ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2018

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alinma Bank and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of financing At December 31, 2018, the gross financing of the Bank was Saudi Riyals 86,190 million against which a credit impairment allowance of Saudi Riyals 2,505 million was maintained. During the year, the Bank adopted IFRS 9 which introduced forward looking expected credit loss (ECL) impairment model. On adoption, the Bank applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment of Saudi Riyals 723 million to the Bank's equity as at January 1, 2018 and the impact of transition are explained in note 4 to the consolidated financial statements. We considered this as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Bank. The key areas of judgement include: ➢ Categorisation of financing in Stage 1, 2 and 3 based on identification of: (a) exposures with a significant increase in credit risk since their origination (b) individually impaired / default exposures	We have obtained an understanding of management's assessment of impairment of financing including the IFRS 9 implementation process, the Bank's internal rating model, the Bank's impairment allowance policy and the ECL modelling methodology. We compared the Bank's impairment allowance policy and the ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: ➢ the modelling process including governance over monitoring of the model and approval of key assumptions; ➢ the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR") and determination of default / individually impaired exposures; and ➢ integrity of data input into the ECL system. We assessed the Bank's criteria for determination of significant increase in credit risk and the identification of impaired / default exposures and their classification into various stages.

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of financing (continued) ➢ The assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors, etc. ➢ The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model. *Refer note 4 to the consolidated financial statements for the impacts of adoption of IFRS 9 - Financial Instruments, note 3(h) for policy relating to impairment of financial assets, note 2 (d) which contains the disclosure of critical accounting judgement, estimates and assumptions, note 8 which contains the disclosure of impairment against financing and note 26 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	For a sample of customers, we assessed: ➢ the internal ratings determined by the management based on Bank's internal rating model; ➢ the staging as identified by management; and ➢ management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Bank in the ECL calculations. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of exposures used by the management for the ECL calculation as of December 31, 2018. Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity. As the Bank has used the modified retrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of the adjustment to the Bank's equity as at January 1, 2018 (as a result of adoption of IFRS 9). We assessed the disclosures included by management in the consolidated financial statements.

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

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

Other Information included in the Bank's 2018 Annual Report

The Board of Directors of the Bank (the "Directors") is responsible for the other information. The other information consists of the information included in the Bank's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R.1010371622

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31

	Notes	2018 SAR'000	2017 SAR'000 (Restated)
ASSETS			
Cash and balances with Saudi Arabian Monetary Authority	5	**7,359,684**	7,299,371
Due from banks and other financial institutions	6	**8,292,547**	9,788,857
Investments, net	7	**18,399,178**	15,066,199
Financing, net	8	**83,685,166**	79,062,597
Property and equipment, net	9	**1,896,679**	1,876,423
Other assets	10	**1,700,073**	1,658,229
TOTAL ASSETS		**121,333,327**	114,751,676
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**6,318,336**	1,352,887
Customers' deposits	12	**90,128,138**	89,064,751
Other liabilities	13	**3,589,145**	3,990,276
TOTAL LIABILITIES		**100,035,619**	94,407,914
SHAREHOLDERS' EQUITY			
Share capital	14	**15,000,000**	15,000,000
Statutory reserve	15	**2,888,815**	2,259,457
Fair value reserve for FVOCI/AFS investments		**(22,377)**	86,764
Other reserves		**54,085**	16,484
Retained earnings		**1,990,693**	1,896,529
Proposed dividend	22	**1,489,967**	1,191,964
Treasury shares	16	**(103,475)**	(107,436)
TOTAL SHAREHOLDERS' EQUITY		**21,297,708**	20,343,762
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**121,333,327**	114,751,676

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

	Notes	2018 SAR'000	2017 SAR'000
Income from investments and financing	18	4,893,617	4,254,739
Return on time investments	18	(1,095,785)	(761,715)
Income from investments and financing, net	18	3,797,832	3,493,024
Fees from banking services-income	19	986,755	875,627
Fees from banking services-expense	19	(255,701)	(199,191)
Fees from banking services-net		731,054	676,436
Exchange income, net		176,616	152,857
Gain from FVIS financial instruments, net		131,338	4,553
Gain from FVOCI / AFS investments, net		-	20,241
Dividend income		4,204	22,426
Other operating income		3,878	3,419
Total operating income		4,844,922	4,372,956
Salaries and employee related expenses	20	939,583	876,009
Rent and premises related expenses		159,209	148,563
Depreciation and amortization	9	178,192	199,601
Other general and administrative expenses		578,719	520,560
Charge for impairment of financing	8.1	392,796	558,482
Charge for impairment of other assets		73,756	52,918
Total operating expenses		2,322,255	2,356,133
Net operating income		2,522,667	2,016,823
Share of loss from an associate and a joint venture	7.4, 7.5	(5,234)	(5,466)
Net income for the year		2,517,433	2,011,357
Basic and diluted earnings per share (SAR)	21	1.69	1.35

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

	2018 SAR'000	2017 SAR'000
Net income for the year	**2,517,433**	2,011,357
Other comprehensive income:		
Items that cannot be reclassified back to consolidated statement of income in subsequent periods		
Change in fair value of FVOCI equity investments	**(23,820)**	-
Gain on sale of FVOCI equity investments	**1,941**	-
Actuarial gain/(loss) on re-measurement of End of Service Benefits Scheme balances	**8,851**	(9,381)
Items that can be reclassified back to consolidated statement of income in subsequent periods		
Net change in fair value of FVOCI sukuk investments	**28,581**	-
Net change in fair value of AFS equity investments	**-**	10,367
Gain on sale of FVOCI / AFS sukuk investments	**-**	8,256
Total comprehensive income for the year	**2,532,986**	2,020,599

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

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

2018 (SAR '000)	Note	Share capital	Statutory reserve	Fair value reserve for FVOCI / AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year (restated)	**36**	**15,000,000**	**2,259,457**	**86,764**	**16,484**	**1,896,529**	**1,191,964**	**(107,436)**	**20,343,762**
Effect of adopting IFRS-9 at January 01, 2018	**4(c)**	**-**	**-**	**(113,902)**	**-**	**(608,966)**	**-**	**-**	**(722,868)**
Restated balance as at January 01, 2018		**15,000,000**	**2,259,457**	**(27,138)**	**16,484**	**1,287,563**	**1,191,964**	**(107,436)**	**19,620,894**
Net income for the year		**-**	**-**	**-**	**-**	**2,517,433**	**-**	**-**	**2,517,433**
Net changes in fair value of FVOCI equity investments		**-**	**-**	**(23,820)**	**-**	**-**	**-**	**-**	**(23,820)**
Net changes in fair values of FVOCI sukuk investments		**-**	**-**	**28,581**	**-**	**-**	**-**	**-**	**28,581**
Gain on sale of FVOCI investments		**-**	**-**	**-**	**-**	**1,941**	**-**	**-**	**1,941**
Actuarial gain on re-measurement of End of Service Benefits Scheme balances	**24.2**	**-**	**-**	**-**	**-**	**8,851**	**-**	**-**	**8,851**
Total comprehensive income		**-**	**-**	**4,761**	**-**	**2,528,225**	**-**	**-**	**2,532,986**
Transfer to statutory reserve	**15**	**-**	**629,358**	**-**	**-**	**(629,358)**	**-**	**-**	**-**
Zakat for the year	**22**	**-**	**-**	**-**	**-**	**(217,061)**	**-**	**-**	**(217,061)**
Zakat for prior years	**22**	**-**	**-**	**-**	**-**	**556,579**			**556,579**
Dividend paid for 2017	**22**	**-**	**-**	**-**	**-**		**(1,191,964)**	**-**	**(1,191,964)**
Proposed dividend for 2018	**22**					**(1,489,967)**	**1,489,967**	**-**	**-**
Employee share based plan and other reserve	**16**	**-**	**-**	**-**	**37,601**	**(45,288)**			**(7,687)**
Net change in treasury shares		**-**	**-**	**-**	**-**	**-**	**-**	**3,961**	**3,961**
Balance at the end of the year		**15,000,000**	**2,888,815**	**(22,377)**	**54,085**	**1,990,693**	**1,489,967**	**(103,475)**	**21,297,708**

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

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

2017 (SAR '000)	Notes	Share capital	Statutory reserve	Fair value reserve for AFS investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460
Net income for the year		-	-	-	-	2,011,357	-	-	2,011,357
Net change in fair value of available for sale investments (restated)	**36**	-	-	10,367	-	-	-	-	10,367
Net amount realized on available for sale investments		-	-	8,256	-	-	-	-	8,256
Actuarial loss on re-measurement of End of Service Benefits Scheme balances	**24.2**	-	-	-	-	(9,381)	-	-	(9,381)
Total comprehensive income		-	-	18,623	-	2,001,976	-	-	2,020,599
Transfer to statutory reserve	**15**	-	502,839	-	-	(502,839)	-	-	-
Zakat for current year	**22**	-	-	-	-	(62,090)	-	-	(62,090)
Zakat for prior year		-	-	-	-	-	(42,070)	-	(42,070)
Proposed dividend	**22**	-	-	-	-	(1,191,964)	1,191,964	-	-
Final dividend paid for 2016		-	-	-	-	-	(744,978)	-	(744,978)
Employee share based plans reserve and others	**16**	-	-	-	4,892	(15,023)	-	-	(10,131)
Net change in treasury shares		-	-	-	-	-	-	3,972	3,972
Balance at the end of the year		15,000,000	2,259,457	86,764	16,484	1,896,529	1,191,964	(107,436)	20,343,762

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	2018 SAR' 000	2017 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**2,517,433**	2,011,357
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	**9**	**178,192**	199,601
(Gain) / loss on disposal of property and equipment, net		**(274)**	228
Unrealised (gain) / loss from FVIS financial instruments, net		**(32,370)**	6,223
Dividend income		**(4,203)**	(22,426)
Charge for impairment of financing, net	**8.1**	**392,796**	558,482
Charge for impairment of other assets		**73,756**	52,918
Employees share based plans reserve		**282**	1,444
Share of loss from an associate and a joint ventures	**7.4, 7.5**	**5,234**	5,466
		3,130,846	2,813,293
Net (increase)/decrease in operating assets:			
Statutory deposit with Saudi Arabian Monetary Authority		**(110,964)**	(522,776)
Due from banks and other financial institutions with original maturity of more than three months		**389,960**	3,516,130
Investments		**(3,327,430)**	(8,930,422)
Financing		**(5,624,310)**	(9,309,133)
Other assets		**(66,831)**	91,133
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**4,965,449**	(1,078,917)
Customers' deposits		**1,063,387**	8,452,525
Other liabilities		**(195,694)**	1,403,833
Net cash from / (used in) operating activities		**224,413**	(3,564,334)
INVESTING ACTIVITIES			
Purchase of property and equipment	**9**	**(198,456)**	(338,434)
Proceeds from disposal of property and equipment		**282**	-
Dividends received		**4,204**	23,953
Net cash used in investing activities		**(193,970)**	(314,481)
FINANCING ACTIVITY			
Dividend and zakat paid		**(1,191,964)**	(787,048)
Net cash used in financing activity		**(1,191,964)**	(787,048)
Net decrease in cash and cash equivalents		**(1,161,521)**	(4,665,863)
Cash and cash equivalents at beginning of the year		**10,702,200**	15,368,063
Cash and cash equivalents at end of the year	**23**	**9,540,679**	10,702,200
Income received from investments and financing		**4,558,755**	3,995,808
Return paid on time investments		**1,065,492**	905,022
Net changes in fair value of FVOCI/AFS investments		**4,761**	10,367

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21 Jumada I, 1429 (corresponding to May 26, 2008) and provides banking services through 90 branches (2017: 85) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

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

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

Subsidiary	Bank's ownership	Establishment date	Main Activities
Alinma Investment Company	100%	7 Jumada II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Al Awwal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associate company)

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

b) Sharia'a Board

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

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared:

i) in accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax; and

ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

b) Basis of measurement and presentation

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

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are valuation of financial assets & financial liabilities (3f), impairment of financial assets at amortized cost and FVOCI sukuks (3h), valuation of end of service benefits (3p), assessment of control over investees (3s) and zakat (3q).

e) Going concern

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

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2017, except for change in accounting policies as explained below:

Adoption of new standards

The Bank has adopted following new standards that have become applicable during the year:

Standards and amendments	Effective date	Brief description of changes
IFRS 9 – "Financial Instruments"	January 01, 2018	The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It also changes the impairment of financial assets from incurred loss to expected loss model.
IFRS15 – "Revenue from contracts with customers	January 01, 2018	IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It has established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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 by banks for the accounting years beginning on or after January 1, 2019 (note 37).

The corresponding change in accounting policy due to adoption of new standards are presented in 3(f) and 3(h).

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

a) Basis of consolidation

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

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

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

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

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

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

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

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

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

b) Trade date accounting

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

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

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Exchange gains or losses on settlement and translation are recognized in the consolidated statement of income.

d) Offsetting

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

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

e) **Revenue / expenses recognition**

Income from investments and financing

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

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

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

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

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

Dividend income

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

Income / (loss) from FVIS financial instruments, net

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

f) **Financial assets and financial liabilities**

i) **Classification and measurement of financial assets**

The classification and measurement of financial instruments under IFRS-9 is a result of two main assessments namely, Business Model assessment and analysis of contractual cash flows (SPPI).

Based on the said assessments, on initial recognition, a financial asset is classified as measured at either amortized cost, FVOCI or FVIS.

Financial Asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to a cash flow that are solely payments of principal and return on the principal amount outstanding.

Generally, Financing to customers, due from banks and other financial institutions, SAMA Murabaha and certain investments in Sukuk qualify for measurement under amortized cost.

Financial Assets at FVOCI

Sukuk and like instruments: are measured at FVOCI only if they meet both of the following conditions and are not designated at FVIS:

- the asset is held with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and return on the principal amount outstanding.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair values are recognized in OCI.

Financial Assets at FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset to be measured at FVIS that otherwise meets the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statements of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are expensed through consolidated statement of income. Dividend income on financial assets held as FVIS is reflected as “Gain/(loss) from FVIS financial instruments, net” in the consolidated statement of income.

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

ii) Classification and measurement of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and credit commitments, as measured at amortized cost.

All interbank deposits and customers’ deposits are initially recognized at fair value less transaction costs. Subsequently, financial liabilities are measured at amortized cost. Financial guarantees are measured at higher of amortized cost or allowance for impairment.

iii) De-recognition of financial assets and financial liabilities

Financial assets

The Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expires,
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred or,
- the Bank neither transfers nor retains substantially all of the risks and rewards of ownership but it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in consolidated statement of income.

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

Financial liabilities

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

Subsequently, all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of income.

g) Financing

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

All financing assets are initially measured at fair value including any incremental associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

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

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

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

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

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

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

h) Impairment of financial assets

The Bank recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured at FVIS. This mainly includes financing, investments that are measured at amortized cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments. No impairment loss is recognized on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables;

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

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

- **Stage 1: Performing assets:** Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months ECL.
- **Stage 2: Underperforming assets:** Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime of PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance is recorded based on lifetime ECL.
- **Stage 3: Impaired assets:** For financial asset(s) that are impaired, the Bank recognize the impairment allowance based on lifetime ECL.

The Bank also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurements of ECLs.

The forward-looking information includes the elements such as macroeconomic factors and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Bank formulates various scenarios. For each scenario, the Bank derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Bank considers its exposure to Banks, financial institutions and sukuk investments to have low credit risk as their credit risk rating is equivalent to the globally accepted definition of 'investment grade'.

i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

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

j) Other real estate

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

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

k) Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letter of credit, guarantees, standby letter of credits and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is recognized as "charge for impairment of financing", in the consolidated statement of income.

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

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

l) Provisions

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

m) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under Ijarah, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

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

When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition.

o) Short term employee benefits

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

p) End of service benefits

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

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

q) Zakat

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia. Due accruals are made on a quarterly basis through a charge to retained earnings. The Bank, being a Saudi Company, is subject to zakat only.

r) Treasury Shares

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

s) Investment management services

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

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

t) Transition

The Bank has opted for the modified retrospective approach for application of IFRS 9. Modified retrospective application requires the recognition of the cumulative impact of adoption in shareholders' equity as follows:

A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 01, 2018. Accordingly, the comparative information presented does not reflect the requirements of IFRS 9 and therefore, is not comparable with the information presented for the current year under IFRS 9. The impact on these consolidated financial statements due to adoption of IFRS 9 is explained in note 4 below,

There has been no material impact on these consolidated financial statements due to adoption of IFRS 15 "Revenue from contracts with customers".

For accounting policies before the adoption of IFRS-9, please refer note (3) of annual consolidated financial statement for the year ended December 31, 2017.

4. Financial assets and financial liabilities

a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at January 01, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in '000'	
Financial assets				
Cash and balances with SAMA	Loans and receivable	Amortized cost	7,299,371	7,299,371
Due from banks and other financial institutions	Loans and receivable	Amortized cost	9,788,857	9,782,582
Investments in equity and mutual funds – FVIS	FVIS	FVIS	77,045	56,775
Investments in equity	AFS	FVOCI	112,095	132,365
Investments in mutual funds	AFS	FVIS	1,643,681	1,643,681
Investments in sukuks	AFS	FVOCI / Amortized cost	11,234,219	11,223,337
Murabaha with SAMA	Loans and receivable	Amortized cost	1,906,817	1,906,817
Investment, net			**14,973,857**	**14,962,975**
Financing, net	Loans and receivable	Amortized cost	79,062,597	78,356,886
Other assets	Loans and receivable	Amortized cost	1,556,674	1,556,674
Total			**112,681,356**	**111,958,488**
Financial liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	1,352,887	1,352,887
Customers' deposits	Amortized cost	Amortized cost	89,064,751	89,064,751
Other liabilities	Amortized cost	Amortized cost	3,108,240	3,108,240
Total			**93,525,878**	**93,525,878**

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b) **Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 01, 2018.

	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement	IFRS 9 carrying amount as at January 01, 2018
	SAR in '000'			
Financial assets – amortized cost				
Cash and balances with SAMA	7,299,371	-	-	7,299,371
Due from banks and other financial institutions	9,788,857	-	(6,275)	9,782,582
Investments - at amortized cost	1,906,817	8,131,299	(10,882)	10,027,234
Financing, net	79,062,597	-	(705,711)	78,356,886
Other assets	1,556,674	-	-	1,556,674
Total financial assets – at amortized cost	**99,614,316**	**8,131,299**	**(722,868)**	**107,022,747**
Financial assets – at fair value				
AFS / FVOCI – equity	112,095	20,270	-	132,365
AFS / FVOCI – sukuk	11,234,219	(8,131,299)	-	3,102,920
AFS / FVOCI-mutual funds	1,643,681	(1,643,681)	-	-
Investments in equity and mutual funds – FVIS	77,045	1,623,411	-	1,700,456
Total financial assets – at fair value	**13,067,040**	**(8,131,299)**	**-**	**4,935,741**

	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement	IFRS 9 carrying amount as at January 01, 2018
	SAR in '000'			
Financial liabilities – amortized cost				
Due to banks and other financial institutions	1,352,887	-	-	1,352,887
Customers deposits	89,064,751	-	-	89,064,751
Other liabilities	3,108,240	-	-	3,108,240
Total financial liabilities at amortized cost	**93,525,878**	**-**	**-**	**93,525,878**

c) **Impact on retained earnings**

	SAR in '000' Retained earnings
Closing balance under IAS 39 (December 31, 2017)	1,896,529
Reclassifications under IFRS 9	113,902
Recognition of expected credit losses under IFRS 9	(722,868)
Adjusted opening balance under IFRS 9 (January 01, 2018)	**1,287,563**

d) **The following table reconciles the provision recorded as per the requirements of IAS 39 & IAS 37 to that of IFRS 9:**

	December 31, 2017 (IAS 39 / IAS 37)	Re-classification	Re-measurement	January 01, 2018 (IFRS 9)
		SAR in '000'		
Due from banks and financial institutions	-	-	6,275	6,275
Investments	-	-	10,882	10,882
Financing including provision for credit commitments and financial guarantee contracts	1,503,330	-	705,711	2,209,041
Total	**1,503,330**	**-**	**722,868**	**2,226,198**

5. Cash and balances with Saudi Arabian Monetary Authority

	2018 SAR'000	2017 SAR'000
Cash in hand	**2,209,434**	1,902,511
Statutory deposit	**5,056,731**	4,945,767
Placement with SAMA	**-**	371,000
Current accounts	**585**	249
Others	**92,934**	79,844
Total	**7,359,684**	7,299,371

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

6. Due from banks and other financial institutions

	Notes	**2018 SAR'000**	2017 SAR'000
Current accounts		**162,707**	288,368
Murabaha and Wakala with banks	**6.1**	**8,134,362**	9,500,489
Less: Allowance for impairment	**6.2**	**(4,522)**	-
Total		**8,292,547**	9,788,857

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

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

	December 31, 2018
	12 month ECL
Balance as at January 01, 2018	**6,275**
Reversal for the year	**(1,753)**
Write-offs	**-**
Balance as at December 31, 2018	**4,522**

7. Investments, net

	Notes	**2018 SAR'000**	2017 SAR'000
Murabahas with SAMA (at amortized cost)		**1,907,707**	1,906,817
Sukuks (at amortized cost)	**7.1**	**11,041,196**	-
FVOCI / AFS investments	**7.2**	**3,201,088**	12,989,995
FVIS investments	**7.3**	**2,180,148**	77,045
Investment in an associate	**7.4**	**72,776**	78,429
Investment in a joint venture	**7.5**	**14,332**	13,913
Less: Allowance for impairment	**7.9**	**(18,069)**	-
Total		**18,399,178**	15,066,199

7.1 The fair value of sukuks (at amortized cost) as at December 31, 2018 was SAR 10,840 million.

7.2 FVOCI / AFS investments

	2018 SAR'000	2017 SAR'000
Sukuk	**3,088,529**	11,234,219
Equities	**112,559**	112,095
Funds	**-**	1,643,681
Total	**3,201,088**	12,989,995

7.3 Held as FVIS investment

	2018 SAR'000	2017 SAR'000
Equities	**50,763**	44,710
Funds	**2,129,385**	32,335
Total	**2,180,148**	77,045

FVOCI and FVIS investments are mainly in quoted securities and include investment amounting to SAR 508 million (2017: SAR 463 million) in mutual funds and sukuk operating outside the Kingdom of Saudi Arabia.

7.4 Investment in an associate

Investment in an associate represents the Bank's share of investment of 28.75%, (2017: 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid up share capital of SAR 300 million (2017: 300 million). It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2018 SAR'000	2017 SAR'000
Opening balance	**78,429**	81,029
Share of loss for the year	**(5,653)**	(2,600)
	72,776	78,429

The fair value of the above investment based on quoted value as at December 31, 2018 is SAR 141 million (2017: SAR 188 million).

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

	September 30, 2018 SAR 000' (un-audited)	December 31, 2017 SAR 000' (Audited)
Current assets	**598,592**	618,345
Total assets	**670,586**	678,856
Current liabilities	**388,131**	384,050
Total liabilities	**410,250**	396,083
Total equity	**260,336**	282,773
Total revenue	**164,759**	164,887
Total expenses	**183,146**	168,423

7.5 Investment in a joint venture

The Bank had invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company was established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of income for the year is SAR 0.4 million (2017: loss of SAR 2.9 million).

7.6 Analysis of investments by type

	2018 SAR'000	2017 SAR'000
Fixed-rate investments	**12,120,403**	9,174,083
Floating-rate investments	**3,898,960**	3,966,953
Equities	**163,323**	156,805
Others	**2,216,492**	1,768,358
Total	**18,399,178**	15,066,199

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7.7 Analysis of investments by counter-parties

	2018 SAR'000	2017 SAR'000
Government and quasi government	**13,929,455**	10,038,117
Banks and other financial institutions	**1,624,336**	531,315
Corporate	**2,845,387**	4,496,767
Total	**18,399,178**	15,066,199

7.8 Analysis of investments by credit quality

	2018 SAR'000	2017 SAR'000
Government and quasi government	**13,929,455**	10,038,117
Investment grade	**2,089,908**	3,102,919
Equities and others	**2,379,815**	1,925,163
Total	**18,399,178**	15,066,199

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

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

	December 31, 2018
	12 month ECL
Balance as at January 01, 2018	**10,882**
Charge for the year	**7,187**
Write-off	**-**
Balance as at December 31, 2018	**18,069**

8. Financing, net (at amortized cost)

SAR'000

2018	Performing	Non-performing	Total	Allowance for impairment	Financing, net
Retail	**15,709,601**	**566,526**	**16,276,127**	**(627,933)**	**15,648,194**
Corporate	**69,203,984**	**710,125**	**69,914,109**	**(1,877,137)**	**68,036,972**
Total	**84,913,585**	**1,276,651**	**86,190,236**	**(2,505,070)**	**83,685,166**

SAR'000

2017	Performing	Non-performing	Total	Allowance for impairment	Financing, net
Retail	14,601,023	398,095	14,999,118	(365,209)	14,633,909
Corporate	65,150,897	415,912	65,566,809	(1,138,121)	64,428,688
Total	79,751,920	814,007	80,565,927	(1,503,330)	79,062,597

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8.1 Movement in allowance for impairment of financing:

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

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Retail				
Balance at the beginning of the year				365,209
Remeasurement at adoption of IFRS 9				148,327
Balance at the beginning of the year (restated)	72,641	71,705	369,190	513,536
Transfer to 12 month ECL	43,181	(38,708)	(4,473)	-
Transfer to life time ECL, not credit impaired	(505)	3,903	(3,398)	-
Transfer to life time ECL, credit impaired	(1,053)	(12,243)	13,296	-
Net charge for the year	134,973	17,651	(36,157)	116,467
Write-off	-	-	(2,070)	(2,070)
Balance as at December 31, 2018	249,237	42,308	336,388	627,933
Corporate				
Balance at the beginning of the year				1,138,121
Remeasurement at adoption of IFRS 9				557,384
Balance at the beginning of the year (restated)	365,883	904,659	424,963	1,695,505
Transfer to 12 month ECL	102,474	(102,474)	-	-
Transfer to life time ECL, not credit impaired	(67,256)	67,256	-	-
Transfer to life time ECL, credit impaired	(998)	(239,829)	240,827	-
Net charge for the year	127,740	99,207	49,382	276,329
Write-off	-	-	(94,697)	(94,697)
Balance as at December 31, 2018	527,843	728,819	620,475	1,877,137
Total				
Balance at the beginning of the year				1,503,330
Remeasurement at adoption of IFRS 9				705,711
Balance at the beginning of the year (restated)	438,524	976,364	794,153	2,209,041
Transfer to 12 month ECL	145,655	(141,182)	(4,473)	-
Transfer to life time ECL, not credit impaired	(67,761)	71,159	(3,398)	-
Transfer to life time ECL, credit impaired	(2,051)	(252,072)	254,123	-
Net charge for the year	262,713	116,858	13,225	392,796
Write-off	-	-	(96,767)	(96,767)
Balance as at December 31, 2018	777,080	771,127	956,863	2,505,070

2017	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Balance at the beginning of the year	277,067	94,698	371,767
Provided during the year	72,713	214,216	286,929
Bad debts written off	(717)	-	(717)
Reversals/recoveries of amounts previously provided	(38,854)	-	(38,854)
Balance at the end of the year	310,209	308,914	619,123
Collective provision	55,000	829,207	884,207
Total	365,209	1,138,121	1,503,330

8.2 Financing includes Ijarah as follows:

	2018 SAR'000	2017 SAR'000
Less than 1 year	**2,845,852**	2,736,786
1 to 5 years	**17,281,150**	16,469,588
Over 5 years	**23,925,895**	22,886,112
Gross receivables from Ijarah	**44,052,897**	42,092,486
Unearned future finance income on Ijarah	**(11,289,272)**	(11,385,052)
Specific provision	**(56,947)**	(33,784)
Net receivables from Ijarah	**32,706,678**	30,673,650

9. Property and equipment, net

	SAR'000				
	Land and buildings	**Leasehold improvements**	**Furniture and equipment**	**Total 2018**	Total 2017
Cost:					
Balance at beginning of the year	1,234,492	387,481	1,481,575	3,103,548	2,779,575
Additions	67,681	20,305	110,470	198,456	338,434
Disposals	-	(170)	(70,636)	(70,806)	(14,461)
Balance at end of the year	**1,302,173**	**407,616**	**1,521,409**	**3,231,198**	3,103,548
Accumulated depreciation:					
Balance at beginning of the year	69,203	201,636	956,286	1,227,125	1,041,757
Charge for the year	14,973	36,619	126,600	178,192	199,601
Disposals	-	(67)	(70,731)	(70,798)	(14,233)
Balance at end of the year	**84,176**	**238,188**	**1,012,155**	**1,334,519**	1,227,125
Net book value-as at December 31, 2018	**1,217,997**	**169,428**	**509,254**	**1,896,679**	
Net book value-as at December 31, 2017	1,165,289	185,845	525,289		1,876,423

Property and equipment includes work in progress as at December 31, 2018 amounting to SAR 227 million (2017: SAR 216 million).

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

Information technology related assets:	Tangible	Intangible SAR'000	Total
Cost	551,509	800,988	1,352,497
Accumulated depreciation/amortization	(333,108)	(545,993)	(879,101)
Net book value-as at December 31, 2018	**218,401**	**254,995**	**473,396**
Net book value-as at December 31, 2017	242,235	268,779	511,014

10. Other assets

	Note	2018 SAR'000	2017 SAR'000
Prepaid rental		**40,125**	40,196
Financing inventory		**581,290**	617,236
Other real estate	**10.1**	**442,884**	436,780
Other prepayments		**93,673**	51,855
Fee receivable from asset management services		**255,164**	153,210
Zakat refundable		**46,432**	2,118
Others		**240,505**	356,834
Total		**1,700,073**	1,658,229

10.1 This represents the properties held for sale which were acquired in settlement of financing due from customers. During the year, properties valuing SAR 46.5 million have been acquired in settlement of financing claims.

11. Due to banks and other financial institutions

	Note	2018 SAR'000	2017 SAR'000
Time investments from banks and other financial institutions	**11.1**	**6,100,926**	1,269,734
Others		**217,410**	83,153
Total		**6,318,336**	1,352,887

11.1 It represents Murabaha, Mudaraba and Wakala with banks.

12. Customers' deposits

i) Customers' deposits include the following:

	Note	2018 SAR'000	2017 SAR'000
Demand		**53,510,669**	45,316,467
Customers' time investments	**12.1**	**35,690,291**	42,987,385
Others	**12.2**	**927,178**	760,899
Total		**90,128,138**	89,064,751

12.1 It represents Murabaha and Mudaraba with customers.

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

ii) The above includes foreign currency deposits as follows:

	2018 SAR'000	2017 SAR'000
Demand	**912,193**	1,057,621
Customers' time investments	**5,383,686**	4,222,959
Others	**81,137**	17,369
Total	**6,377,016**	5,297,949

13. Other liabilities

	2018 SAR'000	2017 SAR'000
Accrued expenses	**244,428**	224,485
Outward drafts payable	**1,549,956**	1,888,222
Accounts payable	**343,752**	385,210
Advance rentals against financing	**849,976**	882,038
End of service liability (note 24.2)	**287,044**	219,553
Others	**313,989**	390,768
Total	**3,589,145**	3,990,276

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2017: 1,500 million shares) of SAR 10 each.

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

	2018	2017
	Percentage	
Public Pension Agency ("PPA")	**10.71**	10.89
Public Investment Fund ("PIF")	**10.00**	10.00
General Organization for Social Insurance ("GOSI")	**5.10**	5.10
General public and others	**74.19**	74.01
Total	**100.00**	100.00

15. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, and Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 629.3 million (2017: SAR 502.9 million) has been transferred from the net income for the year to the statutory reserve. The statutory reserve is not available for distribution.

16. Treasury shares and other reserves

Treasury shares have been acquired, after due approvals, for discharging the obligations of employees share based plans.

During the year an amount of SAR 45 million for 2017 and 2018 (2017: for 2016 SAR 15 million) was appropriated from retained earnings to other reserves. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2018 and 2017, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2018, the Bank had capital commitments of SAR 123 million (2017: SAR 145.1 million) relating to acquisition of property and equipment.

c) Credit related commitments and contingencies

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

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

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

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

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

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

2017	SAR'000 Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,730,135	802,337	490,385	223	3,023,080
Letters of guarantee	2,781,836	2,152,009	2,545,021	68,986	7,547,852
Acceptances	159,762	13,910	-	-	173,672
Irrevocable commitments to extend credit	-	488,627	-	-	488,627
Total	4,671,733	3,456,883	3,035,406	69,209	11,233,231

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

	2018 SAR'000	2017 SAR'000
Government and quasi government	**376,871**	720
Corporate	**11,376,046**	9,590,562
Banks and other financial institutions	**796,689**	1,641,949
Total	**12,549,606**	11,233,231

iii) The outstanding unused portion of commitments as at December 31, 2018, which can be revoked unilaterally at any time by the Bank, amounts to SAR 30,326 million (2017: SAR 26,717 million).

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Bank is lessee are as follows:

	2018 SAR'000	2017 SAR'000
Less than one year	**96,718**	5,437
One year to five years	**276,481**	35,263
Over five years	**109,879**	186,847
Total	**483,078**	227,547

18. Income from investments and financing, net

	2018 SAR'000	2017 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	**41,295**	41,099
Investments in Sukuk	**416,970**	177,011
Murabaha with banks and other financial institutions	**135,381**	183,325
Financing	**4,299,971**	3,853,304
Total	**4,893,617**	4,254,739
Return on time investments:		
Customers' time investments	**(1,012,174)**	(729,791)
Time investments from banks and other financial institutions	**(83,611)**	(31,924)
Total	**(1,095,785)**	(761,715)
	3,797,832	3,493,024

19. Fees from banking services, net

	2018 SAR'000	2017 SAR'000
Income on:		
Trade finance services	**91,750**	94,517
Card services	**496,125**	385,729
Fund management and other banking services	**398,880**	395,381
	986,755	875,627
Expense on:		
Card services	**(249,576)**	(192,891)
Other fees	**(6,125)**	(6,300)
	(255,701)	(199,191)
	731,054	676,436

20. Salaries and employee related expenses

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

SAR'000

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid: Cash		Variable Compensation paid: Shares		Variable Compensation paid: Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Senior executives requiring SAMA no objections	**17**	15	**44,221**	31,060	**9,130**	11,076	**3,961**	1,662	**13,091**	12,738
Employees engaged in risk taking activities	**678**	552	**240,511**	191,913	**43,385**	36,233	**-**	871	**43,385**	37,104
Employees engaged in control functions	**172**	149	**72,136**	58,249	**11,244**	9,756	**-**	470	**11,244**	10,226
Other employees	**1,550**	1,542	**368,584**	326,043	**55,603**	47,630	**-**	1,028	**55,603**	48,658
Outsourcing employees (engaged in risk taking activities)	**-**	-	**-**	-	**-**	-	**-**		**-**	-
	2,417	2,258	**725,452**	607,265	**119,362**	104,695	**3,961**	4,031	**123,323**	108,726
Variable compensation accrued	**-**	-	**127,804**	134,854	**-**	-	**-**	-	**-**	-
Other employee related benefits	**-**	-	**86,327**	133,890	**-**	-	**-**	-	**-**	-
Total	**2,417**	2,258	**939,583**	876,009	**119,362**	104,695	**3,961**	4,031	**123,323**	108,726

20.1 Salient features of Compensation Policy

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

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

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

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

21. Earnings per share

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

22. Proposed dividend and zakat

	2018	2017	**2018**	2017
	SAR'000	SAR'000	**SAR per share**	
Proposed dividend	**1,489,967**	1,191,964	**1.00**	0.80

As a major event, during the year the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle all pending Zakat claims/assessments up till the financial year ended 2017. Consequently a net refund of SAR 263 million is due from GAZT which will be settled from future zakat liabilities. The Bank has also withdrawn all pending appeals against the above assessment years.

As a result of above settlement an amount of SAR 557 million has been credited to retained earnings.

The estimated zakat for the year ended December 31, 2018 amounted to SAR 217 million (2017: SAR 62 million) which has been charged to retained earnings.

23. Cash and cash equivalents

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

	2018 **SAR'000**	2017 SAR'000
Cash in hand	**2,209,434**	1,902,511
Balances with SAMA excluding statutory deposit	**93,519**	451,093
Due from banks and other financial institutions maturing within three months of acquisition	**7,237,726**	8,348,596
Total	**9,540,679**	10,702,200

24. Employee benefit obligations

24.1 General description

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

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

	2018 SAR'000	2017 SAR'000
Defined benefit obligation at the beginning of the year	**219,553**	129,977
Service cost	**74,644**	81,766
Interest cost	**10,608**	7,148
Benefits paid	**(8,910)**	(8,719)
Actuarial (gain) / loss on re-measurement	**(8,851)**	9,381
Defined benefit obligation at the end of the year	**287,044**	219,553

The current service cost for the year was SAR 44.9 million (2017: 50.9 million).

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

	2018	2017
Discount rate	**5.20% p.a.**	5.00% p.a.
Expected rate of salary increase	**5.00% p.a.**	5.00% p.a.
Normal retirement age	**60 years**	60 years

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

24.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2018 to the discount rate (5.20%) and salary escalation rate (5.00%).

2018	**SAR 000'**		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1%**	**(31,763)**	**38,165**
Expected rate of salary increase	**1%**	**37,850**	**(32,098)**

2017	**SAR 000'**		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(25,749)	31,114
Expected rate of salary increase	1%	30,791	(25,974)

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

24.5 Expected maturity

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

December 31, 2018
SAR in '000'

Less than a year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
22,715	**38,576**	**70,818**	**1,582,683**	**1,714,792**

December 31, 2017
SAR in '000'

Less than a year	1-2 years	2-5 years	Over 5 years	Total
18,502	16,576	61,183	1,299,419	1,395,680

The weighted average duration of the defined benefit obligation is 14.9 years (2017: 15.6 years).

25. Operating segments

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

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

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

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

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

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

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

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

2018	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	**18,547,975**	**69,716,177**	**31,789,573**	**1,279,602**	**121,333,327**
Total liabilities	**70,893,110**	**6,872,293**	**21,882,246**	**387,970**	**100,035,619**
Income from investments and financing	**1,782,554**	**1,806,705**	**1,285,509**	**18,849**	**4,893,617**
Return on time investments	**(365,838)**	**(127,826)**	**(602,121)**	**-**	**(1,095,785)**
Income from investments and financing, net	**1,416,716**	**1,678,879**	**683,388**	**18,849**	**3,797,832**
Fees from banking services and other income	**334,989**	**91,254**	**285,015**	**335,832**	**1,047,090**
Total operating income	**1,751,705**	**1,770,133**	**968,403**	**354,681**	**4,844,922**
Charge for impairment of financing	**89,227**	**301,698**	**-**	**1,871**	**392,796**
Charge for impairment of other assets	**-**	**69,302**	**4,454**	**-**	**73,756**
Depreciation and amortization	**86,960**	**59,408**	**27,227**	**4,597**	**178,192**
Other operating expenses	**949,479**	**423,804**	**191,070**	**113,158**	**1,677,511**
Total operating expenses	**1,125,666**	**854,212**	**222,751**	**119,626**	**2,322,255**
Net operating income	**626,039**	**915,921**	**745,652**	**235,055**	**2,522,667**
Share of loss from an associate and a joint venture	**-**	**-**	**(5,234)**	**-**	**(5,234)**
Net income for the year	**626,039**	**915,921**	**740,418**	**235,055**	**2,517,433**

2017	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	17,703,057	65,936,266	30,385,077	727,276	114,751,676
Total liabilities	59,482,498	9,165,695	25,688,531	71,190	94,407,914
Income from investments and financing	1,556,501	1,696,162	995,373	6,703	4,254,739
Return on time investments	(202,166)	(126,505)	(433,044)	-	(761,715)
Income from investments and financing, net	1,354,335	1,569,657	562,329	6,703	3,493,024
Fees from banking services and other income	267,545	130,340	154,480	327,567	879,932
Total operating income	1,621,880	1,699,997	716,809	334,270	4,372,956
Charge for impairment of financing	36,997	521,485	-	-	558,482
Charge for impairment of other assets	-	24,420	28,498	-	52,918
Depreciation and amortization	88,855	73,680	34,304	2,762	199,601
Other operating expenses	874,660	408,847	182,266	79,359	1,545,132
Total operating expenses	1,000,512	1,028,432	245,068	82,121	2,356,133
Net operating income	621,368	671,565	471,741	252,149	2,016,823
Share of loss from an associate and a joint venture	-	-	(5,466)	-	(5,466)
Net income for the year	621,368	671,565	466,275	252,149	2,011,357

SAR '000	December 31, 2018				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Income from:					
-External customers	**816,185**	**3,398,662**	**275,394**	**354,681**	**4,844,922**
-Inter-segment	**935,520**	**(1,628,529)**	**693,009**	**-**	**-**
Total operating income	**1,751,705**	**1,770,133**	**968,403**	**354,681**	**4,844,922**

SAR '000	December 31, 2017				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Income from:					
-External customers	869,471	3,047,191	122,024	334,270	4,372,956
-Inter-segment	752,409	(1,347,194)	594,785	-	-
Total operating income	1,621,880	1,699,997	716,809	334,270	4,372,956

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

2018	SAR '000				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	**15,255,752**	**67,994,110**	**31,129,973**	**983,984**	**115,363,819**
Commitments and contingencies	**-**	**7,014,316**	**-**	**-**	**7,014,316**
Total	**15,255,752**	**75,008,426**	**31,129,973**	**983,984**	**122,378,135**

2017	SAR '000				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	14,581,166	64,417,318	29,934,216	717,673	109,650,373
Commitments and contingencies	-	6,562,400	-	-	6,562,400
Total	14,581,166	70,979,718	29,934,216	717,673	116,212,773

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

26. Credit risk

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

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

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

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

Expected credit Loss (ECL)

Credit Risk Grades

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

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

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

Impairment Framework

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

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

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

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

- **Stage 2 Underperforming assets** – Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Credit Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value.

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

Definition of 'Default'

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

Write offs

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

Impairment – Stage Assessment and Expected Credit Loss Estimation

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

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

Credit Losses (CL)

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

Lifetime expected credit losses

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

12- Month Expected credit losses

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

Probability of Default

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

Loss Given Default

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

Alinma uses the following LGD Rules matrix:

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

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

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

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

2018	SAR '000		
	Due from banks and other financial institutions	**Investments**	**Financing**
Base case (most likely)	**4,522**	**18,069**	**2,505,070**
Up turn	**4,042**	**16,704**	**2,462,296**
Down turn	**4,228**	**17,373**	**2,512,726**

26.1.1 Financing to customers by risk rating

	December 31, 2018				December 31, 2017
	12 month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired (non-Performing)**	**Total**	**Total**
	SAR '000				
Financing to customers (at amortized cost)					
Grades 1-4: investment grade	20,653,401	-	-	20,653,401	26,356,321
Grades 5-6: below investment grade	37,322,070	10,065,533	-	47,387,603	38,173,180
Grades 7: Watch-list	-	1,162,980	-	1,162,980	621,396
Unrated (Retail)	15,567,639	141,962	-	15,709,601	14,601,023
Impaired financing	-	-	1,276,651	1,276,651	814,007
Gross financing	**73,543,110**	**11,370,475**	**1,276,651**	**86,190,236**	**80,565,927**
Allowance for impairment (including for credit commitments and financial guarantee contracts)	**(777,080)**	**(771,127)**	**(956,863)**	**(2,505,070)**	(1,503,330)
Financing, net	**72,766,030**	**10,599,348**	**319,788**	**83,685,166**	**79,062,597**

Rating Scale (1 – 4) represents:	Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.
Rating Scale (5 – 6) represents:	Good to Satisfactory credit quality.
Rating Scale (7) represents:	Watch list category.

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

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

2017	Retail	Corporate	Total
			SAR'000
From 1 day to 30 days	936,823	7,834,412	8,771,235
From 31 days to 90 days	267,966	1,083,295	1,351,261
From 91 days to 180 days	-	191,609	191,609
More than 180 days	-	375,311	375,311
Total	1,204,789	9,484,627	10,689,416

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

SAR'000

2018	Performing	Non-performing	Life time ECL for credit impaired financing	Financing, net
Government and quasi government	**4,390,735**	**-**	**-**	**4,390,735**
Manufacturing	**10,272,628**	**99,778**	**(59,825)**	**10,312,581**
Electricity, water, gas & health services	**1,801,280**	**-**	**-**	**1,801,280**
Building, construction and real estate	**23,151,304**	**219,646**	**(242,252)**	**23,128,698**
Services	**8,086,619**	**49,050**	**(31,998)**	**8,103,671**
Mining	**490,868**	**-**	**-**	**490,868**
Agriculture	**2,736,475**	**-**	**-**	**2,736,475**
Consumer financing	**15,709,601**	**566,526**	**(336,388)**	**15,939,739**
Transportation and communication	**4,442,966**	**-**	**-**	**4,442,966**
Commerce	**10,225,538**	**341,651**	**(286,400)**	**10,280,789**
Others	**3,605,571**	**-**	**-**	**3,605,571**
	84,913,585	**1,276,651**	**(956,863)**	**85,233,373**
ECL against performing financing				**(1,548,207)**
Financing, net				**83,685,166**

SAR'000

2017	Performing	Non-performing	Allowance for impaired financing	Financing, net
Government and quasi government	6,265,258	-	-	6,265,258
Manufacturing	8,998,871	-	-	8,998,871
Electricity, water, gas & health services	1,301,411	-	-	1,301,411
Building, construction and real estate	19,815,539	94,698	(94,698)	19,815,539
Services	7,534,505	54,177	(8,745)	7,579,937
Mining	490,945	-	-	490,945
Agriculture	2,147,890	-	-	2,147,890
Consumer financing	14,601,024	398,095	(310,209)	14,688,910
Transportation and communication	4,597,817	-	-	4,597,817
Commerce	9,998,331	267,037	(205,471)	10,059,897
Others	4,000,329	-	-	4,000,329
	79,751,920	814,007	(619,123)	79,946,804
Collective provision				(884,207)
Financing, net				79,062,597

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

26.3 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. As at December 31, 2018 the Bank held collaterals of SAR 134,715 million (2017: SAR 126,766 million) against its secured financing.

The amount of collaterals held as security for financing that are credit-impaired as at December 31, 2018 are as follows:

SAR in '000'

Collateral coverage	**2018**	**2017**
Less than 50%	883,869	679,753
51% to 70%	92,922	49,205
More than 70%	299,860	85,049
Total	**1,276,651**	**814,007**

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

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

2018	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
	SAR'000				
Financial assets					
Cash and balances with SAMA	**7,359,684**	**-**	**-**	**-**	**7,359,684**
Due from banks and other financial institutions					
Current accounts	**-**	**7,209**	**99,732**	**55,766**	**162,707**
Murabaha and Wakala with banks	**5,890,712**	**1,556,468**	**682,660**	**-**	**8,129,840**
Investments, net					
Investments at amortized cost	**12,878,544**	**56,415**	**-**	**-**	**12,934,959**
FVOCI investments	**3,111,128**	**85,067**	**768**	**-**	**3,196,963**
FVIS investments	**1,757,212**	**-**	**-**	**422,936**	**2,180,148**
Other	**87,108**	**-**	**-**	**-**	**87,108**
Financing, net					
Retail	**15,648,194**	**-**	**-**	**-**	**15,648,194**
Corporate	**65,681,763**	**-**	**-**	**2,355,209**	**68,036,972**
Other assets	**1,562,515**	**-**	**-**	**-**	**1,562,515**
Total financial assets	**113,976,860**	**1,705,159**	**783,160**	**2,833,911**	**119,299,090**
Financial liabilities					
Due to banks and other financial institutions					
Demand	**99,506**	**559**	**-**	**117,345**	**217,410**
Time investments	**5,759,771**	**85,429**	**-**	**255,726**	**6,100,926**
Customers' deposits					
Demand	**54,437,847**	**-**	**-**	**-**	**54,437,847**
Customer's time investments	**35,690,291**	**-**	**-**	**-**	**35,690,291**
Other liabilities	**2,739,169**	**-**	**-**	**-**	**2,739,169**
Total financial liabilities	**98,726,584**	**85,988**	**-**	**373,071**	**99,185,643**
Commitments and contingencies:					
Letters of credit	**2,882,717**	**-**	**-**	**-**	**2,882,717**
Letters of guarantee	**8,837,299**	**-**	**-**	**-**	**8,837,299**
Acceptances	**255,025**	**-**	**-**	**-**	**255,025**
Irrevocable commitments to extend credit	**574,565**	**-**	**-**	**-**	**574,565**
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	**7,014,316**	**-**	**-**	**-**	**7,014,316**

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2017	SAR'000 Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	7,299,371	-	-	-	7,299,371
Due from banks and other financial institutions					
Current accounts	-	11,917	179,165	97,286	288,368
Murabaha and Wakala with banks	7,016,127	1,788,115	696,247	-	9,500,489
Investments, net					
Available for sale	12,433,459	94,076	14	462,446	12,989,995
Held as FVIS	77,045	-	-	-	77,045
Others	1,999,159	-	-	-	1,999,159
Financing, net					
Retail	14,633,909	-	-	-	14,633,909
Corporate	61,977,626	-	-	2,451,062	64,428,688
Other assets	1,556,674	-	-	-	1,556,674
Total financial assets	106,993,369	1,894,108	875,426	3,010,794	112,773,698
Financial liabilities					
Due to banks and other financial institutions					
Demand	77,344	2,568	-	3,241	83,153
Time investments	977,329	25,110	-	267,295	1,269,734
Customers' deposits					
Demand	46,077,366	-	-	-	46,077,366
Customer's time investments	42,987,385	-	-	-	42,987,385
Other liabilities	3,108,240	-	-	-	3,108,240
Total financial liabilities	93,227,664	27,678	-	270,536	93,525,878
Commitments and contingencies					
Letters of credit	3,023,080	-	-	-	3,023,080
Letters of guarantee	7,547,852	-	-	-	7,547,852
Acceptances	173,672	-	-	-	173,672
Irrevocable commitments to extend credit	488,627	-	-	-	488,627
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	6,562,400				6,562,400

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

2018	SAR'000 Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non-performing financing, net	**1,276,651**	**-**	**-**	**-**	**1,276,651**
Allowances for impairment on financing	**2,505,070**	**-**	**-**	**-**	**2,505,070**

2017	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
	SAR'000				
Non performing financing, net	814,007	-	-	-	814,007
Allowances for impairment on financing	1,503,330	-	-	-	1,503,330

27. Market risk

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

i. Market risk – trading book

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

ii. Market risk – non trading book

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

a) Profit rate risk

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

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

2018			**Sensitivity of equity (SAR '000)**				
	Increase/decrease in basis points	**Sensitivity of net income**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+10	**19,765**	**3,239**	**(4,845)**	**(7,914)**	**(82,429)**	**(91,949)**
	-10	**(19,765)**	**(3,239)**	**4,845**	**7,914**	**82,429**	**91,949**
2017			**Sensitivity of equity (SAR '000)**				
	Increase/decrease in basis points	**Sensitivity of net income**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+10	9,857	(195)	(14,154)	(72,549)	(42,310)	(129,208)
	-10	(9,857)	195	14,154	72,549	42,310	129208

Yield sensitivity of assets, liabilities and off balance sheet items

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

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

2018	**SAR'000**					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	**-**	**-**	**-**	**-**	**7,359,684**	**7,359,684**
Due from banks and other financial institutions:						
Current accounts	**-**	**-**	**-**	**-**	**162,707**	**162,707**
Murabaha and Wakala with banks	**7,074,891**	**664,829**	**390,120**	**-**	**-**	**8,129,840**
Investments, net						
Investments at amortized cost	**902,541**	**-**	**5,890,293**	**6,142,125**	**-**	**12,934,959**
FVOCI investments	**642,370**	**263,015**	**119,911**	**2,059,108**	**112,559**	**3,196,963**
FVIS investments FVIS	**-**	**-**	**-**	**-**	**2,180,148**	**2,180,148**
Others	**-**	**-**	**-**	**-**	**87,108**	**87,108**
Financing, net						
Retail	**780,945**	**2,147,557**	**7,941,582**	**4,778,110**	**-**	**15,648,194**
Corporate	**21,141,232**	**34,715,017**	**11,132,368**	**1,048,355**	**-**	**68,036,972**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,896,679**	**1,896,679**
Other assets	**-**	**-**	**-**	**-**	**1,700,073**	**1,700,073**
Total assets	**30,541,979**	**37,790,418**	**25,474,274**	**14,027,698**	**13,498,958**	**121,333,327**
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	**-**	**-**	**-**	**-**	**217,410**	**217,410**
Time investments	**5,613,731**	**487,195**	**-**	**-**	**-**	**6,100,926**
Customer deposits						
Demand	**4,125,357**	**-**	**-**	**-**	**50,312,490**	**54,437,847**
Customer's time investments	**27,629,721**	**6,901,564**	**1,159,006**	**-**	**-**	**35,690,291**
Other liabilities	**-**	**-**	**-**	**-**	**3,589,145**	**3,589,145**
Shareholders' equity	**-**	**-**	**-**	**-**	**21,297,708**	**21,297,708**
Total liabilities & shareholders' equity	**37,368,809**	**7,388,759**	**1,159,006**	**-**	**75,416,753**	**121,333,327**
Yield sensitivity - On statement of financial position	**(6,826,830)**	**30,401,659**	**24,315,268**	**14,027,698**	**(61,917,795)**	**-**
Yield sensitivity - Off statement of financial position	**3,071,353**	**6,582,884**	**2,851,121**	**44,248**	**-**	**12,549,606**
Total yield sensitivity gap	**(3,755,477)**	**36,984,543**	**27,166,389**	**14,071,946**		
Cumulative yield sensitivity gap	**(3,755,477)**	**33,229,066**	**60,395,455**	**74,467,401**		

2017	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,299,371	7,299,371
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	288,368	288,368
Murabaha and Wakala with banks	8,060,229	391,888	1,048,372	-	-	9,500,489
Investments, net						
Available for sale	647,065	1,425,140	3,633,126	5,528,888	1,755,776	12,989,995
Held as FVIS	-	-	-	-	77,045	77,045
Others	901,650	-	1,005,167	-	92,342	1,999,159
Financing, net						
Retail	891,146	3,670,787	8,603,838	1,468,138	-	14,633,909
Corporate	22,203,499	30,782,632	9,977,669	1,464,888	-	64,428,688
Property and equipment, net	-	-	-	-	1,876,423	1,876,423
Other assets					1,658,229	1,658,229
Total assets	32,703,589	36,270,447	24,268,172	8,461,914	13,047,554	114,751,676
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	-	-	-	-	83,153	83,153
Time investments	769,508	500,226	-	-	-	1,269,734
Customer deposits						
Demand	595,822	-	-	-	45,481,544	46,077,366
Customer's time investments	29,778,887	13,123,315	85,183	-	-	42,987,385
Other liabilities	-	-	-	-	3,990,276	3,990,276
Shareholders' equity	-	-	-	-	20,343,762	20,343,762
Total liabilities & shareholders' equity	31,144,217	13,623,541	85,183	-	69,898,735	114,751,676
Yield sensitivity - On statement of financial position	1,559,372	22,646,906	24,182,989	8,461,914	(56,892,181)	-
Yield sensitivity - Off statement of financial position	4,671,734	3,456,883	3,035,405	69,209	-	11,233,231
Total yield sensitivity gap	6,272,106	26,103,789	27,218,394	8,631,123		
Cumulative yield sensitivity gap	6,272,106	32,375,895	59,594,289	68,225,412		

b) Currency risk

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

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

	2018 SAR'000	2017 SAR'000
Assets		
Cash and balances with SAMA	**143,207**	106,703
Due from banks and other financial institutions	**3,782,709**	3,026,013
Investments, net	**566,254**	809,606
Financing, net	**2,505,822**	2,604,553
Other assets	**7,963**	38,581
Total currency risk on assets	**7,005,955**	6,585,456
Liabilities		
Due to banks and other financial institutions	**515,458**	288,610
Customers' deposits	**6,360,781**	5,297,949
Other liabilities	**385,048**	367,106
Total currency risk on liabilities	**7,261,287**	5,953,665

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

	2018 SAR'000	2017 SAR'000
USD	**(209,962)**	622,712
Euro	**(112)**	(4,530)
UAE Dirham	**(22,301)**	9,645
BHD	**(4,370)**	(14)
QAR	**132**	692
Others	**(18,719)**	3,286
Total	**(255,332)**	631,791

Equity price risk

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

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

	2018			2017	
	SAR'000			**SAR'000**	
Market index-(Tadawul)	**Increase / decrease in market prices%**	**Effect on equity**		**Increase / decrease in market prices%**	**Effect on equity**
Impact of change in market prices	**±10%**	**± 9,590**		±10%	± 10,359

28. Liquidity risk

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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

2018	**SAR'000**					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities						
Due to banks and other financial institutions						
Demand	**217,410**	**-**	**-**	**-**	**-**	**217,410**
Time investments	**5,616,296**	**500,825**	**-**	**-**	**-**	**6,117,121**
Customers' deposits						
Demand	**54,437,847**	**-**	**-**	**-**	**-**	**54,437,847**
Customer's time investments	**27,692,582**	**6,994,564**	**1,267,605**	**-**	**-**	**35,954,751**
Other liabilities	**-**	**-**	**-**	**-**	**3,589,145**	**3,589,145**
Total liabilities	**87,964,135**	**7,495,389**	**1,267,605**	**-**	**3,589,145**	**100,316,274**

2017	**SAR'000**					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities						
Due to banks and other financial institutions						
Demand	83,153	-	-	-	-	83,153
Time investments	769,710	510,290	-	-	-	1,280,000
Demand	46,077,366	-	-	-	-	46,077,366
Customer's time investments	29,835,815	13,272,277	88,848	-	-	43,196,940
Other liabilities	-				3,990,276	3,990,276
Total liabilities	76,766,044	13,782,567	88,848	-	3,990,276	94,627,735

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

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

2018	SAR'000					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**7,359,684**	**-**	**-**	**-**	**-**	**7,359,684**
Due from banks and other financial institutions:						
Current accounts	**162,707**	**-**	**-**	**-**	**-**	**162,707**
Murabaha and Wakala with banks	**7,074,891**	**664,829**	**390,120**	**-**	**-**	**8,129,840**
Investments, net						
Investments at amortized cost	**902,541**	**-**	**5,890,293**	**6,142,125**	**-**	**12,934,959**
FVOCI investments	**642,370**	**358,913**	**119,911**	**2,059,108**	**16,661**	**3,196,963**
FVIS investments FVIS	**-**	**2,180,148**	**-**	**-**	**-**	**2,180,148**
Others	**-**	**-**	**-**	**-**	**87,108**	**87,108**
Financing, net						
Retail	**774,928**	**2,147,727**	**7,942,678**	**4,782,860**	**-**	**15,648,193**
Corporate	**12,816,400**	**18,625,378**	**23,166,441**	**13,428,754**	**-**	**68,036,973**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,896,679**	**1,896,679**
Other assets	**-**	**-**	**-**	**-**	**1,700,073**	**1,700,073**
Total	**29,733,521**	**23,976,995**	**37,509,443**	**26,412,847**	**3,700,521**	**121,333,327**
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	**217,410**	**-**	**-**	**-**	**-**	**217,410**
Time investments	**5,613,731**	**487,195**	**-**	**-**	**-**	**6,100,926**
Customers' deposits						
Demand	**54,437,847**	**-**	**-**	**-**	**-**	**54,437,847**
Customer's time investments	**27,629,721**	**6,901,564**	**1,159,006**	**-**	**-**	**35,690,291**
Other liabilities	**-**	**-**	**-**	**-**	**3,589,145**	**3,589,145**
Shareholders' equity	**-**	**-**	**-**	**-**	**21,297,708**	**21,297,708**
Total	**87,898,709**	**7,388,759**	**1,159,006**	**-**	**24,886,853**	**121,333,327**
Commitments & contingencies						
Letters of credit	**1,386,902**	**1,480,661**	**14,887**	**267**	**-**	**2,882,717**
Letters of guarantee	**1,525,816**	**4,431,268**	**2,836,234**	**43,981**	**-**	**8,837,299**
Acceptances	**158,635**	**96,390**	**-**	**-**	**-**	**255,025**
Irrevocable commitments to extend credit	**-**	**574,565**	**-**	**-**	**-**	**574,565**

2017	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,299,371	-	-	-	-	7,299,371
Due from banks and other financial institutions:						
Current accounts	288,368	-	-	-	-	288,368
Murabaha and Wakala with banks	8,060,228	391,888	1,048,373	-	-	9,500,489
Investments, net						
Available for sale	647,065	2,950,635	3,855,000	5,528,888	8,407	12,989,995
Held as FVIS	-	77,045	-	-	-	77,045
Others	901,650	-	1,005,167	-	92,342	1,999,159
Financing, net						
Retail	656,648	1,937,431	7,409,626	4,630,204	-	14,633,909
Corporate	13,000,479	18,323,191	21,565,090	11,539,928	-	64,428,688
Property and equipment, net	-	-	-	-	1,876,423	1,876,423
Other assets					1,658,229	1,658,229
Total	30,853,809	23,680,190	34,883,256	21,699,020	3,635,401	114,751,676
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	83,153	-	-	-	-	83,153
Time investments	769,508	500,226	-	-	-	1,269,734
Customers' deposits						
Demand	46,077,366	-	-	-	-	46,077,366
Customer's Time investments	29,778,887	13,123,315	85,183	-	-	42,987,385
Other liabilities	-	-	-	-	3,990,276	3,990,276
Shareholders' equity	-	-	-	-	20,343,762	20,343,762
Total	76,708,914	13,623,541	85,183	-	24,334,038	114,751,676
Commitments & contingencies						
Letters of credit	1,730,135	802,337	490,385	223	-	3,023,080
Letters of guarantee	2,781,836	2,152,009	2,545,021	68,986	-	7,547,852
Acceptances	159,762	13,910	-	-	-	173,672
Irrevocable commitments to extend credit	-	488,627	-	-	-	488,627

29. Operational risk

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

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the operational risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

30. Sharia'a non-compliance risk

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

31. Reputational risk

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

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

32. Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

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

				SAR '000
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVIS				
- Equities	**50,763**	**-**	**-**	**50,763**
- Mutual funds	**1,934,463**	**-**	**194,922**	**2,129,385**
Financial assets held as FVOCI				
- Equities	**112,559**	**-**	**-**	**112,559**
- Mutual funds	**-**	**-**	**-**	**-**
- Sukuk	**85,161**	**3,003,368**	**-**	**3,088,529**
Total	**2,182,946**	**3,003,368**	**194,922**	**5,381,236**

				SAR '000
2017	Level 1	Level 2	Level 3	Total
Financial assets held as FVIS				
- Equities	44,710	-	-	44,710
- Mutual funds	32,334	-	-	32,334
Financial assets held as available for sale				
- Equities	112,095	-	-	112,095
- Mutual funds	1,437,398	-	206,283	1,643,681
- Sukuk	8,922,889	2,311,330	-	11,234,219
Total	10,549,427	2,311,330	206,283	13,067,040

The movement in Level 3 financial instrument represents movement due to fair value changes only.

(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.

	2018		**2017**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	SAR '000			
Assets				
Due from banks and other financial institutions	**8,297,069**	**8,284,595**	9,788,857	9,755,746
Investments – Murabaha with SAMA	**1,907,707**	**1,909,840**	1,906,817	1,896,071
Sukuks – Amortized Cost	**11,041,196**	**10,839,633**	-	-
Financing, net	**83,685,166**	**83,491,292**	79,062,597	79,054,001
Liabilities				
Due to banks and other financial institutions	**6,318,336**	**6,318,519**	1,352,887	1,352,251
Customers' deposits	**90,128,138**	**90,133,444**	89,064,751	89,093,574

33. Related party balances and transactions

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

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

	2018 SAR'000	2017 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing to key management personnel	**36,977**	41,480
Customers' deposits	**1,988,705**	11,490,257
Investments in associate and joint venture	**87,108**	92,342
Financing and investments in mutual funds	**8,489,165**	2,794,093
Deposits from mutual funds	**368,640**	687,550
Borrowings from mutual fund	**250,000**	-

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

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

	2018 SAR'000	2017 SAR'000
Income on financing	**354,027**	98,185
Return on time investments	**239,628**	320,937
Fee from banking services, net	**255,448**	193,726
Directors' remuneration	**4,394**	4,257

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

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

	2018 SAR'000	2017 SAR'000
Short-term employees benefits	**60,024**	53,259
End of service benefit	**3,363**	2,216
Shares under employee share based scheme	**3,961**	1,662

34. Capital adequacy

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

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

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

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

Particulars	**2018 SAR'000**	2017 SAR'000
Credit Risk Weighted Assets	**101,696,007**	95,890,718
Operational Risk Weighted Assets	**7,841,050**	6,727,186
Market Risk Weighted Assets	**422,812**	870,356
Total Pillar-I Risk Weighted Assets	**109,959,869**	103,488,260
Tier I Capital	**21,876,003**	20,343,762
Tier II Capital	**1,271,200**	884,207
Total Tier I & II Capital	**23,147,203**	21,227,969
Capital Adequacy Ratio %		
Tier I ratio	**20%**	20%
Tier I + Tier II ratio	**21%**	21%

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 38,926 million (2017: SAR 31,510 million).

36. Prior year restatement

The bank has an investment in a fund whose fair value is determined based on fund's Net Asset Value (NAV). During the year, the fund manager has restated the prior year NAV of the fund. The restatement of the NAV was due to the inclusion of certain financial information, which should not have been included by the fund manager in the determination of the NAV of the fund. Accordingly, the Bank has restated the fair value of its investment in the fund recorded in the prior year. The effect of restatements is as follows:

Consolidated statement of financial position — **December 31, 2017 (SAR '000)**

Account	**Balance as previously reported**	**Effect of restatement**	**Balance as restated**
Investments	15,319,590	(253,391)	15,066,199
Fair value reserve for available for sale investments	340,155	(253,391)	86,764

Consolidated statement of comprehensive income

December 31, 2017 (SAR '000)

Net change in fair value reserve for available for sale investment during the year	263,758	(253,391)	10,367

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37. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the standards and amendments which have been published and are mandatory for compliance by the Bank effective from accounting period beginning on or after January 1, 2019.

Standard, and amendments	Effective date	Brief description of changes
IFRS 16 – "Leases"	January 01, 2019	The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.
Amendments to IAS 19 -- "Employee Benefits"	January 01, 2019	The amendments cover the accounting for when a plan amendment, curtailment or settlement occurs during a reporting period.

Implementation and Impact Analysis of IFRS 16 – "Leases"

The Bank plans to adopt IFRS 16 with modified retrospective approach where the comparative information will not be restated and on the date of initial application i.e. January 1, 2019 the requirements of IFRS 16 will be applied.

For all the leases classified as operating leases a lease liability will be recognized at the date of initial application measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Corresponding right-of-use asset will be recorded by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

During 2018, the Bank has performed a detailed impact assessment of IFRS 16. Based on this assessment, it is expected that the total assets and liabilities will increase by 0.34% and 0.42% respectively. There will be no material impact on consolidated statement of income.

38. Comparative figures

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

39. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 22 Jumada I, 1440H (corresponding to 28 January, 2019).