



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021



KPMG Professional Services



Independent auditors' review report on the interim condensed consolidated financial statements

To: The shareholders of Bank Albilad
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bank Albilad ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2021, and the related interim consolidated statements of income and comprehensive income for the three and six months periods then ended, and the interim consolidated statements of changes in equity and cash flows for the six months period then ended, and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by the Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 15 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 15 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

KPMG Professional Services
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Hani Hamzah A. Bedairi
Certified Public Accountant
License Number 460



Ernst & Young
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
License Number 277



26 Dhul Hijjah 1442H
(5 August 2021)

BANK ALBILAD

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT**

| | June 30, 2021 SAR'000 (Unaudited) | December 31, 2020 SAR'000 (Audited) | June 30, 2020 SAR'000 (Unaudited) |
|--|--|--|--|
| <u>Note</u> | | | |
| ASSETS | | | |
| Cash and balances with SAMA | 6,665,962 | 5,745,353 | 5,351,825 |
| Due from banks and other financial institutions, net | 1,851,602 | 2,179,430 | 2,987,370 |
| Investments, net | 16,788,445 | 14,883,679 | 12,859,508 |
| Financing, net | 79,129,992 | 70,114,980 | 64,922,659 |
| Property, equipment and right of use assets, net | 1,860,864 | 1,896,092 | 1,925,245 |
| Other assets | 1,355,274 | 934,752 | 811,114 |
| Total assets | <u>107,652,139</u> | <u>95,754,286</u> | <u>88,857,721</u> |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Due to banks, SAMA and other financial institutions | 5,063,288 | 5,402,930 | 5,669,260 |
| Customers' deposits | 81,638,058 | 71,552,889 | 64,875,731 |
| Sukuk | 4,078,967 | 2,004,876 | 2,005,162 |
| Other liabilities | 5,455,276 | 6,052,694 | 6,421,689 |
| Total liabilities | <u>96,235,589</u> | <u>85,013,389</u> | <u>78,971,842</u> |
| Equity | | | |
| Share capital | 7,500,000 | 7,500,000 | 7,500,000 |
| Treasury shares | (61,953) | (70,527) | (80,660) |
| Statutory reserve | 648,065 | 648,065 | 310,935 |
| Other reserves | 751,145 | 897,063 | 814,276 |
| Retained earnings | 2,573,172 | 1,755,951 | 1,326,850 |
| Employees' share plan reserve | 6,121 | 10,345 | 14,478 |
| Total equity | <u>11,416,550</u> | <u>10,740,897</u> | <u>9,885,879</u> |
| Total liabilities and equity | <u>107,652,139</u> | <u>95,754,286</u> | <u>88,857,721</u> |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

| | <u>Note</u> | <u>For the three months period ended</u> | | <u>For the six months period ended</u> | |
|---|-------------|--|--------------------------------------|--|--------------------------------------|
| | | <u>June 30, 2021 SAR'000</u> | <u>June 30, 2020 SAR'000</u> | <u>June 30, 2021 SAR'000</u> | <u>June 30, 2020 SAR'000</u> |
| INCOME | | | | | |
| Income from investing and financing assets | | 910,683 | 907,997 | 1,822,395 | 1,815,703 |
| Return on deposits and financial liabilities | | (68,189) | (86,776) | (121,143) | (225,404) |
| Income from investing and financing assets, net | | 842,494 | 821,221 | 1,701,252 | 1,590,299 |
| Fee and commission income, net | | 196,739 | 123,222 | 395,482 | 288,185 |
| Exchange income, net | | 73,378 | 100,047 | 147,115 | 186,896 |
| Dividend income | | 5,226 | 4,803 | 8,482 | 8,275 |
| Gains / (losses) on FVTPL investment, net | | 6,344 | (53,709) | (2,039) | (79,529) |
| Other operating income | | 6,855 | 3,923 | 13,729 | 9,535 |
| Total operating income | | 1,131,036 | 999,507 | 2,264,021 | 2,003,661 |
| EXPENSES | | | | | |
| Salaries and employee related expenses | | 296,220 | 293,588 | 590,570 | 583,125 |
| Depreciation and amortization | | 68,329 | 64,659 | 136,767 | 127,079 |
| Other general and administrative expenses | | 166,277 | 141,148 | 329,121 | 284,575 |
| Operating expenses before expected credit losses | | 530,826 | 499,395 | 1,056,458 | 994,779 |
| Impairment charge for expected credit losses, net | | 136,345 | 145,924 | 305,845 | 353,978 |
| Total operating expenses | | 667,171 | 645,319 | 1,362,303 | 1,348,757 |
| Net income for the period before zakat | | 463,865 | 354,188 | 901,718 | 654,904 |
| Zakat for the period | | 47,778 | 36,127 | 92,877 | 66,800 |
| Net income for the period after zakat | | 416,087 | 318,061 | 808,841 | 588,104 |
| Basic and diluted earnings per share (SAR) | 14 | 0.56 | 0.43 | 1.08 | 0.79 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | <u>For the three months</u> <u>period ended</u> | | <u>For the six months period</u> <u>ended</u> | |
|--|--|------------------------------------|--|------------------------------------|
| | June 30, 2021 <u>SAR'000</u> | June 30, 2020 <u>SAR'000</u> | June 30, 2021 <u>SAR'000</u> | June 30, 2020 <u>SAR'000</u> |
| Net income for the period after zakat | 416,087 | 318,061 | 808,841 | 588,104 |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to interim consolidated statement of income in subsequent periods | | | | |
| - Net changes in fair value of FVOCI (equity instruments) | 43,004 | 10,879 | 66,766 | (50,603) |
| - Re-measurement of employees "End of Service Benefits ("EOSB") | 297 | 143 | 297 | 143 |
| Items that may be reclassified to interim consolidated statement of income in subsequent periods | | | | |
| - Net changes in fair value of FVOCI (debt instruments) | 116,864 | 373,254 | (204,601) | 278,275 |
| Total other comprehensive income/ (loss) | <u>160,165</u> | <u>384,276</u> | <u>(137,538)</u> | <u>227,815</u> |
| Total comprehensive income for the period | <u>576,252</u> | <u>702,337</u> | <u>671,303</u> | <u>815,919</u> |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

| <u>2021</u> SAR' 000 | Share capital | Treasury shares | Statutory reserve | Other reserves | Retained earnings | Employees' share plan reserve | Total equity |
|--|------------------|-----------------|-------------------|------------------|-------------------|-------------------------------|-------------------|
| Balance at the beginning of the period | 7,500,000 | (70,527) | 648,065 | 897,063 | 1,755,951 | 10,345 | 10,740,897 |
| Net changes in fair value of FVOCI (equity instruments) | | | | 66,766 | | | 66,766 |
| Re-measurement of employees "End of Service Benefits ("EOSB")" | | | | 297 | | | 297 |
| Net changes in fair value of FVOCI (debt instruments) | | | | (204,601) | | | (204,601) |
| Total other comprehensive loss | | | | (137,538) | - | | (137,538) |
| Net income for the period after zakat | | | | | 808,841 | | 808,841 |
| Total comprehensive income / (loss) for the period | | | | (137,538) | 808,841 | | 671,303 |
| Realized gain from sale of FVOCI (equity instruments) | | | | (8,380) | 8,380 | | - |
| Allocation of shares during the period | | 8,574 | | | | (8,574) | - |
| Employees' share plan reserve | | | | | | 4,350 | 4,350 |
| Balance at the end of the period | 7,500,000 | (61,953) | 648,065 | 751,145 | 2,573,172 | 6,121 | 11,416,550 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

| <u>2020</u> SAR' 000 | Share capital | Treasury shares | Statutory Reserve | Other reserves | Retained earnings | Employees' share plan reserve | Total equity |
|---|------------------|-----------------|-------------------|----------------|-------------------|----------------------------------|------------------|
| Balance at the beginning of the period | 7,500,000 | (80,660) | 310,935 | 581,317 | 1,118,890 | 8,478 | 9,438,960 |
| Net changes in fair value of FVOCI (equity instruments) | | | | (50,603) | | | (50,603) |
| Re-measurement of employees "End of Service Benefits ("EOSB") | | | | 143 | | | 143 |
| Net changes in fair value of FVOCI (debt instruments) | | | | <u>278,275</u> | | | <u>278,275</u> |
| Total other comprehensive income | | | | 227,815 | | | 227,815 |
| Net income for the period after zakat | | | | | <u>588,104</u> | | <u>588,104</u> |
| Total comprehensive income for the period | | | | <u>227,815</u> | <u>588,104</u> | | <u>815,919</u> |
| Realized (loss) from sale of FVOCI (equity instruments) | | | | 5,144 | (5,144) | | - |
| Employees' share plan reserve | | | | | | 6,000 | 6,000 |
| Cash dividends | | | | | (375,000) | | (375,000) |
| Balance at the end of the period | <u>7,500,000</u> | <u>(80,660)</u> | <u>310,935</u> | <u>814,276</u> | <u>1,326,850</u> | <u>14,478</u> | <u>9,885,879</u> |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021 and 2020**

| | <u>Note</u> | <u>2021</u> <u>SAR' 000</u> | <u>2020</u> <u>SAR' 000</u> |
|---|-------------|--------------------------------|--------------------------------|
| OPERATING ACTIVITIES | | | |
| Net income before zakat for the period | | 901,718 | 654,904 |
| Adjustments to reconcile net income to net cash generated from / (used in) operating activities: | | | |
| Profit on sukuk | | 38,198 | 40,248 |
| Loss on FVTPL investments, net | | 2,039 | 79,529 |
| (Gains) from disposal of property and equipment, net | | (205) | (32) |
| Depreciation and amortization | | 136,767 | 127,079 |
| Impairment charge for expected credit losses, net | | 305,845 | 353,978 |
| Employees' share plan reserve | | 4,350 | 6,000 |
| Net (increase)/ decrease in operating assets: | | | |
| Statutory deposit with SAMA | | (580,971) | 59,722 |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | 743,936 | 1,037,723 |
| Bai Alajel with SAMA maturing after ninety days from the date of acquisition | | (300,759) | 441,842 |
| Financing, net | | (9,320,666) | (5,949,003) |
| Other assets | | (420,522) | 1,089,970 |
| Net increase/ (decrease) in operating liabilities: | | | |
| Due to banks, SAMA and other financial institutions | | (339,642) | 5,024,140 |
| Customers' deposits | | 10,085,169 | (2,229,812) |
| Other liabilities | | (667,789) | (413,448) |
| Net cash generated from operating activities | | 587,468 | 322,840 |
| INVESTING ACTIVITIES | | | |
| (Purchase) / proceeds of investments held as FVOCI | | (31,455) | 226,942 |
| (Purchase)/ proceeds of investments held as FVTPL | | (134,234) | 89,064 |
| (Purchase) of investments held as amortized cost | | (1,878,412) | (2,064,542) |
| (Purchase) of property and equipment | | (58,599) | (156,261) |
| Net cash (used in) investing activities | | (2,102,700) | (1,904,797) |
| FINANCING ACTIVITIES | | | |
| Distributed sukuk profit | | (25,107) | (42,854) |
| Sukuk issuance | | 2,061,000 | - |
| Dividend paid | | - | (375,000) |
| Payment of lease liability | | (64,944) | (80,299) |
| Net cash generated from/ (used in) financing activities | | 1,970,949 | (498,153) |
| Net increase/ (decrease) in cash and cash equivalents | | 455,717 | (2,080,110) |
| Cash and cash equivalents at the beginning of the period | | 2,906,729 | 5,757,872 |
| Cash and cash equivalents at the end of the period | 10 | 3,362,446 | 3,677,762 |
| Supplemental information | | | |
| Income received from investing and financing assets | | 1,878,225 | 1,882,010 |
| Exchange of sukuk | 8 | 939,000 | - |
| Return paid on deposits and financial liabilities | | 101,135 | 258,419 |

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

1. GENERAL

a) Incorporation and operation

Bank Albilad (“the Bank”), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated Ramadan 21, 1425H (corresponding to November 4, 2004) in accordance with the Counsel of Ministers’ resolution no. 258 dated Ramadan 18, 1425H (corresponding to November 1, 2004). The Bank operates under Commercial Registration No.1010208295 dated Rabi Al Awal 10, 1426H (corresponding to April 19, 2005) and the Bank provides these services through 106 banking branches (June 30, 2020: 111) and 175 exchange and remittance centers (June 30, 2020: 178) in the Kingdom of Saudi Arabia.

The registered address of the Bank's head office is as follows:

Bank Albilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, “Albilad Investment Company” and “Albilad Real Estate Company” (collectively referred to as “the Group”). Albilad Investment Company and Albilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group’s objective is to provide full range of banking services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with the Shariah Committee resolutions and directions and within the provisions of the Bank’s By-laws and the Banking Control Law.

b) Shariah Authority

The Bank has established a Shariah Authority (“the Authority”). It ascertains that all the Bank’s activities are subject to its approval and control.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the six months period ended June 30, 2021, have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”). The interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and amounts are rounded to the nearest thousand.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2020.

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2020, were prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and pronouncements issued by the SOCPA.

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

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set forth in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the interim financial statements of the subsidiaries, where necessary, to align with the Bank’s consolidated interim financial statements.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Balances between the Bank and its subsidiaries and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing these condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates, and assumptions used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020, except for the policies explained below.

New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- The amendments provide temporary relief that address the impact on financial reporting when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:
 - A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
 - Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
 - Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

For further details, please refer note 18 to these interim condensed consolidated financial statements.

Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which will be effective from periods on or after January 1, 2022. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- IFRS 17, 'Insurance contracts', as amended in June 2020

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****5. INVESTMENTS, NET**

| | June 30, 2021 SAR' 000 (Unaudited) | December 31, 2020 SAR' 000 (Audited) | June 30, 2020 SAR' 000 (Unaudited) |
|--|---|---|---|
| Fair value through other comprehensive income (FVOCI) | | | |
| Equities | 564,896 | 465,998 | 429,767 |
| Sukuk | 7,446,424 | 7,651,702 | 7,575,830 |
| | <u>8,011,320</u> | <u>8,117,700</u> | <u>8,005,597</u> |
| Fair value through profit or loss (FVTPL) | | | |
| Mutual funds | 871,152 | 806,672 | 697,699 |
| Equities | 67,715 | - | - |
| | <u>938,867</u> | <u>806,672</u> | <u>697,699</u> |
| Amortized cost | | | |
| Sukuk | 6,542,106 | 4,663,885 | 2,864,753 |
| Bai Alajel with SAMA | 1,296,152 | 1,295,422 | 1,291,459 |
| | <u>7,838,258</u> | <u>5,959,307</u> | <u>4,156,212</u> |
| Total | <u>16,788,445</u> | <u>14,883,679</u> | <u>12,859,508</u> |

6. FINANCING, NET

| | June 30, 2021 SAR'000 (Unaudited) | December 31, 2020 SAR'000 (Audited) | June 30, 2020 SAR'000 (Unaudited) |
|--------------------------------------|--|--|--|
| Commercial | 41,272,172 | 35,812,045 | 34,462,199 |
| Retail | 39,466,603 | 35,821,656 | 31,696,779 |
| Performing financing | <u>80,738,775</u> | 71,633,701 | 66,158,978 |
| Non-performing financing | 1,012,499 | 845,192 | 881,145 |
| Gross financing | <u>81,751,274</u> | 72,478,893 | 67,040,123 |
| Allowance for expected credit losses | (2,621,282) | (2,363,913) | (2,117,464) |
| Financing, net | <u>79,129,992</u> | <u>70,114,980</u> | <u>64,922,659</u> |

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****6. FINANCING, NET (continued)**

The analysis of changes in loss allowance for expected credit losses:

| June 30, 2021 SAR' 000 | 12-month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|-----------------|-------------------------------------|---------------------------------|------------------|
| Loss allowance for ECL as at January 1, 2021 | 373,089 | 1,189,307 | 801,517 | 2,363,913 |
| Transfers to 12-month ECL | 1,592 | (1,444) | (148) | - |
| Transfers to lifetime ECL not credit impaired | (41,933) | 42,180 | (247) | - |
| Transfers to lifetime ECL credit impaired | (44,200) | (223,419) | 267,619 | - |
| Net charge/ (reversal) for the period | 88,544 | 243,335 | (36,340) | 295,539 |
| Write-offs | - | - | (38,170) | (38,170) |
| Loss allowance as for ECL at June 30, 2021 | 377,092 | 1,249,959 | 994,231 | 2,621,282 |

| June 30, 2020 SAR' 000 | 12-month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|-----------------|-------------------------------------|---------------------------------|-----------|
| Loss allowance for ECL as at January 1, 2020 | 229,479 | 931,994 | 681,314 | 1,842,787 |
| Transfers to 12-month ECL | 6,056 | (5,915) | (141) | - |
| Transfers to lifetime ECL not credit impaired | (107,040) | 108,354 | (1,314) | - |
| Transfers to lifetime ECL credit impaired | (39,963) | (114,692) | 154,655 | - |
| Net charge for the period | 213,929 | 53,349 | 27,750 | 295,028 |
| Write-offs | - | - | (20,351) | (20,351) |
| Loss allowance for ECL as at June 30, 2020 | 302,461 | 973,090 | 841,913 | 2,117,464 |

7. CUSTOMERS' DEPOSITS

Customers' deposits are comprised of the following:

| | June 30, 2021 SAR'000 (Unaudited) | December 31, 2020 SAR'000 (Audited) | June 30, 2020 SAR'000 (Unaudited) |
|-----------------------------|--|--|--|
| Demand | 43,923,030 | 40,185,062 | 38,260,731 |
| Albilad account (Mudarabah) | 21,301,902 | 19,800,317 | 20,363,986 |
| Direct investment | 13,609,011 | 9,522,087 | 4,487,343 |
| Others | 2,804,115 | 2,045,423 | 1,763,671 |
| Total | 81,638,058 | 71,552,889 | 64,875,731 |

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****8. SUKUK**

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears on February 28, May 30, August 30, November 30 each year until August 30, 2026, on which date the Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30, 2021 as per the terms and conditions in the related offering circular. Sukuk can be redeemed at the option of the bank on the periodic distribution date that falls on the 5th anniversary of the closing date. regulatory approval has already been obtained in this regard. The Bank has not defaulted on any of payments (profit / principal) due during the period. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

On April 15, 2021, the Bank issued 3,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly each year until April 15, 2031. The Bank has a call option which can be exercised on or after April 15, 2026 as per the terms mentioned in the related offering circular. The expected profit distribution on the sukuk is the base rate for three months in addition to a profit margin of 1.65%.

The offer also included an option for the holders of the SAR 2 billion Sukuk (due 2026) that were previously issued by the Bank (the "Previous Sukuk") to exchange their investment in the Previous Sukuk with an investment in the Tier 2 Sukuk, subject to the terms and conditions of the Sukuk. Certain Sukuk holders with carrying value of SR 939 million has exercised their exchange option and subscribed into the investment in the Tier 2 Sukuk.

9. COMMITMENTS AND CONTINGENCIES

a) The Group's credit related commitments and contingencies are as follows:

| | June 30, 2021 SAR' 000 (Unaudited) | December 31, 2020 SAR' 000 (Audited) | June 30, 2020 SAR' 000 (Unaudited) |
|---|---|---|---|
| Letters of guarantee | <u>6,292,832</u> | 5,603,173 | 5,588,443 |
| Letters of credit | <u>1,193,432</u> | 1,343,578 | 667,919 |
| Acceptances | <u>577,221</u> | 416,848 | 666,448 |
| Irrevocable commitments to extend credit | <u>910,505</u> | 2,192,171 | 1,034,388 |
| Total | <u>8,973,990</u> | <u>9,555,770</u> | <u>7,957,198</u> |

b) The group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at December 31, 2020.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****10. CASH AND CASH EQUIVALENTS**

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

| | June 30, 2021 SAR' 000 (Unaudited) | December 31, 2020 SAR' 000 (Audited) | June 30, 2020 SAR' 000 (Unaudited) |
|--|---|---|---|
| Cash and balances with SAMA (excluding statutory deposit) | 2,080,867 | 1,741,229 | 1,858,176 |
| Due from banks and other financial institutions (maturing within ninety days from acquisition) | 1,281,579 | 865,471 | 1,379,081 |
| Bai Alajel with SAMA (maturing within ninety days from acquisition) | - | 300,029 | 440,505 |
| Total | <u>3,362,446</u> | <u>2,906,729</u> | <u>3,677,762</u> |

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer 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 to sell the asset or transfer the liability takes place either:

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

Determination of fair value and fair value hierarchy

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

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

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

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

| SAR' 000 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|--|-----------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| June 30, 2021 | | | | | |
| Financial assets measured at fair value | | | | | |
| Held as FVTPL | 938,867 | 399,909 | 538,958 | - | 938,867 |
| Held as FVOCI (equity instruments) | 564,896 | 398,464 | - | 166,432 | 564,896 |
| Held as FVOCI (debt instruments) | 7,446,424 | 722,872 | - | 6,723,552 | 7,446,424 |
| Financial assets not measured at fair value | | | | | |
| Due from banks and other financial institutions, net | 1,851,602 | - | - | 1,851,602 | 1,851,602 |
| Investments held at amortized cost | 7,838,258 | 2,746,138 | - | 5,092,120 | 7,838,258 |
| Financing, net | 79,129,992 | - | - | 79,030,638 | 79,030,638 |

| SAR' 000 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|--|-----------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| December 31, 2020 | | | | | |
| Financial assets measured at fair value | | | | | |
| Held as FVTPL | 806,672 | 307,718 | 498,954 | - | 806,672 |
| Held as FVOCI (equity instruments) | 465,998 | 298,855 | - | 167,143 | 465,998 |
| Held as FVOCI (debt instruments) | 7,651,702 | 736,217 | - | 6,915,485 | 7,651,702 |
| Financial assets not measured at fair value | | | | | |
| Due from banks and other financial institutions, net | 2,179,430 | - | - | 2,179,430 | 2,179,430 |
| Investments held at amortized cost | 5,959,307 | 2,104,355 | - | 3,854,952 | 5,959,307 |
| Financing, net | 70,114,980 | - | - | 70,006,017 | 70,006,017 |

| SAR' 000 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|--|-----------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| June 30, 2020 | | | | | |
| Financial assets measured at fair value | | | | | |
| Held as FVTPL | 697,699 | 215,333 | 482,366 | - | 697,699 |
| Held as FVOCI (equity instruments) | 429,767 | 260,612 | - | 169,155 | 429,767 |
| Held as FVOCI (debt instruments) | 7,575,830 | 717,655 | - | 6,858,175 | 7,575,830 |
| Financial assets not measured at fair value | | | | | |
| Due from banks and other financial institutions, net | 2,987,370 | - | - | 2,987,370 | 2,987,370 |
| Investments held at amortized cost | 4,156,212 | 1,633,161 | - | 2,523,051 | 4,156,212 |
| Financing, net | 64,922,659 | - | - | 64,777,261 | 64,777,261 |

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

| SAR' 000 June 30, 2021 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|---|---------------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Financial liabilities not measured at fair value | | | | | |
| Due to banks, SAMA and other financial institutions | 5,063,288 | - | - | 5,063,288 | 5,063,288 |
| Customers' deposits | 81,638,058 | - | - | 81,638,058 | 81,638,058 |
| Sukuk | 4,078,967 | - | - | 4,078,967 | 4,078,967 |

| SAR' 000 December 31, 2020 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|---|-----------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Financial liabilities not measured at fair value | | | | | |
| Due to banks, SAMA and other financial institutions | 5,402,930 | - | - | 5,402,930 | 5,402,930 |
| Customers' deposits | 71,552,889 | - | - | 71,552,889 | 71,552,889 |
| Sukuk | 2,004,876 | - | - | 2,004,876 | 2,004,876 |

| SAR' 000 June 30, 2020 | <u>Carrying value</u> | Fair value | | | <u>Total</u> |
|---|-----------------------|----------------|----------------|----------------|--------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Financial liabilities not measured at fair value | | | | | |
| Due to banks, SAMA and other financial institutions | 5,669,260 | - | - | 5,669,260 | 5,669,260 |
| Customers' deposits | 64,875,731 | - | - | 64,875,731 | 64,875,731 |
| Sukuk | 2,005,162 | - | - | 2,005,162 | 2,005,162 |

The fair values of financial instruments which are not measured at fair value in these interim condensed consolidated financial statements are not significantly different from the carrying values included in the interim condensed consolidated financial statements.

Cash and balances with SAMA, due from banks and other short-term receivable are assumed to have fair values that reasonably approximate their corresponding carrying values.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

The fair values of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. The Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair value through other comprehensive income (FVOCI) classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using the Credit Default Swaps (CDS) of a similar entity using publicly available information. The valuation method has been approved by the Assets-Liability Committee (ALCO).

During the current period, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

Reconciliation of level 3 fair values held as FVOCI

| | June 30, 2021 SAR' 000 (Unaudited) | December 31, 2020 SAR' 000 (Audited) | June 30, 2020 SAR' 000 (Unaudited) |
|---|---|---|---|
| Beginning balance | 7,082,628 | 7,052,761 | 7,052,761 |
| Purchase | - | 1,250 | 1,250 |
| Disposal | - | (248,933) | (248,933) |
| Gains/ (losses) included in OCI | | | |
| Net changes in fair value (unrealised) | (192,644) | 277,550 | 222,252 |
| Total | 6,889,984 | 7,082,628 | 7,027,330 |

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

12. OPERATING SEGMENT

Operating segments based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2020.

For management purposes, the Group is divided into the following four operating segments:

Retail banking

Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking

Services and products to corporate customers including deposits, financing and trade services.

Treasury

Money market and treasury services.

Investment banking and brokerage

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****12. OPERATING SEGMENT (continued)**

The Group's total assets and liabilities as at June 30, 2021 and 2020, together with its total operating income and expenses, and net income before zakat, for the six months periods then ended, for each segment are as follows:

| SAR'000 | June 30, 2021 (Unaudited) | | | | |
|---|---------------------------|-------------------|------------|----------------------------------|-------------|
| | Retail banking | Corporate banking | Treasury | Investment banking and brokerage | Total |
| Total assets | 47,032,209 | 39,245,191 | 20,418,330 | 956,409 | 107,652,139 |
| Total liabilities | 60,998,470 | 16,497,812 | 18,510,896 | 228,411 | 96,235,589 |
| Income from investing and financing assets, net | 1,123,318 | 366,523 | 207,419 | 3,992 | 1,701,252 |
| Fee, commission and other income, net | 355,029 | 32,282 | 59,220 | 116,238 | 562,769 |
| Total operating income | 1,478,347 | 398,805 | 266,639 | 120,230 | 2,264,021 |
| Impairment charge for expected credit losses, net | 97,493 | 208,161 | (2,899) | 3,090 | 305,845 |
| Depreciation and amortization | 109,986 | 24,077 | 1,289 | 1,415 | 136,767 |
| Total operating expenses | 955,445 | 315,866 | 33,497 | 57,495 | 1,362,303 |
| Net income for the period before zakat | 522,902 | 82,939 | 233,142 | 62,735 | 901,718 |

| SAR'000 | June 30, 2020 (Unaudited) | | | | |
|---|---------------------------|-------------------|------------|----------------------------------|------------|
| | Retail banking | Corporate banking | Treasury | Investment banking and brokerage | Total |
| Total assets | 39,535,910 | 32,360,962 | 16,131,082 | 829,767 | 88,857,721 |
| Total liabilities | 54,006,475 | 13,703,617 | 11,060,985 | 200,765 | 78,971,842 |
| Income from investing and financing assets, net | 955,446 | 464,312 | 167,541 | 3,000 | 1,590,299 |
| Fee, commission and other income, net | 295,992 | 28,382 | 13,020 | 75,968 | 413,362 |
| Total operating income | 1,251,438 | 492,694 | 180,561 | 78,968 | 2,003,661 |
| Impairment charge for expected credit losses, net | 30,515 | 286,366 | 37,097 | - | 353,978 |
| Depreciation and amortization | 89,195 | 30,942 | 5,592 | 1,350 | 127,079 |
| Total operating expenses | 791,230 | 438,075 | 76,928 | 42,524 | 1,348,757 |
| Net income for the period before zakat | 460,208 | 54,619 | 103,633 | 36,444 | 654,904 |

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (30 June 2020: 750 million shares of SAR 10 each).

14. EARNING PER SHARE (“EPS”)

Basic and diluted earnings per share for the six months period ended June 30, 2021 and 2020 is calculated by dividing the net income for the period by the weighted average number of outstanding shares as of June 30, 2021: 746 million shares (June 30, 2020: 746 million shares) adjusted for treasury shares.

15. CAPITAL ADEQUACY

The Group’s objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group’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 regularly by the Group’s management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021****15. CAPITAL ADEQUACY (continued)**

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios:

| | June 30, 2021 SAR' 000 (Unaudited) | December 31, 2020 SAR' 000 (Audited) | June 30, 2020 SAR' 000 (Unaudited) |
|--------------------------------------|---|---|---|
| Credit Risk RWA | 76,730,308 | 67,979,379 | 64,169,457 |
| Operational Risk RWA | 7,647,609 | 7,243,454 | 6,823,904 |
| Market Risk RWA | 1,054,127 | 839,000 | 860,358 |
| Total Pillar-I RWA | 85,432,044 | 76,061,833 | 71,853,719 |
| Tier I Capital | 11,487,879 | 10,801,732 | 9,923,667 |
| Tier II Capital | 4,959,129 | 2,849,742 | 2,802,118 |
| Total Tier I & II Capital | 16,447,008 | 13,651,474 | 12,725,785 |
| Capital Adequacy Ratio % | | | |
| Tier I ratio | 13.45% | 14.20% | 13.81% |
| Tier I + Tier II ratio | 19.25% | 17.95% | 17.71% |

16. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to the current period presentation.

17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

During 2020 management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

The Group continues to make updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models:

- Customers whose credit quality appear to have deteriorated on a permanent basis and thus the Group is required to recognise lifetime ECL losses on such exposures;
- Customers whose credit quality have either stayed stable (due to the offsetting nature of availing government programs) or have declined but the decline is deemed to be temporary as the customer may have sound fundamentals to emerge strongly post lockdown.

The Group also continues to evaluate the current situation through conducting stress-testing scenarios of expected movements in key macroeconomic indicators (e.g. oil prices, GDP etc.) and its impact on key credit, liquidity, operational and solvency ratios and performance indicators in addition to other risk management practices. The steps taken by management also includes a periodic review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection thereby conducting timely review and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programs.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)**SAMA support programs and initiatives****Private Sector Financing Support Program (“PSFSP”)**

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program (DPP);
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program subsequently announced, the Group deferred payments on lending facilities to MSME. The payment reliefs were considered as short-term liquidity support to address borrowers’ potential cash flow shortages. The Group implemented the payment reliefs by deferring instalments falling due from March 14, 2020 to June 30, 2021 amounting to SAR 2 billion and extended the tenure of the applicable financing at no additional costs to the customer.

Further to the above, SAMA on June 22, 2021 announced the extension of the DPP for three additional months from July 1, 2021 to September 30, 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the banks to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA on June 22, 2021. The Group has performed an assessment to determine the pool of customers eligible for deferment and accordingly has deferred the installment falling due from July 1, 2021 to September 30, 2021 amounting to SAR 709 million and extended the tenure of the applicable financing at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 35 million.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 275 million until period ended June 30, 2021 (June 30, 2020: SAR 50 million).

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)

During the six months period ended June 30, 2021, SAR 25 million (June 30,2020: SAR 25 million) has been recognised to the statement of income relating to unwinding of modification losses.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed an assessment with respect to SICR and migrated customers amounting to SAR 120 million from Stage 1 and 2 to Stage 2 and 3 by downgrading the customer credit rating which resulted in additional ECL of SAR 2.6 million for the period ended June 30, 2021 compared with December 31, 2020 data.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Group has therefore maintained an overlay of SAR 73 million for corporate exposures as at 30 June 2021.

In order to compensate the related cost that the Group is expected to incur under the SAMA and other public authorities program, during the year 2020 and the six month period ended June 30, 2021, the Group received profit free deposits from SAMA amounting to SAR 2.1 billion with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments.

The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SAR 233 million had been recognised in the statement of income with the remaining amount deferred. During the six months period ended June 30, 2021, a total of SAR 119 million (June 30, 2020: SAR 21 million) has been recognised in the statement of income with respect to related deposits with no amount outstanding as deferred grant income as at June 30, 2021 (June 30, 2020: SAR 51 million).

As at June 30, 2021, the Group has participated in SAMA’s facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the six months period ended June 30, 2021, the Group has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 33 million.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (continued)**SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion**

In line with its monetary and financial stability mandate, SAMA injected SAR 50 billion into the banking sector to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during 2020, the Group received a SAR 2.6 billion profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in the Group recognising total income of SAR 25.5 million has been recognised in the consolidated statement of income in a systematic basis over the government grant period. This deposit has been repaid during the quarter ended June 30, 2021.

Similarly, during the three months period ended 30 June 2021, the Group received of SAR 2 billion profit free deposit with a three-month maturity. Management has determined that this government grant primarily relates to liquidity support. This resulted in the Group recognising total income of SAR 5.1 million out of which SAR 1.7 million has been recognised in the consolidated statement of income during the period ended June 30, 2021 and the remaining amount deferred.

18. IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS)

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board (“IASB”) has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including its replacement with alternative benchmark rates.

The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021. As there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate in financial markets, and is used in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2021**

18. IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS) (continued)

The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR settings at the end of 2021, leaving just one year for firms to remove their remaining reliance on these benchmarks.

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR, particularly SIBOR, continues to be used as a reference rate as at 30 June 2021 in the valuation of instruments.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

**19. BOARD OF DIRECTORS' APPROVAL OF THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 22 Dhul-Hijja, 1442H (corresponding to August 01, 2021).