ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2021

PricewaterhouseCoopers
Kingdom Tower
King Fahad Road
P.O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Building a better working world

Ernst & Young
Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 — Five million five hundred thousand Saudi Riyal)

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P.O. Box 2732
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Kingdom of Saudi Arabia
C.R. No. 1010383821

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, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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, 2021, 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 as endorsed by the Saudi Organization for Chartered and Professional 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 judgment, 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
Expected credit loss allowance against financing	
At December 31, 2021, the gross financing of the Bank was Saudi Riyals ("SAR") 130,312 million against which an expected credit loss ("ECL") allowance of SAR 4,041 million was maintained. We considered impairment of financing as a key audit matter as the determination of ECL involves significant estimation and management judgment and this has a material impact on the consolidated financial statements of the Bank. Furthermore, the COVID-19 pandemic continues to pose challenges to businesses thus increasing the levels of judgment and uncertainty needed to determine the ECL. The key areas of judgment include: ➢ Categorisation of financing in Stage 1, 2 and 3 based on identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Bank has applied additional judgments to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferral of instalments to certain counterparties. These deferrals were not deemed to have triggered SICR by themselves.	▪ We obtained and updated our understanding of management's assessment of ECL allowance against financing including the Bank's internal rating model, accounting policy, model methodology including any key changes made during the year. ▪ We compared the Bank's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over: o the ECL model, including governance over the model, its validation and any model updates performed during the year including approval of the credit committee of the key inputs, assumptions and post model adjustments, if any; o the classification of financing into Stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures; o the IT systems and applications supporting the ECL model; and o the integrity of data inputs into the ECL model.

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
Expected credit loss allowance against financing (continued) ➢ 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 the counterparty, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. ➢ The need to apply overlays using expert credit judgment to reflect all relevant risk factors especially relating to ongoing COVID-19 pandemic that might not have been captured by the ECL model. Application of these judgments and estimates, particularly in light of COVID-19 pandemic, continues to result in greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2021. *Refer to the summary of significant accounting policy note 3 (j) for the impairment of financial assets; note 2 (e) (i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Bank; note 8 which contains the disclosure of impairment against financing; and note 28.1 for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 38 for impact of the COVID-19 pandemic on ECL.*	▪ For a sample of customers, we assessed: o the internal ratings determined by management, based on the Bank's internal rating model and considered these assigned ratings in light of external market conditions and available industry information in particular, with reference to the continued impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as input in the ECL model; and o management's computations for ECL. ▪ For selected loans, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any. ▪ We assessed the appropriateness of Bank's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Bank's financing portfolio with specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the SAMA regulation and eligible definition for the affected customers and industry as at December 31, 2021.

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
	▪ We assessed the governance process implemented and the qualitative factors considered by the Bank when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. ▪ We assessed the reasonableness of the underlying assumptions used by the Bank in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. ▪ We tested the completeness and accuracy of data supporting the ECL calculations as at December 31, 2021. ▪ Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in post model overlays. We assessed the adequacy of disclosures in the 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)

Other information included in the Bank's 2021 annual report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2021 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.

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 management and those charged with governance for the consolidated financial statements

Management is 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 Alinma Bank's By-Laws, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Bank or to cease operations, or has 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 management.

- Conclude on the appropriateness of the management's 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.

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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)

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.

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 Alinma 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 Alinma Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

PricewaterhouseCoopers

Ali A. Alotaibi
Certified Public Accountant
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Ernst & Young Professional Services

Saad M. Al-Khathlan
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13 Rajab 1443H
(February 14, 2022)

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CERTIFIED PUBLIC ACCOUNTS
LICENSE NO.25
C.R.1010371622

EY
CR.1010383821
Ernst & Young Professional Services
(Professional LLC)

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ALINMA BANK
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31

ASSETS	Notes	2021 SAR'000	2020 SAR'000
Cash and balances with Saudi Central Bank (SAMA)	4	**9,177,296**	12,207,742
Due from banks and other financial institutions, net	5	**738,073**	443,002
Investments held at fair value through statement of income (FVSI)	6	**2,365,750**	2,185,553
Investments held at fair value through other comprehensive income (FVOCI)	6	**7,412,625**	4,516,121
Investments held at amortized cost, net	6	**23,432,514**	22,743,302
Investments in an associate and a joint venture	6	**66,680**	80,818
Financing, net	8	**126,271,491**	111,195,559
Property, equipment and right of use assets, net	9	**2,382,732**	2,365,286
Other assets	10	**1,628,923**	1,139,420
TOTAL ASSETS		**173,476,084**	156,876,803
LIABILITIES AND EQUITY			
LIABILITIES			
Due to SAMA, banks and other financial institutions	11	**15,239,791**	7,312,034
Customers' deposits	12	**121,060,551**	119,454,278
Amount due to Mutual Funds' unitholders	13	**495,990**	110,381
Other liabilities	14	**5,968,725**	5,571,323
TOTAL LIABILITIES		**142,765,057**	132,448,016
EQUITY			
Share capital	15	**20,000,000**	20,000,000
Statutory reserve	16	**1,268,845**	591,498
Other reserves	17	**155,366**	177,046
Retained earnings		**3,585,844**	3,760,239
Proposed dividends	15.2	**795,131**	-
Treasury shares	17	**(94,159)**	(99,996)
Equity attributable to the shareholders of the Bank		**25,711,027**	24,428,787
Tier 1 Sukuk	18	**5,000,000**	-
TOTAL EQUITY		**30,711,027**	24,428,787
TOTAL LIABILITIES AND EQUITY		**173,476,084**	156,876,803

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer　　Chief Executive Officer　　Authorized Board Member

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

	Notes	2021 SAR'000	2020 SAR'000
Income from investments and financing	20	5,674,385	5,470,006
Return on time investments	20	(537,386)	(822,183)
Income from investments and financing, net	20	5,136,999	4,647,823
Fees from banking services-income	21.1	1,559,485	1,312,336
Fees from banking services-expense	21.1	(474,241)	(376,278)
Fees from banking services, net	21.1	1,085,244	936,058
Exchange income, net		214,670	219,938
Income / (loss) from FVSI financial instruments, net	6.1	129,398	(149,984)
Gain from FVOCI sukuk investments, net		209	944
Dividend income on FVOCI equity investments		8,820	15,851
Other operating income	21.2	91,848	11,009
Total operating income		6,667,188	5,681,639
Salaries and employees' related expenses	22	1,120,471	1,042,258
Rent and premises related expenses		56,824	52,081
Depreciation and amortization	9	251,160	251,319
Other general and administrative expenses		936,707	720,260
Operating expenses before impairment charges		2,365,162	2,065,918
Impairment charge of financing, net of recoveries	8.2	1,251,603	1,419,182
Impairment charge for / (reversal of) other financial assets		14,728	(685)
Total operating expenses		3,631,493	3,484,415
Net operating income		3,035,695	2,197,224
Share of (loss) / profit from an associate and a joint venture	6.5, 6.6	(14,140)	4,536
Income for the year before zakat		3,021,555	2,201,760
Zakat	24	(312,168)	(235,768)
Net income for the year after zakat		2,709,387	1,965,992
Basic and diluted earnings per share (SAR)	23	1.31	0.99

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

	Note	2021 SAR'000	2020 SAR'000
Net income for the year after zakat		**2,709,387**	1,965,992
Other comprehensive income:			
Items that cannot be reclassified back to consolidated statement of income in subsequent periods			
Net change in fair value of FVOCI equity investments		**(411)**	9,032
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	**26.2**	**(6,311)**	(11,706)
Items that can be reclassified back to consolidated statement of income in subsequent periods			
Net change in fair value of FVOCI sukuk investments		**(41,482)**	17,201
Net gain realized on sale of FVOCI sukuk investments		**(209)**	(944)
Total other comprehensive (loss) / income		**(48,413)**	13,583
Total comprehensive income for the year		**2,660,974**	1,979,575

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer	Chief Executive Officer	Authorized Board Member

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

2021 (SAR '000)	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
Balance at the beginning of the year		20,000,000	591,498	177,046	3,760,239	-	(99,996)	24,428,787	-	24,428,787
Net income for the year after zakat		-	-	-	2,709,387	-	-	2,709,387	-	2,709,387
Net change in fair value of FVOCI equity investments		-	-	(411)	-	-	-	(411)	-	(411)
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	26.2	-	-	-	(6,311)	-	-	(6,311)	-	(6,311)
Net change in fair values of FVOCI sukuk investments		-	-	(41,482)	-	-	-	(41,482)	-	(41,482)
Net gain realized on sale of FVOCI sukuk investments		-	-	(209)	-	-	-	(209)	-	(209)
Total comprehensive income		-	-	(42,102)	2,703,076	-	-	2,660,974	-	2,660,974
Gain on sale of FVOCI equity investments		-	-	(12,911)	12,911	-	-	-	-	-
Issuance of Tier 1 Sukuk and related costs		-	-	-	(106,724)	-	-	(106,724)	5,000,000	4,893,276
Transfer to statutory reserve	16	-	677,347	-	(677,347)	-	-	-	-	-
Dividends paid for 2020	15.2	-	-	-	(596,218)	-	-	(596,218)	-	(596,218)
Interim dividends paid for 2021	15.2	-	-	-	(695,736)	-	-	(695,736)	-	(695,736)
Proposed final dividends for 2021	15.2	-	-	-	(795,131)	795,131	-	-	-	-
Employees share based plan and other reserve	17	-	-	33,333	(19,226)	-	5,837	19,944	-	19,944
Balance at the end of the year		20,000,000	1,268,845	155,366	3,585,844	795,131	(94,159)	25,711,027	5,000,000	30,711,027

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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ALINMA BANK
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31 (Continued)

2020 (SAR '000)	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed issue of bonus shares	Treasury shares	Total equity
Balance at the beginning of the year		15,000,000	100,000	161,097	2,287,302	5,000,000	(103,475)	22,444,924
Net income for the year after zakat		-	-	-	1,965,992	-	-	1,965,992
Net change in fair value of FVOCI equity investments		-	-	9,032	-	-	-	9,032
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	26.2	-	-	-	(11,706)	-	-	(11,706)
Net change in fair values of FVOCI sukuk investments		-	-	17,201	-	-	-	17,201
Net gain realized on sale of FVOCI sukuk investments		-	-	(944)	-	-	-	(944)
Total comprehensive income		-	-	25,289	1,954,286	-	-	1,979,575
Gain on sale of FVOCI equity investments		-	-	(21,031)	21,031	-	-	-
Transfer to statutory reserve	16	-	491,498	-	(491,498)	-	-	-
Issuance of bonus shares	15.1	5,000,000	-	-	-	(5,000,000)	-	-
Employees share based plan and other reserve	17	-	-	11,691	(10,882)	-	3,479	4,288
Balance at the end of the year		20,000,000	591,498	177,046	3,760,239	-	(99,996)	24,428,787

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer	Chief Executive Officer	Authorized Board Member

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

	Notes	2021 SAR' 000	2020 SAR' 000
OPERATING ACTIVITIES			
Income for the year before zakat		**3,021,555**	2,201,760
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	9	**251,160**	251,319
Gain on disposal of property and equipment, net		**(1,572)**	(2,631)
Unrealized (gain) / loss from FVSI financial instruments, net		**(111,747)**	212,969
Gain from sukuk investments held at amortized cost		**(23,604)**	-
Gain from FVOCI sukuk investments, net		**(209)**	(944)
Dividend income on FVOCI equity investments		**(8,820)**	(15,851)
Impairment charge of financing, net of recoveries	8.2	**1,251,603**	1,419,182
Impairment charge / (reversal) of other financial assets		**14,728**	(685)
Recoveries from written-off accounts		**31,855**	13,828
Deferred payment program modification loss, net of amortization		**54,776**	33,126
Fair value benefit from profit free SAMA deposit, net of unwinding		**(75,923)**	(46,861)
Employees share based plans reserve	22.2	**25,004**	22,187
Share of loss / (profit) from an associate and a joint venture	6.5, 6.6	**14,140**	(4,536)
		4,442,946	4,082,863
Net (increase)/decrease in operating assets:			
Statutory deposit with Saudi Central Bank		**(322,121)**	(822,774)
Due from banks and other financial institutions with original maturity of more than three months		**-**	-
Investments held at FVSI		**(68,450)**	(143,662)
Financing		**(16,415,523)**	(17,691,698)
Other assets		**(502,226)**	(194,508)
Net increase/(decrease) in operating liabilities:			
Due to SAMA, banks and other financial institutions		**8,043,216**	4,127,215
Customers' deposits		**1,606,273**	17,391,443
Other liabilities		**618,665**	1,330,429
Zakat paid		**(227,639)**	(139,843)
Financing cost paid on lease liability		**(14,284)**	(15,853)
Net cash (used in) / from operating activities		**(2,839,143)**	7,923,612
INVESTING ACTIVITIES			
Purchases of investments held at FVOCI		**(3,475,268)**	(1,158,176)
Purchases of investments held at amortized cost		**(7,575,833)**	(5,278,000)
Proceeds from sales and maturities of investments held at FVOCI		**546,871**	292,100
Proceeds from maturities of investments held at amortized cost		**6,899,328**	73,600
Purchase of property and equipment		**(190,817)**	(161,971)
Proceeds from disposal of property and equipment		**3,599**	5,810
Dividends received from FVOCI equity investments		**8,820**	18,664
Net cash used in investing activities		**(3,783,300)**	(6,207,973)

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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

	Notes	2021 SAR' 000	2020 SAR' 000
FINANCING ACTIVITIES			
Proceeds for the issuance of Tier 1 Sukuk, net of related costs		4,993,276	-
Profit payment on Tier 1 Sukuk		(50,000)	-
Dividend paid		(1,291,954)	-
Payment for principal portion of lease liability		(87,137)	(70,924)
Net cash from / (used in) financing activities		3,564,185	(70,924)
Net (decrease) / increase in cash and cash equivalents		(3,058,258)	1,644,715
Cash and cash equivalents at beginning of the year		6,268,782	4,624,067
Cash and cash equivalents at end of the year	25	3,210,524	6,268,782
Income received from investments and financing		5,444,212	5,409,174
Return paid on time investments		502,798	862,863
Supplemental non-cash information:			
Net changes in fair value of FVOCI investments		(42,102)	25,289
Financing written-off during the year	8.1	509,792	583,479
Issuance of bonus shares	15.1	-	5,000,000
Proposed dividends	15.2	795,131	-

The accompanying notes from 1 to 41 form an integral part of these consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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 100 branches (2020: 98 branches) in the Kingdom of Saudi Arabia ("KSA"). 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:

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

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

Funds	Bank's Ownership	Establishment date	Date of effective control	Purpose
Alinma Sukuk ETF	63.6% (2020: 92.3%)	January 22, 2020	January 22, 2020	To invest in a basket of local sovereign Sukuks issued by the Kingdom of Saudi Arabia
Alinma IPO Fund	75.5% (2020: 85.5%)	April 26, 2015	January 1, 2020	To achieve capital appreciation over the long term by investing mainly in Saudi joint stock companies

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with 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 as at and for the year ended December 31, 2021 and 2020 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 Chartered and Professional 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.

b) Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis. 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 which are measured using projected unit credit method under IAS-19.

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 thousand.

d) 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. In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources, etc. 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.

e) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, 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.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these consolidated financial statements.

Judgement of equity vs liability for Tier 1 Sukuk

The determination of equity classification of Tier 1 Sukuk requires significant judgement as certain clauses of the Offering Circular require interpretation. The Bank classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Bank for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukukholders are limited in number and scope and very difficult to exercise. The related initial costs and distributions thereon are recognized directly in the consolidated statement of changes in equity under retained earnings.

Critical accounting estimates

Revisions to accounting estimates are recognized 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. Expected credit losses ("ECL") on financial assets (Notes 3(j), 28, 38)

   The measurement of ECL 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 selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
      a) The Bank's internal credit grading model, which assigns Probability of Defaults ("PDs") to the individual grades
      b) 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
      c) The segmentation of financial assets when their ECL is assessed on a collective basis
      d) Development of ECL models, including the various formulas
      e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
   2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

ii. Fair value measurement (Note 34)

iii. Useful lives of property and equipment and determination of depreciation and amortization (Note 3(k))

iv. Assessment of control over investees (Note 3(b))

v. Valuation of End of Service benefits scheme (Notes 3(r), 26)

vi. Government grant (Notes 3(z), 11, 38)

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, 2020 except for the adoption of the following amendments to IFRS explained below which became applicable for annual reporting periods commencing on or after January 1, 2021. The management has assessed that the below amendments have no significant impact on the Bank's consolidated financial statements.

New standards, interpretations and amendments adopted by the Bank

Standard, interpretation, amendments	**Description**	**Effective date**
Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for December 2021 year ends, earlier application is permitted.	Annual periods beginning on or after 1 January 2021
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 June 2020

IBOR Transition (Interest Rate Benchmark Reforms):

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

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

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

The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR settings at the end of 2021, leaving just one year for firms to remove their remaining reliance on these benchmarks.

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. As the Bank believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at December 31, 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies.

During 2020, the Bank established a steering committee, consisting of key finance, risk, corporate and retail businesses, treasury, legal and compliance personnel and external advisors, to oversee the Bank's IBOR transition plan. This steering committee put in place a transition project for those contracts which reference IBOR to transition them to applicable benchmark, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at December 31, 2021, changes required to systems, processes and models have been identified. There have been general communications with counterparties. The Bank has identified that the areas of risk arising from the replacement of IBOR are mainly on the processes which capture IBOR referenced contracts. The Bank continues to engage with industry participant, to ensure an orderly transition to the applicable benchmark and to minimize the risks arising from transition, and it will continue to identify and assess risks associated with IBOR replacement.

Management is running a project on the Bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

As at December 31, 2021, the carrying value of non-derivative financial assets using LIBOR as benchmark rates amounted to SAR 2,706 million (2020: SAR 2,905 million).

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.

The control indicators set out below are subject to management's judgements that can have a significant effect in the case of the Bank's interests in securitization vehicles and investments funds. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect amount of its returns

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 of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

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 recognized 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.

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").

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

All inter-group balances, transactions, income and expenses are eliminated in full in preparing these consolidated financial statements.

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 consolidated financial statements.

Funds management

The Bank acts as Fund Manager to a number of investment funds. Determining whether the Bank controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Bank in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

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 amortized cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortized 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, and as specifically disclosed in the accounting policies of the Bank.

f) Revenue / expenses recognition

Income from investments and financing and return on time investments

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 expected credit 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

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the "Income from investments and financing" or "Return on time investments" as applicable.

Income from asset management and brokerage are recognized at a point-in-time when the performance obligation of the Bank is satisfied.

Investment banking and corporate finance fee revenues are recognized over the period of time when the performance obligations are met in accordance with the applicable terms of the contract.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed and performance obligations are achieved as point-in-time. If a loan commitment is not expected to result in the draw-down of a loan or if the fee relates to multiple loan commitments and cannot be reasonably allocated, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as 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

1) 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 FVSI 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 held 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 held 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 held 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 "Income/(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.

A financial asset is measured initially at fair value plus, for an item not at FVSI, transaction costs that are directly attributable to its acquisition or issue.

2) 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 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, financial guarantees and loan commitments are measured at higher of amortized cost and the amount of ECL.

A financial liability is measured initially at fair value plus, for an item not at FVSI, transaction costs that are directly attributable to its acquisition or issue.

3) 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.

In the context of IBOR reform, the Bank assesses whether a change to an amortized cost financial instrument is substantial. This is made after applying the practical expedient introduced by IBOR reform Phase 2 which requires that the transition from an IBOR to an appropriate benchmark rate to be treated as a change to a floating interest rate.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, as the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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.

4) 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.

<u>Interest rate benchmark reform</u>

The Phase 2 amendments provide practical relief from certain requirements in IFRS. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Bank updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Bank first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when re-measuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

5) 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 34.

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 consolidated financial statements are categorized within the fair value hierarchy, described in note 34.

For assets and liabilities that are recognized in the consolidated 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.

6) **Sale and repurchase agreements**

Financial assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank, these financial assets are continued to measure in accordance with related accounting policies for investments held as FVSI, FVOCI or at amortized cost. The transactions are treated as collateralized borrowing and counter-party liability for amounts received under these agreements is included in "Due to SAMA, banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as "Return on time investments" and accrued over the life of the repo agreement on an effective yield basis.

Financial assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Bank does not obtain control over the financial assets. Amounts paid under these agreements are included in "Cash and balances with Saudi Central Bank", "Due from banks and other financial institutions" or "Financing", as appropriate. The difference between purchase and resale price is treated as" Income from investments and financing" and accrued over the life of the reverse repo agreement on an effective yield basis.

h) Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency, and commission rate swaps, currency, and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognized in the statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

i) 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. All of the Bank's financing products are approved by the Sharia'a Board.

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.

j) 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 FVOCI 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.

<u>Measurement of ECL</u>

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 significant 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 financing 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 consolidated 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 'Impairment charge of financing'.

k) 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 and equipment (including intangibles)	5-10 years
Leasehold improvements	the shorter of lease period or 10 years
Right of use assets	Over the lease period

Intangibles pertains mainly to computer software. 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.

l) Real estate held for sale

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 financing 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.

m) 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 FVSI. For other loan commitments, the Bank recognizes loss allowance. Any increase in the liability relating to the financial guarantee is recognized as "Impairment charge 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.

n) 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.

o) 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 recognized 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 amortized 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 recognize 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 recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

p) 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.

q) 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.

r) 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.

s) 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 is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA") formerly General Authority for Zakat and Tax ("GAZT"). Zakat expense is charged to the consolidated statement of income.

ZATCA has prescribed a new criteria for calculation of Zakat effective January 1, 2019. Due accruals have been made for the obligation as at December 31, 2021. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to Zakat.

t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Bank.

u) 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.

v) Tier 1 Sukuk

The Bank classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Bank for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukukholders are limited in number and scope and very difficult to exercise.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

w) 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, where the Bank has concluded that it acts as an agent for the investors, such funds are not consolidated by the Bank. Fee earned from these funds are disclosed in consolidated statement of income while the Bank's share of investments is included under "Investments held at FVSI" 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.

x) 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 recognized 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.

y) Share based payments

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

Employees Share Participation Scheme (ESPS) (Jana)

Under the terms of Employees 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.

Employees Share Grant Scheme (ESGS)

Under the terms of Employees 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.

Deferred bonus scheme

Under the terms of the Deferred Bonus Scheme, eligible employees are granted shares with a vesting period of 1-3 years. At the maturity of each vesting period, the Bank delivers the underlying allocated shares to the employee. The Deferred Bonus Scheme is accounted for similar way with ESGS.

z) Government grant

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

4. Cash and balances with Saudi Central Bank (SAMA)

	2021 SAR'000	2020 SAR'000
Cash in hand	**2,327,646**	2,428,303
Statutory deposit	**6,704,845**	6,382,724
Money market placements	**30,000**	3,315,862
Others	**114,805**	80,853
Total	**9,177,296**	12,207,742

In accordance with the Banking Control Law and regulations issued by Saudi Central Bank ("SAMA"), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customers' deposits as calculated on average balance of one month before the end of reporting period. 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. Money market placements represent securities purchased under an agreement to re-sell (reverse repos) with SAMA.

5. Due from banks and other financial institutions, net

	Notes	**2021 SAR'000**	2020 SAR'000
Current accounts		**439,025**	445,288
Murabaha and Wakala with banks	**5.1**	**300,356**	-
Less: Allowance for impairment	**5.2**	**(1,308)**	(2,286)
Total		**738,073**	443,002

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 gross exposure and allowance for impairment for due from banks and other financial institutions:

Gross exposure	**December 31, 2021 SAR'000 12-month ECL**	**Life time ECL not credit impaired**	**Total ECL**
Balance as at January 1	**440,161**	**5,127**	**445,288**
Transfer to 12-month ECL	**4,021**	**(4,021)**	**-**
Net movement	**293,796**	**297**	**294,093**
Balance as at December 31	**737,978**	**1,403**	**739,381**

Gross exposure	December 31, 2020 SAR'000 12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1	2,145,799	-	2,145,799
Transfer to life time ECL, not credit impaired	(5,127)	5,127	-
Net movement	(1,700,511)	-	(1,700,511)
Balance as at December 31	440,161	5,127	445,288

Allowance for impairment	**December 31, 2021 SAR'000 12-month ECL**	**Life time ECL not credit impaired**	**Total ECL**
Balance as at January 1	**1,269**	**1,017**	**2,286**
Transfer to 12-month ECL	**799**	**(799)**	**-**
Reversal during the year	**(829)**	**(149)**	**(978)**
Balance as at December 31	**1,239**	**69**	**1,308**

Allowance for impairment	December 31, 2020 SAR'000 12-month ECL	Life time ECL not credit impaired	Total ECL
Balance as at January 1	1,530	-	1,530
Transfer to life time ECL, not credit impaired	(1,017)	1,017	-
Charge for the year	756	-	756
Balance as at December 31	1,269	1,017	2,286

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6. Investments

	Notes	2021 SAR'000	2020 SAR'000
Investments held at FVSI	**6.1**	**2,365,750**	2,185,553
Investments held at FVOCI	**6.2**	**7,412,625**	4,516,121
Investments held at amortized cost, net			
Murabahas with SAMA		**906,617**	4,905,571
Sukuks	**6.3**	**22,535,783**	17,846,720
Less: Allowance for impairment	**6.4**	**(9,886)**	(8,989)
		23,432,514	22,743,302
Investments in associate and joint venture			
Investment in an associate	**6.5**	**53,910**	59,930
Investment in a joint venture	**6.6**	**12,770**	20,888
		66,680	80,818
Total		**33,277,569**	29,525,794

6.1 Investments held at FVSI

	2021 SAR'000	2020 SAR'000
Equities	**124,005**	94,742
Funds	**2,241,745**	2,090,811
Total	**2,365,750**	2,185,553

Below is an analysis of the Bank's net income / (loss) from FVSI financial instruments:

	2021 SAR'000	2020 SAR'000
Trading income / (loss), net	**97,404**	(213,865)
Dividend income	**31,994**	63,881
Total	**129,398**	(149,984)

6.2 Investments held at FVOCI

	2021 SAR'000	2020 SAR'000
Sukuk	**6,949,049**	4,340,751
Equities	**463,576**	175,370
Total	**7,412,625**	4,516,121

During the year, the Bank sold FVOCI sukuk instruments with a principal value of SAR 480.2 million (2020: SAR 19.2 million). Additionally, out of the Bank's FVOCI sukuk portfolio, instruments with a principal of SAR 37.5 million matured/redeemed during the year (2020: SAR 135.3 million). In relation to this, the Bank transferred SAR 0.2 million unrealized gains related to FVOCI sukuk instruments from OCI to the consolidated statement of income (2020: SAR 0.9 million).

6.3 The fair value of sukuks (at amortized cost) as at December 31, 2021 was SAR 22,581 million (2020: SAR 17,903 million).

6.4 The following table shows reconciliations from the opening to the closing balance of the gross exposure and allowance for impairment for investments:

Gross exposure	2021 SAR'000 12-month ECL	2020 SAR'000 12-month ECL
Balance as at January 1	**22,752,291**	17,543,045
Purchase of new investments	**8,945,688**	5,278,000
Disposals and maturities during the year	**(8,375,322)**	(73,600)
Net movement in profit accruals	**119,743**	4,846
Balance as at December 31	**23,442,400**	22,752,291

Allowance for impairment	2021 SAR'000 12-month ECL	2020 SAR'000 12-month ECL
Balance as at January 1	**8,989**	25,185
Charge / (reversal) for the year	**897**	(16,196)
Balance as at December 31	**9,886**	8,989

There were no exposures transferred between ECL stages during the year.

6.5 Investment in an associate

Investment in an associate represents the Bank's share of investment of 28.75%, (2020: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The associate has a paid-up share capital of SAR 300 million (2020: SAR 300 million). It has been established under Commercial Registration No.1010342527 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2021 SAR'000	2020 SAR'000
Opening balance	**59,930**	60,128
Share of loss for the year	**(6,020)**	(198)
	53,910	59,930

The fair value of the above investment based on quoted value as at December 31, 2021 is SAR 270.8 million (2020: SAR 210.3 million).

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

	September 30, 2021 SAR'000 (un-audited)	December 31, 2020 SAR'000 (Audited)
Current assets	**564,907**	538,239
Total assets	**707,161**	655,997
Current liabilities	**421,418**	386,942
Total liabilities	**515,060**	454,234
Total equity	**192,101**	201,763
Total revenue	**123,204**	167,810
Total expenses	**130,307**	169,258

6.6 Investment in a joint venture

The Bank has invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The joint venture 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 net loss for the year is SAR 8.1 million (2020: share of net profit of SAR 4.7 million).

6.7 Analysis of investments by type and location

	Domestic SAR'000		International SAR'000		Total SAR'000	
	2021	2020	**2021**	2020	**2021**	2020
Investments held at FVSI						
Equities	**100,527**	79,640	**23,478**	15,102	**124,005**	94,742
Funds	**1,866,192**	1,784,777	**375,553**	306,034	**2,241,745**	2,090,811
	1,966,719	1,864,417	**399,031**	321,136	**2,365,750**	2,185,553
Investments held at FVOCI						
Fixed-rate investments	**2,717,936**	1,118,275	**444,512**	92,704	**3,162,448**	1,210,979
Floating-rate investments	**3,786,601**	3,129,772	**-**	-	**3,786,601**	3,129,772
Equities	**462,640**	173,296	**936**	2,074	**463,576**	175,370
	6,967,177	4,421,343	**445,448**	94,778	**7,412,625**	4,516,121
Investments held at amortized cost, net						
Fixed-rate investments	**22,469,536**	21,786,032	**56,495**	56,480	**22,526,031**	21,842,512
Floating-rate investments	**906,483**	900,790	**-**	-	**906,483**	900,790
	23,376,019	22,686,822	**56,495**	56,480	**23,432,514**	22,743,302
Investments in associate and joint venture						
Equities	**66,680**	80,818	**-**	-	**66,680**	80,818
Total	**32,376,595**	29,053,400	**900,974**	472,394	**33,277,569**	29,525,794

6.8 Analysis of investments by composition

	Quoted SAR'000		Unquoted SAR'000		Total SAR'000	
	2021	2020	**2021**	2020	**2021**	2020
Investments held at FVSI						
Equities	**15,564**	48,113	**108,441**	46,629	**124,005**	94,742
Funds	**1,297,537**	1,256,599	**944,208**	834,212	**2,241,745**	2,090,811
	1,313,101	1,304,712	**1,052,649**	880,841	**2,365,750**	2,185,553
Investments held at FVOCI						
Fixed-rate investments	**2,201,833**	1,200,979	**960,615**	10,000	**3,162,448**	1,210,979
Floating-rate investments	**7,424**	7,655	**3,779,177**	3,122,117	**3,786,601**	3,129,772
Equities	**447,372**	157,403	**16,204**	17,967	**463,576**	175,370
	2,656,629	1,366,037	**4,755,996**	3,150,084	**7,412,625**	4,516,121
Investments held at amortized cost, net						
Fixed-rate investments	**22,526,031**	15,667,810	**-**	6,174,702	**22,526,031**	21,842,512
Floating-rate investments	**-**	-	**906,483**	900,790	**906,483**	900,790
	22,526,031	15,667,810	**906,483**	7,075,492	**23,432,514**	22,743,302
Investments in associate and joint venture						
Equities	**53,910**	59,930	**12,770**	20,888	**66,680**	80,818
Total	**26,549,671**	18,398,489	**6,727,898**	11,127,305	**33,277,569**	29,525,794

6.9 Analysis of investments by counter-parties

	2021 SAR'000	2020 SAR'000
Government and quasi government	**24,629,700**	24,763,043
Banks and other financial institutions	**2,582,744**	1,096,501
Corporate	**6,065,125**	3,666,250
Total	**33,277,569**	29,525,794

6.10 Analysis of investments by asset quality

	2021 SAR'000	2020 SAR'000
Government and quasi government	**24,629,700**	24,763,043
Investment grade	**6,339,444**	2,591,122
Equities and funds	**2,308,425**	2,171,629
Total	**33,277,569**	29,525,794

Investment grade includes exposures in the range of "substantially credit risk free to very good credit risk quality". The maximum exposure to credit risk for financial assets carried at fair value as of December 31, 2021 is SAR 6,914 million (2020: SAR 4,263 million).

7. Derivative financial instruments

The table below summarizes the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, if any, nor market risk.

	Derivative financial instruments December 31, 2021 SAR'000		
	Positive fair value	**Negative fair value**	**Total notional amount**
Held for trading:			
Profit rate swaps	**1,121**	**-**	**60,000**
Foreign exchange forward contracts	**-**	**0.3**	**7,341**

The maximum credit exposure for positive value derivatives as of December 31, 2021 is SAR 1.1 million (2020: SAR Nil).

8. Financing, net

2021	Performing	Non-performing	Gross	Allowance for impairment (note 8.1)	Financing, net
	SAR'000				
Retail	**27,818,477**	**148,958**	**27,967,435**	**(460,500)**	**27,506,935**
Corporate	**100,211,706**	**2,133,063**	**102,344,769**	**(3,580,213)**	**98,764,556**
Total	**128,030,183**	**2,282,021**	**130,312,204**	**(4,040,713)**	**126,271,491**

2020	Performing	Non-performing	Gross	Allowance for impairment (note 8.1)	Financing, net
	SAR'000				
Retail	23,932,878	256,327	24,189,205	(655,258)	23,533,947
Corporate	87,675,393	2,596,651	90,272,044	(2,610,432)	87,661,612
Total	111,608,271	2,852,978	114,461,249	(3,265,690)	111,195,559

Retail financing comprise mainly of mortgage financing, consumer financing and credit cards. Corporate financing comprise mainly of commercial financing. The Bank's financing products are in compliance with Sharia'a rules.

The below table shows the product-wise analysis of Gross Financing:

	2021 SAR'000			2020 SAR'000		
	Retail	**Corporate**	**Total**	Retail	Corporate	Total
Murabaha	**21,538,490**	**3,293,350**	**24,831,840**	17,954,570	2,974,910	20,929,480
Ijarah	**4,496,559**	**35,698,218**	**40,194,777**	4,495,133	35,711,379	40,206,512
Bei Ajel	**1,000,040**	**63,353,201**	**64,353,241**	1,040,857	51,585,755	52,626,612
Others	**932,346**	**-**	**932,346**	698,645	-	698,645
Total	**27,967,435**	**102,344,769**	**130,312,204**	24,189,205	90,272,044	114,461,249

8.1 Movement in gross exposure and allowance for impairment of financing:

The following table shows reconciliation from the opening to the closing balance of the gross exposure of financing:

	December 31, 2021			
Gross exposure	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Retail				
Balance at the beginning of the year	**23,554,910**	**377,968**	**256,327**	**24,189,205**
Transfer to 12-month ECL	**239,136**	**(210,203)**	**(28,933)**	**-**
Transfer to life time ECL, not credit impaired	**(70,728)**	**82,256**	**(11,528)**	**-**
Transfer to life time ECL, credit impaired	**(79,627)**	**(14,186)**	**93,813**	**-**
New financial assets, net of financial assets derecognized and repayments	**3,983,349**	**(44,398)**	**(60,233)**	**3,878,718**
Write-off	**-**	**-**	**(100,488)**	**(100,488)**
Balance as at December 31, 2021	**27,627,040**	**191,437**	**148,958**	**27,967,435**
Corporate				
Balance at the beginning of the year	**81,343,613**	**6,331,780**	**2,596,651**	**90,272,044**
Transfer to 12-month ECL	**385,935**	**(385,935)**	**-**	**-**
Transfer to life time ECL, not credit impaired	**(2,914,499)**	**2,914,499**	**-**	**-**
Transfer to life time ECL, credit impaired	**(32,296)**	**(74,711)**	**107,007**	**-**
New financial assets, net of financial assets derecognized and repayments	**12,497,547**	**145,773**	**(161,291)**	**12,482,029**
Write-off	**-**	**-**	**(409,304)**	**(409,304)**
Balance as at December 31, 2021	**91,280,300**	**8,931,406**	**2,133,063**	**102,344,769**
Total				
Balance at the beginning of the year	**104,898,523**	**6,709,748**	**2,852,978**	**114,461,249**
Transfer to 12-month ECL	**625,071**	**(596,138)**	**(28,933)**	**-**
Transfer to life time ECL, not credit impaired	**(2,985,227)**	**2,996,755**	**(11,528)**	**-**
Transfer to life time ECL, credit impaired	**(111,923)**	**(88,897)**	**200,820**	**-**
New financial assets, net of financial assets derecognized and repayments	**16,480,896**	**101,375**	**(221,524)**	**16,360,747**
Write-off	**-**	**-**	**(509,792)**	**(509,792)**
Balance as at December 31, 2021	**118,907,340**	**9,122,843**	**2,282,021**	**130,312,204**

Gross exposure	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2020			
	SAR in '000'			
Retail				
Balance at the beginning of the year	19,454,511	311,686	340,493	20,106,690
Transfer to 12-month ECL	77,014	(69,375)	(7,639)	-
Transfer to life time ECL, not credit impaired	(198,528)	217,645	(19,117)	-
Transfer to life time ECL, credit impaired	(107,076)	(22,953)	130,029	-
New financial assets, net of financial assets derecognized and repayments	4,328,989	(59,035)	(5,819)	4,264,135
Write-off	-	-	(181,620)	(181,620)
Balance as at December 31, 2020	23,554,910	377,968	256,327	24,189,205
Corporate				
Balance at the beginning of the year	69,495,044	6,282,181	1,502,241	77,279,466
Transfer to 12-month ECL	781,736	(781,736)	-	-
Transfer to life time ECL, not credit impaired	(2,704,044)	2,704,044	-	-
Transfer to life time ECL, credit impaired	(24,403)	(1,481,827)	1,506,230	-
New financial assets, net of financial assets derecognized and repayments	13,795,280	(390,882)	(9,961)	13,394,437
Write-off	-	-	(401,859)	(401,859)
Balance as at December 31, 2020	81,343,613	6,331,780	2,596,651	90,272,044
Total				
Balance at the beginning of the year	88,949,555	6,593,867	1,842,734	97,386,156
Transfer to 12-month ECL	858,750	(851,111)	(7,639)	-
Transfer to life time ECL, not credit impaired	(2,902,572)	2,921,689	(19,117)	-
Transfer to life time ECL, credit impaired	(131,479)	(1,504,780)	1,636,259	-
New financial assets, net of financial assets derecognized and repayments	18,124,269	(449,917)	(15,780)	17,658,572
Write-off	-	-	(583,479)	(583,479)
Balance as at December 31, 2020	104,898,523	6,709,748	2,852,978	114,461,249

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

	December 31, 2021			
Allowance for impairment	**12-month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
			SAR in '000'	
Retail				
Balance at the beginning of the year	**419,049**	**95,838**	**140,371**	**655,258**
Transfer to 12-month ECL	**59,240**	**(49,480)**	**(9,760)**	**-**
Transfer to life time ECL, not credit impaired	**(589)**	**4,795**	**(4,206)**	**-**
Transfer to life time ECL, credit impaired	**(2,136)**	**(4,056)**	**6,192**	**-**
Net (reversal) / charge for the year	**(134,430)**	**6,856**	**33,304**	**(94,270)**
Write-off	**-**	**-**	**(100,488)**	**(100,488)**
Balance as at December 31, 2021	**341,134**	**53,953**	**65,413**	**460,500**
Corporate				
Balance at the beginning of the year	**383,343**	**862,206**	**1,364,883**	**2,610,432**
Transfer to 12-month ECL	**43,676**	**(43,676)**	**-**	**-**
Transfer to life time ECL, not credit impaired	**(47,064)**	**47,064**	**-**	**-**
Transfer to life time ECL, credit impaired	**(116)**	**(3,005)**	**3,121**	**-**
Net (reversal) / charge for the year	**(119,488)**	**1,093,268**	**405,305**	**1,379,085**
Write-off	**-**	**-**	**(409,304)**	**(409,304)**
Balance as at December 31, 2021	**260,351**	**1,955,857**	**1,364,005**	**3,580,213**
Total				
Balance at the beginning of the year	**802,392**	**958,044**	**1,505,254**	**3,265,690**
Transfer to 12-month ECL	**102,916**	**(93,156)**	**(9,760)**	**-**
Transfer to life time ECL, not credit impaired	**(47,653)**	**51,859**	**(4,206)**	**-**
Transfer to life time ECL, credit impaired	**(2,252)**	**(7,061)**	**9,313**	**-**
Net (reversal) / charge for the year	**(253,918)**	**1,100,124**	**438,609**	**1,284,815**
Write-off	**-**	**-**	**(509,792)**	**(509,792)**
Balance as at December 31, 2021	**601,485**	**2,009,810**	**1,429,418**	**4,040,713**

Allowance for impairment	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2020			
	SAR in '000'			
Retail				
Balance at the beginning of the year	296,409	55,776	216,421	568,606
Transfer to 12-month ECL	14,769	(11,280)	(3,489)	-
Transfer to life time ECL, not credit impaired	(428)	6,351	(5,923)	-
Transfer to life time ECL, credit impaired	(871)	(7,718)	8,589	-
Net charge for the year	109,170	52,709	106,393	268,272
Write-off	-	-	(181,620)	(181,620)
Balance as at December 31, 2020	419,049	95,838	140,371	655,258
Corporate				
Balance at the beginning of the year	407,034	692,353	916,765	2,016,152
Transfer to 12-month ECL	35,269	(35,269)	-	-
Transfer to life time ECL, not credit impaired	(30,624)	30,624	-	-
Transfer to life time ECL, credit impaired	(83)	(286,082)	286,165	-
Net (reversal) / charge for the year	(28,253)	460,580	563,812	996,139
Write-off	-	-	(401,859)	(401,859)
Balance as at December 31, 2020	383,343	862,206	1,364,883	2,610,432
Total				
Balance at the beginning of the year	703,443	748,129	1,133,186	2,584,758
Transfer to 12-month ECL	50,038	(46,549)	(3,489)	-
Transfer to life time ECL, not credit impaired	(31,052)	36,975	(5,923)	-
Transfer to life time ECL, credit impaired	(954)	(293,800)	294,754	-
Net charge for the year	80,917	513,289	670,205	1,264,411
Write-off	-	-	(583,479)	(583,479)
Balance as at December 31, 2020	802,392	958,044	1,505,254	3,265,690

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.

For better presentation, the Bank reclassified the presentation of modification loss arising from the deferral of micro, small and medium-sized entities (MSME) financing by deducting the modification loss directly against the gross financing instead of adding them in the allowance for impairment. Presentation for comparative periods have also been reclassified.

Write off

As at December 31, 2021, the contractual amount outstanding on financial assets that were written off and that are still subject to enforcement activity is SAR 1,489.4 million (2020: SAR 1,011.5 million).

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8.2 Impairment charge of financing, net of recoveries

	2021 SAR'000 ECL	2020 SAR'000 ECL
Charge for impairment on financing	**1,284,815**	1,264,411
(Reversal of) / charge for impairment of non-funded financing and credit related commitments (Note 19 (c))	**(1,357)**	168,599
Recoveries of previously written off bad debts	**(31,855)**	(13,828)
	1,251,603	1,419,182

8.3 Financing includes Ijarah as follows:

	2021 SAR'000	2020 SAR'000
Less than 1 year	**6,998,486**	6,149,683
1 to 5 years	**25,338,723**	21,588,422
Over 5 years	**16,760,969**	22,145,454
Gross receivables from Ijarah	**49,098,178**	49,883,559
Unearned future finance income on Ijarah	**(8,903,401)**	(9,677,047)
Net receivables from Ijarah	**40,194,777**	40,206,512

9. Property, equipment and right of use assets, net

	SAR'000					
	Land and buildings	**Leasehold improvements**	**Furniture and equipment**	**Right-of-Use assets**	**Total 2021**	Total 2020
Cost:						
Balance at beginning of the year	**1,476,248**	**441,452**	**1,660,298**	**566,986**	**4,144,984**	4,012,726
Additions during the year	**27,600**	**32,748**	**130,469**	**80,098**	**270,915**	218,238
Disposals during the year	**(2,025)**	**-**	**(1,848)**	**(548)**	**(4,421)**	(85,980)
Balance at end of the year	**1,501,823**	**474,200**	**1,788,919**	**646,536**	**4,411,478**	4,144,984
Accumulated depreciation:						
Balance at beginning of the year	**120,518**	**303,576**	**1,181,499**	**174,105**	**1,779,698**	1,598,833
Charge for the year	**20,655**	**29,600**	**107,048**	**93,857**	**251,160**	251,319
Disposals during the year	**-**	**-**	**(1,846)**	**(266)**	**(2,112)**	(70,454)
Balance at end of the year	**141,173**	**333,176**	**1,286,701**	**267,696**	**2,028,746**	1,779,698
Net book value-as at December 31, 2021	**1,360,650**	**141,024**	**502,218**	**378,840**	**2,382,732**	
Net book value-as at December 31, 2020	1,355,730	137,876	478,799	392,881		2,365,286

Property and equipment includes work in progress as at December 31, 2021 amounting to SAR 278 million (2020: SAR 263 million).

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

Information technology related assets:	**Tangible**	**Intangible**	**Total**
		SAR'000	
Cost			
January 1, 2021	**541,677**	**940,438**	**1,482,115**
Additions during the year	**35,046**	**72,897**	**107,943**
Disposals during the year	**(1,846)**	**-**	**(1,846)**
December 31, 2021	**574,877**	**1,013,335**	**1,588,212**
Accumulated depreciation/amortization			
January 1, 2021	**350,421**	**678,077**	**1,028,498**
Charge during the year	**40,840**	**54,635**	**95,475**
Disposals during the year	**(1,846)**	**-**	**(1,846)**
December 31, 2021	**389,415**	**732,712**	**1,122,127**
Net book value-as at December 31, 2021	**185,462**	**280,623**	**466,085**
Net book value-as at December 31, 2020	191,256	262,361	453,617

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

10. Other assets

	Note	**2021 SAR'000**	2020 SAR'000
Fee receivable for asset management services		**428,152**	305,635
Real estate held for sale	**10.1**	**244,439**	474,629
Financing inventory		**137,402**	28,067
Prepayments		**98,655**	97,922
Receivable against POS reimbursement		**-**	90,157
Others		**720,275**	143,010
Total		**1,628,923**	1,139,420

10.1 These properties were acquired in settlement of financing due from customers. During the year ended December 31, 2021, properties have been acquired in settlement of financing claims is SAR 2.2 million (2020: Nil).

11. Due to SAMA, banks and other financial institutions

	Notes	**2021 SAR'000**	2020 SAR'000
Due to SAMA	**11.1**	**6,990,223**	6,534,009
Time investments from banks and other financial institutions	**11.2**	**7,858,406**	756,941
Current accounts		**391,162**	21,084
Total		**15,239,791**	7,312,034

11.1 This balance represents interest free deposits received from SAMA with gross amount of SAR 7.2 billion with varying maturities in order to support the Bank in its implementation of various regulatory relief packages given by the government in response to COVID-19 (refer to Note 38).

As a result, the Bank's 'Income from investments and financing' for the year ended December 31, 2021 included the fair value benefit of SAR 158.2 million (2020: SAR 96.1 million) arising from the interest free deposits.

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

12. Customers' deposits

	Notes	2021 SAR'000	2020 SAR'000
Demand		**70,761,657**	62,839,786
Savings		**7,675,701**	6,159,083
Customers' time investments	**12.1**	**41,390,005**	49,380,486
Others	**12.2**	**1,233,188**	1,074,923
Total		**121,060,551**	119,454,278

12.1 These represent Murabaha and Mudaraba with customers.

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

12.3 The above includes foreign currency deposits as follows:

	2021 SAR'000	2020 SAR'000
Demand	**1,941,424**	1,342,023
Customers' time investments	**3,147,831**	1,520,558
Others	**80,051**	72,965
Total	**5,169,306**	2,935,546

13. Amount due to Mutual Funds' unitholders

Amount due to Mutual Funds' unitholders represents the non-controlling interest in two Mutual Funds (Alinma Sukuk ETF and Alinma IPO Fund) consolidated in these financial statements.

14. Other liabilities

	Notes	2021 SAR'000	2020 SAR'000
Accounts payable		**1,745,970**	1,518,854
Outward drafts payable		**1,703,972**	1,882,208
Advance fees against financing		**495,955**	392,621
End of service liability	**26.2**	**438,073**	404,375
Lease liability	**14.1**	**381,982**	389,303
Provision for credit-related commitments	**19 (c)**	**347,179**	348,536
Accrued expenses		**339,302**	308,618
Provision for zakat	**24**	**311,545**	227,016
Others		**204,747**	99,792
Total		**5,968,725**	5,571,323

14.1 Lease liability and lease-related expenses

Below is the undiscounted contractual cash flows for lease liability:

	2021 SAR'000	2020 SAR'000
Less than 1 year	**103,668**	100,256
1 to 5 years	**235,586**	233,859
Over 5 years	**89,957**	110,627
Total	**429,211**	444,742

Other general and administrative expenses include finance cost of SAR 14.3 million (2020: 15.9 million). Rent and premises related expenses include payments for leases excluded in the calculation of lease liability (i.e., short term leases and leases of low value assets) of SAR 2.4 million (2020: SAR 1.5 million).

15. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 2,000 million shares (2020: 2,000 million shares) of SAR 10 each.

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

	2021	2020
	Percentage	
Public Investment Fund ("PIF")	**10.00**	10.00
General public and others	**90.00**	90.00
Total	**100.00**	100.00

15.1 Issuance of bonus shares

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

15.2 Dividends

The Board of Directors in its meeting held on March 4, 2021 proposed a final 2020 dividend of SAR 596.2 million for 2020 (2019: SAR Nil) which was approved in the extraordinary general assembly meeting held on April 7, 2021 (corresponding to 25 Sha'aban 1442H). This resulted to a net payment of SAR 0.30 per share to the shareholders of the Bank (2019: SAR Nil).

The Board of Directors approved on August 1, 2021 an interim dividend of SAR 695.7 million for the first half of 2021. This resulted to a net payment of SAR 0.35 per share to the shareholders of the Bank.

The Board of Directors in their meeting held on December 29, 2021 has proposed a final 2021 dividend of SAR 795.1 million (2020: SAR 596.2 million). This will yield a net payment of SAR 0.40 per share to the shareholders of the Bank (2020: SAR 0.30 per share). The proposed final dividend is included within equity.

16. 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 677.3 million (2020: SAR 491.5 million) has been transferred from the net income for the year to the statutory reserve. The statutory reserve is not available for cash distribution.

17. 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 22.2).

b) Other reserves

2021 (SAR '000)	**Fair value reserve for FVOCI investments**	**Employees share-based plan reserve (note 22.2)**	**Social community reserve**	**Total**
Balance at the beginning of the year	**81,630**	**33,852**	**61,564**	**177,046**
Net change in fair value of FVOCI equity investments	**(411)**	**-**	**-**	**(411)**
Net change in fair values of FVOCI sukuk investments	**(41,482)**	**-**	**-**	**(41,482)**
Net gain realized on sale of FVOCI sukuk investments	**(209)**	**-**	**-**	**(209)**
Gain on sale of FVOCI equity investments	**(12,911)**	**-**	**-**	**(12,911)**
Employee share based plan reserve	**-**	**9,439**	**-**	**9,439**
Appropriations, net of utilizations	**-**	**-**	**23,894**	**23,894**
Balance at the end of the year	**26,617**	**43,291**	**85,458**	**155,366**

2020 (SAR '000)	Fair value reserve for FVOCI investments	Employees share-based plan reserve (note 22.2)	Social community reserve	Total
Balance at the beginning of the year	77,372	20,772	62,953	161,097
Net change in fair value of FVOCI equity investments	9,032	-	-	9,032
Net change in fair values of FVOCI sukuk investments	17,201	-	-	17,201
Net gain realized on sale of FVOCI sukuk investments	(944)	-	-	(944)
Gain on sale of FVOCI equity investments	(21,031)	-	-	(21,031)
Employee share based plan reserve	-	13,080	-	13,080
Appropriations, net of utilizations	-	-	(1,389)	(1,389)
Balance at the end of the year	81,630	33,852	61,564	177,046

During the year an amount of SAR 27.1 million for 2021 (2020: SAR 19.7 million) was appropriated from retained earnings to social community reserve. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

18. Tier 1 Sukuk

On July 1, 2021, the Bank through a Shariah compliant arrangement issued Tier 1 Sukuk (the "Sukuk"), amounting to SAR 5 billion. The issuance was approved by the regulatory authorities and the Board of Directors of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement. These securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of SAMA.

The applicable profit rate is 4% per annum from date of issue up to 2026 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

19. Commitments and contingencies

a) Legal proceedings

As at December 31, 2021 and 2020, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2021, the Bank had capital commitments of SAR 44 million (2020: SAR 63 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:

			SAR'000		
2021	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**968,796**	**893,385**	**164,553**	**-**	**2,026,734**
Letters of guarantee*	**735,700**	**5,412,284**	**4,572,057**	**341,022**	**11,061,063**
Acceptances	**323,329**	**21,633**	**-**	**-**	**344,962**
Irrevocable commitments to extend credit	**-**	**-**	**512,273**	**-**	**512,273**
Total	**2,027,825**	**6,327,302**	**5,248,883**	**341,022**	**13,945,032**

			SAR'000		
2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,203,293	2,530	97	276	2,206,196
Letters of guarantee*	8,814,595	885,291	1,385,481	99,750	11,185,117
Acceptances	458,628	-	-	2,480	461,108
Irrevocable commitments to extend credit	-	69,441	-	-	69,441
Total	11,476,516	957,262	1,385,578	102,506	13,921,862

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

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

	2021 SAR'000	2020 SAR'000
Government and quasi government	**4,365**	376,114
Corporate	**12,683,709**	12,445,760
Banks and other financial institutions	**1,256,958**	1,099,988
Total	**13,945,032**	13,921,862

iii) The outstanding unused portion of commitments as at December 31, 2021 which can be revoked unilaterally at any time by the Bank, amounts to SAR 29,302 million (2020: SAR 31,390 million).

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

Gross exposure of credit commitments and contingencies	**December 31, 2021** **12-month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
			SAR in '000'	
Balance at the beginning of the year	**11,620,627**	**1,568,559**	**732,676**	**13,921,862**
Transfer to 12-month ECL	**35,151**	**(35,151)**	**-**	**-**
Transfer to life time ECL, not credit impaired	**(708,111)**	**708,111**	**-**	**-**
Transfer to life time ECL, credit impaired	**(1,731)**	**(6,750)**	**8,481**	**-**
Net commitments, net of expired / matured commitments during the year	**206,187**	**(17,692)**	**(165,325)**	**23,170**
Balance as at December 31, 2021	**11,152,123**	**2,217,077**	**575,832**	**13,945,032**

Gross exposure of credit commitments and contingencies	December 31, 2020 12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
			SAR in '000'	
Balance at the beginning of the year	12,165,660	1,876,266	113,572	14,155,498
Transfer to 12-month ECL	220,405	(220,405)	-	-
Transfer to life time ECL, not credit impaired	(776,875)	776,875	-	-
Transfer to life time ECL, credit impaired	-	(838,524)	838,524	-
Net commitments, net of expired / matured commitments during the year	11,437	(25,653)	(219,420)	(233,636)
Balance as at December 31, 2020	11,620,627	1,568,559	732,676	13,921,862

Provision for credit-related commitments	**December 31, 2021** **12-month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
			SAR in '000'	
Balance at the beginning of the year	**51,330**	**53,735**	**243,471**	**348,536**
Transfer to 12-month ECL	**139**	**(139)**	**-**	**-**
Transfer to life time ECL, not credit impaired	**(4,818)**	**4,818**	**-**	**-**
Transfer to life time ECL, credit impaired	**(12)**	**(286)**	**298**	**-**
Net (reversal) / charge for the year	**(9,211)**	**16,909**	**(9,055)**	**(1,357)**
Balance as at December 31, 2021	**37,428**	**75,037**	**234,714**	**347,179**

Provision for credit-related commitments	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2020			
	SAR in '000'			
Balance at the beginning of the year	49,305	50,895	79,737	179,937
Transfer to 12-month ECL	6,626	(6,626)	-	-
Transfer to life time ECL, not credit impaired	(4,642)	4,642	-	-
Transfer to life time ECL, credit impaired	-	(43,124)	43,124	-
Net charge for the year	41	47,948	120,610	168,599
Balance as at December 31, 2020	51,330	53,735	243,471	348,536

20. Income from investments and financing, net

	2021 SAR'000	2020 SAR'000
Income from investments and financing:		
Investments in Murabaha with SAMA	**13,015**	33,211
Investments in Sukuk held at amortized cost	**659,747**	563,255
Investments in Sukuk held at FVOCI	**140,521**	100,756
Murabaha with banks and other financial institutions	**2,839**	14,190
Financing:		
Murabaha	**1,059,594**	966,012
Ijarah	**1,621,750**	1,658,906
Bei Ajel	**2,093,488**	2,066,752
Other financing products	**83,431**	66,924
Total income from financing	**4,858,263**	4,758,594
Total	**5,674,385**	5,470,006
Return on time investments:		
Customers' time investments	**(429,732)**	(747,939)
Time investments from SAMA, banks and other financial institutions	**(107,654)**	(74,244)
Total	**(537,386)**	(822,183)
	5,136,999	4,647,823

21. Fees from banking services, net and other operating income

21.1 Fees from banking services, net

	2021 SAR'000	2020 SAR'000
Income from:		
Trade finance services	**118,433**	112,949
Card services	**739,892**	575,858
Brokerage fees	**118,897**	102,194
Fund management and other banking services	**582,263**	521,335
	1,559,485	1,312,336
Expense on:		
Card services	**(470,707)**	(373,540)
Other fees	**(3,534)**	(2,738)
	(474,241)	(376,278)
	1,085,244	936,058

21.2 Other operating income

	2021 SAR'000	2020 SAR'000
Gain on sale of properties acquired under settlement	**47,907**	-
Gain from Sukuk investments held at amortized cost	**23,604**	-
Gain on sale of property and equipment	**1,572**	2,631
Others, net	**18,765**	8,378
	91,848	11,009

22. Salaries and employees' related expenses

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

SAR'000

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares (note 22.2)		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Senior executives requiring SAMA no objections	**24**	21	**56,080**	44,751	**15,942**	16,554	**10,064**	4,820	**26,006**	21,374
Employees engaged in risk taking activities	**828**	715	**276,299**	238,010	**56,198**	50,107	**1,417**	1,134	**57,615**	51,241
Employees engaged in control functions	**320**	211	**105,667**	73,822	**18,487**	15,003	**1,151**	930	**19,638**	15,933
Other employees	**2,108**	1,645	**386,902**	381,286	**57,797**	63,240	**2,650**	2,222	**60,447**	65,462
Outsourcing employees (engaged in risk taking activities)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
	3,280	2,592	**824,948**	737,869	**148,424**	144,904	**15,282**	9,106	**163,706**	154,010
Variable compensation accrued	**-**	-	**162,871**	172,106	-	-	**-**	-	-	-
Other employee related benefits	**-**	-	**132,652**	132,283	-	-	**-**	-	-	-
Total	**3,280**	2,592	**1,120,471**	1,042,258	**148,424**	144,904	**15,282**	9,106	**163,706**	154,010

Refer to note 22.2 for more details on shares paid during the year ended December 31, 2021 and 2020.

22.1 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 Remuneration Committee ("NRC"). 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.

The Bank, as part of their compensation practices which are aligned with the SAMA rules, considers variable compensation programs which are based on (1) market practice, (2) strategy of the business area, (3) roles of the business area, (4) nature and tail of risks undertaken, and (5) actual performance delivered.

As part of the Bank's variable compensation structure, following are the key components of variable compensation in the Bank:

1-Cash Bonus – The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
2-Deferred Bonus – The portion of the variable compensation that is awarded and paid in cash and/or shares over a period of 3 years.

Below are the details of the deferred bonus payments for the outstanding years and no deferred bonus is reduced through performance adjustments.

	SAR in '000'			
Year	**Total amount deferred**	**Amount vested**	**Amount unvested**	**Amount paid in 2020**
2018 (awarded in cash)	9,495	7,160	2,335	4,077
2019 (awarded in cash)	10,468	5,627	4,841	5,626
2020 (awarded in shares)	11,379	-	11,379	-

The Bank implements procedures so as to support the principles of adjustment to variable compensation outcomes so as to reflect true underlying and actual, realized performance. This can either be achieved through:

1. Withholding, whereby deferred payments are to be withheld following subdued or negative performance; or
2. Malus, whereby a portion of variable pay is deferred and only released subject to no subdued or negative performance indicating the results on which the variable pay was paid were overstated and that were used to calculate the overall bonus.

As a Sharia'a compliant bank, the Bank uses claw back of previously paid bonuses in its purest form to be appropriate in the context of Sharia'a Board decisions only when the malus clause applies.

Therefore, for the purpose of bonus deferral, the Bank may apply a further malus clause to this deferred amount that may require either a restatement of results for which the bonus was paid and / or additional performance measures.

Linkage of compensation with actual performance

The variable compensation in the Bank is purely performance based and consists of the annual performance bonus. As part of the staff's variable compensation, the annual bonus is driven by delivery of operational and financial targets set each year, the individual performance of the employees and their contribution in delivering the overall Bank's objectives.

The Bank has adopted a Board-approved framework to develop a clear link between variable compensation and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would deliver a target bonus pool for the employees, prior to consideration of any allocation to business areas and employees individually.

The key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable compensation, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risks via the use of risk-adjusted measures. The NRC carefully evaluates practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC. For the Bank to have any funding for distribution of a bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable compensation is generally considerably contracted where subdued or negative financial performance occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

Deferral policy and vesting criteria

For certain categories of employees such as (1) Employees requiring SAMA No Objection, (2) Material Risk Takers and (3) Material Risk Controllers, where deemed appropriate, the Bank provides a portion of variable compensation in the form of corporate performance linked cash/shares paid out on a multi-year cycle for identified key employees who have direct impact on the Bank growth and success.

Where variable compensation plans that include corporate performance linked cash/shares payments are introduced, the Bank provides criteria for determining the value for allocation of deferred payments within the plan rules or guidelines. Payouts of such conditional deferred cash/shares plans are required to be subject to a retention or vesting policy that is determined on a plan to plan basis. Such retention or vesting policies are to be outlined within the plan rules or guidelines. As a minimum requirement, the Bank's policy is for cash/shares based awards to be subject to an appropriate retention policy.

Parameters for allocating cash versus other forms of compensation

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore attracts, retains and motivates the best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements;

1. **Fixed Pay** (comprises of basic salary and cash allowances) and other benefits programs are developed so as to support the pay positioning and pay mix policies and align with all applicable regulatory requirements.
2. **Cash Allowances** are provided to support the Bank's pay positioning policies and to aid recruitment of sufficiently qualified talent to drive sustainable growth. The Bank reviews which allowances it offers to employees and the quantum of such allowances so as to ensure they support the aims of compensation across the whole Bank.
3. **Benefits** to support retention and recruitment of sufficiently experienced talent across the business. Provision of these benefits is provided in line with local market norms and reviewed on a regular basis to ensure they remain appropriate.
4. **Annual Performance Bonus** to enhance employee effectiveness by driving the Bank, business group and individual performance in a sustainable process and create a competitive compensation strategy that supports the Bank's business growth strategy.

22.2 Employees share-based plans

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

Nature of scheme	ESPS (Jana)	ESGS Plan A	ESGS Plan B	Deferred bonus
No. of outstanding Schemes	1	1	1	1
Grant date	May 1, 2019	May 1, 2019	May 1, 2019	March 4, 2021
Maturity date	April 30, 2022	April 30, 2024	April 30, 2022	March 4, 2024
Number of shares granted – adjusted after issuance of bonus issue	2,798,754	1,167,452	1,820,169	699,985
Vesting period	3 Years	5 years	3 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625	11,535,753
Strike price per share at grant date (SAR) – adjusted after issuance of bonus issue	16.13	-	-	-
Fair value per share at grant date (SAR) – adjusted after issuance of bonus issue	20.25	20.25	20.25	16.48
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	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value	Market Value
Weighted average remaining contractual life	0.3 Year	2.3 Years	0.3 Year	2.2 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		Deferred bonus	
	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**	**Weighted average exercise price (SAR)**	**Number of shares in scheme**
	December 31, 2021							
Beginning of the year	**16.13**	**2,117,037**	**20.25**	**1,112,381**	**20.25**	**1,349,107**	**-**	**-**
Granted during the year	**-**	**-**	**17.74**	**310,034**	**-**	**-**	**16.48**	**699,985**
Vested during the year	**-**	**-**	**-**	**-**	**20.25**	**(754,667)**	**-**	**-**
Expired during the year	**16.13**	**(292,404)**	**-**	**-**	**20.25**	**(28,031)**	**16.48**	**(15,051)**
End of the year	**16.13**	**1,824,633**	**19.70**	**1,422,415**	**20.25**	**566,409**	**16.48**	**684,934**
Exercisable at year end	**16.13**	**1,824,633**	**19.70**	**1,422,415**	**20.25**	**566,409**	**16.48**	**684,934**

	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, 2020					
Beginning of the year	21.50	1,937,017	27	877,198	27	1,370,467
Issuance of bonus shares	16.13	616,935	20.25	290,254	20.25	449,702
Vested during the year	-	-	-	-	20.25	(449,702)
Expired during the year	16.13	(436,915)	21.04	(55,071)	27	(21,360)
End of the year	16.13	2,117,037	20.25	1,112,381	20.25	1,349,107
Exercisable at year end	16.13	2,117,037	20.25	1,112,381	20.25	1,349,107

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized in consolidated statement of income during the year ended December 31, 2021 in respect of these schemes was SAR 25 million (2020: SAR 22.2 million).

23. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income adjusted for Tier 1 Sukuk costs by the weighted average number of outstanding shares which were 1,987.7 million shares at December 31, 2021. Basic and diluted earnings per share as at December 31, 2020 were divided by 1,987.1 million shares. The diluted earnings per share is the same as the basic earnings per share.

24. Zakat liability

	2021 SAR'000	2020 SAR'000
Opening balance	**227,016**	**131,091**
Zakat expense	**312,168**	**235,768**
Payments during the year	**(227,639)**	**(139,843)**
Ending balance	**311,545**	**227,016**

25. Cash and cash equivalents

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

	2021 SAR'000	2020 SAR'000
Cash in hand	**2,327,646**	2,428,303
Balances with SAMA excluding statutory deposit	**144,805**	3,396,715
Due from banks and other financial institutions maturing within three months of acquisition	**738,073**	443,764
Total	**3,210,524**	6,268,782

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26. Employee benefit obligations

26.1 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.

26.2 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:

	2021 SAR'000	2020 SAR'000
Defined benefit obligation at the beginning of the year	**404,375**	347,217
Charge for the year	**56,218**	49,713
Discount cost	**10,489**	10,881
Benefits paid	**(39,320)**	(15,142)
Actuarial loss on re-measurement recognized in OCI	**6,311**	11,706
Defined benefit obligation at the end of the year	**438,073**	404,375

Charge for the year is comprised of:

	2021 SAR'000	2020 SAR'000
Current service cost	**56,218**	49,713
Past service cost	**-**	-
	56,218	49,713

Actuarial loss on re-measurement recognized in OCI is comprised of:

	2021 SAR'000	2020 SAR'000
Loss from change in experience assumptions	**2,857**	1,541
Loss from change in financial assumptions	**3,454**	10,165
	6,311	11,706

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

	2021	2020
Discount rate	**3.31% p.a.**	2.75% p.a.
Expected rate of salary increase – next three years	**5% p.a.**	5% p.a.
– thereafter	**3.11% p.a.**	2.55% 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.

26.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2021 and 2020:

	SAR 000’		
2021	**Impact on defined benefit obligation – Increase/(Decrease)**		
Base scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(39,218)**	**45,982**
Expected rate of salary increase	**1%**	**47,687**	**(41,371)**

	SAR 000’		
2020	Impact on defined benefit obligation – Increase / (Decrease)		
Base scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(35,160)	41,325
Expected rate of salary increase	1%	42,859	(37,109)

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

26.5 Expected maturity

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

	2021 SAR’000	2020 SAR’000
Less than a year	**33,993**	51,149
1-2 years	**28,191**	22,622
2-5 years	**83,057**	71,915
Over 5 years	**476,163**	388,743
	621,404	534,429

The weighted average duration of the defined benefit obligation is 14.7 years (2020: 12.3 years).

26.6 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 53.9 million (2020: SAR 49.2 million).

27. 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:

2021	**SAR '000**				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
Total assets	**26,602,261**	**98,764,556**	**45,725,528**	**2,383,739**	**173,476,084**
Total liabilities	**81,503,711**	**23,727,274**	**36,924,221**	**609,851**	**142,765,057**
Income from investments and financing	**2,448,360**	**2,158,326**	**975,642**	**92,057**	**5,674,385**
Return on time investments	**(183,197)**	**(53,548)**	**(300,641)**	**-**	**(537,386)**
Income from investments and financing, net	**2,265,163**	**2,104,778**	**675,001**	**92,057**	**5,136,999**
Fees from banking services and other income	**443,749**	**166,412**	**375,796**	**544,232**	**1,530,189**
Total operating income	**2,708,912**	**2,271,190**	**1,050,797**	**636,289**	**6,667,188**
(Reversal) / charge for impairment of financing	**(124,789)**	**1,375,931**	**-**	**461**	**1,251,603**
Charge for impairment of other financial assets	**-**	**-**	**2,576**	**12,152**	**14,728**
Depreciation and amortization	**217,562**	**16,242**	**11,459**	**5,897**	**251,160**
Other operating expenses	**1,420,839**	**319,913**	**225,861**	**147,389**	**2,114,002**
Total operating expenses	**1,513,612**	**1,712,086**	**239,896**	**165,899**	**3,631,493**
Net operating income	**1,195,300**	**559,104**	**810,901**	**470,390**	**3,035,695**
Share of loss from an associate and a joint venture	**-**	**-**	**(14,140)**	**-**	**(14,140)**
Net income for the year before zakat	**1,195,300**	**559,104**	**796,761**	**470,390**	**3,021,555**

2020	SAR '000				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
Total assets	22,936,078	87,670,882	44,725,846	1,543,997	156,876,803
Total liabilities	83,341,976	5,182,966	43,729,266	193,808	132,448,016
Income from investments and financing	2,664,501	1,721,578	1,023,201	60,726	5,470,006
Return on time investments	(341,115)	(34,353)	(446,715)	-	(822,183)
Income from investments and financing, net	2,323,386	1,687,225	576,486	60,726	4,647,823
Fees from banking services and other income	303,460	180,208	77,714	472,434	1,033,816
Total operating income	2,626,846	1,867,433	654,200	533,160	5,681,639
Charge for impairment of financing	249,640	1,169,542	-	-	1,419,182
(Reversal) / charge for impairment of other financial assets	-	-	(14,944)	14,259	(685)
Depreciation and amortization	218,190	16,885	10,825	5,419	251,319
Other operating expenses	1,263,540	255,666	175,384	120,009	1,814,599
Total operating expenses	1,731,370	1,442,093	171,265	139,687	3,484,415
Net operating income	895,476	425,340	482,935	393,473	2,197,224
Share of profit from an associate and a joint venture	-	-	4,536	-	4,536
Net income for the year before zakat	895,476	425,340	487,471	393,473	2,201,760

SAR '000	**December 31, 2021**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
Income from:					
-External customers	**1,513,762**	**3,634,911**	**882,226**	**636,289**	**6,667,188**
-Inter-segment	**1,195,150**	**(1,363,721)**	**168,571**	**-**	**-**
Total operating income	**2,708,912**	**2,271,190**	**1,050,797**	**636,289**	**6,667,188**

SAR '000	December 31, 2020				
Other information:	Retail	Corporate	Treasury	Investment & brokerage	Total
Income from:					
-External customers	1,054,035	3,746,466	347,978	533,160	5,681,639
-Inter-segment	1,572,811	(1,879,033)	306,222	-	-
Total operating income	2,626,846	1,867,433	654,200	533,160	5,681,639

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

2021	**SAR '000**				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	**26,602,261**	**98,764,556**	**39,870,397**	**1,298,985**	**166,536,199**
Commitments and contingencies	**-**	**8,408,820**	**-**	**-**	**8,408,820**
Total	**26,602,261**	**107,173,376**	**39,870,397**	**1,298,985**	**174,945,019**

2020	**SAR '000**				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	22,957,029	87,502,562	39,375,562	943,427	150,778,580
Commitments and contingencies	-	9,275,865	-	-	9,275,865
Total	22,957,029	96,778,427	39,375,562	943,427	160,054,445

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

28. 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 and disclosed by clients. 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 Heads and Chief Credit Officer. Credits are extended based on the Corporate, Financial Institutions 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 on periodic basis 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.

28.1 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 CreditLens. This rating system 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 Moody's CreditLens rating system on a regular basis by calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring and annual review activity, 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 Moody's rating system.

The Bank's internal credit rating grades:

Internal rating grade	Internal rating description	12 month Point in Time (PIT) PD
Performing		
1	Almost Credit Risk Free	0.030%
2+	Almost Credit Risk Free	0.030%
2	Almost Credit Risk Free	0.030%
2-	Almost Credit Risk Free	0.020%
3+	Exceptionally Strong Credit Risk	0.050%
3	Exceptionally Strong Credit Risk	0.060%
3-	Exceptionally Strong Credit Risk	0.080%
4+	Exceptionally Strong Credit Risk	0.140%
4	Excellent Credit Risk	0.240%
4-	Excellent Credit Risk	0.280%
5+	Good Credit Quality	0.550%
5	Good Credit Quality	0.790%
5-	Good Credit Quality	1.350%
6+	Satisfactory Credit Quality	2.350%
6	Satisfactory Credit Quality	6.550%
6-	Borderline Credit Quality	9.760%
7	Weak Credit Quality	26.340%
Non-performing		
8	First stage of default	100.000%
9	Default / substantial difficulty	100.000%
10	Write - Off	100.000%

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 Impairment 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. 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 NPV of the expected reduced cash flows discounted at the applicable effective rate, 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 is 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

Sensitivity analysis

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

2021	**SAR '000**			
	Due from banks and other financial institutions	**Investments**	**Financing**	**Provision for credit-related commitments**
Base case (most likely)	**1,308**	**9,886**	**4,040,713**	**347,179**
Up turn	**1,308**	**9,855**	**3,926,515**	**332,082**
Down turn	**1,308**	**9,900**	**4,125,451**	**358,443**

2020	**SAR '000**			
	Due from banks and other financial institutions	Investments	Financing	Provision for credit-related commitments
Base case (most likely)	2,286	8,989	3,265,690	348,536
Up turn	2,286	8,767	3,231,915	345,011
Down turn	2,286	9,188	3,298,916	354,176

The base case scenario represents a most-likely outcome. In the up turn scenario, weightings are 50% for baseline assumptions, 10% for optimistic assumptions and 40% for pessimistic assumptions. In the down turn scenario, weightings are 50% for baseline assumptions and 50% for pessimistic assumptions. The Bank currently uses the weightings of 50% for downturn, 40% for baseline and 10% for up turn.

Consideration due to COVID-19:

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer to note 38 for further details). The exercise of the deferment option, in its own, is not considered by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process, due to the current economic situation after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where the indicators of significant deterioration were noted, the customers' credit ratings and the staging of their exposure were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

As at December 31, 2021 and 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The Bank has updated its forward-looking variables (key economic drivers), refer below table.

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic impact as compared to last year as a consequence of COVID-19, greater weighting has been applied to the downside scenario given the Bank's assessment of downside risks and lesser weighting has been applied to upside scenario.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	**Forecast calendar years used in 2021 ECL model**		
	2022	**2023**	**2024**
Government Net Borrowing (SAR Billions)	(117.7)	(87.5)	(52.0)
GDP per capita (SAR)	73,610	74,005	74,463
Total government expenditures as % of GDP	35.013	34.244	33.417

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the yearend:

Assumptions sensitized	**ECL impact December 31, 2021 Increase / (Decrease) SAR '000**
Macro-economic factors:	
Government Net Borrowing (SAR Billions) increase by 10%	**(46,593)**
Government Net Borrowing (SAR Billions) decrease by 10%	**46,763**
GDP per capita (SAR) increase by 10%	**(11,370)**
GDP per capita (SAR) decrease by 10%	**3,887**
Total government expenditures as % of GDP increase by 10%	**(383,858)**
Total government expenditures as % of GDP decrease by 10%	**317,959**

The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

During the year, the Bank has made following changes in its ECL methodology to reflect the validation exercise undertaken by the Bank:
a. Updating of the forward-looking macroeconomic indicators;
b. Updating of the weighted average PDs; and,
c. Updating of the criteria used in determining SICR for retail portfolio.

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

28.1.1 Due from banks and other financial institutions by risk rating

	2021	2020
	SAR '000	
Due from banks and other financial institutions		
Grades 1-4: investment grade	**705,101**	417,027
Grades 5-6: non-investment grade	**34,280**	23,134
Unrated	**-**	5,127
Gross	**739,381**	445,288
Allowance for impairment	**(1,308)**	(2,286)
Net	**738,073**	443,002

28.1.2 Sukuk and Murabaha investments by risk rating

	2021	2020
	12-month ECL	
	SAR '000	
Murabahas with SAMA investments – amortized cost		
Grades 1-4: investment grade	**906,617**	**4,905,571**
Sukuk investments – amortized cost		
Grades 1-4: investment grade	**22,479,261**	17,790,240
Grades 5-6: non-investment grade	**56,522**	56,480
	22,535,783	17,846,720
Sukuk investments – FVOCI		
Grades 1-4: investment grade	**6,291,476**	4,124,556
Grades 5-6: non-investment grade	**657,573**	216,195
	6,949,049	4,340,751
Murabahas with SAMA and Sukuk investments - Total		
Grades 1-4: investment grade	**29,677,354**	26,820,367
Grades 5-6: non-investment grade	**714,095**	272,675
Gross	**30,391,449**	27,093,042
Allowance for impairment	**(9,886)**	(8,989)
Net	**30,381,563**	27,084,053

28.1.3 Financing to customers by risk rating

	December 31, 2021			
	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	**27,627,040**	**191,437**	**-**	**27,818,477**
Impaired financing	**-**	**-**	**148,958**	**148,958**
Gross financing	**27,627,040**	**191,437**	**148,958**	**27,967,435**
Allowance for impairment	**(341,134)**	**(53,953)**	**(65,413)**	**(460,500)**
	27,285,906	**137,484**	**83,545**	**27,506,935**
Financing to customers (at amortized cost) – Corporate				
Grades 1-4: investment grade	**33,920,788**	**-**	**-**	**33,920,788**
Grades 5-6: good/satisfactory	**57,359,512**	**5,070,666**	**-**	**62,430,178**
Grades 7: Watch-list	**-**	**3,860,740**	**-**	**3,860,740**
Impaired financing	**-**	**-**	**2,133,063**	**2,133,063**
Gross financing	**91,280,300**	**8,931,406**	**2,133,063**	**102,344,769**
Allowance for impairment	**(260,351)**	**(1,955,857)**	**(1,364,005)**	**(3,580,213)**
	91,019,949	**6,975,549**	**769,058**	**98,764,556**
Financing to customers (at amortized cost) – Total				
Grades 1-4: investment grade	**33,920,788**	**-**	**-**	**33,920,788**
Grades 5-6: good/satisfactory	**57,359,512**	**5,070,666**	**-**	**62,430,178**
Grades 7: Watch-list	**-**	**3,860,740**	**-**	**3,860,740**
Unrated	**27,627,040**	**191,437**	**-**	**27,818,477**
Impaired financing	**-**	**-**	**2,282,021**	**2,282,021**
Gross financing	**118,907,340**	**9,122,843**	**2,282,021**	**130,312,204**
Allowance for impairment	**(601,485)**	**(2,009,810)**	**(1,429,418)**	**(4,040,713)**
Financing, net	**118,305,855**	**7,113,033**	**852,603**	**126,271,491**

	December 31, 2020			
	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	23,554,910	377,968	-	23,932,878
Impaired financing	-	-	256,327	256,327
Gross financing	23,554,910	377,968	256,327	24,189,205
Allowance for impairment	(419,049)	(95,838)	(140,371)	(655,258)
	23,135,861	282,130	115,956	23,533,947
Financing to customers (at amortized cost) – Corporate				
Grades 1-4: investment grade	29,249,716	-	-	29,249,716
Grades 5-6: good/satisfactory	52,093,897	3,875,670	-	55,969,567
Grades 7: Watch-list	-	2,456,110	-	2,456,110
Impaired financing	-	-	2,596,651	2,596,651
Gross financing	81,343,613	6,331,780	2,596,651	90,272,044
Allowance for impairment	(383,343)	(862,206)	(1,364,883)	(2,610,432)
	80,960,270	5,469,574	1,231,768	87,661,612
Financing to customers (at amortized cost) – Total				
Grades 1-4: investment grade	29,249,716	-	-	29,249,716
Grades 5-6: good/satisfactory	52,093,897	3,875,670	-	55,969,567
Grades 7: Watch-list	-	2,456,110	-	2,456,110
Unrated	23,554,910	377,968	-	23,932,878
Impaired financing	-	-	2,852,978	2,852,978
Gross financing	104,898,523	6,709,748	2,852,978	114,461,249
Allowance for impairment	(802,392)	(958,044)	(1,505,254)	(3,265,690)
Financing, net	104,096,131	5,751,704	1,347,724	111,195,559

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 and borderline credit quality.
Rating Scale (7) represents:	Watch list category.

28.1.4 Commitments and contingencies by risk rating

	December 31, 2021			
	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	**1,331,448**	**-**	**-**	**1,331,448**
Grades 5-6: good/satisfactory	**4,375,561**	**1,036,153**	**-**	**5,411,714**
Grades 7: Watch-list	**-**	**403,888**	**-**	**403,888**
Unrated	**971,182**	**-**	**-**	**971,182**
Impaired	**-**	**-**	**290,588**	**290,588**
Total amount at credit equivalents	**6,678,191**	**1,440,041**	**290,588**	**8,408,820**
Provision for credit-related commitments	**37,428**	**75,037**	**234,714**	**347,179**

	December 31, 2020			
	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	1,083,405	-	-	1,083,405
Grades 5-6: good/satisfactory	5,859,056	1,159,708	-	7,018,764
Grades 7: Watch-list	-	7,661	-	7,661
Unrated	754,811	-	-	754,811
Impaired	-	-	411,224	411,224
Total amount at credit equivalents	7,697,272	1,167,369	411,224	9,275,865
Provision for credit-related commitments	51,330	53,735	243,471	348,536

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

2021	SAR'000 Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	**12,429,991**	**-**	**-**	**12,429,991**
Manufacturing	**10,014,669**	**1,150,141**	**(922,636)**	**10,242,174**
Electricity, water, gas & health services	**5,032,171**	**-**	**-**	**5,032,171**
Building and construction	**6,555,210**	**579,964**	**(286,711)**	**6,848,463**
Services	**15,137,291**	**76,668**	**(27,607)**	**15,186,352**
Mining	**-**	**-**	**-**	**-**
Agriculture	**3,484,484**	**-**	**-**	**3,484,484**
Consumer financing	**27,818,477**	**148,958**	**(65,412)**	**27,902,023**
Transportation and communication	**6,046,234**	**-**	**-**	**6,046,234**
Commerce	**9,902,252**	**99,494**	**(43,929)**	**9,957,817**
Real estate business	**19,123,535**	**206,437**	**(61,932)**	**19,268,040**
Others	**12,485,869**	**20,359**	**(21,191)**	**12,485,037**
	128,030,183	**2,282,021**	**(1,429,418)**	**128,882,786**
ECL against performing financing				**(2,611,295)**
Financing, net				**126,271,491**

2020	SAR'000 Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	10,044,622	-	-	10,044,622
Manufacturing	12,089,524	1,176,077	(694,557)	12,571,044
Electricity, water, gas & health services	3,291,654	-	-	3,291,654
Building and construction	5,955,434	831,978	(345,586)	6,441,826
Services	13,992,848	33,134	(13,823)	14,012,159
Mining	1,900,119	-	-	1,900,119
Agriculture	3,798,740	-	-	3,798,740
Consumer financing	23,944,056	256,327	(140,371)	24,060,012
Transportation and communication	4,992,143	-	-	4,992,143
Commerce	9,695,974	349,025	(248,985)	9,796,014
Real estate business	14,697,066	206,437	(61,932)	14,841,571
Others	7,206,091	-	-	7,206,091
	111,608,271	2,852,978	(1,505,254)	112,955,995
ECL against performing financing				(1,760,436)
Financing, net				111,195,559

28.3 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, 2021, the Bank held collaterals of SAR 164,210 million (2020: SAR 138,316 million) against its secured financing.

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

	SAR in '000'	
Collateral coverage	**2021**	2020
Less than 50%	**1,390,358**	2,191,605
51% to 70%	**36,814**	-
More than 70%	**854,849**	661,373
Total	**2,282,021**	2,852,978

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.

	SAR in '000'	
Types of Collateral	**2021**	2020
Real estate and fixed assets	**105,870,160**	98,857,438
Shares	**25,677,410**	12,714,069
Others	**32,662,385**	26,744,148
Total	**164,209,955**	138,315,655

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

	SAR'000				
2021	**Kingdom of Saudi Arabia**	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Financial assets:					
Cash and balances with SAMA	**9,177,296**	**-**	**-**	**-**	**9,177,296**
Due from banks and other financial institutions					
Current accounts	**-**	**17,933**	**245,384**	**174,494**	**437,811**
Murabaha and Wakala with banks	**300,262**	**-**	**-**	**-**	**300,262**
Investments, net					
Investments held at amortized cost	**23,376,220**	**56,294**	**-**	**-**	**23,432,514**
Investments held at FVOCI	**6,971,999**	**439,663**	**963**	**-**	**7,412,625**
Investments held at FVSI	**1,966,719**	**13,537**	**-**	**385,494**	**2,365,750**
Investments in associate and joint venture	**66,680**	**-**	**-**	**-**	**66,680**
Financing, net					
Retail	**27,506,935**	**-**	**-**	**-**	**27,506,935**
Corporate	**96,058,887**	**-**	**-**	**2,705,669**	**98,764,556**
Other assets	**1,071,240**	**-**	**-**	**-**	**1,071,240**
Total financial assets	**166,496,238**	**527,427**	**246,347**	**3,265,657**	**170,535,669**
Financial liabilities:					
Due to SAMA, banks and other financial institutions					
Demand	**359,910**	**24,286**	**-**	**6,966**	**391,162**
Time investments and due to SAMA	**13,638,324**	**942,990**	**-**	**267,315**	**14,848,629**
Customers' deposits					
Demand, savings and others	**79,504,847**	**-**	**-**	**165,699**	**79,670,546**
Customer's time investments	**41,390,005**	**-**	**-**	**-**	**41,390,005**
Other liabilities	**5,467,382**	**-**	**-**	**-**	**5,467,382**
Total financial liabilities	**140,360,468**	**967,276**	**-**	**439,980**	**141,767,724**
Commitments and contingencies:					
Letters of credit	**2,026,734**	**-**	**-**	**-**	**2,026,734**
Letters of guarantee	**11,061,063**	**-**	**-**	**-**	**11,061,063**
Acceptances	**344,962**	**-**	**-**	**-**	**344,962**
Irrevocable commitments to extend credit	**512,273**	**-**	**-**	**-**	**512,273**
Total commitments and contingencies	**13,945,032**	**-**	**-**	**-**	**13,945,032**
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:					
Letters of credit	**405,347**	**-**	**-**	**-**	**405,347**
Letters of guarantee	**7,402,375**	**-**	**-**	**-**	**7,402,375**
Acceptances	**344,962**	**-**	**-**	**-**	**344,962**
Irrevocable commitments to extend credit	**256,136**	**-**	**-**	**-**	**256,136**
Total maximum credit exposure	**8,408,820**	**-**	**-**	**-**	**8,408,820**

	SAR'000				
2020	**Kingdom of Saudi Arabia**	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Financial assets:					
Cash and balances with SAMA	12,207,742	-	-	-	12,207,742
Due from banks and other financial institutions					
Current accounts	-	8,989	140,566	293,447	443,002
Murabaha and Wakala with banks	-	-	-	-	-
Investments, net					
Investments held at amortized cost	22,686,822	56,480	-	-	22,743,302
Investments held at FVOCI	4,426,294	87,753	2,074	-	4,516,121
Investments held at FVSI	1,915,520	-	-	270,033	2,185,553
Investments in associate and joint venture	80,818	-	-	-	80,818
Financing, net					
Retail	23,533,947	-	-	-	23,533,947
Corporate	84,765,955	-	-	2,895,657	87,661,612
Other assets	478,164	-	-	-	478,164
Total financial assets	150,095,262	153,222	142,640	3,459,137	153,850,261
Financial liabilities:					
Due to SAMA, banks and other financial institutions					
Demand	21,084	-	-	-	21,084
Time investments and due to SAMA	7,046,498	122,522	-	121,930	7,290,950
Customers' deposits					
Demand, savings and others	70,073,792	-	-	-	70,073,792
Customer's time investments	49,380,486	-	-	-	49,380,486
Other liabilities	5,165,953	-	-	-	5,165,953
Total financial liabilities	131,687,813	122,522	-	121,930	131,932,265
Commitments and contingencies:					
Letters of credit	2,206,196	-	-	-	2,206,196
Letters of guarantee	11,185,117	-	-	-	11,185,117
Acceptances	461,108	-	-	-	461,108
Irrevocable commitments to extend credit	69,441	-	-	-	69,441
Total commitments and contingencies	13,921,862	-	-	-	13,921,862
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies:					
Letters of credit	441,239	-	-	-	441,239
Letters of guarantee	8,359,629	-	-	-	8,359,629
Acceptances	461,108	-	-	-	461,108
Irrevocable commitments to extend credit	13,889	-	-	-	13,889
Total maximum credit exposure	9,275,865	-	-	-	9,275,865

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

2021	**SAR'000**				
	Kingdom of Saudi Arabia	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non-performing financing, net					
Retail	**148,958**	**-**	**-**	**-**	**148,958**
Corporate	**2,133,063**	**-**	**-**	**-**	**2,133,063**
Total	**2,282,021**	**-**	**-**	**-**	**2,282,021**
Allowances for impairment on financing					
Retail	**460,500**	**-**	**-**	**-**	**460,500**
Corporate	**3,572,710**	**-**	**-**	**7,503**	**3,580,213**
Total	**4,033,210**	**-**	**-**	**7,503**	**4,040,713**

2020	SAR'000				
	Kingdom of Saudi Arabia	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non-performing financing, net					
Retail	256,327	-	-	-	256,327
Corporate	2,596,651	-	-	-	2,596,651
Total	2,852,978	-	-	-	2,852,978
Allowances for impairment on financing					
Retail	655,258	-	-	-	655,258
Corporate	2,606,627	-	-	3,805	2,610,432
Total	3,261,885	-	-	3,805	3,265,690

29. 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".

29.1 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 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.

2021		**Sensitivity of equity (SAR '000)**				
Increase/decrease in basis points	**Average sensitivity of net income from financing and investments**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
+10	**20,586**	**2,245**	**18,232**	**(5,094)**	**(14,202)**	**1,181**
-10	**(20,586)**	**(2,245)**	**(18,232)**	**5,094**	**14,202**	**(1,181)**
2020		**Sensitivity of equity (SAR '000)**				
Increase/decrease in basis points	**Average sensitivity of net income from financing and investments**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
+10	18,148	8,236	9,895	(848)	(8,437)	8,846
-10	(18,148)	(8,236)	(9,895)	848	8,437	(8,846)

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 appropriate reference rates 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.

2021	**SAR'000**					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	**30,000**	**-**	**-**	**-**	**9,147,296**	**9,177,296**
Due from banks and other financial institutions:						
Current accounts	**-**	**-**	**-**	**-**	**437,811**	**437,811**
Murabaha and Wakala with banks	**300,262**	**-**	**-**	**-**	**-**	**300,262**
Investments, net						
Investments held at amortized cost	**796,253**	**1,697,697**	**5,981,616**	**14,956,948**	**-**	**23,432,514**
Investments held at FVOCI	**16,397**	**2,173,781**	**2,808,695**	**1,950,176**	**463,576**	**7,412,625**
Investments held at FVSI	**-**		**-**	**-**	**2,365,750**	**2,365,750**
Investments in associate and joint venture	**-**	**-**	**-**	**-**	**66,680**	**66,680**
Financing, net						
Retail	**1,089,888**	**3,352,881**	**12,610,678**	**10,453,488**	**-**	**27,506,935**
Corporate	**29,756,053**	**62,985,072**	**5,616,700**	**406,731**	**-**	**98,764,556**
Property and equipment, net					**2,382,732**	**2,382,732**
Other assets					**1,628,923**	**1,628,923**
Total assets	**31,988,853**	**70,209,431**	**27,017,689**	**27,767,343**	**16,492,768**	**173,476,084**

Liabilities & equity						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	391,162	391,162
Time investments and due to SAMA	7,609,308	991,335	6,247,986	-	-	14,848,629
Customer deposits						
Demand, savings and others	2,003,996	850,584	4,603,800	217,321	71,994,845	79,670,546
Customer's time investments	19,810,357	19,457,919	1,995,613	126,116	-	41,390,005
Amounts due to Mutual Funds' unitholders	-	-	-	-	495,990	495,990
Other liabilities	-	-	-	-	5,968,725	5,968,725
Total equity	-	-	-	-	30,711,027	30,711,027
Total liabilities & equity	29,423,661	21,299,838	12,847,399	343,437	109,561,749	173,476,084
Yield sensitivity - On statement of financial position	2,565,192	48,909,593	14,170,290	27,423,906	(93,068,981)	-
Yield sensitivity - Off statement of financial position	2,027,825	6,327,302	5,248,883	341,022	-	13,945,032
Total yield sensitivity gap	4,593,017	55,236,895	19,419,173	27,764,928		
Cumulative yield sensitivity gap	4,593,017	59,829,912	79,249,085	107,014,013		

2020	**SAR'000**					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	3,315,862	-	-	-	8,891,880	12,207,742
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	443,002	443,002
Murabaha and Wakala with banks	-	-	-	-	-	-
Investments, net						
Investments held at amortized cost	5,551,642	500,000	8,580,039	8,111,621	-	22,743,302
Investments held at FVOCI	401,842	2,070,819	1,268,025	600,064	175,371	4,516,121
Investments held at FVSI	-	-	-	-	2,185,553	2,185,553
Investments in associate and joint venture	-	-	-	-	80,818	80,818
Financing, net						
Retail	949,495	2,726,564	11,444,257	8,413,631	-	23,533,947
Corporate	28,396,272	48,614,801	8,659,768	1,990,771	-	87,661,612
Property and equipment, net	-	-	-	-	2,365,286	2,365,286
Other assets	-	-	-	-	1,139,420	1,139,420
Total assets	38,615,113	53,912,183	29,952,091	19,116,087	15,281,329	156,876,803

Liabilities & equity						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	21,084	21,084
Time investments and due to SAMA	439,310	5,368,703	1,482,937	-	-	7,290,950
Customer deposits						
Demand, savings and others	2,281,906	484,647	3,392,530	-	63,914,709	70,073,792
Customer's time investments	26,478,191	21,633,065	1,266,264	2,966	-	49,380,486
Amounts due to Mutual Funds' unitholders	-	-	-	-	110,381	110,381
Other liabilities	-	-	-	-	5,571,323	5,571,323
Total equity	-	-	-	-	24,428,787	24,428,787
Total liabilities & equity	29,199,407	27,486,415	6,141,731	2,966	94,046,284	156,876,803
Yield sensitivity - On statement of financial position	9,415,706	26,425,768	23,810,360	19,113,121	(78,764,955)	-
Yield sensitivity - Off statement of financial position	11,476,516	957,262	1,385,578	102,506	-	13,921,862
Total yield sensitivity gap	20,892,222	27,383,030	25,195,938	19,215,627		
Cumulative yield sensitivity gap	20,892,222	48,275,252	73,471,190	92,686,817		

29.2 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:

	2021 SAR'000	2020 SAR'000
Assets		
Cash and balances with SAMA	**199,392**	164,585
Due from banks and other financial institutions	**738,069**	444,229
Investments, net	**1,541,066**	607,118
Financing, net	**3,831,989**	3,083,237
Other assets	**6,157**	4,829
Total currency risk on assets	**6,316,673**	4,303,998
Liabilities		
Due to SAMA, banks and other financial institutions	**1,331,069**	636,912
Customers' deposits	**5,169,306**	2,935,545
Other liabilities	**78,578**	267,537
Total currency risk on liabilities	**6,578,953**	3,839,994
Net position – (liability) / asset	**(262,280)**	464,004

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

	2021 SAR'000	2020 SAR'000
USD	**(324,756)**	401,906
Euro	**(8,772)**	855
UAE Dirham	**25,780**	33,794
BHD	**6,145**	3,307
QAR	**2,782**	166
Others	**36,541**	23,976
Total	**(262,280)**	464,004

	SAR'000		
Currency Exposures as at December 31, 2021	**Change in Currency %**	**Effect on Net Income**	**Effect on Equity**
Euro	**±5%**	**±439**	**±439**
Currency Exposures as at December 31, 2020			
Euro	±5%	±43	±43

29.3 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:

	2021 SAR'000		2020 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%**	**± 44,737**	±10%	± 15,740

30. 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, 2021 and 2020 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.

2021	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	391,162	391,162
Time investments and due to SAMA	7,831,479	991,746	6,246,792	-	-	15,070,017
Customers' deposits						
Demand, savings and others	-	-	-	-	79,670,546	79,670,546
Customer's time investments	19,894,913	19,630,724	1,980,994	171,692	-	41,678,323
Other liabilities	-	-	-	-	6,464,715	6,464,715
Total liabilities	**27,726,392**	**20,622,470**	**8,227,786**	**171,692**	**86,526,423**	**143,274,763**

2020	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	21,084	21,084
Time investments	519,629	5,354,215	1,507,792	-	-	7,381,636
Customers' deposits						
Demand, savings and others	-	-	-	-	70,073,792	70,073,792
Customer's time investments	26,605,214	21,807,280	1,203,073	3,930	-	49,619,497
Other liabilities	-	-	-	-	5,681,704	5,681,704
Total liabilities	27,124,843	27,161,495	2,710,865	3,930	75,776,580	132,777,713

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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 reflects the effective maturities as indicated by the historical experience.

2021	**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	**30,000**	**-**	**-**	**-**	**9,147,296**	**9,177,296**
Due from banks and other financial institutions:						
Current accounts	**-**	**-**	**-**	**-**	**437,811**	**437,811**
Murabaha and Wakala with banks	**300,262**	**-**	**-**	**-**	**-**	**300,262**
Investments, net						
Investments held at amortized cost	**-**	**2,025,906**	**7,701,721**	**13,704,887**		**23,432,514**
Investments held at FVOCI	**-**	**201,822**	**2,498,117**	**4,249,110**	**463,576**	**7,412,625**
Investments held at FVSI	**-**	**-**	**-**	**-**	**2,365,750**	**2,365,750**
Investments in associate and joint venture	**-**	**-**	**-**	**-**	**66,680**	**66,680**
Financing, net						
Retail	**1,379,250**	**3,837,242**	**11,816,876**	**10,473,567**	**-**	**27,506,935**
Corporate	**14,396,343**	**23,600,505**	**39,863,111**	**20,904,597**	**-**	**98,764,556**
Property and equipment, net	**-**	**-**	**-**	**-**	**2,382,732**	**2,382,732**
Other assets	**-**	**-**	**-**	**-**	**1,628,923**	**1,628,923**
Total assets	**16,105,855**	**29,665,475**	**61,879,825**	**49,332,161**	**16,492,768**	**173,476,084**
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Demand	**-**	**-**	**-**	**-**	**391,162**	**391,162**
Time investments and due to SAMA	**7,830,896**	**991,511**	**6,026,222**	**-**	**-**	**14,848,629**
Customers' deposits						
Demand, savings and others	**-**	**-**	**-**	**-**	**79,670,546**	**79,670,546**
Customer's time investments	**19,875,591**	**19,502,291**	**1,885,568**	**126,555**	**-**	**41,390,005**
Amount due to Mutual Funds' unitholders	**-**	**-**	**-**	**-**	**495,990**	**495,990**
Other liabilities	**-**	**-**	**-**	**-**	**5,968,725**	**5,968,725**
Total equity	**-**	**-**	**-**	**-**	**30,711,027**	**30,711,027**
Total liabilities and equity	**27,706,487**	**20,493,802**	**7,911,790**	**126,555**	**117,237,450**	**173,476,084**
Commitments & contingencies						
Letters of credit	**968,796**	**893,385**	**164,553**	**-**	**-**	**2,026,734**
Letters of guarantee	**735,700**	**5,412,284**	**4,572,057**	**341,022**	**-**	**11,061,063**
Acceptances	**323,329**	**21,633**	**-**	**-**	**-**	**344,962**
Irrevocable commitments to extend credit	**-**	**-**	**512,273**	**-**	**-**	**512,273**

2020	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	3,315,862	-	-	-	8,891,880	12,207,742
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	443,002	443,002
Murabaha and Wakala with banks	-	-	-	-	-	-
Investments, net						
Investments held at amortized cost	4,404,559	501,012	10,320,156	7,517,575	-	22,743,302
Investments held at FVOCI	39,327	37,742	1,633,991	2,629,691	175,370	4,516,121
Investments held at FVSI	-	-	-	-	2,185,553	2,185,553
Investments in associate and joint venture	-	-	-	-	80,818	80,818
Financing, net						
Retail	1,133,537	3,108,932	10,877,835	8,413,643	-	23,533,947
Corporate	9,805,729	17,430,974	35,630,383	24,794,526	-	87,661,612
Property and equipment, net	-	-	-	-	2,365,286	2,365,286
Other assets	-	-	-	-	1,139,420	1,139,420
Total assets	18,699,014	21,078,660	58,462,365	43,355,435	15,281,329	156,876,803
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Demand	-	-	-	-	21,084	21,084
Time investments and due to SAMA	519,465	5,323,530	1,447,955	-	-	7,290,950
Customers' deposits						
Demand, savings and others	-	-	-	-	70,073,792	70,073,792
Customer's time investments	26,575,635	21,699,684	1,102,035	3,132	-	49,380,486
Amount due to Mutual Funds' unitholders	-	-	-	-	110,381	110,381
Other liabilities	-	-	-	-	5,571,323	5,571,323
Total equity	-	-	-	-	24,428,787	24,428,787
Total liabilities and equity	27,095,100	27,023,214	2,549,990	3,132	100,205,367	156,876,803
Commitments & contingencies						
Letters of credit	2,203,293	2,530	97	276	-	2,206,196
Letters of guarantee	8,814,595	885,291	1,385,481	99,750	-	11,185,117
Acceptances	458,628	-	-	2,480	-	461,108
Irrevocable commitments to extend credit	-	69,441	-	-	-	69,441

31. 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.

32. 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.

33. 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.

34. 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: Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data

Level 3: Inputs that are unobservable. This category include all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 December 31, 2021 and December 31, 2020, 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 +/- 10 basis points change will cause the fair value of the unquoted sukuk investments to change by SAR +/- 19.5 million.

(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:

	SAR '000			
2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**110,468**	**-**	**13,537**	**124,005**
- Mutual funds	**188,079**	**1,827,813**	**225,853**	**2,241,745**
Financial assets held as FVOCI				
- Equities	**447,372**	**-**	**16,204**	**463,576**
- Sukuk	**2,201,833**	**4,747,216**	**-**	**6,949,049**
Total	**2,947,752**	**6,575,029**	**255,594**	**9,778,375**

	SAR '000			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	92,784	1,958	-	94,742
- Mutual funds	96,820	1,793,211	200,780	2,090,811
Financial assets held as FVOCI				
- Equities	157,403	-	17,967	175,370
- Sukuk	1,196,088	3,144,663	-	4,340,751
Total	1,543,095	4,939,832	218,747	6,701,674

Financial assets held as FVSI amounting to SAR 12 million was transferred from Level 2 to Level 3 during the year. There were no other transfers between Stages 1, 2 and 3 during the year.

Reconciliation of Level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Financial assets held as FVSI SAR'000	**Financial assets held as FVOCI SAR'000**
Balance at January 1, 2021	200,780	17,967
Additional / new investments	18,460	6,875
Transfer from Level 2 to Level 3	12,000	-
Capital return and disposals during the year	(20,274)	(1,138)
Net change in fair value (unrealized)	28,424	(7,500)
Balance at December 31, 2021	**239,390**	**16,204**

(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 which is categorized within Level 3 of the fair value hierarchy except for investments in Sukuks and Murabaha with SAMA which are categorized within Level 2. Following table shows the fair value of financial instruments carried at amortized cost.

	2021		2020	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	SAR '000			
Assets				
Due from banks and other financial institutions	**738,073**	**738,073**	443,002	443,002
Investments – Murabaha with SAMA	**906,617**	**905,875**	4,905,571	4,973,438
Sukuks – Amortized Cost	**22,535,783**	**22,581,490**	17,846,720	17,903,361
Financing, net	**126,271,491**	**126,892,032**	111,195,559	111,779,629
Liabilities				
Due to SAMA, banks and other financial institutions	**15,239,791**	**15,239,376**	7,312,034	7,341,092
Customers' deposits	**121,060,551**	**121,135,509**	119,454,278	119,553,624

35. 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:

	2021 SAR'000	2020 SAR'000
Directors, key management personnel, major shareholders and affiliates		
Financing to key management personnel	**43,685**	26,114
Financing to other related parties	**745,520**	493,820
Customers' deposits	**323,538**	4,762,552
Investments in associate and joint venture	**66,680**	80,818
Bank's mutual funds		
Investments in mutual funds	**1,755,631**	1,665,653
Financing to mutual funds	**-**	2,627,303
Deposits from mutual funds	**216,662**	429,132
Borrowings from mutual fund	**50,388**	-

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:

	2021 SAR'000	2020 SAR'000
Income on financing	**10,877**	125,129
Return on time investments	**25,151**	135,805
Fee from banking services, net	**332,191**	292,417
Directors' remuneration	**6,271**	5,766

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:

	2021 SAR'000	2020 SAR'000
Short-term employees' benefits	**71,363**	73,759
End of service benefit	**7,682**	8,931

36. 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.

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

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

The impact of these revised transitional arrangements to the Group's Tier 1 and Tier 1 + 2 ratio have been an improvement of 40 bps as of December 31, 2021 (2020: 31 bps).

Particulars	**2021 SAR'000**	2020 SAR'000
Credit Risk Weighted Assets	**133,095,735**	123,738,743
Operational Risk Weighted Assets	**11,242,756**	10,118,355
Market Risk Weighted Assets	**945,712**	4,491,592
Total Pillar-I Risk Weighted Assets	**145,284,203**	138,348,690
Tier I Capital	**31,433,895**	25,151,654
Tier II Capital	**1,663,697**	1,546,734
Total Tier I & II Capital	**33,097,592**	26,698,388
Capital Adequacy Ratio %		
Tier I ratio	**22%**	18%
Tier I + Tier II ratio	**23%**	19%

37. 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 72,980 million (2020: SAR 70,047 million).

38. SAMA support programs and initiatives

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections, despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Bank continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The Bank has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

38.1 Private Sector Financing Support Program ("PSFSP")

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

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Bank deferred payments and extended maturities on lending facilities to all eligible MSMEs as follows:

Support Programs	Type	Instalment deferred/Tenor extended (SAR million)	Cost of deferral/extension (SAR million)
April 2020 – September 2020	Instalments deferred	761.0	21.3
October 2020 – December 2020	Instalments deferred	485.8	7.8
January 2021 – March 2021	Instalments deferred	906.1	15.3
April 2021 – June 2021	Tenor extension	1,962.8	86.5
July 2021 – September 2021	Tenor extension	1,652.6	19.1
October 2021 – December 2021	Tenor extension	877.3	11.1
January 2022 – March 2022	Tenor extension	335.7	5.7

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 166.8 million of which SAR 122.4 million has been recorded during the year ended December 31, 2021 (2020: SAR 44.4 million) which has been presented as part of net financing income.

During the year ended December 31, 2021, SAR 67.6 million (2020: SAR 22.5 million) has been credited to the consolidated statement of income relating to amortization of modification losses.

The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio.

The Bank has performed as assessment with respect to SICR for customers and migrated customers amounting to SAR 691.1 million from Stage 1/2 to Stage 2/3 by downgrading the customer credit rating during the year ended December 31, 2021.

As disclosed in note 11, in order to compensate the related cost that the Bank is expected to incur under the SAMA program, the Bank received profit free deposits from SAMA amounting to SAR 7,253 million with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income. Total income of SAR 281.3 million out of which SAR 127.9 million has been recognized in the consolidated statement of income during year ended December 31, 2021 (2020: SAR 55.6 million) with respect to related deposits with an aggregate of SAR 97.8 million deferred grant income as at December 31, 2021 (2020: SAR 27.9 million). During the year ended December 31, 2021, SAR 50.9 million has been charged to the interim consolidated statement of income relating to unwinding (2020: SAR 13.7 million).

Facility Guarantee Program:

As at 31 December 2021, the Bank has participated in SAMA's facility guarantee program. The Bank has received SAR 1,121 million from SAMA for providing concessional financing to eligible MSMEs under Facility Guarantee program. As the guarantee under the Kafala program forms integral part of the financing arrangement; therefore, the funding received from SAMA does not qualify for government grant and is recognized as financial liability under IFRS 9. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with IFRS. This resulted in a total income of SAR 7.6 million recognized in the consolidated statement of income for the year ended December 31, 2021 (2020: SAR 5.9 million).

39. Prospective changes in the International Financial Reporting Standards

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2022. The Bank has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Bank.

Standard, interpretation, amendments	**Description**	**Effective date**
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	*Amendments to IFRS 3, 'Business combinations'* update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. *Amendments to IAS 16, 'Property, plant and equipment'* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items	Annual periods beginning on or after 1 January 2022.

Standard, interpretation, amendments	Description	Effective date
	produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in statement of income. *Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'* specify which costs a company includes when assessing whether a contract will be loss-making. *Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.*	
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Annual periods beginning on or after 1 January 2023
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023.
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative	Annual periods beginning on or after 1 January 2023.

Standard, interpretation, amendments	Description	Effective date
	information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	

40. 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. For the year ended December 31, 2020, an amount of SAR 52.6 million has been reclassified from 'Other general and administrative expenses' to 'Fees from banking services-expense'.

41. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 2 Rajab 1443H (corresponding to February 3, 2022).