INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2022

KPMG Professional Services

Riyadh Front, Airport Road
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarters in Riyadh

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)

Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road, P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821
Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com

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 March 31, 2022, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 – "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by Saudi 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.

KPMG Professional Services

Abdulaziz Abdullah Alnaim
Certified Public Accountant
License number 394

Ernst & Young Professional Services

Saad M. Al-Khathlan
Certified Public Accountant
License number 509

(11 Shawwal 1443H)
(12 May 2022)

كي بي إم جي للاستشارات المهنية
Lic No. 46
C.R. 1010425494
KPMG Professional Services

R9
سجل تجاري ١٠١٠٣٨٣٨٢١
CR. 1010383821
شركة ارنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

KPMG Professional Services
(Professional Closed Joint Stock Company)
Paid-up capital SR 25,000,000
C.R. No. 1010425494

Alinma Bank
(A Saudi Joint Stock Company)

مصرف الإنماء
alinma bank

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	March 31, 2022 (Unaudited) SAR'000	December 31, 2021 (Audited) SAR'000	March 31, 2021 (Unaudited) SAR'000
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)		**9,736,875**	9,177,296	9,389,933
Due from banks and other financial institutions, net		**1,313,881**	738,073	1,155,306
Investments held at fair value through statement of income (FVSI)	4	**2,679,232**	2,365,750	2,220,349
Investments held at fair value through other comprehensive income (FVOCI)	4	**8,819,831**	7,412,625	5,400,971
Investments held at amortized cost, net	4	**24,462,663**	23,432,514	21,120,889
Investments in associate and joint venture	4	**64,313**	66,680	76,934
Financing, net	6	**128,965,096**	126,271,491	117,148,856
Property, equipment and right of use assets, net		**2,424,796**	2,382,732	2,331,218
Other assets		**1,052,064**	1,628,923	1,106,583
TOTAL ASSETS		**179,518,751**	173,476,084	159,951,039
LIABILITIES AND EQUITY				
LIABILITIES				
Due to SAMA, banks and other financial institutions	7	**13,245,267**	15,239,791	8,862,813
Customers' deposits	8	**128,035,225**	121,060,551	120,707,035
Amount due to Mutual Funds' unitholders		**496,880**	495,990	336,323
Other liabilities		**6,223,159**	5,968,725	4,963,736
TOTAL LIABILITIES		**148,000,531**	142,765,057	134,869,907
EQUITY				
Share capital		**20,000,000**	20,000,000	20,000,000
Statutory reserve		**1,268,845**	1,268,845	591,498
Other reserves		**128,605**	155,366	171,762
Retained earnings		**4,415,980**	3,585,844	3,818,778
Proposed dividends	17.1	**795,131**	795,131	596,218
Treasury shares		**(90,341)**	(94,159)	(97,124)
Equity attributable to the shareholders of the Bank		**26,518,220**	25,711,027	25,081,132
Tier 1 Sukuk	11	**5,000,000**	5,000,000	-
TOTAL EQUITY		**31,518,220**	30,711,027	25,081,132
TOTAL LIABILITIES AND EQUITY		**179,518,751**	173,476,084	159,951,039

The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

Alinma Bank
(A Saudi Joint Stock Company)

مصرف الإنماء
alinma bank

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Notes	For the three months period ended March 31, 2022 SAR'000	March 31, 2021 SAR'000
Income from investments and financing	7, 18	**1,472,149**	1,349,104
Return on time investments		**(162,641)**	(144,330)
Income from investments and financing, net		**1,309,508**	1,204,774
Fee from banking services – income		**415,195**	392,134
Fee from banking services – expense		**(142,184)**	(104,082)
Fees from banking services, net		**273,011**	288,052
Exchange income, net		**72,060**	49,782
Income from FVSI financial instruments, net		**89,136**	50,676
Gain from FVOCI sukuk investments, net		**993**	-
Dividend income on FVOCI equity investments		**4,378**	4,040
Other operating income		**58,521**	8,937
Total operating income		**1,807,607**	1,606,261
Salaries and employee related expenses		**322,816**	278,588
Rent and premises related expenses		**12,835**	12,045
Depreciation and amortization		**66,029**	60,875
Other general and administrative expenses		**240,598**	191,250
Operating expenses before impairment charges		**642,278**	542,758
Impairment charge of financing, net of recoveries	16	**241,023**	346,769
Impairment charge / (reversal) of other financial assets	16	**2,379**	(2,769)
Total operating expenses		**885,680**	886,758
Net operating income		**921,927**	719,503
Share of loss from an associate and a joint venture		**(2,367)**	(3,885)
Income for the period before zakat		**919,560**	715,618
Zakat for the period		**(94,813)**	(73,780)
Net income for the period after zakat		**824,747**	641,838
Basic and diluted earnings per share (SAR)	13	**0.41**	0.32

The accompanying notes from 1 to 21 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 COMPREHENSIVE INCOME (Unaudited)

	For the three months period ended	
	March 31, 2022	March 31, 2021
	SAR'000	SAR'000
Net income for the period after zakat	**824,747**	641,838
Other comprehensive (loss) / income:		
Items that cannot be recycled back to interim condensed consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI equity investments	**53,725**	16,384
Items that can be recycled back to interim condensed consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	**(78,407)**	(11,651)
Net gain realized on sale of FVOCI sukuk investments	**(993)**	-
Total other comprehensive (loss) / income	**(25,675)**	4,733
Total comprehensive income for the period	**799,072**	646,571

The accompanying notes from 1 to 21 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 THREE MONTHS PERIOD ENDED MARCH 31,

2022 (SAR '000)	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends (note 17.1)	Treasury shares	Total equity attributable to the shareholders	Tier 1 Sukuk	Total equity
Balance at the beginning of the period	20,000,000	1,268,845	155,366	3,585,844	795,131	(94,159)	25,711,027	5,000,000	30,711,027
Net income for the period after zakat	-	-	-	824,747	-	-	824,747	-	824,747
Net change in fair value of FVOCI equity investments	-	-	53,725	-	-	-	53,725	-	53,725
Net change in fair values of FVOCI sukuk investments	-	-	(78,407)	-	-	-	(78,407)	-	(78,407)
Gain on sale of FVOCI sukuk investments	-	-	(993)	-	-	-	(993)	-	(993)
Total comprehensive income	-	-	(25,675)	824,747	-	-	799,072	-	799,072
Gain on sale of FVOCI equity investments	-	-	(3)	3	-	-	-	-	-
Employee share based plans	-	-	(1,083)	5,386	-	3,818	8,121	-	8,121
Balance at the end of the period	20,000,000	1,268,845	128,605	4,415,980	795,131	(90,341)	26,518,220	5,000,000	31,518,220

The accompanying notes from 1 to 21 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 THREE MONTHS PERIOD ENDED MARCH 31, (Continued)

2021 (SAR '000)	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Total equity
Balance at the beginning of the period		20,000,000	591,498	177,046	3,760,239	-	(99,996)	24,428,787
Net income for the period after zakat		-	-	-	641,838	-	-	641,838
Net change in fair value of FVOCI equity investments		-	-	16,384	-	-	-	16,384
Net change in fair values of FVOCI sukuk investments		-	-	(11,651)	-	-	-	(11,651)
Total comprehensive income		-	-	4,733	641,838	-	-	646,571
Gain on sale of FVOCI equity investments		-	-	(8,273)	8,273	-	-	-
Dividends paid for 2020	17.1	-	-	-	(596,218)	596,218	-	-
Employee share based plans		-	-	(1,744)	4,646	-	2,872	5,774
Balance at the end of the period		20,000,000	591,498	171,762	3,818,778	596,218	(97,124)	25,081,132

The accompanying notes from 1 to 21 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 THREE MONTHS PERIOD ENDED MARCH 31,

	2022	2021
	SAR' 000	SAR' 000
OPERATING ACTIVITIES		
Net income for the period before zakat	**919,560**	715,618
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	**66,029**	60,875
Unrealized gain from FVSI financial instruments, net	**(89,041)**	(46,357)
Gain from Sukuk investments held at amortized cost	**(52,196)**	-
Gain from FVOCI sukuk investments, net	**(993)**	-
Dividend income on FVOCI equity investments	**(4,378)**	(4,040)
Impairment charge of financing, net of recoveries	**241,023**	346,769
Impairment charge / (reversal) of other financial assets	**2,379**	(2,769)
Recoveries from written-off accounts	**14,138**	6,402
Deferred payment program modification loss, net of unwinding	**(10,367)**	60,673
Fair value impact of SAMA deposit, net of unwinding	**13,488**	(21,366)
Employees share based plans reserve	**8,122**	5,775
Share of loss from an associate and a joint venture	**2,367**	3,885
	1,110,131	1,125,465
Net (increase)/decrease in operating assets:		
Statutory deposit with Saudi Central Bank	**(267,920)**	(7,727)
Due from banks and other financial institutions with original maturity of more than three months	**-**	(49,443)
Investments held at FVSI	**(224,441)**	11,561
Financing	**(2,762,625)**	(6,348,472)
Other assets	**576,859**	32,837
Net increase/(decrease) in operating liabilities:		
Due to SAMA, banks and other financial institutions	**(2,020,362)**	1,526,900
Customers' deposits	**6,974,674**	1,252,757
Other liabilities	**29,788**	(419,104)
Financing cost paid on lease liability	**(3,772)**	(3,608)
Net cash generated from / (used in) operating activities	**3,412,332**	(2,878,834)
INVESTING ACTIVITIES		
Purchases of investments held at FVOCI	**(1,431,874)**	(1,009,913)
Purchases of investments held at amortized cost	**(977,616)**	(4,851,221)
Proceeds from sales and maturities of investments held at FVOCI	**105**	129,794
Proceeds from sales and maturities of investments held at amortized cost	**-**	6,475,159
Purchase of property and equipment	**(70,566)**	(16,955)
Dividends received from FVOCI equity investments	**4,378**	4,040
Net cash (used in) / from investing activities	**(2,475,573)**	730,904

The accompanying notes from 1 to 21 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 THREE MONTHS PERIOD ENDED MARCH 31, (Continued)

	Notes	2022 SAR' 000	2021 SAR' 000
FINANCING ACTIVITIES			
Payment for Tier 1 Sukuk costs		(50,000)	-
Cash payment for principal portion of lease liability		(19,291)	(16,164)
Net cash used in financing activities		(69,291)	(16,164)
Net change in cash and cash equivalents		867,468	(2,164,094)
Cash and cash equivalents at beginning of the period		3,210,524	6,268,782
Cash and cash equivalents at end of the period	10	4,077,992	4,104,688
Income received from investments and financing		986,128	1,102,407
Return paid on time investments		119,366	149,789
Supplemental non-cash information:			
Net change in fair value of FVOCI investments		(25,675)	4,733
Financing written off during the period		101,169	-
Proposed dividends	17.1	795,131	596,218

The accompanying notes from 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

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 100 branches (March 31, 2021: 99) 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:

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.

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	As at March 31, 2022: 63.7% (December 31, 2021: 63.6%; March 31, 2021: 73.7%)	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 March 31, 2022: 73.7% (December 31, 2021: 75.5%, March 31, 2021: 86.4%)	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 Board

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard-34 Interim Financial Reporting (IAS-34) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for 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, 2021.

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

The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2021 except for the below:

a) Changes in judgement and estimates

In preparing this interim condensed consolidated financial statements, the significant judgments made by the management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2021.

b) Adoption of new standards

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2022:

(a) *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 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.

(b) *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.

(c) *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.

(d) Annual improvements on IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

c) 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, 2023:

(a) *Amendment to IAS 1 – "Classification of Liabilities as Current or Non-current"* deferred until accounting periods starting not earlier than 1 January 2024.

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. Note that the IASB has issued a new exposure draft proposing changes to this amendment.

(b) *IFRS 17 – “Insurance contracts”*, as amended in June 2020, applicable for annual periods beginning on or after January 1, 2023.

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.

(c) *Narrow scope amendments to IAS 1, Practice Statement 2 and IAS 8* applicable for annual periods beginning on or after January 1, 2023.

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.

(d) *Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction* applicable for annual periods beginning on or after 1 January 2023.

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.

(e) *A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts* applicable for annual periods beginning on or after 1 January 2023.

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 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.

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 a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate (“IBOR”) with an alternative Risk-Free Rate (“RFR”).

Management is currently 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 March 31, 2022, the carrying value of non-derivative financial assets using LIBOR as benchmark rates amounted to SAR 2,655 million (March 31, 2021: SAR 2,847 million).

4. Investments, net

	Notes	March 31, 2022 (Unaudited) SAR'000	December 31, 2021 (Audited) SAR'000	March 31, 2021 (Unaudited) SAR'000
Held at FVSI		**2,679,232**	2,365,750	2,220,349
Held at FVOCI		**8,819,831**	7,412,625	5,400,971
Held at Amortized Cost		**24,472,212**	23,442,400	21,128,353
Investment in an associate	4.1	**52,293**	53,910	56,069
Investment in a joint venture	4.2	**12,020**	12,770	20,865
Less: Allowance for impairment		**(9,549)**	(9,886)	(7,464)
Total		**36,026,039**	33,277,569	28,819,143

4.1 Investment in an associate represents the Bank's share of ownership at 28.75% (March 31, 2021 and December 31, 2021: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 300 million.

4.2 Investment in a joint venture represents the Banks's share of ownership at 50% (March 31, 2021 and December 31, 2021: 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.

		31-Mar-22 SAR'000	
	Positive fair value	**Negative fair value**	**Total notional amount**
Held for trading:			
Profit rate swaps	**1,261**	**-**	**140,000**
Foreign exchange forward contracts	**-**	**9**	**58,000**

		31-Mar-21 SAR'000	
	Positive fair value	**Negative fair value**	**Total notional amount**
Held for trading:			
Profit rate swaps	-	138	10,000

6. Financing, net

	Note	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
		SAR'000	SAR'000	SAR'000
Retail	6.1	30,663,669	27,818,477	25,709,577
Corporate	6.1	99,641,288	100,211,706	92,327,111
Performing financing		130,304,957	128,030,183	118,036,688
Non-performing loans		2,679,070	2,282,021	2,712,360
Total financing, gross		132,984,027	130,312,204	120,749,048
Allowance for impairment	6.1	(4,018,931)	(4,040,713)	(3,600,192)
Financing, net		128,965,096	126,271,491	117,148,856

6.1 Movement in allowance for impairment of financing

	March 31, 2022 (Unaudited)	March 31, 2021 (Unaudited)
	SAR'000	SAR'000
Opening allowance at January 1	4,040,713	3,265,690
Charge for the period	79,387	334,502
Write-off	(101,169)	-
Balance at the end of the period	4,018,931	3,600,192

7. Due to SAMA, banks and other financial institutions

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
	SAR'000	SAR'000	SAR'000
Due to SAMA, net	6,823,515	6,990,223	6,915,986
Time investments from banks and other financial institutions	5,715,348	7,858,406	1,890,217
Current accounts	706,404	391,162	56,610
Total	13,245,267	15,239,791	8,862,813

As of March 31, 2022, the Bank has outstanding profit free deposits from SAMA with gross amount of SAR 7 billion (March 31, 2021: SAR 6.8 billion; December 31, 2021: 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 18).

As a result, the Bank's 'Income from investments and financing' and 'Fee from banking services' for the three months period ended March 31, 2022 included the fair value benefit of SAR 12.3 million and SAR 3 million, respectively (March 31, 2021: SAR 45.2 million and SAR 2.5 million, respectively) arising from the profit free deposits.

8. Customers' deposits

	Note	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
		SAR'000	SAR'000	SAR'000
Demand		**76,665,311**	70,761,657	63,422,385
Savings		**10,065,520**	7,675,701	8,390,687
Customers' time investments	8.1	**40,011,880**	41,390,005	47,780,689
Others		**1,292,514**	1,233,188	1,113,274
Total		**128,035,225**	121,060,551	120,707,035

8.1 This represents Murabaha, Mudaraba and Wakala with customers.

9. Commitments and contingencies

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

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	**3,072,933**	2,026,734	2,696,368
Letters of guarantee	**11,335,585**	11,061,063	11,224,052
Acceptances	**298,108**	344,962	532,011
Irrevocable commitments to extend credit	**512,273**	512,273	69,441
Total	**15,218,899**	13,945,032	14,521,872

ii) Other liabilities include provision for credit-related commitments and contingencies of SAR 522.9 million as at March 31, 2022 (December 31, 2021: SAR 347.2 million; March 31, 2021: SAR 367.2 million).

10. Cash and cash equivalents

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

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	**2,463,427**	2,327,646	2,435,563
Balances with SAMA excluding statutory deposit	**300,684**	144,805	563,919
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**1,313,881**	738,073	1,105,206
Total	**4,077,992**	3,210,524	4,104,688

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:

SAR '000	March 31, 2022 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	**29,425,892**	**98,594,792**	**48,683,798**	**2,814,269**	**179,518,751**
Total liabilities	**90,985,223**	**20,604,397**	**35,636,635**	**774,276**	**148,000,531**
Income from investments and financing	**617,364**	**524,369**	**307,281**	**23,135**	**1,472,149**
Return on time investments	**(46,912)**	**(32,009)**	**(83,720)**	**-**	**(162,641)**
Income from investments and financing, net	**570,452**	**492,360**	**223,561**	**23,135**	**1,309,508**
Fees from banking services and other operating income	**57,440**	**90,308**	**192,561**	**157,790**	**498,099**
Total operating income	**627,892**	**582,668**	**416,122**	**180,925**	**1,807,607**
Depreciation and amortization	**51,295**	**7,214**	**6,060**	**1,460**	**66,029**
Other operating expenses	**328,857**	**131,908**	**72,399**	**43,085**	**576,249**
(Reversal) / charge for credit impairment	**(28,710)**	**269,734**	**2,378**	**-**	**243,402**
Total operating expenses	**351,442**	**408,856**	**80,837**	**44,545**	**885,680**
Net operating income	**276,450**	**173,812**	**335,285**	**136,380**	**921,927**
Share of loss from an associate and joint venture	**-**	**-**	**(2,367)**	**-**	**(2,367)**
Income for the period before zakat	**276,450**	**173,812**	**332,918**	**136,380**	**919,560**

SAR '000	March 31, 2021 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	24,445,770	91,847,899	41,659,324	1,998,046	159,951,039
Total liabilities	83,480,675	6,697,988	44,227,443	463,801	134,869,907
Income from investments and financing	621,855	462,498	244,349	20,402	1,349,104
Return on time investments	(47,314)	(3,069)	(93,947)	-	(144,330)
Income from investments and financing, net	574,541	459,429	150,402	20,402	1,204,774
Fees from banking services and other operating income	102,083	45,549	93,439	160,416	401,487
Total operating income	676,624	504,978	243,841	180,818	1,606,261
Depreciation and amortization	52,491	4,069	2,877	1,438	60,875
Other operating expenses	328,110	69,742	50,866	33,165	481,883
(Reversal) / charge for credit impairment	(55,383)	402,152	(2,769)	-	344,000
Total operating expenses	325,218	475,963	50,974	34,603	886,758
Net operating income	351,406	29,015	192,867	146,215	719,503
Share of gain from an associate and joint venture	-	-	(3,885)	-	(3,885)
Income for the period before zakat	351,406	29,015	188,982	146,215	715,618

SAR '000	March 31, 2022 (Unaudited)				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Revenue from:					
- External	342,885	952,063	331,734	180,925	1,807,607
- Inter-segment	285,007	(369,395)	84,388	-	-
Total operating income	**627,892**	**582,668**	**416,122**	**180,925**	**1,807,607**

SAR '000	March 31, 2021 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
- External	383,403	851,973	190,067	180,818	1,606,261
- Inter-segment	293,221	(346,995)	53,774	-	-
Total operating income	676,624	504,978	243,841	180,818	1,606,261

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 1,988 million shares at March 31, 2022. Basic and diluted earnings per share as at March 31, 2021 were divided by 1,987.4 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 March 31, 2022, December 31, 2021 and March 31, 2021, 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:

	SAR '000			
March 31, 2022 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**331,371**	**-**	**13,537**	**344,908**
- Mutual Funds	**216,661**	**1,921,879**	**195,784**	**2,334,324**
Financial assets held as FVOCI				
- Equities	**687,378**	**-**	**16,185**	**703,563**
- Sukuks	**2,512,516**	**5,603,752**	**-**	**8,116,268**
Total	**3,747,926**	**7,525,631**	**225,506**	**11,499,063**

	SAR '000			
December 31, 2021 (Audited)	**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
- Sukuks	2,201,833	4,747,216	-	6,949,049
Total	2,947,752	6,575,029	255,594	9,778,375

	SAR '000			
March 31, 2021 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	111,643	1,958	-	113,601
- Mutual Funds	98,412	1,794,229	214,107	2,106,748
Financial assets held as FVOCI				
- Equities	171,944	-	17,930	189,874
- Sukuks	1,556,582	3,654,515	-	5,211,097
Total	1,938,581	5,450,702	232,037	7,621,320

Reconciliation of Level 3 fair values

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

	SAR '000	
March 31, 2022	**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 year	**(62,701)**	**(19)**
Net change in fair value (unrealized)	**(6,728)**	**-**
Balance at March 31, 2022	**209,321**	**16,185**

March 31, 2021	SAR '000 Financial assets held as FVSI	 Financial assets held as FVOCI
Balance at January 1, 2021	200,780	17,967
Disposals during the period	-	(37)
Net change in fair value - unrealized	13,327	-
Balance at March 31, 2021	214,107	17,930

There are no transfers between Stage 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 is categorized within Level 2 of the fair value hierarchy. Following table shows the fair value of financial instruments carried at amortized cost.

March 31, 2022 (Unaudited)	**SAR '000** **Carrying value**	 **Fair value**
ASSETS		
Due from banks and other financial institutions	**1,313,881**	**1,313,881**
Investments – Murabaha with SAMA	**908,964**	**911,980**
Sukuks – Amortized Cost	**23,563,248**	**23,219,890**
Financing, net	**128,965,096**	**128,689,567**
LIABILITIES		
Due to SAMA, banks and other financial institutions	**13,245,267**	**13,182,705**
Customers' deposits	**128,035,225**	**127,903,435**

December 31, 2021 (Audited)	SAR '000 Carrying value	 Fair value
ASSETS		
Due from banks and other financial institutions	738,073	738,073
Investments – Murabaha with SAMA	906,617	905,875
Sukuks – Amortized Cost	22,535,783	22,581,490
Financing, net	126,271,491	126,892,032
LIABILITIES		
Due to SAMA, banks and other financial institutions	15,239,791	15,239,376
Customers' deposits	121,060,551	121,135,509

March 31, 2021 (Unaudited)	SAR '000 Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	1,155,306	1,155,887
Investments – Murabaha with SAMA	1,404,207	1,389,538
Sukuks – Amortized Cost	19,724,146	19,758,459
Financing, net	117,148,856	117,322,569
LIABILITIES		
Due to SAMA, banks and other financial institutions	8,862,813	8,816,868
Customers' deposits	120,707,035	120,791,040

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. Employee share based plans

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

Nature of scheme	ESPS (Jana)	ESGS Plan A	ESGS Plan B	2020 Deferred bonus	2021 Deferred bonus
No. of outstanding Schemes	1	1	1	1	1
Grant date	May 1, 2019	May 1, 2019	May 1, 2019	March 4, 2021	February 3, 2022
Maturity date	April 30, 2022	April 30, 2024	April 30, 2022	March 4, 2024	February 3, 2025
Number of shares granted – adjusted after issuance of bonus issue	2,798,754	1,167,452	1,820,169	699,985	1,177,790
Vesting period	3 Years	5 years	3 years	3 years	3 years
Value of shares granted (SAR)	58,909,113	21,864,357	38,822,625	11,535,753	34,627,026
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	29.40
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	Employee remain in service and meets prescribed performance criteria
Method of settlement	Equity	Equity	Equity	Equity	Equity
Valuation model used	Market Value	Market Value	Market Value	Market Value	Market Value
Weighted average remaining contractual life	Less than one year	2.1 Years	Less than one year	1.9 Years	2.8 Years

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 in accordance with IFRS-2 Share-based Payments.

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 plans	
	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
	March 31, 2022 (Unaudited)							
Beginning of the period	**16.13**	**1,824,633**	**19.70**	**1,422,415**	**20.25**	**566,409**	**16.48**	**684,934**
Granted during the period	**-**	**-**	**-**	**-**	**-**	**-**	**29.40**	**1,177,790**
Vested during the period	**-**	**-**	**19.70**	**(175,591)**	**20.25**	**(61,003)**	**16.48**	**(256,971)**
Expired during the period	**16.13**	**(22,377)**	**-**	**-**	**-**	**-**	**16.48**	**(7,860)**
End of the period	**16.13**	**1,802,256**	**19.70**	**1,246,824**	**20.25**	**505,406**	**26.00**	**1,597,893**
Exercisable at period end	**16.13**	**1,802,256**	**19.70**	**1,246,824**	**20.25**	**505,406**	**26.00**	**1,597,893**

	ESPS (Jana)		ESGS Plan A		ESGS Plan B		Deferred bonus plans	
	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
	March 31, 2021 (Unaudited)							
Beginning of the period	16.13	2,117,037	20.25	1,112,381	20.25	1,349,107	-	-
Granted during the period	-	-	-	-	-	-	16.48	699,985
Vested during the period	-	-	-	-	20.25	(371,293)	-	-
Expired during the period	16.13	(94,578)	-	-	-	-	-	-
End of the period	16.13	2,022,459	20.25	1,112,381	20.25	977,814	16.48	699,985
Exercisable at period end	16.13	2,022,459	20.25	1,112,381	20.25	977,814	16.48	699,985

These rights are granted only under a service/performance condition with no market condition associated with them. Total amount of expense recognized during the period in these interim condensed consolidated financial statements in respect of these schemes was SAR 8.1 million (March 31, 2021: SAR 5.8 million).

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 a credit that is originated will meet the institutional risk appetite and will fulfil the criteria under which credits are extended. All credit proposals are subjected to a high degree of due diligence intended to identify all risks associated with granting the credit.

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

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

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

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

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

Credit risks in the retail portfolio are estimated based on individual credit-worthiness scores, derived from an automated credit scoring platform and is not subject to the 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 a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Credit Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value.

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

Definition of 'Default'

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

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:

	31-Mar-22			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in '000'			
Balance at the beginning of the period	**651,441**	**2,085,385**	**1,664,131**	**4,400,957**
Transfer to 12 month ECL	**6,045**	**(4,787)**	**(1,258)**	**-**
Transfer to life time ECL, not credit impaired	**(3,002)**	**33,692**	**(30,690)**	**-**
Transfer to life time ECL, credit impaired	**(393)**	**(123,582)**	**123,975**	**-**
Total charge / (reversal) for the period	**44,161**	**(36,839)**	**250,218**	**257,540**
Write off	**-**	**-**	**(101,169)**	**(101,169)**
Balance as at March 31, 2022	**698,252**	**1,953,869**	**1,905,207**	**4,557,328**

	31-Mar-21			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Balance at the beginning of the period	864,997	1,011,779	1,748,725	3,625,501
Transfer to 12 month ECL	22,017	(15,092)	(6,925)	-
Transfer to life time ECL, not credit impaired	(755)	6,103	(5,348)	-
Transfer to life time ECL, credit impaired	(79)	(6,464)	6,543	-
Net (reversal) / charge for the period	(216,570)	356,595	210,377	350,402
Balance as at March 31, 2021	669,610	1,352,921	1,953,372	3,975,903

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

	March 31, 2022 SAR'000	March 31, 2021 SAR'000
Impairment charge on financing (note 6.1)	**79,387**	334,502
Impairment charge of non-funded financing and credit related commitments	**175,774**	18,669
Impairment charge / (reversal) of other financial assets	**2,379**	(2,769)
Total charge for the period before recoveries from written off bad debts	**257,540**	350,402
Recoveries from written off bad debts	**(14,138)**	(6,402)
Total impairment charge for period, net of recoveries	**243,402**	344,000

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 of 8%.

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

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	March 31, 2021 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	**136,838,297**	133,095,735	128,091,128
Operational risk weighted assets	**11,566,486**	11,242,756	10,436,720
Market risk weighted assets	**829,611**	945,712	4,012,164
Total Pillar-I Risk Weighted Assets	**149,234,394**	145,284,203	142,540,012
Tier I capital	**32,180,849**	31,433,895	25,803,998
Tier II capital	**1,710,479**	1,663,697	1,601,139
Total Tier I & II Capital	**33,891,328**	33,097,592	27,405,137
Capital Adequacy Ratio %			
Tier I ratio	**22%**	22%	18%
Tier I + Tier II ratio	**23%**	23%	19%

17.1 Dividends

The Board of Directors in its meeting held on December 29, 2021 proposed a final 2021 dividend of SAR 795.1 million for 2021 (2020: SR 596.2 million) which was approved in the ordinary general assembly meeting held on April 13, 2022 (corresponding to 12 Ramadan 1443H). This resulted to a net payment of SAR 0.40 per share to the shareholders of the Bank (2020: SR 0.30 per share) subsequent to the period end.

18. Impact of COVID-19 and SAMA Programs

During 2020 and 2021, the Coronavirus ("COVID-19") pandemic disrupted global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections. Significant improvement have been witnessed around the world after vaccination of mass population by various countries resulting in the reduction of active cases and relaxation of COVID restrictions.

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.

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 eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. The accounting impact of the above changes in terms of the credit facilities were assessed and has been treated as per the requirements of IFRS 9 as modification in terms of arrangement. The PSFSP program has ended on March 31, 2022.

In order to compensate the related cost that Bank had incurred under the SAMA and other public authorities program, during 2020 and 2021, the Bank received multiple profit free deposits from SAMA of varying maturities, which qualified as government grants and were accounted for as such.

During the period ended March 31, 2022, SAR 12.3 million (March 31, 2021: SAR 45.2 million) has been recognized in the statement of income with respect to the amortization of grant income on related deposits with an aggregate of SAR 85.3 million deferred grant income as at March 31, 2022 (December 31, 2021: SAR 97.9 million).

19. Comparative figures

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

20. 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 three months period ended March 31, 2022.

21. Approval of the financial statements

These interim condensed consolidated financial statements were approved by the Board of Directors of the Bank on Ramadan 25, 1443H (corresponding to April 26, 2022).