

# INDEPENDENT AUDITOR'S REPORT



KPMG Al Fozan & Partners  
Certified Public Accountants

## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company)**

### **Report on the audit of the consolidated financial statements**

#### **Opinion**

We have audited the consolidated financial statements of Bank Albilad ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the 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 Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "the IFRS as endorsed in the Kingdom of Saudi Arabia").

#### **Basis for opinion**

We conducted our audit in accordance with the 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 Group in accordance with the professional code of conduct and ethics as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

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



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## Independent auditors' report to the shareholders of Bank Albilad (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
<p><b>Impairment of financing</b></p> <p>As at 31 December 2019, the gross financing of the Group amounted to SAR 61.3 billion against which an expected credit loss ("ECL") allowance of SAR 1.9 billion was maintained.</p> <p>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 Group. The key areas of judgement include:</p> <ol style="list-style-type: none"> <li>Categorisation of financing into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> <li>exposures with significant deterioration in credit quality since their origination; and</li> <li>individually impaired / defaulted exposures.</li> </ol> </li> <li>Assumptions used in the ECL model such as financial condition of the counterparty, expected future cash flows, forward looking macroeconomic factors, etc.</li> <li>The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model.</li> </ol> <p><i>Refer to the summary of significant accounting policy note [3(a)] for the impairment of financial assets; note [2(d)(i)] which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note [8] which contains the disclosure of impairment against financing; and note [29] for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.</i></p>	<ul style="list-style-type: none"> <li>We have obtained an understanding of management's assessment of impairment of financing including the Group's internal rating model, impairment allowance policy and ECL modelling methodology.</li> <li>We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9, and assessed the underlying assumptions and the data inputs used.</li> <li>We assessed the design and implementation, and tested the operating effectiveness of the key controls over: <ul style="list-style-type: none"> <li>the modelling process, including governance over the monitoring of the model and approval of key assumptions;</li> <li>the classification of borrowers into various stages and timely identification of significant increase in credit risk ("SICR"); and</li> <li>the integrity of data inputs into the ECL model.</li> </ul> </li> <li>For a sample of customers, we assessed: <ul style="list-style-type: none"> <li>the internal ratings determined by management based on the Group's internal rating model;</li> <li>the staging as identified by management; and</li> <li>management's computations for ECL.</li> </ul> </li> <li>We checked the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into the relevant stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Group's staging categorisation.</li> <li>We assessed the reasonableness of the forward looking assumptions used by the Group in the ECL calculations.</li> <li>Where management overlays were used, we assessed those overlays and the governance process around such overlays.</li> <li>We checked the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2019.</li> <li>Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity.</li> <li>We assessed the adequacy of the disclosures in the consolidated financial statements.</li> </ul>



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## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

### **Report on the audit of the consolidated financial statements (continued)**

#### **Other information included in the Group's 2019 annual report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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 management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, 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 management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group'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 the 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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## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

### **Report on the audit of the consolidated financial statements (continued)**

#### **Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 internal control 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group 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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**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 year 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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