Total
Income from:					
-External customers	756,127	3,918,955	558,720	376,359	5,610,161
-Inter-segment	1,585,114	(2,138,272)	553,158	-	-
Total operating income	2,341,241	1,780,683	1,111,878	376,359	5,610,161

SAR '000	December 31, 2018				
Other information:	Retail	Corporate	Treasury	Investment & brokerage	Total
Income from:					
-External customers	815,328	3,399,150	279,774	350,670	4,844,922
-Inter-segment	1,083,936	(1,817,824)	733,888	-	-
Total operating income	1,899,264	1,581,326	1,013,662	350,670	4,844,922

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

2019	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	19,208,768	75,601,606	30,493,391	896,103	126,199,868
Commitments and contingencies	-	8,813,100	-	-	8,813,100
Total	19,208,768	84,414,706	30,493,391	896,103	135,012,968

2018	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	15,255,752	67,994,110	31,129,973	983,984	115,363,819
Commitments and contingencies	-	7,253,856	-	-	7,253,856
Total	15,255,752	75,247,966	31,129,973	983,984	122,617,675

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

26. Credit risk

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

An internal credit-rating model is used to determine the Obligor Risk Rating (ORR), a measure of the obligor's probability of default. Ratings by the major credit rating agencies are also considered, when available. Target Market is a key component of this process as it provides the first filter for prospective and existing obligors to avoid initiating or maintaining relationships that do not fit the Bank's strategy and desired risk profile. Risk Acceptance Criteria

(RAC) is a set of variables indicating the terms under which the Bank is willing to initiate and/or maintain a credit relationship with an obligor that meets the target market. The business team is a front-end marketing team responsible for originating, evaluating and recommending credit proposals. Approval is granted in accordance with the Board approved “Credit Approval Authority Delegation Matrix” through the Credit Committee which is composed of the CEO, Business and Risk Officers. Credits are extended based on the Corporate Banking and Retail Banking Credit Policies and Guidelines.

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

Various credit portfolios are managed to achieve diversification. Concentration in the portfolio mix is managed in terms of economic activity, geography, collateral and underlying product. The Bank seeks diversification of its credit portfolios through customer acquisition across different industry and economic activities and geographical presence across the country and by targeting large, medium and small corporate clients as well as individual clients. Obligor and sector concentrations are monitored to assess 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.

26.1 Expected credit Loss (ECL)

Credit Risk Grades

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

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

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

Impairment Framework

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

- a) type of exposure
- b) obligor risk rating

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

The Bank categorizes its financial assets into three stages of impairment, in accordance with IFRS 9 methodology:

- **Stage 1 Performing assets** – Financial asset(s) at origination or existing financial assets, at the reporting date, with no significant increase in credit risk since origination: The Bank recognizes an impairment allowance amounting to 12-month expected credit losses using a point-in-time PD (an estimate of the probability of default over the next 12 months). Profits associated with the asset are recognized on the basis of gross carrying value.
- **Stage 2 Underperforming assets** – Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Credit Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value.
- **Stage 3 Credit-impaired assets (non-performing assets)** – Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD as in stage 2. Profits associated with the asset are recognized on the basis of net carrying value.

Definition of ‘Default’

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

Write offs

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

Impairment – Stage Assessment and Expected Credit Loss Estimation

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

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

Credit Losses (CL)

Credit Loss simply defined, is the difference between all the contractual cash flows that are due to the Bank and the reduced cash flows that it actually expects to receive from the borrower, in view of certain circumstances that affect the borrower's ability to repay its original obligations. Credit loss could be the total contractual cash flows (100% credit loss), or a portion of the contractual cash flows.

Lifetime expected credit losses

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

12- Month Expected credit losses

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

Probability of Default

Probability of Default (“PD”) is a critical attribute in credit risk assessment. It is used to compute the expected credit loss. Alinma Bank starts by using its credit risk models to assign a risk rating for an obligor (obligor risk rating). Each obligor risk rating is mapped to a probability of default, a point-in-time estimate of the probability of default over a 12-month period. A macroeconomic forecast is then used to calculate a multi-period probability of default; these multi-period (or term structure PD) are then used in the calculation of lifetime expected credit losses. The Bank formulates three forward-looking scenarios of the economic cycle to generate an estimate of the Term Structure PD (which is the expected migration of PD up or down, depending on the various stages of the economic cycle.) For example, it can be expected that if the economic environment is on a down-swing, the PD of an obligor which is already stressed and is classified under Stage 2 with clear signs of credit weaknesses, will tend to deteriorate. Conversely, if the economic environment is on an up-swing, the PD of a similar obligor will tend to improve. The Bank has incorporated in its lifetime PD an adjustment factor for survivability which recognizes that if a stressed obligor survives over a longer period of time, this indicates that the probability of default is reduced.

Loss Given Default

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

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

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

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

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

2019	SAR '000			
	Due from banks and other financial institutions	Investments	Financing	Provision for credit-related commitments
Base case (most likely)	1,530	25,185	2,584,758	179,937
Up turn	1,530	25,185	2,583,733	179,933
Down turn	1,626	27,889	2,633,771	184,807

2018	SAR '000			
	Due from banks and other financial institutions	Investments	Financing	Provision for credit-related commitments
Base case (most likely)	3,863	18,069	2,301,086	204,643
Up turn	3,383	16,704	2,258,312	204,643
Down turn	3,569	17,373	2,308,742	209,213

26.1.1 Due from banks and other financial institutions by risk rating

	2019	2018
	12-month ECL	
	SAR '000	
Due from banks and other financial institutions		
Grades 1-4: investment grade	2,135,611	8,297,069
Grades 5-6: below investment grade	8,833	-
Unrated	1,355	-
Gross	2,145,799	8,297,069
Allowance for impairment	(1,530)	(3,863)
Net	2,144,269	8,293,206

26.1.2 Sukuk and Murabaha investments by risk rating

	2019	2018
	12-month ECL	
	SAR '000	
Murabahas with SAMA investments – amortized cost		
Grades 1-4: investment grade	1,912,152	1,907,707
Sukuk investments – amortized cost		
Grades 1-4: investment grade	15,574,417	10,984,720
Grades 5-6: below investment grade	56,476	56,476
	15,630,893	11,041,196
Sukuk investments – FVOCI		
Grades 1-4: investment grade	3,406,416	3,088,529
Murabahas with SAMA and Sukuk investments - Total		
Grades 1-4: investment grade	20,892,985	15,980,956
Grades 5-6: below investment grade	56,476	56,476
Gross	20,949,461	16,037,432
Allowance for impairment	(25,185)	(18,069)
Net	20,924,276	16,019,363

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

26.1.3 Financing to customers by risk rating

December 31, 2019				
12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	Total	
SAR ‘000				
Financing to customers (at amortized cost) – Retail				
Unrated	19,454,511	311,686	-	19,766,197
Impaired financing	-	-	340,493	340,493
Gross financing	19,454,511	311,686	340,493	20,106,690
Allowance for impairment	(296,409)	(55,776)	(216,421)	(568,606)
	19,158,102	255,910	124,072	19,538,084
Financing to customers (at amortized cost) – Corporate				
Grades 1-4: investment grade	27,606,116	-	-	27,606,116
Grades 5-6: below investment grade	41,888,928	4,805,091	-	46,694,019
Grades 7: Watch-list	-	1,477,090	-	1,477,090
Impaired financing	-	-	1,502,241	1,502,241
Gross financing	69,495,044	6,282,181	1,502,241	77,279,466
Allowance for impairment	(407,034)	(692,353)	(916,765)	(2,016,152)
	69,088,010	5,589,828	585,476	75,263,314
Financing to customers (at amortized cost) – Total				
Grades 1-4: investment grade	27,606,116	-	-	27,606,116
Grades 5-6: below investment grade	41,888,928	4,805,091	-	46,694,019
Grades 7: Watch-list	-	1,477,090	-	1,477,090
Unrated	19,454,511	311,686	-	19,766,197
Impaired financing	-	-	1,842,734	1,842,734
Gross financing	88,949,555	6,593,867	1,842,734	97,386,156
Allowance for impairment	(703,443)	(748,129)	(1,133,186)	(2,584,758)
Financing, net	88,246,112	5,845,738	709,548	94,801,398

December 31, 2018				
12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	Total	
SAR '000				
Financing to customers (at amortized cost) – Retail				
Unrated (Retail)	15,567,639	141,962	-	15,709,601
Impaired financing	-	-	566,526	566,526
Gross financing	15,567,639	141,962	566,526	16,276,127
Allowance for impairment	(249,237)	(42,308)	(336,388)	(627,933)
	15,318,402	99,654	230,138	15,648,194
Financing to customers (at amortized cost) – Corporate				
Grades 1-4: investment grade	20,653,401	-	-	20,653,401
Grades 5-6: below investment grade	37,322,070	10,065,533	-	47,387,603
Grades 7: Watch-list	-	1,162,980	-	1,162,980
Impaired financing	-	-	710,125	710,125
Gross financing	57,975,471	11,228,513	710,125	69,914,109
Allowance for impairment	(411,014)	(682,297)	(579,842)	(1,673,153)
	57,564,457	10,546,216	130,283	68,240,956
Financing to customers (at amortized cost) – Total				
Grades 1-4: investment grade	20,653,401	-	-	20,653,401
Grades 5-6: below investment grade	37,322,070	10,065,533	-	47,387,603
Grades 7: Watch-list	-	1,162,980	-	1,162,980
Unrated (Retail)	15,567,639	141,962	-	15,709,601
Impaired financing	-	-	1,276,651	1,276,651
Gross financing	73,543,110	11,370,475	1,276,651	86,190,236
Allowance for impairment	(660,251)	(724,605)	(916,230)	(2,301,086)
Financing, net	72,882,859	10,645,870	360,421	83,889,150

Rating Scale (1 – 4) represents: Substantially credit risk free, Exceptionally strong credit quality,
Excellent credit risk quality, Very good credit risk quality.

Rating Scale (5 – 6) represents: Good to Satisfactory credit quality.

Rating Scale (7) represents: Watch list category.

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

2019	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	623,330	744,922	1,368,252
From 31 days to 90 days	456,999	533,062	990,061
From 91 days to 180 days	-	25,956	25,956
More than 180 days	-	929,883	929,883
Total	1,080,329	2,233,823	3,314,152

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

26.1.5 Commitments and contingencies by risk rating

	December 31, 2019			Total
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	
SAR '000				
Commitments and contingencies				
Grades 1-4: investment grade	772,613	-	-	772,613
Grades 5-6: below investment grade	5,792,411	249,027	-	6,041,438
Grades 7: Watch-list	-	1,303,221	-	1,303,221
Unrated	576,526	12,770	-	589,296
Impaired	-	-	106,532	106,532
Total amount at credit equivalents	7,141,550	1,565,018	106,532	8,813,100
Provision for credit-related commitments	49,305	50,895	79,737	179,937

December 31, 2018				
12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired (non-Performing)	Total	
SAR '000				
Commitments and contingencies				
Grades 1-4: investment grade	630,470	-	-	630,470
Grades 5-6: below investment grade	4,649,122	1,143,515	-	5,792,637
Grades 7: Watch-list	-	88,430	-	88,430
Unrated	666,881	21,261	-	688,142
Impaired	-	-	54,177	54,177
Total amount at credit equivalents	5,946,473	1,253,206	54,177	7,253,856
Provision for credit-related commitments	117,488	46,522	40,633	204,643

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

	SAR'000			
	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
2019				
Government and quasi government	5,800,169	-	-	5,800,169
Manufacturing	10,115,903	617,584	(318,437)	10,415,050
Electricity, water, gas & health services	2,226,299	-	-	2,226,299
Building and construction	6,883,962	202,437	(217,219)	6,869,180
Services	7,717,897	30,000	(23,419)	7,724,478
Mining	407,544	-	-	407,544
Agriculture	3,330,798	-	-	3,330,798
Consumer financing	19,766,197	340,493	(216,421)	19,890,269
Transportation and communication	5,130,399	-	-	5,130,399
Commerce	8,675,109	445,783	(292,144)	8,828,748
Real estate business	20,620,961	206,437	(65,546)	20,761,852
Others	4,868,184	-	-	4,868,184
	<u>95,543,422</u>	<u>1,842,734</u>	<u>(1,133,186)</u>	<u>96,252,970</u>
ECL against performing financing				<u>(1,451,572)</u>
Financing, net				<u>94,801,398</u>

SAR'000

2018	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	4,390,735	-	-	4,390,735
Manufacturing	10,272,628	99,778	(59,825)	10,312,581
Electricity, water, gas & health services	1,801,280	-	-	1,801,280
Building and construction	5,382,633	77,566	(71,875)	5,388,324
Services	8,086,619	49,050	(31,998)	8,103,671
Mining	490,868	-	-	490,868
Agriculture	2,736,475	-	-	2,736,475
Consumer financing	15,709,601	566,526	(336,388)	15,939,739
Transportation and communication	4,442,966	-	-	4,442,966
Commerce	10,225,538	341,651	(286,400)	10,280,789
Real estate business	17,768,671	142,080	(129,744)	17,781,007
Others	3,605,571	-	-	3,605,571
	<u>84,913,585</u>	<u>1,276,651</u>	<u>(916,230)</u>	<u>85,274,006</u>
ECL against performing financing				<u>(1,384,856)</u>
Financing, net				<u>83,889,150</u>

26.3 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. As at December 31, 2019 the Bank held collaterals of SAR 136,643 million (2018: SAR 134,715 million) against its secured financing.

The amount of collaterals held as security for financing that are credit-impaired are as follows:

Collateral coverage	SAR in '000'	
	2019	2018
Less than 50%	1,061,209	883,869
51% to 70%	30,405	92,922
More than 70%	751,120	299,860
Total	<u>1,842,734</u>	<u>1,276,651</u>

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

The following table sets out the principal types of collateral held against financing.

Types of Collateral	SAR in '000'	
	2019	2018
Real estate and fixed assets	99,139,557	96,117,294
Shares	4,194,732	7,675,204
Others	33,308,205	30,922,607
Total	<u>136,642,494</u>	<u>134,715,105</u>

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

2019	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets:					
Cash and balances with SAMA	8,039,748	-	-	-	8,039,748
Due from banks and other financial institutions					
<i>Current accounts</i>	-	8,199	182,455	66,133	256,787
<i>Murabaha and Wakala with banks</i>	99,753	1,337,617	450,112	-	1,887,482
Investments, net					
<i>Investments at amortized cost</i>	17,484,423	56,148	-	-	17,540,571
<i>FVOCI investments</i>	3,516,758	88,434	753	-	3,605,945
<i>FVSI investments</i>	1,860,639	-	-	394,221	2,254,860
<i>Other</i>	76,284	-	-	-	76,284
Financing, net					
<i>Retail</i>	19,538,084	-	-	-	19,538,084
<i>Corporate</i>	72,185,026	-	-	3,078,288	75,263,314
Other assets	876,514	-	-	-	876,514
Total financial assets	123,677,229	1,490,398	633,320	3,538,642	129,339,589
Financial liabilities:					
Due to banks and other financial institutions					
<i>Demand</i>	42,729	-	55	22,287	65,071
<i>Time investments</i>	1,981,149	1,115,188	-	128,436	3,224,773
Customers' deposits					
<i>Demand</i>	58,993,833	-	-	-	58,993,833
<i>Customer's time investments</i>	43,069,002	-	-	-	43,069,002
Other liabilities	3,745,141	-	-	-	3,745,141
Total financial liabilities	107,831,854	1,115,188	55	150,723	109,097,820
Commitments and contingencies:					
<i>Letters of credit</i>	2,884,336	-	-	-	2,884,336
<i>Letters of guarantee</i>	10,514,834	-	-	-	10,514,834
<i>Acceptances</i>	338,540	-	-	-	338,540
<i>Irrevocable commitments to extend credit</i>	417,788	-	-	-	417,788
Total commitments and contingencies	14,155,498	-	-	-	14,155,498
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:					
<i>Letters of credit</i>	576,867	-	-	-	576,867
<i>Letters of guarantee</i>	7,814,136	-	-	-	7,814,136
<i>Acceptances</i>	338,540	-	-	-	338,540
<i>Irrevocable commitments to extend credit</i>	83,557	-	-	-	83,557
Total maximum credit exposure	8,813,100	-	-	-	8,813,100

2018	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Financial assets:					
Cash and balances with SAMA	7,359,684	-	-	-	7,359,684
Due from banks and other financial institutions					
<i>Current accounts</i>	-	7,209	99,732	55,766	162,707
<i>Murabaha and Wakala with banks</i>	5,891,371	1,556,468	682,660	-	8,130,499
Investments, net					
<i>Investments at amortized cost</i>	12,878,544	56,415	-	-	12,934,959
<i>FVOCI investments</i>	3,111,128	85,067	768	-	3,196,963
<i>FVSI investments</i>	1,757,212	-	-	422,936	2,180,148
<i>Other</i>	87,108	-	-	-	87,108
Financing, net					
<i>Retail</i>	15,648,194	-	-	-	15,648,194
<i>Corporate</i>	65,885,747	-	-	2,355,209	68,240,956
Other assets	1,562,514	-	-	-	1,562,514
Total financial assets	114,181,502	1,705,159	783,160	2,833,911	119,503,732
Financial liabilities:					
Due to banks and other financial institutions					
<i>Demand</i>	99,506	559	-	117,345	217,410
<i>Time investments</i>	5,759,771	85,429	-	255,726	6,100,926
Customers' deposits					
<i>Demand</i>	54,437,847	-	-	-	54,437,847
<i>Customer's time investments</i>	35,690,291	-	-	-	35,690,291
Other liabilities	2,943,812	-	-	-	2,943,812
Total financial liabilities	98,931,227	85,988	-	373,071	99,390,286
Commitments and contingencies:					
<i>Letters of credit</i>	2,882,717	-	-	-	2,882,717
<i>Letters of guarantee</i>	8,837,299	-	-	-	8,837,299
<i>Acceptances</i>	255,025	-	-	-	255,025
<i>Irrevocable commitments to extend credit</i>	574,565	-	-	-	574,565
Total commitments and contingencies	12,549,606	-	-	-	12,549,606
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:					
<i>Letters of credit</i>	576,542	-	-	-	576,542
<i>Letters of guarantee</i>	6,307,376	-	-	-	6,307,376
<i>Acceptances</i>	255,025	-	-	-	255,025
<i>Irrevocable commitments to extend credit</i>	114,913	-	-	-	114,913
Total maximum credit exposure	7,253,856	-	-	-	7,253,856

26.5 The distribution by geographical concentration of non-performing financing and allowances for impairment on financing is as follows:

2019	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<i>Non-performing financing, net</i>					
Retail	340,493	-	-	-	340,493
Corporate	1,502,241	-	-	-	1,502,241
Total	1,842,734	-	-	-	1,842,734
<i>Allowances for impairment on financing</i>					
Retail	568,606	-	-	-	568,606
Corporate	2,016,152	-	-	-	2,016,152
Total	2,584,758	-	-	-	2,584,758

2018	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
<i>Non-performing financing, net</i>					
Retail	566,526	-	-	-	566,526
Corporate	710,125	-	-	-	710,125
Total	1,276,651	-	-	-	1,276,651
<i>Allowances for impairment on financing</i>					
Retail	627,933	-	-	-	627,933
Corporate	1,673,153	-	-	-	1,673,153
Total	2,301,086	-	-	-	2,301,086

27. Market risk

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

Market risk – trading book

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

Market risk – non trading book

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

27.1 Profit rate risk

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

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

2019		Sensitivity of equity (SAR '000)				
Increase/decrease in basis points	Sensitivity of net income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
+10	(15,532)	2,659	(5,137)	12,265	(144,698)	(134,911)
-10	15,532	(2,659)	5,137	(12,265)	144,698	134,911
2018		Sensitivity of equity (SAR '000)				
Increase/decrease in basis points	Sensitivity of net income	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
+10	(19,765)	3,239	(4,845)	(7,914)	(82,429)	(91,949)
-10	19,765	(3,239)	4,845	7,914	82,429	91,949

Yield sensitivity of assets, liabilities and off-balance sheet items

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

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

2019	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	8,039,748	8,039,748
Due from banks and other financial institutions:						
<i>Current accounts</i>	-	-	-	-	256,787	256,787
<i>Murabaha and Wakala with banks</i>	1,887,482	-	-	-	-	1,887,482
Investments, net						
<i>Investments at amortized cost</i>	4,995	-	10,380,587	7,154,989	-	17,540,571
<i>FVOCI investments</i>	-	-	1,129,012	2,254,693	222,240	3,605,945
<i>FVSI investments</i>	-	-	-	-	2,254,860	2,254,860
<i>Others</i>	-	-	-	-	76,284	76,284
Financing, net						
<i>Retail</i>	1,233,816	2,826,872	9,351,334	6,126,062	-	19,538,084
<i>Corporate</i>	17,938,506	25,055,159	17,812,042	14,457,607	-	75,263,314
Property and equipment, net	-	-	-	-	2,413,893	2,413,893
Other assets	-	-	-	-	962,473	962,473
Total assets	21,064,799	27,882,031	38,672,975	29,993,351	14,226,285	131,839,441

Liabilities & shareholders' equity						
Due to banks and other financial institutions						
<i>Demand</i>	-	-	-	-	65,071	65,071
<i>Time investments</i>	3,224,773	-	-	-	-	3,224,773
Customer deposits						
<i>Demand</i>	3,433,650	-	-	-	55,560,183	58,993,833
<i>Customer's time investments</i>	26,569,856	15,161,648	1,334,357	3,141	-	43,069,002
Other liabilities	-	-	-	-	4,041,838	4,041,838
Shareholders' equity	-	-	-	-	22,444,924	22,444,924
Total liabilities & shareholders' equity	33,228,279	15,161,648	1,334,357	3,141	82,112,016	131,839,441
Yield sensitivity - On statement of financial position	(12,163,480)	12,720,383	37,338,618	29,990,210	(67,885,731)	-
Yield sensitivity - Off statement of financial position	3,293,679	7,396,619	3,414,011	51,189	-	14,155,498
Total yield sensitivity gap	(8,869,801)	20,117,002	40,752,629	30,041,399		
Cumulative yield sensitivity gap	(8,869,801)	11,247,201	51,999,830	82,041,229		

2018	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,359,684	7,359,684
Due from banks and other financial institutions:						
<i>Current accounts</i>	-	-	-	-	162,707	162,707
<i>Murabaha and Wakala with banks</i>	7,075,550	664,829	390,120	-	-	8,130,499
Investments, net						
<i>Investments at amortized cost</i>	902,541	-	5,890,293	6,142,125	-	12,934,959
<i>FVOCI investments</i>	642,370	263,015	119,911	2,059,108	112,559	3,196,963
<i>FVSI investments</i>	-	-	-	-	2,180,148	2,180,148
<i>Others</i>	-	-	-	-	87,108	87,108
Financing, net						
<i>Retail</i>	780,945	2,147,557	7,941,582	4,778,110	-	15,648,194
<i>Corporate</i>	21,345,216	34,715,017	11,132,368	1,048,355	-	68,240,956
Property and equipment, net	-	-	-	-	1,896,679	1,896,679
Other assets	-	-	-	-	1,700,073	1,700,073
Total assets	30,746,622	37,790,418	25,474,274	14,027,698	13,498,958	121,537,970
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
<i>Demand</i>	-	-	-	-	217,410	217,410
<i>Time investments</i>	5,613,731	487,195	-	-	-	6,100,926
Customer deposits						
<i>Demand</i>	4,125,357	-	-	-	50,312,490	54,437,847
<i>Customer's time investments</i>	27,629,721	6,901,564	1,159,006	-	-	35,690,291
Other liabilities	-	-	-	-	3,793,788	3,793,788
Shareholders' equity	-	-	-	-	21,297,708	21,297,708
Total liabilities & shareholders' equity	37,368,809	7,388,759	1,159,006	-	75,621,396	121,537,970
Yield sensitivity - On statement of financial position	(6,622,187)	30,401,659	24,315,268	14,027,698	(62,122,438)	-
Yield sensitivity - Off statement of financial position	3,071,353	6,582,884	2,851,121	44,248	-	12,549,606
Total yield sensitivity gap	(3,550,834)	36,984,543	27,166,389	14,071,946		
Cumulative yield sensitivity gap	(3,550,834)	33,433,709	60,600,098	74,672,044		

27.2 Currency risk

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

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

	2019 SAR'000	2018 SAR'000
Assets		
Cash and balances with SAMA	155,911	143,207
Due from banks and other financial institutions	1,570,616	3,782,709
Investments, net	539,028	564,304
Financing, net	3,265,853	2,505,822
Other assets	26,728	7,963
Total currency risk on assets	5,558,136	7,004,005
Liabilities		
Due to banks and other financial institutions	579,119	388,525
Customers' deposits	4,597,196	6,358,921
Other liabilities	217,237	188,810
Total currency risk on liabilities	5,393,552	6,936,256
Net position – asset	164,584	67,749

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

	2019 SAR'000	2018 SAR'000
USD	197,992	32,601
Euro	(53,048)	(5,903)
UAE Dirham	5,398	22,301
BHD	1,957	4,370
QAR	(75)	(132)
Others	12,360	14,512
Total	164,584	67,749

	SAR'000		
	Change in Currency %	Effect on Net Income	Effect on Equity
Currency Exposures as at December 31, 2019			
Euro	±5%	±2,652	±2,652
Currency Exposures as at December 31, 2018			
Euro	±5%	±295	±295

27.3 Equity price risk

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

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

	2019		2018	
	SAR'000		SAR'000	
Market index-(Tadawul)	Increase / decrease in market prices%	Effect on equity	Increase / decrease in market prices%	Effect on equity
Impact of change in market prices	±10%	± 20,559	±10%	± 9,590

28. Liquidity risk

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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

2019	SAR'000					Total
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	
Liabilities						
Due to banks and other financial institutions						
<i>Demand</i>	65,071	-	-	-	-	65,071
<i>Time investments</i>	3,226,090	-	-	-	-	3,226,090
Customers' deposits						
<i>Demand</i>	58,993,833	-	-	-	-	58,993,833
<i>Customer's time investments</i>	26,626,420	15,340,464	1,439,504	4,194	-	43,410,582
Other liabilities	-	-	-	-	4,041,838	4,041,838
Total liabilities	88,911,414	15,340,464	1,439,504	4,194	4,041,838	109,737,414

2018	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions						
<i>Demand</i>	217,410	-	-	-	-	217,410
<i>Time investments</i>	5,616,296	500,825	-	-	-	6,117,121
Customers' deposits						
<i>Demand</i>	54,437,847	-	-	-	-	54,437,847
<i>Customer's time investments</i>	27,692,582	6,994,564	1,267,605	-	-	35,954,751
Other liabilities	-	-	-	-	3,793,788	3,793,788
Total liabilities	87,964,135	7,495,389	1,267,605	-	3,793,788	100,520,917

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

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

2019	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	8,039,748	-	-	-	-	8,039,748
Due from banks and other financial institutions:						
<i>Current accounts</i>	256,787	-	-	-	-	256,787
<i>Murabaha and Wakala with banks</i>	1,887,482	-	-	-	-	1,887,482
Investments, net						
<i>Investments at amortized cost</i>	4,995	-	10,380,587	7,154,989	-	17,540,571
<i>FVOCI investments</i>	-	-	1,334,606	2,254,693	16,646	3,605,945
<i>FVSI investments</i>	-	2,254,860	-	-	-	2,254,860
<i>Others</i>	-	-	-	-	76,284	76,284
Financing, net						
<i>Retail</i>	1,233,816	2,826,872	9,351,334	6,126,062	-	19,538,084
<i>Corporate</i>	17,938,506	25,055,159	17,812,042	14,457,607	-	75,263,314
Property and equipment, net	-	-	-	-	2,413,893	2,413,893
Other assets	-	-	-	-	962,473	962,473
Total	29,361,334	30,136,891	38,878,569	29,993,351	3,469,296	131,839,441
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
<i>Demand</i>	65,071	-	-	-	-	65,071
<i>Time investments</i>	3,224,773	-	-	-	-	3,224,773
Customers' deposits						
<i>Demand</i>	58,993,833	-	-	-	-	58,993,833
<i>Customer's time investments</i>	26,569,856	15,161,648	1,334,357	3,141	-	43,069,002
Other liabilities	-	-	-	-	4,041,838	4,041,838
Shareholders' equity	-	-	-	-	22,444,924	22,444,924
Total	88,853,533	15,161,648	1,334,357	3,141	26,486,762	131,839,441

Commitments & contingencies						
Letters of credit	1,343,158	1,432,839	108,072	267	-	2,884,336
Letters of guarantee	1,656,355	5,502,165	3,305,392	50,922	-	10,514,834
Acceptances	294,166	43,827	547	-	-	338,540
Irrevocable commitments to extend credit	-	417,788	-	-	-	417,788

2018	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,359,684	-	-	-	-	7,359,684
Due from banks and other financial institutions:						
Current accounts	162,707	-	-	-	-	162,707
Murabaha and Wakala with banks	7,075,550	664,829	390,120	-	-	8,130,499
Investments, net						
Investments at amortized cost	902,541	-	5,890,293	6,142,125	-	12,934,959
FVOCI investments	642,370	358,913	119,911	2,059,108	16,661	3,196,963
FVSI investments	-	2,180,148	-	-	-	2,180,148
Others	-	-	-	-	87,108	87,108
Financing, net						
Retail	774,928	2,147,727	7,942,678	4,782,860	-	15,648,193
Corporate	12,933,228	18,671,900	23,207,074	13,428,754	-	68,240,956
Property and equipment, net	-	-	-	-	1,896,679	1,896,679
Other assets	-	-	-	-	1,700,073	1,700,073
Total	29,850,478	24,024,048	37,550,076	26,412,847	3,700,521	121,537,970
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	217,410	-	-	-	-	217,410
Time investments	5,613,731	487,195	-	-	-	6,100,926
Customers' deposits						
Demand	54,437,847	-	-	-	-	54,437,847
Customer's time investments	27,629,721	6,901,564	1,159,006	-	-	35,690,291
Other liabilities	-	-	-	-	3,793,788	3,793,788
Shareholders' equity	-	-	-	-	21,297,708	21,297,708
Total	87,898,709	7,388,759	1,159,006	-	25,091,496	121,537,970
Commitments & contingencies						
Letters of credit	1,386,902	1,480,661	14,887	267	-	2,882,717
Letters of guarantee	1,525,816	4,431,268	2,836,234	43,981	-	8,837,299
Acceptances	158,635	96,390	-	-	-	255,025
Irrevocable commitments to extend credit	-	574,565	-	-	-	574,565

29. Operational risk

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

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the operational risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and

Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

30. Sharia'a non-compliance risk

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

31. Reputational risk

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

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

32. Fair values of financial assets and liabilities

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

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

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

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

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

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

Valuation technique and significant unobservable inputs for financial instruments at fair value

The Bank uses various valuation techniques used in measuring level 2 and Level 3 fair values at 31 December 2019 and 31 December 2018, as well as the significant unobservable inputs used.

For the valuation of investments in mutual funds, the Bank utilizes fund manager reports. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying assets classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk-adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted sukuk investments, the Bank utilizes valuation techniques such as discounted cash flows.

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

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

2019	SAR '000			Total
	Level 1	Level 2	Level 3	
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

2018	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI				
- Equities	50,763	1,958	-	52,721
- Mutual funds	111,234	1,821,271	194,922	2,127,427
Financial assets held as FVOCI				
- Equities	95,898	-	16,661	112,559
- Sukuk	85,161	3,003,368	-	3,088,529
Total	343,056	4,826,597	211,583	5,381,236

The movement in Level 3 financial instrument represents movement due to fair value changes only. There are no transfers between Stage 1, 2 and 3 during the year.

(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.

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
	SAR '000			
Assets				
Due from banks and other financial institutions	2,144,269	2,145,851	8,293,206	8,284,595
Investments – Murabaha with SAMA	1,912,152	1,913,983	1,907,707	1,909,840
Sukuks – Amortized Cost	15,630,893	15,322,031	11,041,196	10,839,633
Financing, net	94,801,398	94,373,405	83,889,150	83,491,292
Liabilities				
Due to banks and other financial institutions	3,289,844	3,289,889	6,318,336	6,318,519
Customers' deposits	102,062,835	102,118,314	90,128,138	90,133,444

33. Related party balances and transactions

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

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

	<u>2019</u> SAR'000	<u>2018</u> SAR'000
Directors, key management personnel, major shareholders and affiliates		
Financing to key management personnel	29,209	36,977
Financing to other related party	520,950	-
Customers' deposits	10,211,674	1,988,705
Investments in associate and joint venture	76,284	87,108
Bank's mutual funds		
Investments in mutual funds	1,678,486	1,580,208
Financing to mutual funds	7,279,389	6,908,957
Deposits from mutual funds	692,303	368,640
Borrowings from mutual fund	100,633	250,000

Customers' deposits mainly include deposits from major shareholders, affiliates and directors.

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

	<u>2019</u> SAR'000	<u>2018</u> SAR'000
Income on financing	436,140	354,027
Return on time investments	93,117	239,628
Fee from banking services, net	270,362	255,448
Directors' remuneration	4,376	4,394

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

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

	<u>2019</u> SAR'000	<u>2018</u> SAR'000
Short-term employees' benefits	66,530	60,024
End of service benefit	2,324	3,363
Shares under employee share based scheme	-	3,961

34. Capital adequacy

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

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

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

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

Particulars	2019 SAR'000	2018 SAR'000
Credit Risk Weighted Assets	109,989,481	101,696,007
Operational Risk Weighted Assets	9,267,525	7,841,050
Market Risk Weighted Assets	461,946	422,812
Total Pillar-I Risk Weighted Assets	119,718,952	109,959,869
Tier I Capital	22,878,645	21,876,003
Tier II Capital	1,374,869	1,271,200
Total Tier I & II Capital	24,253,514	23,147,203
Capital Adequacy Ratio %		
Tier I ratio	19%	20%
Tier I + Tier II ratio	20%	21%

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 57,423 million (2018: SAR 38,926 million).

36. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the standards and amendments which have been published and are mandatory for compliance by the Bank effective from accounting period beginning on or after January 1, 2020.

37. Comparative figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation; however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 2 Jumada II, 1441H (corresponding to 27 January, 2020).