



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019**



KPMG Al Fozan & Partners
Certified Public Accountants

**INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders of
Bank Albilad
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

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 31 March 2019, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three 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 International Accounting Standard 34 - "*Interim Financial Reporting*" ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. 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 International Standard on Review Engagements 2410 - "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as 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 modified by SAMA for the accounting of zakat and income tax.



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**INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in Note 16 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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13 Sha'ban 1440H
(18 April 2019)



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	March 31, 2018 SAR'000 (Unaudited)
Note			
ASSETS			
Cash and balances with SAMA	5,412,810	6,438,201	5,081,991
Due from banks and other financial institutions, net	5,148,609	8,334,284	8,452,746
Investments, net	6 8,332,395	6,465,710	5,145,684
Financing, net	7 51,409,412	50,593,033	45,615,804
Property and equipment, net	1,874,663	1,146,848	893,194
Other assets	723,647	658,050	588,915
Total assets	<u>72,901,536</u>	<u>73,636,126</u>	<u>65,778,334</u>
LIABILITIES AND EQUITY			
Liabilities			
Due to SAMA	-	-	2,006,456
Due to banks and other financial institutions	1,082,282	3,100,791	1,271,780
Customers' deposits	8 57,590,932	57,175,594	50,773,709
Sukuk	9 2,008,465	2,008,587	2,006,719
Other liabilities	3,949,201	3,518,205	1,999,065
Total liabilities	<u>64,630,880</u>	<u>65,803,177</u>	<u>58,057,729</u>
Equity			
Share capital	14 6,000,000	6,000,000	6,000,000
Statutory reserve	-	-	866,508
Other reserves	80,748	(69,832)	(42,774)
Retained earnings	768,328	483,441	750,572
Proposed dividends	-	-	240,000
Proposed issuance of bonus shares	14 1,500,000	1,500,000	-
Treasury shares	(80,670)	(90,780)	(96,335)
Employee share plan reserve	2,250	10,120	2,634
Total equity	<u>8,270,656</u>	<u>7,832,949</u>	<u>7,720,605</u>
Total liabilities and equity	<u>72,901,536</u>	<u>73,636,126</u>	<u>65,778,334</u>

The accompanying notes from 1 to 18 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>For the three month period ended 31 March</u>	
	<u>Note</u>	
		<u>2019</u>
		<u>SAR'000</u>
		<u>2018</u>
		<u>SAR'000</u>
INCOME		
Income from investing and financing assets		769,739
Return on deposits and financial liabilities		(172,648)
Income from investing and financing assets, net		597,091
Fee and commission income, net		209,662
Exchange income, net		73,947
Dividend income		2,897
Gains on fair value through profit or loss investments, net		18,580
Other operating income		19,232
Total operating income		921,409
EXPENSES		
Salaries and employee related expenses		275,499
Rent and premises related expenses		27,175
Depreciation and amortization		59,939
Other general and administrative expenses		117,421
Impairment charge for credit and other financial assets, net		124,834
Total operating expenses		604,868
Net income for the period		316,541
Basic and diluted earnings per share (SAR)	15	0.53
		0.43

The accompanying notes from 1 to 18 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)

	For the three month period ended 31 March	
	2019 SAR'000	2018 SAR'000
Net income for the period	316,541	256,112
Other comprehensive income:		
Items that will not be reclassified to consolidated statement of income in subsequent periods		
- Net movement in fair value reserve (equity instruments)	16,650	13,631
Items that may be reclassified to consolidated statement of income in subsequent periods		
-Debt instrument at fair value through other comprehensive income:		
• Net changes in fair value	133,930	(49,542)
Total other comprehensive income	150,580	(35,911)
Total comprehensive income for the period	467,121	220,201

The accompanying notes from 1 to 18 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 THREE MONTHS PERIOD ENDED MARCH 31, 2019**

<u>2019</u> SAR' 000	<u>Share capital</u>	<u>Statutory</u> <u>reserve</u>	<u>Other reserves</u>	<u>Retained</u> <u>earnings</u>	<u>Proposed cash</u> <u>dividends</u>	<u>Proposal issuance</u> <u>of bonus shares</u>	<u>Treasury</u> <u>shares</u>	<u>Employees'</u> <u>share plan</u> <u>reserve</u>	<u>Total</u>
Balance at the beginning of the period	6,000,000	-	(69,832)	483,441	-	1,500,000	(90,780)	10,120	7,832,949
Changes in the equity for the period									
Net movement in fair value reserve (equity instruments)			16,650						16,650
Net movement in FVOCI reserve for investments			133,930						133,930
Total other comprehensive income			150,580	-					150,580
Net income for the period				316,541					316,541
Total comprehensive income for the period			150,580	316,541					467,121
Treasury shares							10,110		10,110
Employees' share plan reserve								(7,870)	(7,870)
Proposal issuance of bonus shares									
Zakat for current period				(31,654)					(31,654)
Balance at end of the period	6,000,000	-	80,748	768,328	-	1,500,000	(80,670)	2,250	8,270,656

The accompanying notes from 1 to 18 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2018**

2018 SAR' 000	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Proposed cash dividends</u>	<u>Proposal issuance of bonus shares</u>	<u>Treasury shares</u>	<u>Employees' share plan reserve</u>	<u>Total</u>
Balance at the beginning of the period	6,000,000	866,508	47,420	530,805	240,000	-	(104,575)	8,635	7,588,793
Effect of change in accounting policy			(54,283)	(26,345)		-			(80,628)
Balance at the beginning of the period as restated	6,000,000	866,508	(6,863)	504,460	240,000	-	(104,575)	8,635	7,508,165
Changes in the equity for the period									
Net movement in fair value reserve (equity instruments)			13,631						13,631
Net movement in FVOCI reserve for investments			(49,542)						(49,542)
Total other comprehensive income			(35,911)						(35,911)
Net income for the period				256,112					256,112
Total comprehensive income for the period			(35,911)	256,112					220,201
Treasury shares							8,240		8,240
Employees' share plan reserve								(6,001)	(6,001)
Zakat for current period				(10,000)					(10,000)
Balance at end of the period	6,000,000	866,508	(42,774)	750,572	240,000	-	(96,335)	2,634	7,720,605

The accompanying notes from 1 to 18 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 THREE MONTHS PERIOD ENDED MARCH 31, 2019 AND 2018**

	Note	2019 SAR' 000	2018 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		316,541	256,112
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Profit on Sukuk		24,296	19,232
(Gains) / losses on FVTPL investments, net		(18,580)	(9,634)
Losses / (gains) from disposal of property and equipment, net		155	(54)
Depreciation and amortisation		59,939	22,053
Impairment charge for credit and other financial assets, net		124,834	95,114
Employee share plan		2,240	2,239
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(110,824)	(199,721)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(262,139)	(272,369)
Commodity Murabaha with SAMA maturing after ninety days from the date of acquisition		(51,488)	988,986
Financing		(936,372)	(2,326,519)
Other assets		(65,597)	(239,422)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		-	(6,062)
Due to banks and other financial institutions		(2,018,509)	(477,157)
Customers' deposits		415,338	2,990,750
Other liabilities		399,343	(78,829)
Net cash (used in) / generated from operating activities		(2,120,823)	764,719
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held as FVOCI		3,564	38,963
Purchase of investments held as FVOCI		(1,700,000)	(693,883)
Proceeds from sales and maturities of investments held as FVTPL		-	174,474
Purchase of investments held as FVTPL		(3,750)	(164,557)
Proceeds from sale of property and equipment		-	85
Purchase of property and equipment		(787,909)	(39,854)
Net cash used in investing activities		(2,488,095)	(684,772)
FINANCING ACTIVITIES			
Distributed Sukuk profit		(24,418)	(19,088)
Net cash used in financing activities		(24,418)	(19,088)
Net change in cash and cash equivalents		(4,633,336)	60,859
Cash and cash equivalents at the beginning of the period		9,574,966	9,064,626
Cash and cash equivalents at the end of the period	11	4,941,630	9,125,485
Supplemental non cash information			
Income received from investing and financing assets		884,264	570,597
Return paid on deposits and financial liabilities		166,832	126,896
Total other comprehensive income		150,580	(35,911)

The accompanying notes from 1 to 18 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 THREE MONTHS PERIOD ENDED MARCH 31, 2019

1. GENERAL

a) Incorporation and operation

Bank Albilad (the “Bank”), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers’ resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

**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 Islamic Shariah and within the provisions of the By-laws and the Banking Control Law. The Bank provides these services through 111 banking branches (March 31, 2018: 113) and 180 exchange and remittance centers (March 31, 2018: 179) in the Kingdom of Saudi Arabia.

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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

2. BASIS OF PREPARATION

The interim consolidated financial statements for the three months ended 31 March 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting as modified by SAMA for the accounting of zakat and income tax. The interim 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 as at 31 December 2018. The Bank has adopted IFRS 16 Leases from 1 January 2019 and accounting policies for this new standard are disclosed in the Note 4.

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.

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.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim 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.

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019 the Group has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

IFRS 16 Leases

Prior to 01 January 2019, the Bank applied the following policy for the accounting of leases:

(i) Where the Bank is the lessee

Leases that do not transfer to the Group 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 Group are 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

(ii) Where the Bank is the lessor

When assets are transferred under Ijara Muntahia Bittamleek, the present value of the lease payments is recognized as a receivable and disclosed under “Financing”. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Bank adopted IFRS 16 Leases, the accounting standard that replaces the previous guidance on leases, including IAS 17 “Leases”, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 is effective for annual periods commencing on or after January 01, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the Bank’s Financial Position, unless the term is 12 months or less or the lease is a low value asset. Thus, the classification required under IAS 17 into either on operating or a finance leases is eliminated for the Lessees. For each lease, the lessee recognizes a liability for the lease obligations to be incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs. The right to use leased asset is amortized over the useful life.

The Bank adopted IFRS 16 prospectively, in that, comparative periods are not restated. The Bank elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognized in the statement of financial position at the data of initial application.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements.

Right of Use Asset (“RoU”) / Lease Liabilities

On initial recognition at the inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019****Right of Use Assets**

The Bank applies cost model and measures the right of use asset at cost;

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- b) Adjusted for any re-measurement of the lease liability for lease modifications

Generally, the RoU asset would be equate the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Bank measures the lease liability by:

1. Increasing the carrying amount to reflect the interest on the lease liability,
2. Reducing the carrying amount to reflect the lease payments made: and
3. Re-measuring the carrying amount to reflect any re-assessment or any lease modification.

6. INVESTMENTS, NET

	March 31, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	March 31, 2018 SAR' 000 (Unaudited)
Fair Value Through Other Comprehensive Income (FVOCI)			
Equities	395,153	381,512	382,233
Sukuk	<u>6,219,812</u>	<u>4,390,851</u>	<u>2,764,008</u>
	<u>6,614,965</u>	<u>4,772,363</u>	<u>3,146,241</u>
Fair value through profit or loss (FVTPL)			
Mutual funds	<u>422,383</u>	<u>400,083</u>	<u>706,107</u>
Amortized Cost			
Commodity Murabaha with SAMA	<u>1,295,047</u>	<u>1,293,264</u>	<u>1,293,336</u>
Total	<u>8,332,395</u>	<u>6,465,710</u>	<u>5,145,684</u>

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019****7. FINANCING, NET**

	March 31, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	March 31, 2018 SAR'000 (Unaudited)
Commercial	29,556,246	30,235,333	29,213,962
Consumer	22,829,308	21,344,690	17,237,733
Performing financing	52,385,554	51,580,023	46,451,695
Non-performing financing	724,563	728,626	571,204
Gross financing	53,110,117	52,308,649	47,022,899
Allowance for impairment	(1,700,705)	(1,715,616)	(1,407,095)
Financing, net	51,409,412	50,593,033	45,615,804

8. CUSTOMERS' DEPOSITS

	March 31, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	March 31, 2018 SAR'000 (Unaudited)
Demand	31,535,990	29,290,547	30,388,751
Albilad account (Mudarabah)	15,341,106	15,781,512	14,394,191
Direct investment	9,624,323	11,023,615	5,010,707
Others	1,089,513	1,079,920	980,060
Total	57,590,932	57,175,594	50,773,709

9. 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 29, May 30, August 30, November 30 each year until August 30, 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30 2021 upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. 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%.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019****10. COMMITMENTS AND CONTINGENCIES**

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

	March 31, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	March 31, 2018 SAR' 000 (Unaudited)
Letters of guarantee	4,386,428	4,276,157	4,057,292
Letters of credit	1,121,202	825,898	943,912
Acceptances	352,325	454,411	395,872
Irrevocable commitments to extend credit	1,666,642	496,104	515,991
Total	7,526,597	6,052,570	5,913,067

b) The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at March 31, 2019.

11. CASH AND CASH EQUIVALENTS

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

	March 31, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	March 31, 2018 SAR' 000 (Unaudited)
Cash	1,689,711	1,702,065	1,673,791
Due from banks and other financial institutions (maturing within ninety days from acquisition)	2,540,202	5,988,016	6,286,787
Held to maturity investment (maturing within ninety days from acquisition)	250,744	300,050	691,683
Balances with SAMA (excluding statutory deposit)	460,973	1,584,835	473,224
Total	4,941,630	9,574,966	9,125,485

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019****12. 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:

- In the 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.

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.

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	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
March 31, 2019					
Financial assets measured at fair value					
Held as FVTPL	422,383	69,298	353,085	-	422,383
Held as FVOCI	6,614,965	5,950,622	-	664,343	6,614,965
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	5,148,609	-	-	5,148,609	5,148,609
Investments held at amortized cost	1,295,047	-	-	1,295,047	1,295,047
Financing, net	51,409,412			51,130,529	51,130,529

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2018					
Financial assets measured at fair value					
Held as FVTPL	400,083	54,496	345,587	-	400,083
Held as FVOCI	4,772,363	4,104,095	-	668,268	4,772,363
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	8,334,284	-	-	8,334,284	8,334,284
Investments held at amortized cost	1,293,264	-	-	1,293,264	1,293,264
Financing, net	50,593,033			50,014,077	50,014,077

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SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
March 31, 2019					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,082,282	-	-	1,082,282	1,082,282
Customers' deposits	57,590,932	-	-	57,590,932	57,590,932
Sukuk	2,008,465	-	-	2,008,465	2,008,465

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
December 31, 2018					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,100,791	-	-	3,100,791	3,100,791
Customers' deposits	57,175,594	-	-	57,175,594	57,175,594
Sukuk	2,008,587	-	-	2,008,587	2,008,587

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.

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. An active market for these instruments is not available and 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 CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

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

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	March 31, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	March 31, 2018 SAR' 000 (Unaudited)
Beginning balance	668,268	1,466,429	1,466,429
Purchase	-	256,250	607,500
Sales	-	(1,048,754)	-
Gain / (loss) included in OCI			
Net changes in fair value (unrealised)	(3,925)	(5,657)	(28,664)
Total	664,343	668,268	2,045,265

13. SEGMENT INFORMATION

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) and the Chief Decision Maker 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, 2018.

For management purposes, the Group is divided into the following five 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.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to operating segments, based on approved criteria.

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The Group's total assets and liabilities as at March 31, 2019 and 2018, together with its total operating income and expenses, and net income, for the three months period then ended, for each segment are as follows:

SAR'000	March 31, 2019 (Unaudited)				
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	30,840,515	26,734,320	14,499,872	826,829	72,901,536
Total liabilities	43,486,452	11,587,417	9,268,792	288,219	64,630,880
Net income from investing and financing assets	333,258	212,906	47,739	3,188	597,091
Fee, commission and other income, net	216,134	32,605	36,482	39,097	324,318
Total operating income	549,392	245,511	84,221	42,285	921,409
Impairment charge for Credit and other Financial Assets, net	52,237	67,717	4,880	-	124,834
Depreciation	46,693	10,568	2,016	662	59,939
Total operating expenses	414,681	144,054	24,960	21,173	604,868
Net income for the period	134,711	101,457	59,261	21,112	316,541

SAR'000	March 31, 2018 (Unaudited)				
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Total
Total assets	20,924,192	26,997,443	17,035,047	821,652	65,778,334
Total liabilities	36,964,889	12,498,241	8,576,533	18,066	58,057,729
Net income from investing and financing assets	239,919	187,065	57,345	3,907	488,236
Fee, commission and other income, net	204,469	33,505	41,130	23,634	302,738
Total operating income	444,388	220,570	98,475	27,541	790,974
Impairment charge for Credit and other Financial Assets, net	15,349	79,988	(223)	-	95,114
Depreciation	19,669	1,499	423	462	22,053
Total operating expenses	344,010	150,289	18,308	22,255	534,862
Net income for the period	100,378	70,281	80,167	5,286	256,112

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (31 March 2018: 600 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on December 17, 2018 to the Extraordinary General Assembly an issuance of bonus shares of one share for every four shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million, which has been approved in the Extraordinary General Assembly meeting held on April 09, 2019.

The increasing will be done through capitalization of SAR 1,500 million from the statutory reserve and the retained earnings. The number of shares outstanding after the bonus issuance will increase from 600 million shares to 750 million shares.

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Basic and diluted earnings per share for the three months period ended March 31, 2019 and 2018 is calculated by dividing the net income for the period by the weighted average number of outstanding shares 2019: 596 million shares (2018: 596 million shares) during the period adjusted for treasury shares.

16. 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 interim consolidated statement of financial position assets and commitments at a weighted amount to reflect their relative risk.

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

	March 31, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	March 31, 2018 SAR' 000 (Unaudited)
Credit Risk RWA	54,074,945	55,268,406	51,125,915
Operational Risk RWA	5,745,017	5,572,623	5,039,667
Market Risk RWA	290,213	231,436	1,191,044
Total Pillar-I RWA	60,110,175	61,072,465	57,356,626
Tier I Capital	8,313,454	7,890,012	7,777,668
Tier II Capital	2,675,937	2,690,855	2,639,074
Total Tier I & II Capital	10,989,391	10,580,867	10,416,742
Capital Adequacy Ratio %			
Tier I ratio	13.83%	12.92%	13.56%
Tier I + Tier II ratio	18.28%	17.33%	18.16%

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17. COMPARATIVE FIGURES

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

**18. 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 10 Sha'aban 1440H (corresponding to 15 April 2019).