
Alinma Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE SIX MONTHS PERIOD ENDED
June 30, 2023



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

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Headquarters in Riyadh

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

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Alinma Bank and its subsidiaries (collectively referred to as "the Bank") as of 30 June 2023, and the related interim condensed consolidated statements of income and comprehensive income for the three-months and six-months periods then ended, and interim condensed consolidated statements of changes in equity and cash flows for the six-months period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note (17) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (17) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young Professional Services

Hesham A. Alatiqi
Certified Public Accountant
License number 523



KPMG Professional Services

Ebrahim Oboud Baeshen
Certified Public Accountant
License number 382



(14 Muharram 1445H)
(1 August 2023)

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
	Notes			
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)		16,745,373	9,723,259	10,975,381
Due from banks and other financial institutions, net		3,473,843	1,454,458	827,543
Investments held at fair value through statement of income (FVSI)	4	2,440,983	1,641,496	2,530,762
Investments held at fair value through other comprehensive income (FVOCI)	4	13,055,155	12,084,604	9,535,988
Investments held at amortized cost, net	4	24,535,962	24,721,320	25,586,784
Investments in associate and joint venture	4	84,409	70,214	66,735
Financing, net	6	161,773,128	146,491,956	131,192,681
Property, equipment and right of use assets, net		2,643,043	2,632,794	2,453,562
Other assets		2,148,491	1,616,128	1,452,374
TOTAL ASSETS		226,900,387	200,436,229	184,621,810
LIABILITIES AND EQUITY				
LIABILITIES				
Due to SAMA, banks and other financial institutions	7	9,959,345	16,483,039	15,452,190
Customers' deposits	8	177,873,778	145,168,490	130,375,962
Amount due to Mutual Funds' unitholders		72,574	136,570	501,138
Other liabilities		6,018,087	6,771,817	6,825,371
TOTAL LIABILITIES		193,923,784	168,559,916	153,154,661
EQUITY				
Share capital		20,000,000	20,000,000	20,000,000
Treasury shares		(226,711)	(66,021)	(66,683)
Statutory reserve		2,168,630	2,168,630	1,268,845
Other reserves	15	59,376	(507,396)	(97,164)
Retained earnings		5,975,308	4,285,004	5,362,151
Proposed dividends	17.1	-	996,096	-
Equity attributable to the shareholders of the Bank		27,976,603	26,876,313	26,467,149
Tier 1 Sukuk	11	5,000,000	5,000,000	5,000,000
TOTAL EQUITY		32,976,603	31,876,313	31,467,149
TOTAL LIABILITIES AND EQUITY		226,900,387	200,436,229	184,621,810

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer

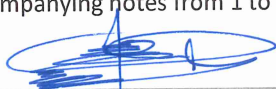
For 
Chief Executive Officer

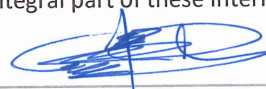

Authorized Board Member

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Notes	For the three months		For the six months	
		period ended		period ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
		SAR'000	SAR'000	SAR'000	SAR'000
Income from investments and financing		3,176,059	1,652,617	5,958,716	3,126,769
Return on time investments		(1,316,379)	(239,123)	(2,364,276)	(401,764)
Income from investments and financing, net		1,859,680	1,413,494	3,594,440	2,725,005
Fee from banking services – income		616,416	461,842	1,146,626	883,425
Fee from banking services – expense		(231,717)	(164,951)	(453,600)	(315,526)
Fees from banking services, net		384,699	296,891	693,026	567,899
Exchange income, net		91,163	65,123	176,866	137,183
Income from FVSI financial instruments, net		78,905	135,987	119,120	225,123
Gain from FVOCI sukuk investments, net		-	-	-	993
Dividend income on FVOCI equity investments		9,239	10,925	14,506	15,303
Other operating income		13,184	9,720	18,322	68,241
Total operating income		2,436,870	1,932,140	4,616,280	3,739,747
Salaries and employee related expenses		359,346	310,262	725,973	633,078
Rent and premises related expenses		18,358	17,696	36,868	30,531
Depreciation and amortization		80,274	68,628	152,781	134,657
Other general and administrative expenses		288,644	266,654	588,804	507,252
Operating expenses before impairment charges		746,622	663,240	1,504,426	1,305,518
Impairment charge on financing, net of recoveries	16	325,544	248,354	662,576	489,377
(Reversal) / impairment charge on other financial assets	16	(193)	(8,471)	5,306	(6,092)
Total operating expenses		1,071,973	903,123	2,172,308	1,788,803
Net operating income		1,364,897	1,029,017	2,443,972	1,950,944
Share of income from an associate and a joint venture		1,018	2,422	3,328	55
Income for the period before zakat		1,365,915	1,031,439	2,447,300	1,950,999
Zakat for the period		(140,836)	(106,349)	(252,335)	(201,162)
Net income for the period after zakat		1,225,079	925,090	2,194,965	1,749,837
Basic and diluted earnings per share (SAR)	13	0.59	0.44	1.05	0.85

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer

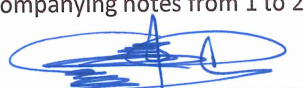
For 
Chief Executive Officer



Authorized Board Member

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	<u>For the three months</u>		<u>For the six months</u>	
	<u>period ended</u>		<u>period ended</u>	
	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the period after zakat	1,225,079	925,090	2,194,965	1,749,837
Other comprehensive income / (loss):				
<i>Items that cannot be recycled back to interim condensed consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI equity investments	336,919	(83,483)	537,190	(29,758)
Share of an associate's other comprehensive income	-	-	10,868	-
<i>Items that can be recycled back to interim condensed consolidated statement of income in subsequent periods</i>				
Net change in fair value of FVOCI sukuk investments	(51,225)	(80,597)	68,531	(159,004)
Net gain realized on sale of FVOCI sukuk investments	-	-	-	(993)
Total other comprehensive income / (loss)	285,694	(164,080)	616,589	(189,755)
Total comprehensive income for the period	1,510,773	761,010	2,811,554	1,560,082

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,

	Notes	Share capital	Treasury shares	Statutory reserve	Other reserves (note 15)	Retained earnings	Proposed dividends (note 17.1)	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
2023 (SAR '000)										
Balance at the beginning of the period		20,000,000	(66,021)	2,168,630	(507,396)	4,285,004	996,096	26,876,313	5,000,000	31,876,313
Net income for the period after zakat		-	-	-	-	2,194,965	-	2,194,965	-	2,194,965
Net change in fair value of FVOCI equity investments		-	-	-	537,190	-	-	537,190	-	537,190
Net change in fair values of FVOCI sukuk investments		-	-	-	68,531	-	-	68,531	-	68,531
Share of an associate's other comprehensive income		-	-	-	10,868	-	-	10,868	-	10,868
Total comprehensive income		-	-	-	616,589	2,194,965	-	2,811,554	-	2,811,554
Gain on sale of FVOCI equity investments		-	-	-	(81,538)	81,538	-	-	-	-
Tier 1 Sukuk costs		-	-	-	-	(100,000)	-	(100,000)	-	(100,000)
Final dividends paid for 2022	17.1	-	-	-	-	-	(996,096)	(996,096)	-	(996,096)
Interim dividends paid for 2023	17.1	-	-	-	-	(498,050)	-	(498,050)	-	(498,050)
Employee share based plans and other reserve movements	15, 17.2	-	(160,690)	-	31,721	11,851	-	(117,118)	-	(117,118)
Balance at the end of the period		20,000,000	(226,711)	2,168,630	59,376	5,975,308	-	27,976,603	5,000,000	32,976,603

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer

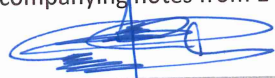

Chief Executive Officer


Authorized Board Member

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, (Continued)

	Notes	Share capital	Treasury shares	Statutory reserve	Other reserves (note 15)	Retained earnings	Proposed dividends (note 17.1)	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
2022 (SAR '000)										
Balance at the beginning of the period		20,000,000	(94,159)	1,268,845	122,601	3,618,609	795,131	25,711,027	5,000,000	30,711,027
Net income for the period after zakat		-	-	-	-	1,749,837	-	1,749,837	-	1,749,837
Net change in fair value of FVOCI equity investments		-	-	-	(29,758)	-	-	(29,758)	-	(29,758)
Net change in fair values of FVOCI sukuk investments		-	-	-	(159,004)	-	-	(159,004)	-	(159,004)
Gain on sale of FVOCI sukuk investments		-	-	-	(993)	-	-	(993)	-	(993)
Total comprehensive income		-	-	-	(189,755)	1,749,837	-	1,560,082	-	1,560,082
Loss on sale of FVOCI equity investments		-	-	-	305	(305)	-	-	-	-
Tier 1 Sukuk costs		-	-	-	-	(50,000)	-	(50,000)	-	(50,000)
Dividends paid for 2021	17.1	-	-	-	-	-	(795,131)	(795,131)	-	(795,131)
Employee share based plans and other reserve movements	15	-	27,476	-	(30,315)	44,010	-	41,171	-	41,171
Balance at the end of the period		20,000,000	(66,683)	1,268,845	(97,164)	5,362,151	-	26,467,149	5,000,000	31,467,149

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer


Chief Executive Officer


Authorized Board Member



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30,**

	2023 SAR' 000	2022 SAR' 000
OPERATING ACTIVITIES		
Income for the period before zakat	2,447,300	1,950,999
Adjustments to reconcile income for the period before zakat to net cash from operating activities:		
Depreciation and amortization	152,781	134,657
Gain on disposal of property and equipment, net	(6,555)	-
Unrealized gain from FVSI financial instruments, net	(72,552)	(173,302)
Gain from Sukuk investments held at amortized cost	-	(52,196)
Gain from FVOCI sukuk investments, net	-	(993)
Dividend income on FVOCI equity investments	(14,506)	(15,303)
Impairment charge on financing, net of recoveries	662,576	489,377
Impairment charge / (reversal) on other financial assets	5,306	(6,092)
Recoveries from written-off accounts	38,370	22,470
Unwinding of deferred payment program modification loss	(12,299)	(17,738)
Unwinding of fair value impact of profit free SAMA deposits	29,927	27,413
Employees share based plans reserve	29,813	13,466
Share of income from an associate and a joint venture	(3,328)	(55)
	3,256,833	2,372,703
Net (increase) / decrease in operating assets:		
Statutory deposit with Saudi Central Bank	(694,122)	(433,656)
Due from banks and other financial institutions with original maturity of more than three months	121,841	-
Investments held at FVSI	(726,935)	5,119
Financing	(15,946,693)	(5,279,921)
Other assets	(532,710)	187,455
Net increase / (decrease) in operating liabilities:		
Due to SAMA, banks and other financial institutions	(6,578,458)	160,150
Customers' deposits	32,705,288	9,315,411
Other liabilities	(617,516)	942,370
Financing cost paid on lease liability	(6,591)	(7,277)
	10,980,937	7,262,354
Net cash from operating activities before Zakat paid		
Zakat Paid	(413,759)	(311,545)
Net cash from operating activities	10,567,178	6,950,809
INVESTING ACTIVITIES		
Purchases of investments held at FVOCI	(1,376,884)	(2,314,430)
Purchases of investments held at amortized cost	(743,722)	(2,102,224)
Proceeds from sales and maturities of investments held at FVOCI	1,017,809	2,305
Proceeds from sales and maturities of investments held at amortized cost	919,604	-
Purchase of property and equipment	(141,300)	(156,122)
Proceeds from disposal of property and equipment	12,756	-
Dividends received from FVOCI equity investments	14,506	15,303
	(297,231)	(4,555,168)

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer



Chief Executive Officer


Authorized Board Member

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, (Continued)

	Notes	2023 SAR' 000	2022 SAR' 000
FINANCING ACTIVITIES			
Payment for Tier 1 Sukuk costs		(100,000)	(100,000)
Cash payment for principal portion of lease liability		(41,062)	(46,610)
Dividend paid		(1,494,146)	(795,131)
Purchase of treasury shares	17.2	(166,384)	-
Net cash used in financing activities		(1,801,592)	(941,741)
Net change in cash and cash equivalents		8,468,355	1,453,900
Cash and cash equivalents at beginning of the period		3,572,943	3,210,524
Cash and cash equivalents at end of the period	10	12,041,298	4,664,424
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		605,721	(189,755)

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED June 30, 2023**

1. General

a) Introduction

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers’ Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No. 173 and Commercial Registration No. 1010250808 both dated 21 Jumada-I 1429H (corresponding to May 26, 2008) and provides banking services through 107 branches (June 30, 2022: 105 branches) in the Kingdom of Saudi Arabia. Its head office address is as follows:

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

The interim condensed consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the “Bank”) which are registered in KSA except for Alinma SPV Ltd which is registered in Cayman Islands:

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 (Under liquidation)	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.
Alinma SPV Ltd	100%	22 Jumada - II 1443H (corresponding to January 25, 2022)	Engage and execute financial derivatives transactions and repurchase agreements with international banks.

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 from the respective dates of effective control:

Funds	Bank's Ownership	Establishment date	Date of effective control	Purpose
Alinma Sukuk ETF	As at June 30, 2023: 91.5% (December 31, 2022: 92.4%; June 30, 2022: 63.7%)	January 22, 2020	January 22, 2020	To invest in a basket of local sovereign Sukuks issued by the Kingdom of Saudi Arabia
Alinma IPO Fund	As at June 30, 2023: 69.9% (December 31, 2022: 70.9%, June 30, 2022: 73.7%)	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 Shariah, its By-Laws and laws applicable to banks in the Kingdom of Saudi Arabia. The Bank is regulated by the Saudi Central Bank (SAMA).

b) Shariah Committee

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

2. Basis of preparation

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and therefore, these should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2022.

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

a) Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at Fair Value through Statement of Income ("FVSI"), Fair Value through Other Comprehensive Income ("FVOCI") investments and end of service benefits which are measured using projected credit unit method under IAS-19.

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

b) Functional and presentation currency

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

c) Basis of consolidation

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies and estimates

a) Significant accounting estimates and assumptions

In preparing this interim condensed consolidated financial statements, the significant judgments made by the management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2022.

b) Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of new standards effective as of January 1, 2023, which is explained below. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

c) Adoption of new standards

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2023:

Standard, interpretation, amendments	Description	Effective date
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 January 1, 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 January 1, 2023.
IFRS 17, 'Insurance contracts', as amended in December 2021	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 January 1, 2023.

d) Prospective changes in the International Financial Reporting Standards

In addition, below are the amendments to accounting standards and interpretations which will become applicable for annual reporting periods commencing on or after January 1, 2024:

Standard, interpretation, amendments	Description	Effective date
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	<p>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.</p> <p>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.</p> <p>Note that the IASB has issued a new exposure draft proposing changes to this amendment.</p>	Deferred until accounting periods starting not earlier than January 1, 2024

Standard, interpretation, amendments	Description	Effective date
Amendments to IFRS 10 and IAS 28	Sale or contribution of Assets between an Investor and its Associate or Joint Ventures	Available for optional adoption/effective date deferred indefinitely
Amendment to IFRS 16, Lease Liability in a Sale and Leaseback	Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions.	January 1, 2024
Amendments to IAS 1, Non-current Liabilities with Covenants	Non-current Liabilities with Covenants amends IAS 1 Presentation of Financial Statements. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current.	January 1, 2024

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

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

IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of an interest rate benchmark, including the replacement of an existing London Inter-bank Offer Rate ("LIBOR") with an alternative Risk-Free Rate ("RFR").

Management had put in place a robust transition project for those contracts which reference LIBOR and to transition them to the alternate benchmarks as applicable. This transition project considered changes to systems, processes, risk management policies, and models, as well as accounting implications. Further, the Bank has actively approached customers for awareness and led communication and negotiations with affected counterparties. As of June 30, 2023, all impacted financial instruments have transitioned to alternate reference rates except one which will transition to alternate rates at the next repricing date. All relevant policies, procedures, models and client contracts have been amended.

4. Investments, net

	Notes	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
Held at FVSI	4.1	2,440,983	1,641,496	2,530,762
Held at FVOCI	4.2	13,055,155	12,084,604	9,535,988
Held at Amortized Cost		24,555,841	24,737,478	25,596,820
Less: Allowance for impairment	4.3	(19,879)	(16,158)	(10,036)
Held at Amortized Cost, net		24,535,962	24,721,320	25,586,784
Investment in an associate	4.4	68,638	56,158	54,256
Investment in a joint venture	4.5	15,771	14,056	12,479
Investment in associate and joint venture		84,409	70,214	66,735
Total		40,116,509	38,517,634	37,720,269

4.1 Held at FVSI

June 30, 2023 (Unaudited)	SAR'000		
	Domestic	International	Total
Equities	73,313	111,035	184,348
Funds and others	1,188,197	1,068,438	2,256,635
	1,261,510	1,179,473	2,440,983

December 31, 2022 (Audited)	SAR'000		
	Domestic	International	Total
Equities	74,498	70,552	145,050
Funds and others	819,091	677,355	1,496,446
	893,589	747,907	1,641,496

June 30, 2022 (Unaudited)	SAR'000		
	Domestic	International	Total
Equities	64,993	41,856	106,849
Funds and others	1,955,526	468,387	2,423,913
	2,020,519	510,243	2,530,762

4.2 Held at FVOCI

June 30, 2023 (Unaudited)	SAR'000		
	Domestic	International	Total
Sukuks	10,442,032	1,268,938	11,710,970
Equities	1,343,284	901	1,344,185
	<u>11,785,316</u>	<u>1,269,839</u>	<u>13,055,155</u>

December 31, 2022 (Audited)	SAR'000		
	Domestic	International	Total
Sukuks	9,522,306	1,123,839	10,646,145
Equities	1,437,573	886	1,438,459
	<u>10,959,879</u>	<u>1,124,725</u>	<u>12,084,604</u>

June 30, 2022 (Unaudited)	SAR'000		
	Domestic	International	Total
Sukuks	7,884,620	963,823	8,848,443
Equities	686,686	859	687,545
	<u>8,571,306</u>	<u>964,682</u>	<u>9,535,988</u>

4.3 As at June 30, 2023, December 31, 2022 and June 30, 2022, all investments held at amortized cost are classified as Stage 1 credit exposures.

4.4 Investment in an associate represents the Bank's share of ownership at 28.75% (December 31, 2022 and June 30, 2022: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million. On December 14, 2022, the company entered into a binding agreement with Arabian Shield for Corporative Insurance Company ("Arabian Shield") by share swap to transfer all of its assets and liabilities to Arabian Shield. As of June 30, 2023, legal and regulatory requirements to implement the agreement are not yet complete.

4.5 Investment in a joint venture represents the Banks's share of ownership at 50% (December 31, 2022 and June 30, 2022: 50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company has a paid-up share capital of SAR 50 million.

5. 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.

June 30, 2023 (Unaudited)	SAR'000		
	Positive fair value	Negative fair value	Total notional amount
Held for trading:			
Profit rate swaps	196,132	171,139	8,737,535
Foreign exchange forward contracts	<u>2,080</u>	<u>-</u>	<u>1,266,045</u>

December 31, 2022 (Audited)	SAR'000		
	Positive fair value	Negative fair value	Total notional amount
Held for trading:			
Profit rate swaps	10,751	13,161	883,750
Foreign exchange forward contracts	232	-	299,171
June 30, 2022 (Unaudited)	SAR'000		
	Positive fair value	Negative fair value	Total notional amount
Held for trading:			
Profit rate swaps	3,222	3,395	240,000
Foreign exchange forward contracts	-	156	424,807

6. Financing, net

June 30, 2023 (Unaudited)	SAR'000				Financing, net
	Performing	Non-performing	Gross	Allowance for impairment (note 6.1)	
Retail	40,993,761	625,714	41,619,475	(847,216)	40,772,259
Corporate	121,724,085	2,510,680	124,234,765	(3,233,896)	121,000,869
Total	162,717,846	3,136,394	165,854,240	(4,081,112)	161,773,128
December 31, 2022 (Audited)	SAR'000				Financing, net
	Performing	Non-performing	Gross	Allowance for impairment (note 6.1)	
Retail	36,814,136	461,214	37,275,350	(751,658)	36,523,692
Corporate	110,739,162	2,458,700	113,197,862	(3,229,598)	109,968,264
Total	147,553,298	2,919,914	150,473,212	(3,981,256)	146,491,956
June 30, 2022 (Unaudited)	SAR'000				Financing, net
	Performing	Non-performing	Gross	Allowance for impairment (note 6.1)	
Retail	32,639,454	213,073	32,852,527	(513,210)	32,339,317
Corporate	99,840,932	2,359,555	102,200,487	(3,347,123)	98,853,364
Total	132,480,386	2,572,628	135,053,014	(3,860,333)	131,192,681

Below tables show the stage-wise breakdown of gross exposure and allowance for impairment of financing:

June 30, 2023 (Unaudited)								
Gross exposure				Allowance for impairment				
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Gross Exposure	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Allowance for impairment	
SAR'000								
Retail	40,142,245	851,516	625,714	41,619,475	289,482	146,579	411,155	847,216
Corporate	115,550,958	6,173,127	2,510,680	124,234,765	517,552	1,337,437	1,378,907	3,233,896
Total	155,693,203	7,024,643	3,136,394	165,854,240	807,034	1,484,016	1,790,062	4,081,112

December 31, 2022 (Audited)								
Gross exposure				Allowance for impairment				
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Gross Exposure	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Allowance for impairment	
SAR'000								
Retail	35,678,542	1,135,594	461,214	37,275,350	265,329	163,803	322,526	751,658
Corporate	103,416,908	7,322,254	2,458,700	113,197,862	425,859	1,468,250	1,335,489	3,229,598
Total	139,095,450	8,457,848	2,919,914	150,473,212	691,188	1,632,053	1,658,015	3,981,256

June 30, 2022 (Unaudited)								
Gross exposure				Allowance for impairment				
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Gross Exposure	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total Allowance for impairment	
SAR'000								
Retail	32,232,029	407,425	213,073	32,852,527	282,025	76,884	154,301	513,210
Corporate	91,380,150	8,460,782	2,359,555	102,200,487	352,212	1,646,168	1,348,743	3,347,123
Total	123,612,179	8,868,207	2,572,628	135,053,014	634,237	1,723,052	1,503,044	3,860,333

6.1 Movement in allowance for impairment of financing

	June 30, 2023 (Unaudited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2023	691,188	1,632,053	1,658,015	3,981,256
Transfer to 12-month ECL	103,750	(96,882)	(6,868)	-
Transfer to life time ECL, not credit impaired	(12,054)	44,625	(32,571)	-
Transfer to life time ECL, credit impaired	(5,910)	(180,974)	186,884	-
Net charge for the period	30,060	85,194	562,566	677,820
Write-off	-	-	(577,964)	(577,964)
Balance as at June 30, 2023	807,034	1,484,016	1,790,062	4,081,112
	December 31, 2022 (Audited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2022	601,485	2,009,810	1,429,418	4,040,713
Transfer to 12-month ECL	11,674	(9,500)	(2,174)	-
Transfer to life time ECL, not credit impaired	(7,795)	38,795	(31,000)	-
Transfer to life time ECL, credit impaired	(1,115)	(519,477)	520,592	-
Net charge for the period	86,939	112,425	869,312	1,068,676
Write-off	-	-	(1,128,133)	(1,128,133)
Balance as at December 31, 2022	691,188	1,632,053	1,658,015	3,981,256
	June 30, 2022 (Unaudited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2022	601,485	2,009,810	1,429,418	4,040,713
Transfer to 12-month ECL	4,914	(3,920)	(994)	-
Transfer to life time ECL, not credit impaired	(3,806)	34,718	(30,912)	-
Transfer to life time ECL, credit impaired	(520)	(183,139)	183,659	-
Net charge / (reversal) for the period	32,164	(134,417)	478,722	376,469
Write-off	-	-	(556,849)	(556,849)
Balance as at June 30, 2022	634,237	1,723,052	1,503,044	3,860,333

7. Due to SAMA, banks and other financial institutions

	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
Due to SAMA, net	7,266,370	11,870,093	10,240,632
Time investments from banks and other financial institutions	2,614,029	4,557,615	5,179,259
Current accounts	78,946	55,331	32,299
Total	9,959,345	16,483,039	15,452,190

As of June 30, 2023, the Bank has outstanding profit free deposits from SAMA with gross amount of SAR 6.1 billion (December 31, 2022: SAR 6.8 billion; June 30, 2022: SAR 6.9 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.

8. Customers' deposits

	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
	Note		
Demand	77,031,916	73,887,522	83,830,518
Savings	8,637,070	7,093,170	7,262,489
Customers' time investments	8.1 90,705,283	62,679,182	37,951,638
Others	1,499,509	1,508,616	1,331,317
Total	177,873,778	145,168,490	130,375,962

8.1 This represents Murabaha and Mudaraba deposits from customers.

9. Commitments and contingencies

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

	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
Letters of credit	3,174,724	4,656,910	4,497,539
Letters of guarantee	18,159,354	15,634,566	13,541,934
Acceptances	601,770	557,775	403,652
Irrevocable commitments to extend credit	4,172,565	2,750,501	512,273
Total	26,108,413	23,599,752	18,955,398

- ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 545.3 million as at June 30, 2023 (December 31, 2022: SAR 519.2 million; June 30, 2022: SAR 482.6 million).

	June 30, 2023 (Unaudited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2023	51,580	245,464	222,195	519,239
Transfer to 12-month ECL	9,365	(9,365)	-	-
Transfer to life time ECL, not credit impaired	-	642	(642)	-
Net charge / (reversal) for the period	1,947	26,358	(2,245)	26,060
Balance as at June 30, 2023	62,892	263,099	219,308	545,299

	December 31, 2022 (Audited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2022	37,428	75,037	234,714	347,179
Transfer to 12-month ECL	4,028	(4,028)	-	-
Transfer to life time ECL, credit impaired	-	(177)	177	-
Net charge / (reversal) for the period	10,124	174,632	(12,696)	172,060
Balance as at December 31, 2022	51,580	245,464	222,195	519,239

	June 30, 2022 (Unaudited)			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR'000			
Opening allowance at January 1, 2022	37,428	75,037	234,714	347,179
Transfer to 12-month ECL	4,025	(4,025)	-	-
Transfer to life time ECL, credit impaired	-	(177)	177	-
Net (reversal) / charge for the period	(5,839)	188,522	(47,305)	135,378
Balance as at June 30, 2022	35,614	259,357	187,586	482,557

10. Cash and cash equivalents

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

	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
Cash in hand	1,865,907	1,960,998	2,550,480
Balances with SAMA excluding statutory deposit	6,701,548	278,465	1,286,401
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	3,473,843	1,333,480	827,543
Total	12,041,298	3,572,943	4,664,424

11. 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.

12. Operating segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

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

c) **Treasury**

Investments, Interbank and other treasury services.

d) **Investment and brokerage**

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

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

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

June 30, 2023 (Unaudited)	SAR '000				Total
	Retail	Corporate	Treasury	Investment and brokerage	
Total assets	39,763,336	121,024,817	63,391,637	2,720,597	226,900,387
Total liabilities	112,048,824	38,597,688	43,233,944	43,328	193,923,784
Income from investments and financing	2,733,411	1,964,471	1,207,494	53,340	5,958,716
Return on time investments	(902,950)	(562,672)	(898,654)	-	(2,364,276)
Income from investments and financing, net	1,830,461	1,401,799	308,840	53,340	3,594,440
Fees from banking services and other operating income	146,792	234,944	255,919	384,185	1,021,840
Total operating income	1,977,253	1,636,743	564,759	437,525	4,616,280
Depreciation and amortization	124,698	14,883	10,667	2,533	152,781
Other operating expenses	649,785	382,684	176,638	142,538	1,351,645
Charge / (reversal) for credit impairment	581,365	86,281	2,025	(1,789)	667,882
Total operating expenses	1,355,848	483,848	189,330	143,282	2,172,308
Net operating income	621,405	1,152,895	375,429	294,243	2,443,972
Share of income from an associate and joint venture	-	-	3,328	-	3,328
Income for the period before zakat	621,405	1,152,895	378,757	294,243	2,447,300

SAR '000					
June 30, 2022 (Unaudited)	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	31,389,147	98,853,363	51,509,014	2,870,286	184,621,810
Total liabilities	91,974,808	24,365,658	36,037,899	776,296	153,154,661
Income from investments and financing	1,361,356	1,096,019	623,591	45,803	3,126,769
Return on time investments	(139,607)	(76,473)	(185,684)	-	(401,764)
Income from investments and financing, net	1,221,749	1,019,546	437,907	45,803	2,725,005
Fees from banking services and other operating income	152,797	170,600	371,358	319,987	1,014,742
Total operating income	1,374,546	1,190,146	809,265	365,790	3,739,747
Depreciation and amortization	113,060	10,802	7,964	2,831	134,657
Other operating expenses	611,058	307,947	130,331	121,525	1,170,861
Charge / (reversal) for credit impairment	44,291	443,445	1,043	(5,494)	483,285
Total operating expenses	768,409	762,194	139,338	118,862	1,788,803
Net operating income	606,137	427,952	669,927	246,928	1,950,944
Share of income from an associate and joint venture	-	-	55	-	55
Income for the period before zakat	606,137	427,952	669,982	246,928	1,950,999

SAR '000					
June 30, 2023 (Unaudited)	Retail	Corporate	Treasury	Investment and brokerage	Total
Other information:					
Revenue from:					
- External	296,551	3,802,034	80,170	437,525	4,616,280
- Inter-segment	1,680,702	(2,165,291)	484,589	-	-
Total operating income	1,977,253	1,636,743	564,759	437,525	4,616,280

SAR '000					
June 30, 2022 (Unaudited)	Retail	Corporate	Treasury	Investment and brokerage	Total
Other information:					
Revenue from:					
- External	702,989	2,010,190	660,778	365,790	3,739,747
- Inter-segment	671,557	(820,044)	148,487	-	-
Total operating income	1,374,546	1,190,146	809,265	365,790	3,739,747

13. 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 1,991.2 million shares at June 30, 2023 (June 30, 2022: 1,989.2 million shares). The diluted earnings per share is the same as the basic earnings per share.

14. Fair values of financial assets and liabilities

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

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

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

Level 1: quoted prices (unadjusted) in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

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 June 30, 2023, December 31, 2022 and June 30, 2022, 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.

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

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

June 30, 2023 (Unaudited)	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI				
- Equities	141,531	-	42,817	184,348
- Funds and others	433,833	1,550,165	272,637	2,256,635
Financial assets held as FVOCI				
- Equities	1,322,254	-	21,931	1,344,185
- Sukuks	3,685,383	8,025,587	-	11,710,970
Total	5,583,001	9,575,752	337,385	15,496,138

December 31, 2022 (Audited)	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI				
- Equities	109,733	-	35,317	145,050
- Funds and others	234,258	1,033,053	229,135	1,496,446
Financial assets held as FVOCI				
- Equities	1,416,680	-	21,779	1,438,459
- Sukuks	3,571,086	7,075,059	-	10,646,145
Total	5,331,757	8,108,112	286,231	13,726,100

June 30, 2022 (Unaudited)	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI				
- Equities	93,312	-	13,537	106,849
- Funds and others	206,475	2,016,279	201,159	2,423,913
Financial assets held as FVOCI				
- Equities	671,418	-	16,127	687,545
- Sukuks	2,609,458	6,238,985	-	8,848,443
Total	3,580,663	8,255,264	230,823	12,066,750

Reconciliation of Level 3 fair values

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

June 30, 2023	SAR '000	
	Financial assets held as FVSI	Financial assets held as FVOCI
Balance at January 1, 2023	264,452	21,779
Additional / new investments	10,056	15
Capital return and disposals during the period	(820)	-
Net change in fair value (unrealized)	41,766	137
Balance at June 30, 2023	315,454	21,931

December 31, 2022 (Audited)	Financial assets held as FVSI	Financial assets held as FVOCI
	SAR'000	SAR'000
Balance at January 1, 2022	239,390	16,204
Additional / new investments	59,679	-
Capital return and disposals during the year	(62,701)	(50)
Net change in fair value (unrealized)	28,084	5,625
Balance at December 31, 2022	264,452	21,779

June 30, 2022	SAR '000	
	Financial assets held as FVSI	Financial assets held as FVOCI
Balance at January 1, 2022	239,390	16,204
Additional / new investments	39,360	-
Capital return and disposals during the period	(62,701)	(19)
Net change in fair value (unrealized)	(1,353)	(58)
Balance at June 30, 2022	214,696	16,127

There are no transfers between Level 1, 2 and 3 during the period.

14 (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 are categorized within Level 2 of the fair value hierarchy. Following table shows the fair value of financial instruments carried at amortized cost.

June 30, 2023 (Unaudited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	3,473,843	3,463,379
Investments – Murabaha with SAMA	905,339	896,453
Sukuks – Amortized Cost	23,650,502	23,261,068
Financing, net	161,773,128	161,042,311
LIABILITIES		
Due to SAMA, banks and other financial institutions	9,959,345	9,793,127
Customers' deposits	177,873,778	177,794,193

December 31, 2022 (Audited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	1,454,458	1,451,928
Investments – Murabaha with SAMA	904,901	899,487
Sukuks – Amortized Cost	23,832,577	23,440,021
Financing, net	146,491,956	144,813,324
LIABILITIES		
Due to SAMA, banks and other financial institutions	16,483,039	16,299,059
Customers' deposits	145,168,490	145,079,131

June 30, 2022 (Unaudited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	827,543	827,500
Investments – Murabaha with SAMA	909,991	904,880
Sukuks – Amortized Cost	24,686,829	24,034,163
Financing, net	131,192,681	130,514,176
LIABILITIES		
Due to SAMA, banks and other financial institutions	15,452,190	15,443,739
Customers' deposits	130,375,962	130,049,442

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

15. Other reserves

June 30, 2023 (Unaudited)	Fair value reserve for FVOCI investments	Employees share-based plan reserve	Social contribution reserve	Remeasurement of End of Service Benefits	Total
	SAR'000				
Balance at January 1, 2023	(634,267)	33,855	113,555	(20,539)	(507,396)
Net change in fair value of FVOCI equity investments	537,190	-	-	-	537,190
Net change in fair value of FVOCI sukuk investments	68,531	-	-	-	68,531
Share of associate's other comprehensive income	10,868	-	-	-	10,868
Gain on sale of FVOCI equity investments	(81,538)	-	-	-	(81,538)
Employee share based plan reserve	-	29,813	-	-	29,813
Other transfers	-	21,748	-	-	21,748
Vesting of shares	-	(17,547)	-	-	(17,547)
Utilization during the period	-	-	(2,293)	-	(2,293)
Balance as at June 30, 2023	(99,216)	67,869	111,262	(20,539)	59,376

June 30, 2022 (Unaudited)	Fair value reserve for FVOCI investments	Employees share-based plan reserve	Social contribution reserve	Remeasurement of End of Service Benefits	Total
	SAR'000				
Balance at January 1, 2022	26,616	43,293	85,457	(32,765)	122,601
Net change in fair value of FVOCI equity investments	(29,758)	-	-	-	(29,758)
Net change in fair value of FVOCI sukuk investments	(159,004)	-	-	-	(159,004)
Net gain realized on sale of FVOCI sukuk investments	(993)	-	-	-	(993)
Loss on sale of FVOCI equity investments	305	-	-	-	305
Employee share based plan reserve	-	13,466	-	-	13,466
Vesting of shares	-	(38,982)	-	-	(38,982)
Utilization during the period	-	-	(4,799)	-	(4,799)
Balance as at June 30, 2022	(162,834)	17,777	80,658	(32,765)	(97,164)

16. Financial Risk Management

a) 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 origination quality 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 where applicable. 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 classification rules. 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, as a stakeholder, 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 credit risk is managed and controlled within the Risk Appetite Criteria of the Bank and credit related losses are minimized.

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

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

b) 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 as part of a periodic model validation activity by calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to the specific obligor such as changes in the audited financial statements, compliance with covenants, management changes, as well as changes in the economic and business environment.

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

Point in time PD

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

Determining whether credit risk has increased significantly

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

- a) type of exposure
- b) obligor risk ratings
- c) collateral type
- d) collateral value
- e) economic cycle and forward looking scenario

- f) date of origination
- g) remaining term to maturity
- h) geographical location of the obligor
- i) industry

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

- **Stage 1 Performing assets** – Financial asset(s) at origination or existing financial assets, at the reporting date, with no significant increase in credit risk since origination: The Bank recognizes an impairment allowance amounting to 12-month expected credit losses using a point-in-time PD (an estimate of the probability of default over the next 12 months). Profits associated with the asset are recognized on the basis of gross carrying value.
- **Stage 2 Underperforming assets** – Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether the credit risk has significantly increased 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** – 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”.

c) Loss allowance

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

	June 30, 2023 (Unaudited)			Total
	12 - month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
SAR in ‘000’				
Balance at January 1, 2023	769,340	1,879,224	1,880,210	4,528,774
Transfer to 12 - month ECL	113,115	(106,247)	(6,868)	-
Transfer to life time ECL, not credit impaired	(12,054)	45,267	(33,213)	-
Transfer to life time ECL, credit impaired	(5,910)	(180,974)	186,884	-
Net charge for the period	35,459	110,126	560,320	705,905
Write off	-	-	(577,964)	(577,964)
Balance as at June 30, 2023	899,950	1,747,396	2,009,369	4,656,715

June 30, 2022 (Unaudited)

	12 - month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
SAR in '000'				
Balance at January 1, 2022	651,442	2,085,384	1,664,131	4,400,957
Transfer to 12 - month ECL	8,939	(7,945)	(994)	-
Transfer to life time ECL, not credit impaired	(3,806)	34,718	(30,912)	-
Transfer to life time ECL, credit impaired	(520)	(183,316)	183,836	-
Net charge for the period	27,158	54,912	431,419	513,489
Write off	-	-	(556,849)	(556,849)
Balance as at June 30, 2022	683,213	1,983,753	1,690,631	4,357,597

d) Reconciliation of 'Impairment charge of financing and other financial assets'

	June 30, 2023 SAR'000	June 30, 2022 SAR'000
Impairment charge on financing (note 6.1)	677,820	376,469
Impairment charge of non-funded financing and credit related commitments (note 9)	26,060	135,378
Impairment charge on other financial exposures	2,025	1,642
Total charge for the period before recoveries from written off bad debts	705,905	513,489
Charge / (reversal) of impairment of other assets	347	(7,734)
Recoveries from written off bad debts	(38,370)	(22,470)
Total impairment charge for period, net of recoveries	667,882	483,285

17. Capital and capital adequacy

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

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

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. The current period numbers are presented as per Basel III Post Crisis Reforms regulation issued by SAMA effective from January 1, 2023. The current period numbers are presented as per Basel III Post Crisis Reforms regulation issued by SAMA (circular number 44047144) effective from January 1, 2023, while the prior period is based on Basel III regulations.

	June 30, 2023 (Unaudited) SAR'000	December 31, 2022 (Audited) SAR'000	June 30, 2022 (Unaudited) SAR'000
Credit risk weighted assets	187,285,191	160,491,295	142,440,119
Operational risk weighted assets	6,040,617	12,713,318	11,921,443
Market risk weighted assets	574,542	399,339	783,609
Total Pillar-I Risk Weighted Assets	193,900,350	173,603,952	155,145,171
Tier I capital	33,338,036	32,358,224	32,069,537
Tier II capital	2,313,659	2,006,141	1,780,501
Total Tier I & II Capital	35,651,695	34,364,365	33,850,038
Capital Adequacy Ratio %			
Common Equity Tier I	15%	16%	17%
Tier I ratio	17%	19%	21%
Tier I + Tier II ratio	18%	20%	22%

17.1 Dividends

The Board of Directors approved on May 15, 2023 an interim dividend of SAR 498.1 million for the first quarter of 2023 (2022: Nil). This resulted to a net payment of SAR 0.25 per share to the shareholders of the Bank (2022: Nil).

The Board of Directors in their meeting held on December 20, 2022 proposed a final 2022 dividends of SAR 996.1 million (2021: SAR 795.1 million) which was approved in the extraordinary general assembly held on April 3, 2023. This resulted to a net payment of SAR 0.50 per share to the shareholders of the Bank (2021: SAR 0.40 per share).

The Board of Directors approved on July 17, 2022 an interim dividend of SAR 896.1 million for the first half of 2022 (2021: SAR 695.7 million). This resulted to a net payment of SAR 0.45 per share to the shareholders of the Bank (2021: SR 0.35 per share) subsequent to the period end.

17.2 Treasury shares

The Extraordinary General Assembly Meeting on April 30, 2023, approved the Employee Stock option program for which 5 million shares were to be purchased as treasury shares for allocating them to the Employee Stock Plan. The Bank has completed the purchase of these shares during current quarter.

18. Comparative figures

Certain comparative figures have been rearranged or reclassified, wherever necessary, for the purpose of better presentation. No other rearrangements or reclassifications have been made in these interim condensed consolidated financial statements.

19. Events after the reporting period

There have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed consolidated financial statements as at and for the six months period ended June 30, 2023.

20. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on Muharram 5, 1445H (corresponding to July 23, 2023).