



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020



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)

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 2020, and the related interim consolidated statements of income and comprehensive income for the three months and six months period then ended, and the interim consolidated statements of changes in shareholders' 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 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 endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by the Saudi Arabian Monetary Authority ("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 Al Fozan & Partners
Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Hani Hamzah A. Bedairi
Certified Public Accountant
License Number 460



7 Dhul-Hijjah 1441H
(28 July 2020)

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

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



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		June 30, 2020 SAR'000 (Unaudited)	December 31, 2019 SAR'000 (Audited)	June 30, 2019 SAR'000 (Unaudited)
	<u>Note</u>			
ASSETS				
Cash and balances with SAMA		5,351,825	7,915,852	6,110,292
Due from banks and other financial institutions, net		2,987,370	4,041,404	5,194,877
Investments, net	5	12,825,968	10,988,226	9,210,853
Financing, net	6	64,922,659	59,290,537	53,621,732
Property and equipment, net		1,925,245	1,866,329	1,786,391
Other assets		811,114	1,901,084	1,041,676
Total assets		<u>88,824,181</u>	<u>86,003,432</u>	<u>76,965,821</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks, SAMA and other financial institutions		5,669,260	645,120	1,391,222
Customers' deposits	7	64,875,731	67,105,543	59,315,376
Sukuk	8	2,005,162	2,007,768	2,008,355
Other liabilities		6,421,689	6,819,078	5,419,842
Total liabilities		<u>78,971,842</u>	<u>76,577,509</u>	<u>68,134,795</u>
Equity				
Share capital	13	7,500,000	7,500,000	7,500,000
Statutory reserve		310,935	310,935	-
Other reserves		780,736	568,280	333,919
Retained earnings		1,326,850	1,118,890	1,073,405
Treasury shares		(80,660)	(80,660)	(80,670)
Employees' share plan reserve		14,478	8,478	4,372
Total equity		<u>9,852,339</u>	<u>9,425,923</u>	<u>8,831,026</u>
Total liabilities and equity		<u>88,824,181</u>	<u>86,003,432</u>	<u>76,965,821</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>Note</u>	<u>For the three months</u> <u>period ended</u>		<u>For the six months</u> <u>period ended</u>	
		<u>June 30,</u> <u>2020</u> <u>SAR'000</u>	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>	<u>June 30,</u> <u>2020</u> <u>SAR'000</u>	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>
INCOME					
Income from investing and financing assets		916,997	845,205	1,815,703	1,648,804
Return on deposits and financial liabilities		(86,776)	(152,106)	(225,404)	(324,754)
Income from investing and financing assets, net		830,221	693,099	1,590,299	1,324,050
Fee and commission income, net		114,222	169,889	288,185	340,880
Exchange income, net		100,047	76,829	186,896	150,776
Dividend income		4,803	5,909	8,275	8,806
(Loss)/ gain on fair value through profit and loss (FVTPL) investments, net		(53,709)	2,194	(79,529)	20,774
Other operating income		3,923	11,323	9,535	35,366
Total operating income		999,507	959,243	2,003,661	1,880,652
EXPENSES					
Salaries and employee related expenses		293,588	280,065	583,125	555,564
Depreciation and amortization		64,659	61,108	127,079	121,047
Other general and administrative expenses		136,527	141,288	284,575	285,884
Impairment charge for expected credit losses, net		150,545	137,807	353,978	262,641
Total operating expenses		645,319	620,268	1,348,757	1,225,136
Net income for the period before zakat		354,188	338,975	654,904	655,516
Zakat for the period		36,127	34,062	66,800	65,552
Net income for the period after zakat		318,061	304,913	588,104	589,964
Basic and diluted earnings per share (SAR)	14	0.43	0.41	0.79	0.79

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)

	<u>For the three months</u> <u>period ended</u>		<u>For the six months period</u> <u>ended</u>	
	<u>June 30,</u> <u>2020</u> <u>SAR'000</u>	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>	<u>June 30,</u> <u>2020</u> <u>SAR'000</u>	<u>June 30,</u> <u>2019</u> <u>SAR'000</u>
Net income for the period after zakat	318,061	304,913	588,104	589,964
Other comprehensive income:				
Items that will not be reclassified to consolidated statement of income in subsequent periods				
- Net changes in fair value of FVOCI (equity instruments)	10,879	(7,496)	(50,603)	9,154
- Re-measurement of employees "End of Service Benefits ("EOSB")	143	(404)	143	(404)
Items that may be reclassified to consolidated statement of income in subsequent periods				
- Net changes in fair value of FVOCI (debt instruments)	355,573	261,071	257,772	395,001
Total other comprehensive income	366,595	253,171	207,312	403,751
Total comprehensive income for the period	684,656	558,084	795,416	993,715

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 SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

2020 SAR' 000	Share capital	Statutory reserve	Other reserves	Retained earnings	Treasury shares	Employees' share plan reserve	Total equity
Balance at the beginning of the period	7,500,000	310,935	568,280	1,118,890	(80,660)	8,478	9,425,923
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)			257,772				257,772
Total other comprehensive income			207,312				207,312
Net income for the period after zakat				588,104			588,104
Total comprehensive income for the period			207,312	588,104			795,416
Realized losses from sale of equity investments in FVOCI			5,144	(5,144)			-
Employees' share plan reserve						6,000	6,000
Cash dividends				(375,000)			(375,000)
Balance at end of the period	7,500,000	310,935	780,736	1,326,850	(80,660)	14,478	9,852,339

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 SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019**

<u>2019</u> SAR' 000	Share capital	Statutory reserve	Other reserves	Retained earnings	Issuance of bonus shares	Treasury shares	Employees' share plan reserve	Total equity
Balance at the beginning of the period	6,000,000	-	(69,832)	483,441	1,500,000	(90,780)	10,120	7,832,949
Net changes in fair value of FVOCI (equity instruments)			9,154					9,154
Re-measurement of employees "End of Service Benefits ("EOSB")			(404)					(404)
Net changes in fair value of FVOCI (debt instruments)			395,001					395,001
Total other comprehensive income			403,751					403,751
Net income for the period after zakat				589,964				589,964
Total comprehensive income for the period			403,751	589,964				993,715
Treasury shares						10,110		10,110
Employees' share plan reserve							(5,748)	(5,748)
Issuance of bonus shares	1,500,000				(1,500,000)			-
Balance at end of the period	<u>7,500,000</u>	<u>-</u>	<u>333,919</u>	<u>1,073,405</u>	<u>-</u>	<u>(80,670)</u>	<u>4,372</u>	<u>8,831,026</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 CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30**

	<u>Note</u>	<u>2020</u> <u>SAR' 000</u>	<u>2019</u> <u>SAR' 000</u>
OPERATING ACTIVITIES			
Net income before zakat for the period		654,904	655,516
Adjustments to reconcile net income to net cash generated from / (used in) operating activities:			
Profit on Sukuk		40,248	49,035
Loss/ (gains) on FVTPL investments, net		79,529	(20,774)
(Gains) from disposal of property and equipment, net		(32)	(16)
Depreciation and amortization		127,079	121,047
Impairment charge for expected credit losses, net		353,978	262,641
Employees' share plan		6,000	4,362
Net (increase)/ decrease in operating assets:			
Statutory deposit with SAMA		59,722	(88,369)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		1,037,723	233,874
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		441,842	(298,375)
Financing		(5,949,003)	(3,234,458)
Other assets		1,089,970	(378,708)
Net increase/ (decrease) in operating liabilities:			
Due to banks, SAMA and other financial institutions		5,024,140	(1,709,569)
Customers' deposits		(2,229,812)	2,139,782
Other liabilities		(413,590)	1,235,736
Net cash generated from / (used in) operating activities		322,698	(1,028,276)
INVESTING ACTIVITIES			
Proceeds/ (purchase) of investments held as FVOCI		264,182	(2,253,238)
Proceeds/ (purchase) of investments held as FVTPL		89,064	(83,007)
(Purchase) of investments held as amortized cost		(2,101,640)	-
(Purchase) of property and equipment		(156,261)	(98,089)
Net cash (used in) investing activities		(1,904,655)	(2,434,334)
FINANCING ACTIVITIES			
Distributed Sukuk profit		(42,854)	(49,267)
Dividend Paid		(375,000)	-
Cash payment for principle portion of lease liability		(80,299)	(109,584)
Net cash (used in) financing activities		(498,153)	(158,851)
Net change in cash and cash equivalents		(2,080,110)	(3,621,461)
Cash and cash equivalents at the beginning of the period		5,757,872	9,574,966
Cash and cash equivalents at the end of the period	10	3,677,762	5,953,505
Supplemental information			
Income received from investing and financing assets		1,882,010	1,643,530
Return paid on deposits and financial liabilities		258,419	342,238

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 SIX MONTHS PERIOD ENDED JUNE 30, 2020

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 111 banking branches (June 30, 2019: 111) and 178 exchange and remittance centers (June 30, 2019: 180) 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 Islamic Shariah 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.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the six months period ended June 30, 2020 have been prepared in accordance with the International Accounting Standard 34 (“IAS 34”) Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

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, 2019.

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 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 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. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the policy explained below for Government grant.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Group will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognized in the statement of income on a systematic basis over the period in which the bank recognizes as expenses the related costs for which the grant is intended to compensate. The grant income is only recognized when the beneficiary is the bank. Where the customer is the beneficiary, the bank only records the respective receivable and payable amounts.

IBOR Transition (Profit Rate Benchmark Reforms)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board (“IASB”) is engaged in a two-phase process of amending its guidance to assist in a smoother transition.

Management is running a project on the Bank’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.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020****5. INVESTMENTS, NET**

	June 30, 2020 SAR' 000 (Unaudited)	December 31, 2019 SAR' 000 (Audited)	June 30, 2019 SAR' 000 (Unaudited)
Fair value through other comprehensive income (FVOCI)			
Equities	429,767	457,426	388,567
Sukuk	<u>7,542,290</u>	<u>7,571,501</u>	<u>7,026,833</u>
	<u>7,972,057</u>	<u>8,028,927</u>	<u>7,415,400</u>
Fair value through profit or loss (FVTPL)			
Mutual funds	<u>697,699</u>	<u>866,292</u>	<u>503,864</u>
Amortized cost			
Sukuk	2,864,753	800,211	-
Commodity murabaha with SAMA	<u>1,291,459</u>	<u>1,292,796</u>	<u>1,291,589</u>
	<u>4,156,212</u>	<u>2,093,007</u>	<u>1,291,589</u>
Total	<u>12,825,968</u>	<u>10,988,226</u>	<u>9,210,853</u>

6. FINANCING, NET

	June 30, 2020 SAR'000 (Unaudited)	December 31, 2019 SAR'000 (Audited)	June 30, 2019 SAR'000 (Unaudited)
Commercial	34,462,199	32,229,091	30,440,208
Retail	<u>31,696,779</u>	<u>28,168,320</u>	<u>24,157,004</u>
Performing financing	<u>66,158,978</u>	<u>60,397,411</u>	<u>54,597,212</u>
Non-performing financing	<u>881,145</u>	<u>735,913</u>	<u>783,632</u>
Gross financing	<u>67,040,123</u>	<u>61,133,324</u>	<u>55,380,844</u>
Allowance for expected credit loss	<u>(2,117,464)</u>	<u>(1,842,787)</u>	<u>(1,759,112)</u>
Financing, net	<u>64,922,659</u>	<u>59,290,537</u>	<u>53,621,732</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, 2020****7. CUSTOMERS' DEPOSITS**

	June 30, 2020 SAR'000 (Unaudited)	December 31, 2019 SAR'000 (Audited)	June 30, 2019 SAR'000 (Unaudited)
Demand	38,260,731	33,669,863	33,284,042
Albilad account (Mudarabah)	20,363,986	19,315,147	15,794,416
Direct investment	4,487,343	12,456,218	8,861,722
Others	1,763,671	1,664,315	1,375,196
Total	64,875,731	67,105,543	59,315,376

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 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%.

9. COMMITMENTS AND CONTINGENCIES

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

	June 30, 2020 SAR' 000 (Unaudited)	December 31, 2019 SAR' 000 (Audited)	June 30, 2019 SAR' 000 (Unaudited)
Letters of guarantee	5,588,443	5,496,676	4,743,478
Letters of credit	667,919	1,199,941	709,024
Acceptances	666,448	353,679	670,468
Irrevocable commitments to extend credit	1,034,388	1,149,966	-
Total	7,957,198	8,200,262	6,122,970

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 December 31, 2019.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020****10. CASH AND CASH EQUIVALENTS**

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

	June 30, 2020 SAR' 000 (Unaudited)	December 31, 2019 SAR' 000 (Audited)	June 30, 2019 SAR' 000 (Unaudited)
Cash and balances with SAMA (excluding statutory deposit)	1,858,176	4,362,480	2,870,622
Due from banks and other financial institutions (maturing within ninety days from acquisition)	1,379,081	1,395,392	3,082,883
Investments held at amortized cost (maturing within ninety days from acquisition)	440,505	-	-
Total	<u>3,677,762</u>	<u>5,757,872</u>	<u>5,953,505</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:

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the 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, 2020****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	<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	7,972,057	973,822	-	6,998,235	7,972,057
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

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, 2019					
Financial assets measured at fair value					
Held as FVTPL	866,292	326,443	539,849	-	866,292
Held as FVOCI	8,028,927	986,919	-	7,042,008	8,028,927
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	4,041,404	-	-	4,041,404	4,041,404
Investments held at amortized cost	2,093,007	468,140	-	1,624,867	2,093,007
Financing, net	59,290,537	-	-	59,268,946	59,268,946

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

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, 2019					
Financial assets measured at fair value					
Held as FVTPL	503,864	44,386	459,478	-	503,864
Held as FVOCI	7,415,400	1,090,553	-	6,324,847	7,415,400
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	5,194,877	-	-	5,194,877	5,194,877
Investments held at amortized cost	1,291,589	-	-	1,291,589	1,291,589
Financing, net	53,621,732	-	-	53,458,365	53,458,365

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 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

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, 2019					
Financial liabilities not measured at fair value					
Due to banks, SAMA and other financial institutions	645,120	-	-	645,120	645,120
Customers' deposits	67,105,543	-	-	67,105,543	67,105,543
Sukuk	2,007,768	-	-	2,007,768	2,007,768

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, 2019					
Financial liabilities not measured at fair value					
Due to banks, SAMA and other financial institutions	1,391,222	-	-	1,391,222	1,391,222
Customers' deposits	59,315,376	-	-	59,315,376	59,315,376
Sukuk	2,008,355	-	-	2,008,355	2,008,355

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

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 with maturity of less than 90 days and other short-term receivable are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

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 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, 2020 SAR' 000 (Unaudited)	December 31, 2019 SAR' 000 (Audited)	June 30, 2019 SAR' 000 (Unaudited)
Beginning balance	7,042,008	3,782,086	3,782,086
Purchase	1,250	3,022,876	2,374,738
Sales	(248,933)	-	-
Gains included in OCI			
Net changes in fair value (unrealised)	203,910	237,046	168,023
Total	6,998,235	7,042,008	6,324,847

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

12. SEGMENT INFORMATION

Operating segments 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.

Transactions between 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.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2019.

The Group's reportable segments are as follows:

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, 2020**

The Group's total assets and liabilities as at June 30, 2020 and 2019, 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, 2020 (Unaudited)				
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	39,535,910	32,360,962	16,097,542	829,767	88,824,181
Total liabilities	54,006,475	13,703,617	11,060,985	200,765	78,971,842
Net income from investing and financing assets	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

SAR'000	June 30, 2019 (Unaudited)				
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	32,494,096	27,630,963	15,980,672	860,090	76,965,821
Total liabilities	45,028,012	13,366,223	9,428,407	312,153	68,134,795
Net income from investing and financing assets	734,907	453,204	129,276	6,663	1,324,050
Fee, commission and other income, net	367,530	50,895	72,490	65,687	556,602
Total operating income	1,102,437	504,099	201,766	72,350	1,880,652
Impairment charge for expected credit losses, net	116,837	131,487	14,317	-	262,641
Depreciation and amortization	94,907	20,840	3,947	1,353	121,047
Total operating expenses	851,178	285,155	47,898	40,905	1,225,136
Net income for the period before zakat	251,259	218,944	153,868	31,445	655,516

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020

13. SHARE CAPITAL AND DIVIDENDS

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (31 December 2019: 750 million shares of SAR 10 each and 30 June 2019: 750 million shares of SAR 10 each).

The Board of Directors' recommended to the General Assembly to distribute cash dividends of SAR 375 million to shareholders for the second half of 2019 in the meeting held on February 10, 2020 corresponding to Jumada Al-Thani 16, 1441. The dividends distribution has been approved in the Ordinary General Assembly meeting that has been held in April 26, 2020 corresponding to Ramadan 3, 1441, and dividends have been distributed to the registered shareholder's starting from May 4, 2020 corresponding to Ramadan 11, 1441.

The Bank intends to purchase 5 million shares of its own shares, based on the Board of Directors' resolution dated April 16, 2020 to be allocated within the employee share plan, and that has been approved in the Extra Ordinary General Assembly meeting held on May 12, 2020 corresponding to Ramadan 19, 1441.

14. EARNING PER SHARE ("EPS")

Basic and diluted earnings per share for the six months period ended June 30, 2020 and 2019 is calculated by dividing the net income for the period by the weighted average number of outstanding shares as of 30 June 2020: 746 million shares (30 June 2019: 746 million shares) during the period 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, 2020**

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

	June 30, 2020 SAR' 000 (Unaudited)	December 31, 2019 SAR' 000 (Audited)	June 30, 2019 SAR' 000 (Unaudited)
Credit Risk RWA	64,169,457	63,300,773	56,224,555
Operational Risk RWA	6,823,904	6,384,244	5,944,229
Market Risk RWA	860,358	414,729	548,463
Total Pillar-I RWA	71,853,719	70,099,746	62,717,247
Tier I Capital	9,923,667	9,473,031	8,873,823
Tier II Capital	2,802,118	2,791,260	2,702,807
Total Tier I & II Capital	12,725,785	12,264,291	11,576,630
Capital Adequacy Ratio %			
Tier I ratio	13.81%	13.51%	14.15%
Tier I + Tier II ratio	17.71%	17.50%	18.46%

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

During March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

The Bank continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the 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 impacts of government and SAMA support relief programs.

The prevailing economic conditions, post lock down, do require the Bank to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. However, the impact of such uncertain economic environment continues to be difficult to assess for the purpose of ECL estimation. 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 Bank has therefore recognized overlays of SAR 73.9 million and SAR 35.4 million for commercial and consumer financing respectively. These have been based on a sector-based analysis performed by the Bank depending on the impacted portfolios. The Bank will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA programs and initiatives launched***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 the Micro, Small, and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompass the following programs:

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2020**

As part of the deferred payments program, the Bank is required to defer payments for six months on financing facilities to those companies that qualify as MSMEs classified as stage 1. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has affected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognizing a day 1 modification loss of SR 28.9 million during Q1 2020.

To give effect to the guidance issued by SAMA during April 2020, the Bank has also deferred MSME customers classified as Stage 2 and some other stage 1 customers which have met the definition of MSME during Q2 2020 for the same period i.e. 14 March 2020 to 14 September 2020. This has resulted in additional modification losses amounting to SR 20.8 million which has been recognized during Q2 2020. The modification losses have been presented as part of net income from investing and financing assets. The Bank 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.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank received SR 950 million of profit free deposit from SAMA during Q1 2020 with a tenure of 36 months. Management had determined based on the 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 subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 67.8 million, of which SR 28.9 million has been recognized on Day 1 in the statement of income during Q1 2020 immediately and the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income.

During Q2 2020, the Bank has received additional profit free deposit from SAMA amounting to SR 1.03 billion with a tenure of 36 months. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 71.9 million, of which SR 20.8 million has been recognized on Day 1 in the statement of income as at 30 June 2020 immediately and the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at 30 June 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact to the Bank's 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, 2020**

SAMA liquidity support for the Saudi banking sector

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order 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 Q2 2020, the Bank received SR 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 subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 25.5 million, which has been deferred to be accounted for on a systematic basis.

Bank's initiative - Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This has resulted in the Bank recognizing a modification loss of SAR 28.8 million as at 31 March 2020, which was presented as part of the net income from investing and financing assets.

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 Dhul-Hijja 07, 1441H (corresponding to July 28, 2020).