
ALINMA BANK
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE MONTHS PERIOD ENDED
MARCH 31, 2016



**KPMG Al Fozan & Partners
Certified Public Accountants**

**REPORT ON REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Alinma Bank and its subsidiaries (the “Bank”) as of March 31, 2016, and the related interim consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the three month period then ended and the notes from (1) to (16) which form an integral part of the interim condensed consolidated financial statements. We have not reviewed note 14, nor the information related to “Disclosures under Basel III framework” cross-referenced therein, which is not required to be within the scope of our review. The Bank’s management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency (“SAMA”) and with International Accounting Standard No. 34 “Interim Financial Reporting”. 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 generally accepted auditing standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing 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.



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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 applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (13) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (13) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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ALINMA BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	March 31, 2016 (Unaudited) SAR'000	December 31, 2015 (Audited) SAR'000	March 31, 2015 (Unaudited) SAR'000
ASSETS				
Cash and balances with Saudi Arabian Monetary Agency		7,315,458	5,132,787	5,394,142
Due from banks and other financial institutions		14,702,667	17,092,085	10,832,976
Investments	4	6,405,402	6,473,366	9,509,112
Financing, net	5	60,250,402	57,005,577	55,522,828
Property and equipment, net		1,624,713	1,629,004	1,564,549
Other assets		1,312,664	1,391,711	861,872
TOTAL ASSETS		91,611,306	88,724,530	83,685,479
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		1,624,236	2,264,088	1,201,327
Customers' deposits	6	68,785,208	65,694,524	61,688,511
Other liabilities		3,252,481	2,413,757	3,335,973
TOTAL LIABILITIES		73,661,925	70,372,369	66,225,811
SHAREHOLDERS' EQUITY				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		1,381,050	1,381,050	1,013,556
Fair value reserve for available for sale investments		(23,269)	(10,477)	(40,615)
Other reserves		42,201	36,450	28,952
Retained earnings		1,704,020	1,312,702	1,612,396
Proposed dividend		-	787,057	-
Treasury shares		(154,621)	(154,621)	(154,621)
TOTAL SHAREHOLDERS' EQUITY		17,949,381	18,352,161	17,459,668
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		91,611,306	88,724,530	83,685,479

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	Note	2016 SAR'000	2015 SAR'000
Income from investments and financing		709,657	611,084
Return on time investments		(120,374)	(61,086)
Income from investments and financing activities, net		589,283	549,998
Fees from banking services, net		133,603	129,105
Exchange income, net		25,923	28,405
Loss/(gain) from FVSI financial instruments, net		(9,244)	3,793
Loss/(gain) on sale of available for sale investments, net		(8,523)	14,743
Dividend income		3,263	3,536
Other operating income		18	16
Total operating income		734,323	729,596
Salaries and employee related expenses		167,764	171,302
Rent and premises related expenses		32,412	26,026
Depreciation and amortization		40,023	39,199
Other general and administrative expenses		87,488	76,036
Charge for impairment of financing		13,033	70,122
Total operating expenses		340,720	382,685
Net operating income		393,603	346,911
Share of loss from associate and joint venture		(2,285)	(2,800)
Net income for the period		391,318	344,111
Basic and diluted earnings per share (SAR)	10	0.26	0.23

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	<u>2016</u>	<u>2015</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the period	391,318	344,111
Other comprehensive income to be reclassified to consolidated statement of income in subsequent periods:		
Net change in fair value of available for sale investments	(21,315)	(4,778)
Net amount realized on available for sale investments	8,523	(14,743)
Total comprehensive income for the period	378,526	324,590

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

2016 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	1,381,050	(10,477)	36,450	1,312,702	787,057	(154,621)	18,352,161
Net income for the period	-	-	-	-	391,318	-	-	391,318
Net change in fair value of available for sale investments	-	-	(21,315)	-	-	-	-	(21,315)
Net amount realized on available for sale investments	-	-	8,523	-	-	-	-	8,523
Total comprehensive income	-	-	(12,792)	-	391,318	-	-	378,526
Dividend paid for 2015	-	-	-	-	-	(787,057)	-	(787,057)
Employee share based plan reserve	-	-	-	5,751	-	-	-	5,751
Balance at the end of the period	15,000,000	1,381,050	(23,269)	42,201	1,704,020	-	(154,621)	17,949,381

2015 (SAR '000)	Share capital	Statutory reserve	Fair value reserve for available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the period	15,000,000	1,013,556	(21,094)	23,006	1,268,285	810,100	(154,621)	17,939,232
Net income for the period	-	-	-	-	344,111	-	-	344,111
Net change in fair value of available for sale investments	-	-	(4,778)	-	-	-	-	(4,778)
Net amount realized on available for sale investments	-	-	(14,743)	-	-	-	-	(14,743)
Total comprehensive income	-	-	(19,521)	-	344,111	-	-	324,590
Dividend paid for 2014	-	-	-	-	-	(810,100)	-	(810,100)
Employee share based plan reserve	-	-	-	5,946	-	-	-	5,946
Balance at the end of the period	15,000,000	1,013,556	(40,615)	28,952	1,612,396	-	(154,621)	17,459,668

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

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

	Note	2016 SAR'000	2015 SAR'000
OPERATING ACTIVITIES			
Net income for the period		391,318	344,111
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization		40,023	39,199
Loss on disposal of property and equipment, net		951	-
Unrealised loss / (gain) from FVSI financial instruments, net		21,502	(1,615)
Dividend income		(3,263)	(3,536)
Charge for impairment of financial assets		13,033	70,122
Employee share based plan reserve		5,751	5,946
Share of loss from an associate and joint ventures		2,285	2,800
		471,600	457,027
Net (increase) / decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Agency		(311,992)	(398,979)
Due from banks and other financial institutions, maturing after ninety days from the date of acquisition.		2,830,520	(1,053,489)
Investments		31,385	(1,475,405)
Financing		(3,257,858)	(1,580,711)
Other assets		81,204	(17,415)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(639,852)	1,168,667
Customers' deposits		3,090,684	2,162,045
Other liabilities		51,667	(27,528)
Net cash generated from / (used in) operating activities		2,347,358	(765,788)
INVESTING ACTIVITIES			
Acquisition of property and equipment		(36,683)	(60,170)
Dividends received		1,106	2,814
Net cash used in investing activities		(35,577)	(57,356)
FINANCING ACTIVITY			
Dividend paid		-	(810,100)
Net cash used in financing activity		-	(810,100)
Net increase / (decrease) in cash and cash equivalents		2,311,781	(1,633,244)
Cash and cash equivalents at the beginning of the period		11,107,547	10,066,103
Cash and cash equivalents at the end of the period	8	13,419,328	8,432,859
Income received from investments and financing		505,457	500,070
Return paid on time investments		76,192	33,066
Supplemental non-cash information			
Net change in fair value of available for sale investments		(21,315)	(4,778)

The accompanying notes from 1 to 16 form an integral part of these interim condensed consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2016

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No. 1010250808 both dated 21 Jumada-I 1429H (corresponding to May 26, 2008) and provides banking services through 70 branches (March 31, 2015: 59) in the Kingdom of Saudi Arabia. Its head office address is as follows:

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

The interim condensed consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (collectively referred as the "Bank"):

Subsidiaries	Bank's Ownership	Establishment date	Main Activities
Alinma Investment Company	100%	07 Jumada II 1430 H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430 H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Awaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associated company)

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

b) Shariah Board

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

2. **Basis of preparation**

These interim condensed consolidated financial statements have been prepared using uniform accounting policies, estimates, judgment and valuation methods for similar transactions and other events in similar circumstances as disclosed in the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2015. However, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Bank as of and for the financial year ended December 31, 2015.

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

a) **Statement of compliance**

These interim condensed consolidated financial statements have been prepared:

- i) in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (“SAMA”) and International Accounting Standard No. 34 – Interim Financial Reporting; and
- ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of Alinma bank.

b) **Basis of measurement**

These interim condensed consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through statement of income (“FVSI”), available for sale (“AFS”) investments and employees share based program.

c) **Functional and presentation currency**

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

d) **Basis of consolidation**

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

Subsidiaries are the entities that are controlled by the Alinma 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 consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed.

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

3. Summary of significant accounting policies

The accounting policies, estimates and assumptions adopted in the preparation of these interim condensed consolidated financial statements are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of the following relevant new standards and amendments to the existing standards that are applicable during the period:

Standard and amendments	Effective date	Brief description of changes
Amendments to IFRS 11 "Accounting for acquisitions of interests in joint operations"	January 01, 2016	These amendments provide guidance to account for the acquisition of an interest in a joint operation that constitutes a business.
Amendments to IAS 16 and IAS 38	January 01, 2016	These amendments provide clarification of acceptable methods of depreciation and amortization.
Amendments to IFRS 10 and IAS 28	January 01, 2016	These amendments discuss the sale or contribution of assets between an Investor and its Associate or Joint venture.
Annual improvements to IFRSs 2012-2014 cycle	January 01, 2016	Improvement in various IFRS including certain disclosure initiatives.

These adoptions have no material impact on the 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.

4. Investments

	March 31, 2016	December 31, 2015	March 31, 2015
Note	(Unaudited)	(Audited)	(Unaudited)
	SAR'000	SAR'000	SAR'000
Murabahas with SAMA (at amortized cost)	3,501,632	4,252,944	7,302,233
Available for sale investments	2,627,382	1,921,688	2,041,746
Held as FVSI investments	68,499	89,167	118,180
Held to maturity	99,445	98,837	-
Investment in an associate	4.1 87,629	87,629	21,953
Investment in joint venture	4.2 20,815	23,100	25,000
Total	6,405,402	6,473,366	9,509,112

4.1 Investment in an associate represents the Bank's share of ownership (28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid-up share capital of SAR 450 million.

4.2 Investment in Joint venture represents the Banks's share of ownership (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company has been established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015 with a paid-up capital of SAR 50 million).

5. Financing, net

	March 31, 2016	December 31, 2015	March 31, 2015
	(Unaudited)	(Audited)	(Unaudited)
	SAR'000	SAR'000	SAR'000
Retail	13,676,998	13,141,383	12,418,361
Corporate	46,908,181	44,186,006	43,478,427
Performing financing	60,585,179	57,327,389	55,896,788
Non-performing financing	428,858	428,790	354,890
Total financing, gross	61,014,037	57,756,179	56,251,678
Allowance for impairment	(763,635)	(750,602)	(728,850)
Financing, net	60,250,402	57,005,577	55,522,828

6. Customers' deposits

	March 31, 2016	December 31, 2015	March 31, 2015
Note	(Unaudited)	(Audited)	(Unaudited)
	SAR'000	SAR'000	SAR'000
Demand deposits	37,526,992	35,770,209	34,924,840
Customers' time investments	6.1 30,375,596	29,262,103	25,753,668
Others	6.2 882,620	662,212	1,010,003
Total	68,785,208	65,694,524	61,688,511

6.1 This represents Murabaha and Mudaraba with customers.

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

7. Credit related commitments and contingencies

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)	March 31, 2015 (Unaudited)
	SAR'000	SAR'000	SAR'000
Letters of credit	2,524,617	2,180,524	2,216,910
Letters of guarantee	8,765,905	9,419,598	4,818,584
Acceptances	454,485	651,366	241,231
Irrevocable commitments to extend credit	435,934	566,249	827,169
Total	<u>12,180,941</u>	<u>12,817,737</u>	<u>8,103,894</u>

8. Cash and cash equivalents

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

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)	March 31, 2015 (Unaudited)
	SAR'000	SAR'000	SAR'000
Cash in hand	1,924,036	1,612,612	1,491,422
Balances with SAMA excluding statutory deposit	1,695,207	135,952	607,007
Due from banks and other financial institutions maturing within ninety days from the date of acquisition.	9,800,085	9,358,983	6,334,430
Total	<u>13,419,328</u>	<u>11,107,547</u>	<u>8,432,859</u>

9. Operating segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals and small to medium sized businesses.

b) Corporate banking

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

c) Treasury

Murabahas and mudaraba with banks, investments and treasury services.

d) Investment and brokerage

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

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

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

SAR '000	March 31, 2016 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	16,328,885	48,050,869	26,888,785	342,767	91,611,306
Total liabilities	42,534,288	8,166,862	22,919,191	41,584	73,661,925
Income from investments and financing	257,812	273,604	177,044	1,197	709,657
Return on time investments	(34,497)	(5,303)	(80,574)	-	(120,374)
Income from investments and financing activities, net	223,315	268,301	96,470	1,197	589,283
Fees from banking services and other operating income	48,369	48,796	8,975	38,900	145,040
Total operating income	271,684	317,097	105,445	40,097	734,323
Charge for impairment of financing	13,033	-	-	-	13,033
Depreciation and amortization	20,321	12,496	7,024	182	40,023
Other operating expenses	161,369	71,741	37,536	17,018	287,664
Total operating expenses	194,723	84,237	44,560	17,200	340,720
Net operating income	76,961	232,860	60,885	22,897	393,603
Share of loss from an associate and joint venture	-	-	(2,285)	-	(2,285)
Net income for the period	76,961	232,860	58,600	22,897	391,318

SAR '000	March 31, 2015 (Unaudited)				
	Retail	Corporate	Treasury	Investment and brokerage	Total
Total assets	14,192,823	43,911,090	25,291,176	290,390	83,685,479
Total liabilities	42,053,705	5,532,044	17,623,575	16,487	66,225,811
Income from investments and financing	231,912	260,884	117,467	821	611,084
Return on time investments	(24,341)	(1,690)	(35,055)	-	(61,086)
Income from investments and financing activities, net	207,571	259,194	82,412	821	549,998
Fees from banking services and other operating income	40,107	67,290	41,326	30,875	179,598
Total operating income	247,678	326,484	123,738	31,696	729,596
Charge for impairment of financing assets	10,622	59,500	-	-	70,122
Depreciation and amortization	19,693	12,311	6,886	309	39,199
Other operating expenses	153,291	68,137	35,616	16,320	273,364
Total operating expenses	183,606	139,948	42,502	16,629	382,685
Net operating income	64,072	186,536	81,236	15,067	346,911
Share of loss from an associate and joint venture	-	-	(2,800)	-	(2,800)
Net income for the period	64,072	186,536	78,436	15,067	344,111

SAR '000	March 31, 2016 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
-External	194,304	505,830	(5,908)	40,097	734,323
-Inter-segment	77,380	(188,733)	111,353	-	-
Total operating income	271,684	317,097	105,445	40,097	734,323

SAR '000	March 31, 2015 (Unaudited)				
Other information:	Retail	Corporate	Treasury	Investment and brokerage	Total
Revenue from:					
-External	178,261	486,107	33,532	31,696	729,596
-Inter-segment	69,417	(159,623)	90,206	-	-
Total operating income	247,678	326,484	123,738	31,696	729,596

10. Earnings per share

Earnings per share is calculated by dividing the net income by the weighted average number of outstanding shares (Basic: 1,485 million, diluted: 1,490 million) at period end.

11. Fair values of financial assets and liabilities

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

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

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

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

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

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

11 (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:

March 31, 2016 (Unaudited)	SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	61,587	-	-	61,587
- Mutual funds	6,912	-	-	6,912
Financial assets held as available for sale				
- Equities	364,972	-	-	364,972
- Mutual funds	254,591	-	213,763	468,354
- Sukuks	-	1,794,056	-	1,794,056
Total	688,062	1,794,056	213,763	2,695,881

March 31, 2015 (Unaudited)	SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	117,413	-	-	117,413
- Mutual funds	767	-	-	767
Financial assets held as available for sale				
- Equities	667,553	-	-	667,553
- Mutual funds	181,197	-	100,000	281,197
- Sukuks	-	1,092,996	-	1,092,996
Total	966,930	1,092,996	100,000	2,159,926

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

11 (b) Fair values of financial assets and liabilities not carried at fair value

Management adopts discounted cash flow method using the current yield curve to arrive at the fair value of financial instruments. Following table shows the fair value of financial instruments carried at amortized cost.

March 31, 2016 (Unaudited)	SAR '000	
	Carrying value	Fair value
ASSETS		
Due from banks and other financial institutions	14,702,667	14,476,332
Investments -at amortized cost	3,501,632	3,498,526
Financing, net	60,250,402	60,004,922
LIABILITIES		
Due to banks and other financial institutions	1,624,236	1,624,129
Customers' deposits	68,785,208	68,653,044

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

12. Employees share-based plans

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

Nature of scheme	ESPS	ESGS
No. of outstanding Schemes	one	one
Grant date	June 01, 2013	April 01, 2013
Maturity date	May 31, 2016	March 31, 2018
Number of shares granted	2,240,494	2,788,000
Vesting period	3 years	3-5 years
Value of shares granted (SAR)	31,366,916	36,662,200
Strike price per share at grant date (SAR)	11.5	-
Fair value per share at grant date (SAR)	14.0	13.15
Vesting conditions	Employee remains in service and meets prescribed performance criteria	Employee remains in service and meets prescribed performance criteria
Method of settlement	Equity	Equity
Valuation model used	Market Value	Market Value
Weighted average remaining contractual life	0.17 years	2 years

The movement in weighted average price and in the number of shares in the employees share participation scheme is as follows:

	Weighted average exercise price (SAR)		Number of shares in scheme	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Beginning of the period	11.5	11.5	2,277,887	2,414,288
Granted during the period	-	-	-	-
Forfeited	-	-	(37,393)	(23,475)
Exercised/expired	-	-	-	-
End of the period	11.5	11.5	2,240,494	2,390,813
Exercisable at period end	-	-	-	-

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 3.2 million. (March 31, 2015: SAR 3.3 million).

13. 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, 2016 (Unaudited)	December 31, 2015 (Audited)	March 31, 2015 (Unaudited)
	SAR'000	SAR'000	SAR'000
Credit risk weighted assets	80,516,456	76,496,060	62,344,592
Operational risk weighted assets	5,108,918	4,976,034	4,413,425
Market risk weighted assets	684,320	655,431	4,916,394
Total Pillar-I Risk Weighted Assets	86,309,694	82,127,525	71,674,411
Tier I capital	17,949,381	18,352,161	17,459,668
Tier II capital	482,176	482,176	447,524
Total Tier I & II Capital	18,431,557	18,834,337	17,907,192
Capital Adequacy Ratio %			
Tier I ratio	21%	22%	24%
Tier I + Tier II ratio	21%	23%	25%

14. Disclosures under Basel III framework

Certain additional disclosures are required under the Basel III framework. These disclosures will be made available on Alinma Bank's website www.alinma.com within the prescribed time as required by SAMA. Such disclosures are not subject to review by the external auditors of the Bank.

15. Comparative figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation.

16. Approval of the financial statements

These interim condensed consolidated financial statements were approved on 29 Jumada II, 1437H (corresponding to April 7, 2016).