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**BANK ALBILAD**  
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2023**

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**Ernst & Young Professional Services  
(Professional LLC)**  
**Paid-up capital (SR 5,500,000 – Five  
million five hundred thousand Saudi Riyal)**  
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## **Independent Auditors' Report To the Shareholders of Bank Albilad (A Saudi Joint Stock Company)**

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

#### **Opinion**

We have audited the consolidated financial statements of Bank Albilad (the “Bank”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRSs that are endorsed in the Kingdom of Saudi Arabia”).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia (the “Code”), that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

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

**Independent Auditors' Report**  
**To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

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

**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Expected credit loss allowance against financing</i></b></p> <p>As at 31 December 2023, the gross financing of the Group was Saudi Riyals (“SAR”) 104,976 million (2022: SAR 94,025 million) against which an expected credit loss (“ECL”) allowance of SAR 2,896 million (2022: SAR 2,846 million) was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include:</p> <ol style="list-style-type: none"> <li>1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of:               <ol style="list-style-type: none"> <li>(a) exposures with a significant increase in credit risk (“SICR”) since their origination; and</li> <li>(b) individually impaired / defaulted exposures.</li> </ol> </li> </ol> <p>The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR.</p> <ol style="list-style-type: none"> <li>2. Assumptions used in the ECL model for determining probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) including, but not limited to, assessment of financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.</li> <li>3. The need to apply overlays using expert credit judgement to reflect all relevant risk factors that might not have been captured by the ECL model.</li> </ol> <p>Application of these judgements and estimates, results in greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2023.</p>	<ul style="list-style-type: none"> <li>■ We obtained and updated our understanding of management's assessment of ECL allowance against financing including the Group's internal rating model, accounting policy, model methodology including any key changes made during the year.</li> <li>■ We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9 ‘<i>Financial Instruments</i>’.</li> <li>■ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over:           <ul style="list-style-type: none"> <li>● the ECL model, including governance over the model, its validation during the year and any model updates performed during the year including approval of the Senior Credit Committee of the key inputs, assumptions and overlays;</li> <li>● the classification of financing into Stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures;</li> <li>● the IT systems and applications supporting the ECL model; and</li> <li>● the integrity of data inputs into the ECL model.</li> </ul> </li> <li>■ For a sample of customers, we assessed:           <ul style="list-style-type: none"> <li>● the internal ratings determined by management, based on the Group's internal rating model and considered these assigned ratings in light of external market conditions and available industry information. We also assessed that these were consistent with the ratings used as input in the ECL model; and</li> <li>● management's computation of ECL.</li> </ul> </li> <li>■ For selected customers, we assessed management's assessment of recoverable cash</li> </ul>

**Independent Auditors' Report**  
**To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

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

**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Expected credit loss allowance against financing (continued)</i></b></p> <p><i>Refer to the material accounting policy information note 4 for the expected credit losses of financial assets; note 2(e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to expected credit losses on financial assets and the impairment assessment methodology used by the Group; note 8 which contains the disclosure of loss allowance against financing; and note 31 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<p>flows, including the impact of collateral, and other sources of repayment, if any.</p> <ul style="list-style-type: none"> <li>■ We assessed the appropriateness of Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's financing portfolio.</li> <li>■ We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise.</li> <li>■ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios.</li> <li>■ We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2023.</li> <li>■ Where required, we involved our experts to assist us in reviewing model calculations, evaluating interrelated inputs (including EADs, PDs and LGDs) and assessing reasonableness of assumptions used in the ECL model particularly around the macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in overlays.</li> <li>■ We assessed the adequacy of disclosures in the consolidated financial statements.</li> </ul>



**Independent Auditors' Report**  
**To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

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

**Other Information included in the Bank's 2023 Annual Report**

Management is responsible for the other information in the Bank's annual report. Other information consists of the information included in the Bank's 2023 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Bank's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance i.e., the Audit Committee is responsible for overseeing the Group's financial reporting process.

**Independent Auditors' Report**  
**To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

## Independent Auditors' Report

To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

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

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

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

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

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

### Report on other legal and regulatory requirements

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

**Ernst & Young Professional  
Services**



**Rashid S. Roshod**  
Certified Public Accountant  
License No. 366



3 Sha'ban 1445 H  
(13 February 2024)

**PricewaterhouseCoopers**



**Mufaddal A. Ali**  
Certified Public Accountant  
License No. 447



**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2023 AND 2022

	<u>Note</u>	<u>2023</u> <u>SAR' 000</u>	<u>2022</u> <u>SAR' 000</u>
<b>ASSETS</b>			
Cash and balances with Saudi Central Bank	5	6,983,098	8,710,916
Due from banks and other financial institutions, net	6	8,170,094	6,067,193
Investments, net	7	22,079,918	20,600,125
Financing, net	8	102,080,065	91,179,205
Other assets	9	1,634,684	880,856
Property, equipment and right of use assets, net	10	2,157,960	2,104,561
<b>Total assets</b>		<u>143,105,819</u>	<u>129,542,856</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks, Saudi Central Bank and other financial institutions	11	4,273,908	10,621,441
Customers' deposits	12	112,831,245	94,842,747
Sukuk	13	3,051,613	3,040,452
Other liabilities	14	7,690,943	7,639,268
<b>Total liabilities</b>		<u>127,847,709</u>	<u>116,143,908</u>
<b>Equity</b>			
Share capital	15	10,000,000	10,000,000
Treasury shares		(148,493)	(53,005)
Statutory reserve	16	2,182,356	1,590,120
Other reserves	18	(166,337)	(239,286)
Retained earnings		3,371,429	1,589,930
Proposed cash dividend	17	-	500,000
Employees' share plan reserve		19,155	11,189
<b>Total equity</b>		<u>15,258,110</u>	<u>13,398,948</u>
<b>Total liabilities and equity</b>		<u>143,105,819</u>	<u>129,542,856</u>

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements



**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Note</u>	<u>2023</u> <u>SAR' 000</u>	<u>2022</u> <u>SAR' 000</u>
<b>INCOME:</b>			
Income from investing and financing assets	20	7,543,782	4,971,547
Return on deposits and financial liabilities	21	(3,433,943)	(1,084,879)
<b>Income from investing and financing assets, net</b>		<b>4,109,839</b>	<b>3,886,668</b>
Fee and commission income	22	1,099,051	1,092,758
Fees and commission expenses	22	(478,029)	(423,961)
<b>Fee and commission income, net</b>	22	<b>621,022</b>	<b>668,797</b>
Exchange income, net		348,267	397,861
Dividend income		70,249	63,346
Gains on fair value through statement of income (FVSI) investments, net	23	87,787	29,028
Other operating income		65,624	145,732
<b>Total operating income</b>		<b>5,302,788</b>	<b>5,191,432</b>
<b>EXPENSES:</b>			
Salaries and employee related expenses	24	1,328,868	1,259,120
Depreciation and amortization	10	298,296	290,410
Other general and administrative expenses	25	710,837	770,527
<b>Operating expenses before expected credit losses</b>		<b>2,338,001</b>	<b>2,320,057</b>
Impairment charge for expected credit losses, net	26	323,830	550,652
<b>Total operating expenses</b>		<b>2,661,831</b>	<b>2,870,709</b>
<b>Net income for the year before zakat</b>		<b>2,640,957</b>	<b>2,320,723</b>
Zakat for the year		272,019	239,035
<b>Net income for the year after zakat</b>		<b>2,368,938</b>	<b>2,081,688</b>
<b>Basic and diluted earnings per share (SAR)</b>	27	<b>2.38</b>	<b>2.09</b>

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Note</u>	<b>2023</b> <b>SAR' 000</b>	<b>2022</b> <b>SAR' 000</b>
<b>Net income for the year after zakat</b>		<b>2,368,938</b>	2,081,688
<b>Other comprehensive income / (loss):</b>			
<i>Items that will not be reclassified to the consolidated statement of income in subsequent periods</i>			
- Net changes in fair value of FVOCI equity instruments		<b>111,853</b>	(41,841)
- Actuarial gain / (loss) on re-measurement of employees' End of Service Benefits ("EOSB")	29	<b>11,995</b>	(570)
<i>Items that may be reclassified to consolidated statement of income in subsequent periods</i>			
- Net changes in fair value of FVOCI debt instruments		<b>(37,769)</b>	(634,130)
- Impairment charge for expected credit losses of FVOCI debt instruments		<b>(3,701)</b>	4,045
- Effective portion of change in the fair value of cash flow hedges		<b>(4,632)</b>	-
<b>Total other comprehensive income / (loss) for the year</b>		<b>77,746</b>	(672,496)
<b>Total comprehensive income for the year</b>		<b>2,446,684</b>	1,409,192

The accompanying notes 1 to 43 form integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

<u>2023</u> SAR' 000	Note	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Employees' share plan reserve	Total equity
<b>Balance at the beginning of the year</b>		<b>10,000,000</b>	<b>(53,005)</b>	<b>1,590,120</b>	<b>(239,286)</b>	<b>1,589,930</b>	<b>500,000</b>	<b>11,189</b>	<b>13,398,948</b>
Net changes in fair value of FVOCI equity instruments					<b>111,853</b>				<b>111,853</b>
Actuarial gain on re-measurement of employees' EOSB	29				<b>11,995</b>				<b>11,995</b>
Net changes in fair value of FVOCI debt instruments					<b>(37,769)</b>				<b>(37,769)</b>
Impairment charge for expected credit losses of FVOCI debt instruments					<b>(3,701)</b>				<b>(3,701)</b>
Effective portion of change in fair value of cash flow hedge					<b>(4,632)</b>				<b>(4,632)</b>
<b>Total other comprehensive income</b>					<b>77,746</b>				<b>77,746</b>
<b>Net income for the year after zakat</b>						<b>2,368,938</b>			<b>2,368,938</b>
<b>Total comprehensive income for the year</b>					<b>77,746</b>	<b>2,368,938</b>			<b>2,446,684</b>
Realized gain from sale of FVOCI investments equity instruments					<b>(4,797)</b>	<b>4,797</b>			<b>-</b>
Movement in Treasury shares			<b>(95,488)</b>					<b>95,488</b>	<b>-</b>
Employees' share plan reserve								<b>(87,522)</b>	<b>(87,522)</b>
Dividend paid	17						<b>(500,000)</b>		<b>(500,000)</b>
Transfer to statutory reserve	16			<b>592,236</b>		<b>(592,236)</b>			<b>-</b>
<b>Balance at the end of the year</b>		<b>10,000,000</b>	<b>(148,493)</b>	<b>2,182,356</b>	<b>(166,337)</b>	<b>3,371,429</b>	<b>-</b>	<b>19,155</b>	<b>15,258,110</b>

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

2022 SAR' 000	Note	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Proposed issuance of bonus shares	Employees' share plan reserve	Total equity
Balance at the beginning of the year		7,500,000	(61,953)	1,069,698	439,816	522,058	-	2,500,000	10,471	11,980,090
Net changes in fair value of FVOCI equity instruments					(41,841)					(41,841)
Actuarial loss on re-measurement of employees EOSB	29				(570)					(570)
Net changes in fair value of FVOCI debt instruments					(634,130)					(634,130)
Impairment charge for expected credit losses of FVOCI debt instruments					4,045					4,045
Total other comprehensive loss					(672,496)					(672,496)
Net income for the year after zakat						2,081,688				2,081,688
Total comprehensive income for the year					(672,496)	2,081,688				1,409,192
Realized gain from sale of FVOCI investments equity instruments					(6,606)	6,606				-
Movement in treasury shares			8,948						(8,948)	-
Employees' share plan reserve									9,666	9,666
Issuance of bonus shares	15	2,500,000						(2,500,000)		-
Proposed cash dividend	17					(500,000)	500,000			-
Transfer to statutory reserve	16			520,422		(520,422)				-
Balance at the end of the year		10,000,000	(53,005)	1,590,120	(239,286)	1,589,930	500,000	-	11,189	13,398,948

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	Note	2023 SAR' 000	2022 SAR' 000
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the year before zakat</b>		<b>2,640,957</b>	2,320,723
<b>Adjustments to reconcile net income to net cash generated from / (used in) operating activities:</b>			
Profit on sukuk and other investment		273,461	128,385
Gains on FVSI investments, net		(87,787)	(29,028)
Gains on disposal of property and equipment, net		(268)	(17)
Interest expense on lease liability		14,153	16,176
Depreciation and amortization	10	298,296	290,410
Impairment charge for expected credit losses, net	26	323,830	550,652
Employees' share plan		7,966	9,666
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with Saudi Central Bank		(434,883)	(319,812)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(2,094,504)	(371,048)
Investments at amortized cost maturing after ninety days from the date of acquisition		799,075	(1,739,387)
Financing		(11,223,359)	(8,778,703)
Other assets		(753,828)	(211,676)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks, Saudi Central Bank and other financial institutions		(6,347,533)	1,844,214
Customers' deposits		17,988,498	13,732,253
Other liabilities		171,070	1,586,714
Zakat paid		(234,883)	(193,862)
<b>Net cash generated from operating activities</b>		<b>1,340,261</b>	<b>8,835,660</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds / (purchase) of investments held as FVOCI		553,098	(14,939)
Purchase of investments held as FVSI		(84,073)	(177,391)
Purchase of investments held as amortized cost		(2,591,054)	(2,536,946)
Purchase of property and equipment		(316,790)	(317,019)
Proceeds from sale of property and equipment		281	28
<b>Net cash used in investing activities</b>		<b>(2,438,538)</b>	<b>(3,046,267)</b>
<b>FINANCING ACTIVITIES</b>			
Sukuk profit paid		(262,300)	(103,344)
Movement in Treasury shares		(95,488)	-
Dividend paid		(500,000)	-
Payment of interest expense on lease liabilities		(14,153)	(16,176)
Payment of principal portion of lease liabilities		(184,086)	(116,153)
<b>Net cash used in financing activities</b>		<b>(1,056,027)</b>	<b>(235,673)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(2,154,304)</b>	5,553,720
Cash and cash equivalents at the beginning of the year		9,023,781	3,470,061
<b>Cash and cash equivalents at the end of the year</b>	28	<b>6,869,477</b>	9,023,781
<b>Supplemental information</b>			
Income received from investing and financing assets during the year		6,768,270	4,708,884
Return paid on deposits and financial liabilities during the year		3,115,853	827,883
Effective portion of change in fair value of cash flow hedge		4,632	-

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

## **BANK ALBILAD**

(A Saudi Joint Stock Company)

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

#### **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 108 banking branches (December 31, 2022: 105) 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

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.

On Muharram 13, 1444H (corresponding to August 11, 2022) the bank incorporated its subsidiary Enjaz Payment Services Company (“the Company”), a closed joint stock company. The Company is owned 100% by the Bank. The Company is licensed by the Saudi Central Bank as a Major Electronic Money Institution (EMI).

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

##### **b) Sharia Committee**

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

#### **2. BASIS OF PREPARATION**

##### **a) Statement of Compliance**

These consolidated financial statements of the Group as at and for the year ended December 31, 2023 and December 31, 2022, respectively, were prepared in compliance with the International Financial Reporting Standards (“IFRS”) respectively, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. BASIS OF PREPARATION (continued)**

**b) Basis of measurement and presentation**

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement of the financial instruments held at Fair value through statement of income (FVSI), Fair Value through other comprehensive income (FVOCI) investments, liabilities for cash-settled-share based payments and defined benefit obligations.

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

**c) Going concern**

In making the going concern assessment, the Group has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

**d) Functional and presentation currency**

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

**e) Critical accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and fair value measurement.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

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#### **2. BASIS OF PREPARATION (continued)**

##### **e) Critical accounting judgements, estimates and assumptions (continued)**

- i- Expected credit losses (“ECL”) on financial assets

The measurement of ECL under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
    - a) The Bank’s internal credit grading model, which assigns Probability of default (PD) to the individual grades;
    - b) The Bank’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
    - c) The segmentation of financial assets when their ECL is assessed on a collective basis;
    - d) Development of ECL models, including the various formulas.
    - e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
  2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.
- ii- Fair value measurement of Financial Instruments (note 34).
  - iii- Determination of control over investees (note 3).
  - iv- Depreciation and amortization (note 4 and 10).
  - v- Employee benefit obligation (note 29).
  - vi- Government grant (note 4).
  - vii- Lease accounting (note 4)

#### **3. BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries as identified in note 1. The financial statements of subsidiaries are prepared for the same reporting year 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 the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

**3. BASIS OF CONSOLIDATION (continued)**

All intra-group balances, transactions, income and expenses are eliminated in full in preparing these consolidated financial statements.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**4. MATERIAL ACCOUNTING POLICIES**

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

- **Change in accounting policies**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2022 . Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 1, 2023 replacing, amending or adding to the corresponding accounting policies set out in 2022 annual consolidated financial statements.

**New standards, interpretations and amendments adopted by the Group**

Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, these does not have a material impact on the consolidated financial statements of the year:

<b>Standard, interpretation or amendments</b>	<b>Description</b>	<b>Effective date</b>
IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts.	January 1, 2023
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	Practice statement 2 and IAS 8 - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	January 1, 2023
Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction -	There amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.	January 1, 2023
Amendment to IAS 12 - International tax reform - pillar two model rules -	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	January 1, 2023
Amendments to IAS 8	Definition of accounting estimates	January 1, 2023

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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Change in accounting policies (continued)**

**Accounting Standards issued but not yet effective**

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2024. The Group did not opt for early adoption of these pronouncements and do not expect the adoption to have a significant impact on the consolidated financial statements of the Group.

<b>Standard, interpretation or amendments</b>	<b>Description</b>	<b>Effective date</b>
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	January 1, 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	January 1, 2024
Amendment to IAS 1 Presentation of Financial Statements – classification of a liability	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	January 1, 2024
IFRS S1 & IFRS S2, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	January 1, 2024 subject to endorsement from SOCPA
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.	Available for optional adoption / effective date deferred indefinitely

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**4. MATERIAL ACCOUNTING POLICIES (continued)****• Classification of financial assets**

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVSI.

**Financial Asset at amortized cost**

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

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

Currently, cash and balances with Saudi Central Bank (SAMA), due from banks and other financial institution, certain investments (Bei -Ajel with Saudi central bank and Sukuk), financing and certain other assets are classified as held at amortized cost.

**Financial Asset at FVOCI**

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVSI:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit income and foreign exchange gains and losses are recognised in consolidated statement of income.

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

**Financial Asset at FVSI**

All other financial assets are classified as measured at FVSI.

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

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

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**4. MATERIAL ACCOUNTING POLICIES (continued)****• Classification of financial assets (continued)****Financial Asset at FVSI (continued)****Business model assessment**

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice; In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Classification of financial assets (continued)**

**Financial Asset at FVSI (continued)**

**Assessments whether contractual cash flows are solely payments of principal and profit**

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic financing risks associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

**Designation at fair value through statement of income**

At initial recognition, the Bank has designated certain financial assets at FVSI.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Classification of financial liabilities**

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

• **Derecognition**

- **Financial assets**

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

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, as the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

- **Financial liabilities**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Modifications of financial assets and financial liabilities**

- **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in consolidated statement of income as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of income. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as income from investing and financing assets.

Modified financial assets are not automatically presumed to remain in stage 1 following modification.

- **Financial liabilities**

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in consolidated statement of income.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognized in consolidated statement of income. For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

• **Expected Credit losses (ECL)**

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVSI:

- Financial assets that are measured at amortized cost;
- Debt instruments assets measured at FVOCI;
- Financial guarantee contracts issued; and
- Financing commitments issued.

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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Expected Credit losses (ECL) (continued)**

No impairment loss is recognized on FVOCI equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security/other financial assets to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. Investment grade is considered to be rated BBB- or higher for Fitch and S&P Global. Investment grade for Moody's is considered Baa3 or higher.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage 1' performing financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 performing financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which the lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 non-performing financial instruments'.

**Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.



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**4. MATERIAL ACCOUNTING POLICIES (continued)****• Expected Credit losses (ECL) (continued)****Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and the ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

**Credit-impaired financial assets**

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of financing by the Bank on terms that the Bank would not consider otherwise.
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A financing that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Expected Credit losses (ECL) (continued)**

**Presentation of allowance for ECL in the consolidated statement of financial position**

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of consolidated financial position because the carrying amount of these assets is their fair value.

**Write-off**

Financing and investment in debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

• **Financial guarantees and financing commitments**

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Financing commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to financing at a below-market profit rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- at the higher of this amortized amount and the amount of loss allowance; and

The Bank has issued no financing commitments that are measured at FVSI. For other financing commitments, the Bank recognizes loss allowance.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Derivative financial instruments**

**Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, profit rate swaps and currency swaps are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and approved pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

**i. Derivatives held for trading**

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed as gains / (loss) on FVSI investments, net. Derivatives held for trading also includes those derivatives which do not qualify for hedge accounting.

**ii. Embedded derivatives**

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- a) the host contract is not an asset in the scope of IFRS 9;
- b) the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- c) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value with all changes in fair value recognized in consolidated statement of income unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

**iii. Hedge Accounting**

As permitted by the IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to profit rate, foreign currency and credit risks including exposures arising from highly probable forecast transactions and firm commitments. To manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

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**4. MATERIAL ACCOUNTING POLICIES (continued)**

For the purpose of hedge accounting, hedges are classified into two categories:

- (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and
- (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

To qualify for hedge accounting, the hedge should be expected to be highly effective, i.e., the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the statement of income in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

**Fair Value Hedges**

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

**Cash flow hedges**

For designated and qualifying cash flow hedging, derivatives instruments in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated, or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur, or the Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in “other comprehensive income” is transferred immediately to the consolidated statement of income.

• **Government grant**

The Group 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 consolidated statement of income on a systematic basis over the period in which the Group recognizes as expenses the related costs for which the grant is intended to compensate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Revenue / expenses recognition**

- **Income on investing and financing assets, and return on deposits and financial liabilities**

Income on investing and financing assets, and return on deposits and financial liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

When calculating the effective yield rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective yield rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective yield rate includes transaction costs and fees and points paid or received that are an integral part of the effective yield rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

- **Measurement of amortized cost and special commission income**

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective yield method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating yield income and expense, the effective yield rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Revenue / expenses recognition (continued)**

However, for financial assets that have become credit-impaired subsequent to initial recognition, yield income is calculated by applying the effective yield rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of yield income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, yield income is calculated by applying the credit-adjusted effective yield rate to the amortized cost of the asset. The calculation of profit income does not revert to a gross basis, even if the credit risk of the asset improves.

• **Customer loyalty program**

The Bank offers customer loyalty program (reward points) which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price.

The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

• **Foreign currencies**

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot rates prevailing transactions dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at exchange rates prevailing at the reporting date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Revenue / expenses recognition (continued)**

- **Exchange income / (loss)**

Exchange income/ (loss) is recognized as detailed in foreign currencies policy above.

- **Fees and commission income and expenses**

Fees and commission income and expenses that are integral to the effective yield rate on a financial assets or financial liability are included in the income from investing and financing assets.

Fees and commission income and expense that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually over the period of time.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.
- Performance linked fees or fee components are recognized at point in time when the performance criteria are fulfilled.
- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing at a point in time when the performance obligation is fulfilled. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period.
- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service, is received.

- **Dividend income**

Dividend income from investment is recognized when the Group's right to receive the dividend is established.

**Fair value measurement**

The Group measures financial instruments, such as, equity instruments and non-financial assets, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 34.

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 market for the asset or liability.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

**4. MATERIAL ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- 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 the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the owners of the Bank.

Shares held by the Bank are disclosed as treasury shares and deducted from contributed equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

**Collateral valuation**

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its financing arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

**Collateral repossessed**

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

• **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Property and equipment (continued)**

The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment and furniture and motor vehicles	4 to 6 years
Computer hardware	5 years

The assets' residual values depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

• **Provisions**

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

**Provisions for liabilities and charges**

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

• **Accounting for leases**

- **Right of Use ("RoU") Asset / Lease liability**

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Accounting for leases (continued)**

- **Right of Use Asset**

The Group 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 equate the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transactions etc. these 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 profit 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.

**Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense.

• **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, balances and bei-Ajel with with the Saudi Central Bank (SAMA) excluding statutory deposit, and due from banks and other financial institutions with original maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

• **Treasury shares**

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

These shares are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MATERIAL ACCOUNTING POLICIES (continued)**

• **Employees' share plan**

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by Saudi central bank. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from Saudi central bank, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

• **End of service benefits**

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. Actuarial gains and losses (Re-measurements) are recognized in full in the period in which they occur in other comprehensive income. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Profit expense is calculated by applying the discount rate to the net defined benefit liability. The Bank recognizes the following changes in the net defined benefit obligation under 'salaries and employee related expenses' in the consolidated statement of income.

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net profit expense or income

The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

• **Short term employee benefits**

Short term employee benefits are measured on an undiscounted basis and is expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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**4. MATERIAL ACCOUNTING POLICIES (continued)****• Zakat and withholding tax**

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (“ZATCA”). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Withholding tax is withheld from payments made to non-resident vendors for services rendered according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

**• Value Added tax (“VAT”)**

The Group collects VAT from its customers for qualifying services provided and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

**• Investment management services**

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Group’s share of these funds is included in the FVSI investment and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

**• Islamic banking products**

Financing comprises of Bei-ajel, Installment Sales, Musharakah, and Ijarah originated or acquired by the Group and are initially recognized at fair value including acquisition costs and is subsequently measured at amortized cost less any amounts written off and the allowance for expected credit losses, if any. Financing is recognized when cash is advanced to borrowers, and is derecognized when either the customers repay their obligations, or the financing is sold or written off, or substantially all the risks and rewards of ownership are transferred.

Bei-ajel and installment sales are financing contracts based on Murabaha whereby the Group sells to customers a commodity or an asset which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Bei ajel is used for corporate customers whereas installment sale is used for retail customers.

Ijarah muntahia bittamleek is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijarah could end by transferring the ownership of the leased asset to the lessee.

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**4. MATERIAL ACCOUNTING POLICIES (continued)****• Islamic banking products (continued)**

Musharakah is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

**• Profit sharing investment account (PSIA)**

The Bank offers Unrestricted and Restricted Investment Accounts based on fully sharia compliant concept.

In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.

The Bank maintains necessary reserves as required by SAMA.

Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.

"The investment risk reserve is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

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**5. CASH AND BALANCES WITH SAUDI CENTRAL BANK**

	Note	2023 SAR' 000	2022 SAR' 000
Statutory deposit	5.1	5,447,759	5,012,876
Cash in hand		1,168,927	1,255,392
Other balances	5.2	366,412	2,442,648
<b>Total</b>		<b>6,983,098</b>	<b>8,710,916</b>

5.1 In accordance with the Banking Control Law and Regulations issued by Saudi Central Bank, the Bank is required to maintain a statutory deposit with Saudi Central Bank at stipulated percentages of its demand, saving, time and other deposits, calculated based on end of day monthly average balance. The statutory deposit with Saudi Central Bank is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

5.2 This includes mainly cash management account with Saudi Central Bank.

**6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET**

	2023 SAR' 000	2022 SAR' 000
Demand	331,244	1,042,261
Commodity murabaha	7,841,763	5,026,197
	<b>8,173,007</b>	<b>6,068,458</b>
Less : allowance for expected credit losses	(2,913)	(1,265)
<b>Total</b>	<b>8,170,094</b>	<b>6,067,193</b>

An analysis of changes in loss allowance and gross carrying amount for due from banks and other financial institutions is, as follows:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not impaired)	Stage 3 (Life time ECL credit impaired )	Total	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not impaired)	Stage 3 (Life time ECL credit impaired )	Total
<b>December 31, 2023</b> SAR in '000'								
As at January 1, 2023	1,265	-	-	1,265	6,068,458	-	-	6,068,458
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net change for the year	1,648	-	-	1,648	-	-	-	-
Net recognized during the year	-	-	-	-	2,104,549	-	-	2,104,549
Write-offs	-	-	-	-	-	-	-	-
<b>As at December 31, 2023</b>	<b>2,913</b>	<b>-</b>	<b>-</b>	<b>2,913</b>	<b>8,173,007</b>	<b>-</b>	<b>-</b>	<b>8,173,007</b>



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**6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET (continued)**

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
December 31, 2022 SAR in '000'								
As at January 1, 2022	249	-	-	249	2,137,102	-	-	2,137,102
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net change for the year	1,016	-	-	1,016	-	-	-	-
Net derecognized during the year	-	-	-	-	3,931,356	-	-	3,931,356
Write-offs	-	-	-	-	-	-	-	-
As at December 31, 2022	1,265	-	-	1,265	6,068,458	-	-	6,068,458

**7. INVESTMENTS, NET**

a. Investments as at December 31 comprise the following:

	2023				
	Domestic		International		Total
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	SAR' 000
<b>Fair Value Through Other Comprehensive Income (FVOCI)</b>					
Equities	300,041	151,530	-	-	451,571
Sukuk	5,561,205	610,074	70,745	-	6,242,024
	<u>5,861,246</u>	<u>761,604</u>	<u>70,745</u>	<u>-</u>	<u>6,693,595</u>
<b>Fair value through statement of income (FVSI)</b>					
Mutual funds and other investments	76,946	373,367	-	544,306	994,619
Equities	44,774	-	22,489	-	67,263
	<u>121,720</u>	<u>373,367</u>	<u>22,489</u>	<u>544,306</u>	<u>1,061,882</u>
<b>Amortized Cost</b>					
Bei-Ajel with Saudi central bank	-	1,932,562	-	-	1,932,562
Sukuk	7,141,399	2,391,257	2,605,993	253,230	12,391,879
	<u>7,141,399</u>	<u>4,323,819</u>	<u>2,605,993</u>	<u>253,230</u>	<u>14,324,441</u>
<b>Total</b>	<u>13,124,365</u>	<u>5,458,790</u>	<u>2,699,227</u>	<u>797,536</u>	<u>22,079,918</u>

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**7. INVESTMENTS, NET (continued)**

**a. Investments as at December 31 comprise the following (continued):**

	2022				Total SAR' 000
	Domestic		International		
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	
<b>Fair Value Through Other Comprehensive Income (FVOCI)</b>					
Equities	532,920	104,123	-	-	637,043
Sukuk	5,937,740	532,708	68,819	-	6,539,267
	<u>6,470,660</u>	<u>636,831</u>	<u>68,819</u>	<u>-</u>	<u>7,176,310</u>
<b>Fair value through statement of income (FVSI)</b>					
Mutual funds and other investments	55,859	306,156	-	384,291	746,306
Equities	86,456	-	57,260	-	143,716
	<u>142,315</u>	<u>306,156</u>	<u>57,260</u>	<u>384,291</u>	<u>890,022</u>
<b>Amortized Cost</b>					
Bei-Ajel with Saudi central bank	-	2,731,637	-	-	2,731,637
Sukuk	6,541,050	1,597,878	1,413,682	249,546	9,802,156
	<u>6,541,050</u>	<u>4,329,515</u>	<u>1,413,682</u>	<u>249,546</u>	<u>12,533,793</u>
Total	<u>13,154,025</u>	<u>5,272,502</u>	<u>1,539,761</u>	<u>633,837</u>	<u>20,600,125</u>

**b. The analysis of investments by counterparty is as follows:**

	2023 SAR' 000	2022 SAR' 000
Government and quasi government	14,760,430	15,426,593
Corporate	7,319,488	5,173,532
<b>Total</b>	<b>22,079,918</b>	<b>20,600,125</b>

c. Equities include unquoted shares of SAR 152 million (2022: SAR 104 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of Bei-ajel with Saudi Central Bank and unquoted sukuk approximates its fair value.

**d. Equity investment securities designated as at FVOCI**

The Group has designated investment in equity securities designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term purposes. There were no transfers of any cumulative gain or loss within equity relating to these investments.

e. FVOCI sukuks are classified as stage 1 and ECL amount is immaterial.

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**7. INVESTMENTS, NET (continued)**

An analysis of changes in loss allowance and gross carrying amount for debt instruments carried at amortized cost, is as follows:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total
<b>December 31, 2023</b> <b>SAR' 000</b>								
As at January 1, 2023	21,160	-	-	21,160	12,554,953	-	-	12,554,953
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net reversal for the year	(1,447)	-	-	(1,447)	-	-	-	-
Net purchased during the year	-	-	-	-	1,789,201	-	-	1,789,201
Write-offs	-	-	-	-	-	-	-	-
<b>As at December 31, 2023</b>	<b>19,713</b>	<b>-</b>	<b>-</b>	<b>19,713</b>	<b>14,344,154</b>	<b>-</b>	<b>-</b>	<b>14,344,154</b>

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total
<b>December 31, 2022</b> <b>SAR' 000</b>								
As at January 1, 2022	7,898	-	-	7,898	8,583,230	-	-	8,583,230
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net charge for the year	13,262	-	-	13,262	-	-	-	-
Net purchased during the year	-	-	-	-	3,971,723	-	-	3,971,723
Write-offs	-	-	-	-	-	-	-	-
<b>As at December 31, 2022</b>	<b>21,160</b>	<b>-</b>	<b>-</b>	<b>21,160</b>	<b>12,554,953</b>	<b>-</b>	<b>-</b>	<b>12,554,953</b>

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**8. FINANCING, NET**

**a. Held at amortized cost**

<b>2023</b>			
<b><u>SAR' 000</u></b>			
	<b><u>Commercial</u></b>	<b><u>Retail</u></b>	<b><u>Total</u></b>
Performing	53,179,541	50,363,424	103,542,965
Non-performing	1,044,658	388,303	1,432,961
<b>Gross financing</b>	<b>54,224,199</b>	<b>50,751,727</b>	<b>104,975,926</b>
Allowance for expected credit losses	(2,309,266)	(586,595)	(2,895,861)
<b>Financing, net</b>	<b>51,914,933</b>	<b>50,165,132</b>	<b>102,080,065</b>

<b>2022</b>			
<b><u>SAR' 000</u></b>			
	<b><u>Commercial</u></b>	<b><u>Retail</u></b>	<b><u>Total</u></b>
Performing	46,469,072	46,309,329	92,778,401
Non-performing	914,165	332,270	1,246,435
<b>Gross financing</b>	<b>47,383,237</b>	<b>46,641,599</b>	<b>94,024,836</b>
Allowance for expected credit losses	(2,286,892)	(558,739)	(2,845,631)
<b>Financing, net</b>	<b>45,096,345</b>	<b>46,082,860</b>	<b>91,179,205</b>

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**8. FINANCING, NET (continued)**

**a. Held at amortized cost (continued)**

The following tables further explains changes in gross carrying amount for financing portfolio to help explain their significance to the changes in the loss allowance for the same portfolio:

<b>Commercial</b> <b>December 31, 2023</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
<b>Gross carrying amount as at January 1, 2023</b>	<b>38,545,021</b>	<b>7,924,051</b>	<b>914,165</b>	<b>47,383,237</b>
Transfers to Stage 1	<b>1,054,216</b>	<b>(1,054,216)</b>	-	-
Transfers to Stage 2	<b>(1,907,729)</b>	<b>1,907,729</b>	-	-
Transfers to Stage 3	<b>(11,306)</b>	<b>(457,213)</b>	<b>468,519</b>	-
Net change for the year	<b>7,411,927</b>	<b>(232,939)</b>	<b>(157,107)</b>	<b>7,021,881</b>
Write-offs	-	-	<b>(180,919)</b>	<b>(180,919)</b>
<b>Gross carrying amount as at December 31, 2023</b>	<b>45,092,129</b>	<b>8,087,412</b>	<b>1,044,658</b>	<b>54,224,199</b>

<b>Commercial</b> <b>December 31, 2022</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
<b>Gross carrying amount as at January 1, 2022</b>	<b>34,303,253</b>	<b>9,139,118</b>	<b>603,448</b>	<b>44,045,819</b>
Transfers to Stage 1	<b>886,885</b>	<b>(886,885)</b>	-	-
Transfers to Stage 2	<b>(1,166,998)</b>	<b>1,177,402</b>	<b>(10,404)</b>	-
Transfers to Stage 3	<b>(5,814)</b>	<b>(228,675)</b>	<b>234,489</b>	-
Net change for the year	<b>4,527,695</b>	<b>(1,276,909)</b>	<b>322,433</b>	<b>3,573,219</b>
Write-offs	-	-	<b>(235,801)</b>	<b>(235,801)</b>
<b>Gross carrying amount as at December 31, 2022</b>	<b>38,545,021</b>	<b>7,924,051</b>	<b>914,165</b>	<b>47,383,237</b>

<b>Retail</b> <b>December 31, 2023</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
<b>Gross carrying amount as at January 1, 2023</b>	<b>46,051,457</b>	<b>257,872</b>	<b>332,270</b>	<b>46,641,599</b>
Transfers to Stage 1	<b>153,058</b>	<b>(108,653)</b>	<b>(44,405)</b>	-
Transfers to Stage 2	<b>(268,895)</b>	<b>279,692</b>	<b>(10,797)</b>	-
Transfers to Stage 3	<b>(134,526)</b>	<b>(47,218)</b>	<b>181,744</b>	-
Net change for the year	<b>4,139,046</b>	<b>41,591</b>	<b>38,453</b>	<b>4,219,090</b>
Write-offs	-	-	<b>(108,962)</b>	<b>(108,962)</b>
<b>Gross carrying amount as at December 31, 2023</b>	<b>49,940,140</b>	<b>423,284</b>	<b>388,303</b>	<b>50,751,727</b>

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**8. FINANCING, NET (continued)**

**a. Held at amortized cost (continued)**

Retail December 31, 2022 <u>SAR' 000</u>	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
Gross carrying amount as at January 1, 2022	41,045,917	143,742	339,334	41,528,993
Transfers to Stage 1	100,080	(44,195)	(55,885)	-
Transfers to Stage 2	(177,797)	189,627	(11,830)	-
Transfers to Stage 3	(113,470)	(49,750)	163,220	-
Net change for the year	5,196,727	18,448	(12,052)	5,203,123
Write-offs	-	-	(90,517)	(90,517)
Gross carrying amount as at December 31, 2022	46,051,457	257,872	332,270	46,641,599

<b>Total</b> <b>December 31, 2023</b> <b><u>SAR' 000</u></b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time</b> <b>ECL not</b> <b>credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
Gross carrying amount as at January 1, 2023	84,596,478	8,181,923	1,246,435	94,024,836
Transfers to Stage 1	1,207,274	(1,162,869)	(44,405)	-
Transfers to Stage 2	(2,176,624)	2,187,421	(10,797)	-
Transfers to Stage 3	(145,832)	(504,431)	650,263	-
Net change for the year	11,550,973	(191,348)	(118,654)	11,240,971
Write-offs	-	-	(289,881)	(289,881)
Gross carrying amount as at December 31, 2023	95,032,269	8,510,696	1,432,961	104,975,926

Total December 31, 2022 <u>SAR' 000</u>	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
Gross carrying amount as at January 1, 2022	75,349,170	9,282,860	942,782	85,574,812
Transfers to Stage 1	986,965	(931,080)	(55,885)	-
Transfers to Stage 2	(1,344,795)	1,367,029	(22,234)	-
Transfers to Stage 3	(119,284)	(278,425)	397,709	-
Net change for the year	9,724,422	(1,258,461)	310,381	8,776,342
Write-offs	-	-	(326,318)	(326,318)
Gross carrying amount as at December 31, 2022	84,596,478	8,181,923	1,246,435	94,024,836

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**8. FINANCING, NET (continued)**

**a. Held at amortized cost (continued)**

An analysis of changes in loss allowance for Financing is, as follows:

<b>Commercial</b> <b>December 31, 2023</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
<b>Loss allowance as at January 1, 2023</b>	<b>133,041</b>	<b>1,431,931</b>	<b>721,920</b>	<b>2,286,892</b>
Transfers to Stage 1	<b>49,201</b>	<b>(49,201)</b>	-	-
Transfers to Stage 2	<b>(108,792)</b>	<b>108,792</b>	-	-
Transfers to Stage 3	<b>(11,306)</b>	<b>(314,436)</b>	<b>325,742</b>	-
Net charge / (reversal) for the year	<b>106,811</b>	<b>165,490</b>	<b>(69,008)</b>	<b>203,293</b>
Write-offs	-	-	<b>(180,919)</b>	<b>(180,919)</b>
<b>Loss allowance as at December 31, 2023</b>	<b>168,955</b>	<b>1,342,576</b>	<b>797,735</b>	<b>2,309,266</b>

<b>Commercial</b> <b>December 31, 2022</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time ECL</b> <b>credit impaired )</b>	<b>Total</b>
<b>Loss allowance as at January 1, 2022</b>	167,667	1,415,514	603,448	2,186,629
Transfers to Stage 1	2,041	(2,041)	-	-
Transfers to Stage 2	(42,216)	42,216	-	-
Transfers to Stage 3	(5,358)	(204,444)	209,802	-
Net charge for the year	10,907	180,686	144,471	336,064
Write-offs	-	-	(235,801)	(235,801)
<b>Loss allowance as at December 31, 2022</b>	<b>133,041</b>	<b>1,431,931</b>	<b>721,920</b>	<b>2,286,892</b>

<b>Retail</b> <b>December 31, 2023</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month</b> <b>ECL)</b>	<b>Stage 2</b> <b>(Life time ECL</b> <b>not credit</b> <b>impaired)</b>	<b>Stage 3</b> <b>(Life time</b> <b>ECL credit</b> <b>impaired )</b>	<b>Total</b>
<b>Loss allowance as at January 1, 2023</b>	<b>318,507</b>	<b>68,813</b>	<b>171,419</b>	<b>558,739</b>
Transfers to Stage 1	<b>1,606</b>	<b>(1,266)</b>	<b>(340)</b>	-
Transfers to Stage 2	<b>(73,684)</b>	<b>76,592</b>	<b>(2,908)</b>	-
Transfers to Stage 3	<b>(95,287)</b>	<b>(33,600)</b>	<b>128,887</b>	-
Net charge for the year	<b>24,288</b>	<b>3,456</b>	<b>109,074</b>	<b>136,818</b>
Write-offs	-	-	<b>(108,962)</b>	<b>(108,962)</b>
<b>Loss allowance as at December 31, 2023</b>	<b>175,430</b>	<b>113,995</b>	<b>297,170</b>	<b>586,595</b>

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**8. FINANCING, NET (continued)**

**a. Held at amortized cost (continued)**

Retail December 31, 2022 <u>SAR' 000</u>	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
Loss allowance as at January 1, 2022	187,697	40,651	226,521	454,869
Transfers to Stage 1	1,390	(981)	(409)	-
Transfers to Stage 2	(48,799)	49,735	(936)	-
Transfers to Stage 3	(82,854)	(36,674)	119,528	-
Net charge/ (reversal) for the year	261,073	16,082	(82,768)	194,387
Write-offs	-	-	(90,517)	(90,517)
Loss allowance as at December 31, 2022	318,507	68,813	171,419	558,739

<b>Total December 31, 2023 <u>SAR' 000</u></b>	<b>Stage 1 (12 month ECL)</b>	<b>Stage 2 (Life time ECL not credit impaired)</b>	<b>Stage 3 (Life time ECL credit impaired )</b>	<b>Total</b>
<b>Loss allowance as at January 1, 2023</b>	<b>451,548</b>	<b>1,500,744</b>	<b>893,339</b>	<b>2,845,631</b>
Transfers to Stage 1	50,807	(50,467)	(340)	-
Transfers to Stage 2	(182,476)	185,384	(2,908)	-
Transfers to Stage 3	(106,593)	(348,036)	454,629	-
Net charge for the year	131,099	168,946	40,066	340,111
Write-offs	-	-	(289,881)	(289,881)
<b>Loss allowance as at December 31, 2023</b>	<b>344,385</b>	<b>1,456,571</b>	<b>1,094,905</b>	<b>2,895,861</b>

Total December 31, 2022 <u>SAR' 000</u>	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
Loss allowance as at January 1, 2022	355,364	1,456,165	829,969	2,641,498
Transfers to Stage 1	3,431	(3,022)	(409)	-
Transfers to Stage 2	(91,015)	91,951	(936)	-
Transfers to Stage 3	(88,212)	(241,118)	329,330	-
Net charge for the year	271,980	196,768	61,703	530,451
Write-offs	-	-	(326,318)	(326,318)
Loss allowance as at December 31, 2022	451,548	1,500,744	893,339	2,845,631



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**8. FINANCING, NET (continued)**

**b. Financing include finance lease receivables, which are as follows:**

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2023 and that are still subject to enforcement activity is SAR 290 million (2022: SAR 326 million).

	<u>2023</u> <u>SAR'000</u>		<u>2022</u> <u>SAR'000</u>	
	<u>Retail</u>	<u>Commercial</u>	<u>Retail</u>	<u>Commercial</u>
<b>Gross receivables from ijarah financing :</b>				
Less than 1 year	499,595	11,299	356,832	453,334
1 to 5 years	1,615,750	879,172	1,012,579	-
Over 5 years	8	262,641	779	311,767
	<u>2,115,353</u>	<u>1,153,112</u>	<u>1,370,190</u>	<u>765,101</u>
Unearned finance income on ijarah financing	<u>(202,556)</u>	<u>(3,636)</u>	<u>(140,729)</u>	<u>(3,960)</u>
<b>Net receivables from ijarah financing</b>	<u>1,912,797</u>	<u>1,149,476</u>	<u>1,229,461</u>	<u>761,141</u>

	<u>2023</u> <u>SAR'000</u>		<u>2022</u> <u>SAR'000</u>	
	<u>Retail</u>	<u>Commercial</u>	<u>Retail</u>	<u>Commercial</u>
<b>Net receivables from ijarah financing:</b>				
Less than 1 year	451,756	11,299	320,183	453,334
1 to 5 years	1,461,034	879,172	908,579	-
Over 5 years	7	259,005	699	307,807
	<u>1,912,797</u>	<u>1,149,476</u>	<u>1,229,461</u>	<u>761,141</u>

**9. OTHER ASSETS**

	<u>2023</u> <u>SAR' 000</u>	<u>2022</u> <u>SAR' 000</u>
Assets in transit subject to financing	756,429	-
Prepaid expenses and advances to suppliers	189,377	135,723
Positive fair value of shari'ah compliant derivatives (note 14.1)	25,114	39,138
Others	663,764	705,995
<b>Total</b>	<u>1,634,684</u>	<u>880,856</u>

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**10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS, NET**

December 31, 2023 SAR' 000	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware	Right of Use (ROU) Asset	Total
<b>Cost:</b>						
As at the beginning of the year	1,090,323	923,484	467,506	650,821	1,019,379	4,151,513
Additions during the year	164,439	10,425	69,598	72,328	34,917	351,707
Disposals	-	-	(1,085)	(660)	-	(1,745)
<b>As at the end of the year</b>	<b>1,254,762</b>	<b>933,909</b>	<b>536,019</b>	<b>722,489</b>	<b>1,054,296</b>	<b>4,501,475</b>
<b>Accumulated depreciation and amortisation:</b>						
At the beginning of the year	77,823	554,095	379,576	533,571	501,887	2,046,952
Charge for the year	19,358	23,852	42,069	71,105	141,912	298,296
Disposals	-	-	(1,083)	(650)	-	(1,733)
<b>As at the end of the year</b>	<b>97,181</b>	<b>577,947</b>	<b>420,562</b>	<b>604,026</b>	<b>643,799</b>	<b>2,343,515</b>
<b>Net book value:</b>						
<b>As at December 31, 2023</b>	<b><u>1,157,581</u></b>	<b><u>355,962</u></b>	<b><u>115,457</u></b>	<b><u>118,463</u></b>	<b><u>410,497</u></b>	<b><u>2,157,960</u></b>
<b>December 31, 2022 SAR' 000</b>						
	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware	Right of Use (ROU) Asset	Total
<b>Cost:</b>						
As at the beginning of the year	1,007,055	824,542	415,721	567,832	866,897	3,682,047
Additions during the year	83,268	98,942	51,820	82,989	152,482	469,501
Disposals	-	-	(35)	-	-	(35)
<b>As at the end of the year</b>	<b>1,090,323</b>	<b>923,484</b>	<b>467,506</b>	<b>650,821</b>	<b>1,019,379</b>	<b>4,151,513</b>
<b>Accumulated depreciation and amortisation:</b>						
At the beginning of the year	61,012	531,799	333,498	469,471	360,786	1,756,566
Charge for the year	16,811	22,296	46,102	64,100	141,101	290,410
Disposals	-	-	(24)	-	-	(24)
<b>As at the end of the year</b>	<b>77,823</b>	<b>554,095</b>	<b>379,576</b>	<b>533,571</b>	<b>501,887</b>	<b>2,046,952</b>
<b>Net book value:</b>						
<b>As at December 31, 2022</b>	<b><u>1,012,500</u></b>	<b><u>369,389</u></b>	<b><u>87,930</u></b>	<b><u>117,250</u></b>	<b><u>517,492</u></b>	<b><u>2,104,561</u></b>

Leasehold improvements include work in progress as at December 31, 2023 amounting to SAR 156.9 million (2022: SAR 160.5 million).

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**10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS, NET (continued)**

**Movement in right-of-use-assets (ROU):**

December 31, 2023 SAR' 000	Land and buildings	Equipment, furniture and motor vehicles	Total
<b>Balance at the beginning of the year</b>	515,795	1,697	517,492
Additions	34,917	-	34,917
Depreciation	(140,215)	(1,697)	(141,912)
<b>Balance at the end of the year</b>	<b>410,497</b>	<b>-</b>	<b>410,497</b>
December 31, 2022 SAR' 000	Land and buildings	Equipment, furniture and motor vehicles	Total
Balance at the beginning of the year	502,576	3,535	506,111
Additions	152,482	-	152,482
Depreciation	(139,263)	(1,838)	(141,101)
Balance at the end of the year	515,795	1,697	517,492

**Movement in Lease liability:**

	2023 SAR' 000	2022 SAR' 000
<b>As at the beginning of the year</b>	<b>519,733</b>	483,404
Payment during the year	(198,239)	(132,329)
New leases	34,917	152,482
Finance cost	14,153	16,176
<b>As at the end of the year</b>	<b>370,564</b>	519,733

**11. DUE TO BANKS, SAUDI CENTRAL BANK AND OTHER FINANCIAL INSTITUTIONS**

	2023 SAR' 000	2022 SAR' 000
Demand	155,598	86,667
Direct investment	4,118,310	10,534,774
<b>Total</b>	<b>4,273,908</b>	10,621,441

**12. CUSTOMERS' DEPOSITS**

	2023 SAR' 000	2022 SAR' 000
Demand	42,878,418	47,470,751
Direct investment	36,641,769	25,366,482
Albilad account (Mudarabah)	30,410,877	18,857,171
Others	2,900,181	3,148,343
<b>Total</b>	<b>112,831,245</b>	94,842,747

The above include foreign currency deposits as follows:

	2023 SAR' 000	2022 SAR' 000
Demand	446,281	532,531
Direct investment	2,680,743	1,855,798
Albilad account (Mudarabah)	3,883,742	1,616,665
Others	146,816	44,245
<b>Total</b>	<b>7,157,582</b>	4,049,239

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**13. SUKUK**

On August 30, 2016, the Bank issued 2,000 Tier 2 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. During 2021, the Bank exercised the call option on its previous sukuk and recalled Sukuk amounting to SAR 1,061 million. These arrangements were approved by the regulatory authorities and the Board of Directors of the Bank.

On April 15, 2021, the Bank issued 3,000 Tier 2 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 Bank has not defaulted on any of payments (profit / principal) due during the year.

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 have exercised their exchange option and subscribed into the investment in the Tier 2 Sukuk.

**14. OTHER LIABILITIES**

	2023 SAR' 000	2022 SAR' 000
Accounts payable	4,899,390	4,956,875
Accrued expenses	739,849	641,653
Lease liability (note 10)	370,564	519,733
Loss allowance on financing commitment and financial guarantee contracts	135,947	153,560
Negative fair value of shari'ah compliant derivatives (note 14.1)	26,366	34,436
Others	1,518,827	1,333,011
<b>Total</b>	<b>7,690,943</b>	<b>7,639,268</b>

An analysis of changes in loss allowance for financing commitment and financial guarantee contracts is, as follows:

	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
<b>December 31, 2023</b>				
<b>SAR in '000'</b>				
<b>Loss allowance as at January 1, 2023</b>	50,526	6,161	96,873	153,560
Transfers to Stage 1	5	(5)	-	-
Transfers to Stage 2	(4,169)	4,169	-	-
Net charge / (reversal) for the year	11,656	2,275	(31,544)	(17,613)
<b>Loss allowance as at December 31, 2023</b>	<b>58,018</b>	<b>12,600</b>	<b>65,329</b>	<b>135,947</b>
<b>December 31, 2022</b>				
<b>SAR in '000'</b>				
<b>Loss allowance as at January 1, 2022</b>	41,759	15,418	94,505	151,682
Transfers to Stage 1	2	(2)	-	-
Transfers to Stage 2	(630)	630	-	-
Transfers to Stage 3	-	(5,140)	5,140	-
Net charge / (reversal) for the year	9,395	(4,745)	(2,772)	1,878
<b>Loss allowance as at December 31, 2022</b>	<b>50,526</b>	<b>6,161</b>	<b>96,873</b>	<b>153,560</b>

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**14.1 DERIVATIVES**

In the ordinary course of business, the Bank utilises the following Shari'ah derivative financial instruments for both trading and hedging purposes:

**Type of derivatives**

**a) Profit Rate Swaps**

Profit Rate Swaps are commitments to exchange one set of cash flows for another. For Profit Rate Swaps counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency Profit rate swaps, principal, fixed and floating profit payments are exchanged in different currencies.

**b) Forwards**

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter markets.

**c) FX Swaps**

Foreign Exchange Swaps are agreements between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate and forward rates. The two parties will then settle their respective foreign exchange notional amounts governed by the previously agreed specific forward rate, The forward rate locks in the exchange rate at which the funds will be exchanged in the future.

**Purpose of derivatives**

**Held for trading purposes**

Most of the Bank's derivative trading activities relate to sales, positioning, and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates, or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

**Held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and profit rates to reduce its exposure to currency and profit rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of profit rate risk by setting limits on profit rate gaps for stipulated periods. Asset and liability profit rate gaps are reviewed frequently and hedging strategies are used to reduce profit rate gap within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and profit rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for profit rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**14.1 DERIVATIVES (continued)**

**Cash flow hedges**

The Bank is exposed to variability in future profit cash flows on non-trading assets and liabilities, which bear profit at a variable rate. The bank uses profit rate swaps as cash flow hedges of these profit rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect the statement of income:

<b>December 31, 2023</b>		<b>Within 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>
<b>SAR in '000'</b>					
<b>Cash inflows (assets)</b>		<b>56,968</b>	<b>82,454</b>	<b>81,674</b>	<b>-</b>
<b>Cash out flows (liabilities)</b>		<b>(45,648)</b>	<b>(91,297)</b>	<b>(90,922)</b>	<b>-</b>
<b>Net cash inflow</b>		<b>11,320</b>	<b>(8,843)</b>	<b>(9,248)</b>	<b>-</b>

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

The above includes Shariah approved derivative products as below.

<b>December 31, 2023</b>	<b>Notional amounts by term to maturity</b>						
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional amount Total</b>	<b>Within 3 months</b>	<b>From 3-12 months</b>	<b>From 1-5 years</b>	<b>Over 5 years</b>
<b>SAR in '000'</b>							
<b>Held for trading:</b>							
<b>Profit rate swaps</b>	<b>23,658</b>	<b>(21,519)</b>	<b>1,241,836</b>	<b>-</b>	<b>-</b>	<b>841,836</b>	<b>400,000</b>
<b>Forward foreign exchange contracts</b>	<b>1,456</b>	<b>(215)</b>	<b>1,587,385</b>	<b>381,948</b>	<b>1,205,437</b>	<b>-</b>	<b>-</b>
<b>Held as cash flow hedges:</b>							
<b>Profit rate swaps</b>	<b>-</b>	<b>(4,632)</b>	<b>1,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>
<b>Total</b>	<b>25,114</b>	<b>(26,366)</b>	<b>3,829,221</b>	<b>381,948</b>	<b>1,205,437</b>	<b>841,836</b>	<b>1,400,000</b>

<b>December 31, 2022</b>	<b>Notional amounts by term to maturity</b>						
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional amount Total</b>	<b>Within 3 months</b>	<b>From 3-12 months</b>	<b>From 1-5 years</b>	<b>Over 5 years</b>
<b>SAR in '000'</b>							
<b>Held for trading:</b>							
<b>Profit rate swaps</b>	<b>36,260</b>	<b>(32,885)</b>	<b>1,303,730</b>	<b>-</b>	<b>-</b>	<b>1,103,730</b>	<b>200,000</b>
<b>Forward foreign exchange contracts</b>	<b>2,878</b>	<b>(1,551)</b>	<b>1,379,060</b>	<b>554,904</b>	<b>824,156</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>39,138</b>	<b>(34,436)</b>	<b>2,682,790</b>	<b>554,904</b>	<b>824,156</b>	<b>1,103,730</b>	<b>200,000</b>

The tables below show a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

**Description of hedged items**

<b>December 31, 2023</b>	<b>Fair Value</b>	<b>Hedge inception value</b>	<b>Risk</b>	<b>Hedging instrument</b>	<b>Positive fair value</b>	<b>Negative fair value</b>
<b>SAR in '000'</b>						
Floating profit rate investments	995,368	1,000,000	Cash flow	Profit rate swap	-	(4,632)

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**15. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (December 31, 2022: 1,000 million shares of SAR 10 each).

The Board of Directors in its meeting held on November 8, 2021 recommended to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every three shares held, thus increasing the Bank's capital from SAR 7,500 million to SAR 10,000 million. The increase has been done through capitalization of SAR 2,500 million from the retained earnings. The number of shares outstanding after the bonus issuance increased from 750 million shares to 1,000 million shares. The increase has been approved in the Extraordinary General Assembly meeting held on April 11, 2022.

**16. STATUTORY RESERVE**

In accordance with Article 13 of the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 592 million (2022: SAR 520 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

**17. DIVIDENDS**

The Board of Directors' recommended to the General Assembly to distribute cash dividends of SAR 500 million to shareholders for the year 2022 in the meeting held on December 29, 2022 corresponding to Jumada Al-Thani 5, 1444. The dividends distribution has been approved in the Extraordinary General Assembly meeting that has been held on May 1, 2023 corresponding to Shawwal 11, 1444, and dividends have been distributed to the registered shareholder's starting from May 10, 2023 corresponding to Shawwal 20, 1444.

**18. OTHER RESERVES**

	FVOCI (Debt instruments)	FVOCI (Equity instruments)	Defined Benefit Obligation (EOSB)	Effective portion of change in the fair value of cash flow hedge	Total
<b>2023</b>					
<b>SAR' 000</b>					
Balance at the beginning of the year	(176,487)	(64,297)	1,498	-	(239,286)
Net movement during the year	(37,769)	111,853	11,995	(4,632)	81,447
Impairment charge for ECL	(3,701)	-	-	-	(3,701)
Transfer to retained earnings on disposal	-	(4,797)	-	-	(4,797)
<b>Balance at the end of the year</b>	<b>(217,957)</b>	<b>42,759</b>	<b>13,493</b>	<b>(4,632)</b>	<b>(166,337)</b>

**18. OTHER RESERVES (continued)**

	FVOCI (Sukuk)	FVOCI (Equity)	Defined Benefit Obligation (EOSB)	Total
<b>2022</b>				
<b>SAR' 000</b>				
Balance at the beginning of the year	453,598	(15,850)	2,068	439,816
Net movement during the year	(634,130)	(41,841)	(570)	(676,541)
Impairment charge for ECL	4,045	-	-	4,045
Transfer to retained earnings on disposal	-	(6,606)	-	(6,606)
<b>Balance at the end of the year</b>	<b>(176,487)</b>	<b>(64,297)</b>	<b>1,498</b>	<b>(239,286)</b>

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**19. COMMITMENTS AND CONTINGENCIES**

**a) Legal proceedings**

As at December 31, 2023 and 2022, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

**b) Capital commitments**

As at December 31, 2023, the Bank had capital commitments of SAR 373 million (2022: SAR 604 million) relating to leasehold improvements and equipment purchases.

**c) Credit related commitments and contingencies**

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

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

Commitments to extend credit represent unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. COMMITMENTS AND CONTINGENCIES (continued)**

(i) Contractual maturity structure of the Group's commitments and contingencies:

2023 (SAR' 000)	Less than 3 months	From 3 months to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	1,045,349	821,356	284,896	-	2,151,601
Letters of guarantee*	1,746,190	4,799,710	5,516,850	2,573,452	14,636,202
Acceptances	565,217	157,912	-	-	723,129
Irrevocable commitments to extend credit	724,181	-	656,566	-	1,380,747
<b>Total</b>	<b>4,080,937</b>	<b>5,778,978</b>	<b>6,458,312</b>	<b>2,573,452</b>	<b>18,891,679</b>

  

2022 (SAR' 000)	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	805,942	905,418	69,459	-	1,780,819
Letters of guarantee*	1,147,571	3,885,747	4,287,262	2,113,254	11,433,834
Acceptances	790,774	127,275	-	-	918,049
Irrevocable commitments to extend credit	299,680	-	-	58,728	358,408
<b>Total</b>	<b>3,043,967</b>	<b>4,918,440</b>	<b>4,356,721</b>	<b>2,171,982</b>	<b>14,491,110</b>

\*This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

The outstanding unused portion of commitments as at December 31, 2023 which can be revoked unilaterally at any time by the Group amounts to SAR 25.7 billion (2022: SAR 24.2 billion).

	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total
<b>December 31, 2023</b> SAR in '000'				
Gross carrying amount as at January 1, 2023	12,954,374	1,242,085	294,651	14,491,110
Transfers to Stage 1	33,851	(33,851)	-	-
Transfers to Stage 2	(412,886)	412,886	-	-
Net change for the year	4,825,211	(368,918)	(55,724)	4,400,569
<b>Gross carrying amount as at December 31, 2023</b>	<b>17,400,550</b>	<b>1,252,202</b>	<b>238,927</b>	<b>18,891,679</b>

  

	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired)	Total
<b>December 31, 2022</b> SAR in '000'				
Gross carrying amount as at January 1, 2022	9,330,161	1,010,376	291,370	10,631,907
Transfers to Stage 1	91,066	(91,066)	-	-
Transfers to Stage 2	(424,853)	424,853	-	-
Transfers to Stage 3	(348)	(12,337)	12,685	-
Net change for the year	3,958,348	(89,741)	(9,404)	3,859,203
Write-offs	-	-	-	-
<b>Gross carrying amount as at December 31, 2022</b>	<b>12,954,374</b>	<b>1,242,085</b>	<b>294,651</b>	<b>14,491,110</b>

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**19. COMMITMENTS AND CONTINGENCIES (continued)**

**(ii) Commitments and contingencies by counterparty:**

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
Corporate	<b>16,667,822</b>	12,023,944
Financial institutions	<b>2,154,886</b>	2,409,883
Others	<b>68,971</b>	57,283
<b>Total</b>	<b>18,891,679</b>	14,491,110

**20. INCOME FROM INVESTING AND FINANCING ASSETS**

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
<b>Income from investments and due from banks and other financial institutions</b>		
Income from bei-ajel with Saudi Central Bank	<b>196,890</b>	44,634
Income from murabaha with banks and other financial institutions	<b>312,584</b>	76,760
Income from sukuk and other investments	<b>761,099</b>	537,161
Income from financing	<b>6,273,209</b>	4,312,992
<b>Total</b>	<b>7,543,782</b>	4,971,547

**21. RETURN ON DEPOSITS AND FINANCIAL LIABILITES**

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
Return on:		
Due to banks, Saudi Central Bank and other financial institutions, deposits and others	<b>3,160,482</b>	956,494
Sukuk and other investment	<b>273,461</b>	128,385
<b>Total</b>	<b>3,433,943</b>	1,084,879

**22. FEES AND COMMISSION INCOME, NET**

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
<b>Fees and commission income</b>		
Remittance	<b>296,009</b>	323,430
ATM and point of sale	<b>464,343</b>	413,349
Letters of credit and guarantee	<b>123,118</b>	81,202
Management fee (mutual fund and others)	<b>128,411</b>	157,185
Brokerage income	<b>57,274</b>	88,443
Others	<b>29,896</b>	29,149
<b>Total fees and commission income</b>	<b>1,099,051</b>	1,092,758
<b>Fees and commission expenses</b>		
ATM and point of sale	<b>322,611</b>	279,923
Brokerage expenses	<b>26,420</b>	37,881
Remittance	<b>18,090</b>	15,764
Others	<b>110,908</b>	90,393
<b>Total fees and commission expenses</b>	<b>478,029</b>	423,961
<b>Fees and commission income, net</b>	<b>621,022</b>	668,797

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**23. GAINS /(LOSS) ON FAIR VALUE THROUGH STATEMENT OF INCOME (FVSI) INVESTMENTS, NET**

	2023 SAR' 000	2022 SAR' 000
Investments	88,584	25,566
Derivatives	(797)	3,462
<b>Total</b>	<b>87,787</b>	<b>29,028</b>

**24. SALARIES AND EMPLOYEE RELATED EXPENSES**

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended December 31, 2023 and 2022, and the form of such payments:

	Number of employees	Fixed compensation SAR' 000	Variable compensation paid		
			Cash	Shares SAR' 000	Total
<b>2023</b>					
Senior executives	23	41,078	35,211	24,564	59,775
Employees engaged in risk taking activities	335	119,999	39,198	3,175	42,373
Employees engaged in control functions	358	93,141	20,143	1,413	21,556
Other employees	3,071	485,906	75,836	1,311	77,147
Outsourced employees	849	159,853	-	-	-
<b>Total</b>	<b>4,636</b>	<b>899,977</b>	<b>170,388</b>	<b>30,463</b>	<b>200,851</b>
Variable compensation accrued, and other Employees' related benefits*		<u>428,891</u>			
<b>Total salaries and employee related expenses</b>		<u><b>1,328,868</b></u>			

	Number of employees	Fixed compensation SAR' 000	Variable compensation paid		
			Cash	Shares SAR' 000	Total
<b>2022</b>					
Senior executives	24	42,122	38,595	9,209	47,804
Employees engaged in risk taking activities	307	105,366	39,831	920	40,751
Employees engaged in control functions	330	86,527	18,023	565	18,588
Other employees	3,010	446,907	75,224	607	75,831
Outsourced employees	823	149,245	-	-	-
<b>Total</b>	<b>4,494</b>	<b>830,167</b>	<b>171,673</b>	<b>11,301</b>	<b>182,974</b>
Variable compensation accrued, and other Employees' related benefits*		<u>428,953</u>			
<b>Total salaries and employee related expenses</b>		<u><b>1,259,120</b></u>			

\* Other employees' related benefits include, insurance, pension, relocation expenses, recruitment expenses, training and development and other employees' benefits.

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**24. SALARIES AND EMPLOYEE RELATED EXPENSES (continued)**

**Employees Compensation and Benefits**

**1. Quantitative Disclosure:**

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

a) **Senior executives:**

Senior executives are those whose appointment is subject to approval of Saudi central bank, such as: CEO, CFO (EVP Finance), COO (EVP Operations Management), CRO (EVP Risk Management), EVP Retail Banking, EVP Human Resource, etc.

b) **Employees engaged in risk taking activities:**

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade services, private banking etc. who are responsible for executing and implementing the business strategy of the bank.

c) **Employees engaged in control functions:**

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, internal audit, treasury operations, finance and accounting, etc.

d) **Other employees:**

All regular employees other than those mentioned in (a) to (c) above.

e) **Outsourced employees:**

This includes staff employed by various agencies who supply services to the Bank on a full time basis in non-critical roles. None of these roles require risk undertaking or control.

**2. Qualitative Disclosure:**

The Bank has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by Saudi central bank as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

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**24. SALARIES AND EMPLOYEE RELATED EXPENSES (continued)**

**2. Qualitative Disclosure (continued):**

**Policy Objectives**

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

**Compensation Structure**

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three year vesting period.

• **Fix Components:**

Provide a competitive salaries or wage according to annual market alignment, including (basic, housing, transportation and fixed allowances) which are written in the employee's contract.

• **Variable Components:**

Taking into account the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period.

**Performance Management System**

The performance of all employees is measured by way of a balance score card methodology taking into consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

The Bank has following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

Maturity dates	Between Jan. 2024 and Dec. 2026
Total number of shares granted	1,017,149
Vesting period	3 Years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 45.15

The shares are granted only under service condition with no market condition associated with them.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**25. OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

	2023 <u>SAR' 000</u>	2022 <u>SAR' 000</u>
Repair, maintenance and Information Technology costs	167,352	163,727
Communications and utilities expenses	125,805	117,758
Subscription, publication and advertising	91,690	115,816
Professional and consultancy fees	41,259	26,629
Others	284,731	346,597
<b>Total</b>	<b><u>710,837</u></b>	<b><u>770,527</u></b>

**26. IMPAIRMENT CHARGE FOR EXPECTED CREDIT LOSSES, NET**

	2023 <u>SAR' 000</u>	2022 <u>SAR' 000</u>
Other financial assets, net	1,648	1,016
Investments, net	(316)	17,307
Financing, net	340,111	530,451
Commitment and financial guarantee contracts, net	(17,613)	1,878
<b>Total</b>	<b><u>323,830</u></b>	<b><u>550,652</u></b>

**27. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the years ended December 31, 2023 and 2022 is calculated by dividing the net income for the year attributable to the equity holders by the weighted average number of outstanding shares 2023: 995 million shares (2022: 995 million shares - restated) after accounting for treasury shares.

**28. CASH AND CASH EQUIVALENTS**

	2023 <u>SAR' 000</u>	2022 <u>SAR' 000</u>
Cash and balances with Saudi Central Bank (excluding statutory deposit)	1,535,339	3,698,040
Due from banks and other financial institutions (maturing within ninety days from acquisition)	5,334,138	5,325,741
<b>Total</b>	<b><u>6,869,477</u></b>	<b><u>9,023,781</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. EMPLOYEE BENEFIT OBLIGATION**

**a. General description**

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

**b. The movement in the obligation during the year based on its present value are as follows:**

	2023 SAR' 000	2022 SAR' 000
Defined benefit obligation at the beginning of the year	351,283	309,310
Charge for the year	54,906	65,787
Benefits paid	(21,052)	(24,384)
Unrecognized actuarial (gain) / loss	(11,995)	570
Defined benefit obligation at the end of the year	373,142	351,283

**c. Charge for the year**

	2023 SAR' 000	2022 SAR' 000
Current service cost	44,445	57,053
Past service cost	-	323
Finance cost	10,461	8,411
	54,906	65,787

**d. Principal actuarial assumptions (in respect of the employee benefit scheme)**

	2023 SAR' 000	2022 SAR' 000
Discount rate	5.50%	4.95%
Expected rate of salary change	3.00%	3.00%
Normal retirement age		
• Male	60 years	60 years
• Female	55 years	55 years

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

**e. Sensitivity of actuarial assumptions**

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2023 to the discount rate **5.50%** (2022: 4.95%), salary escalation rate **3.00%** (2022: 3.00%), withdrawal assumptions.

2023	SAR' 000		
	Impact on defined benefit obligation – increase / (decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(24,000)	27,423
Expected rate of salary change	1%	27,815	(24,680)
Withdrawal assumptions	20%	1,174	(1,780)

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**29. EMPLOYEE BENEFIT OBLIGATION (continued)**

**e. Sensitivity of actuarial assumptions (continued)**

2022 Base Scenario	SAR' 000		
	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(23,074)	26,797
Expected rate of salary change	1%	27,061	(23,693)
Withdrawal assumptions	20%	1,182	(1,836)

The above sensitivity analysis are based on a change in an assumption keeping all other assumptions constant.

**30. SEGMENTAL 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) 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, 2022.

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.

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 other operating segments, based on an approved criteria.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. SEGMENTAL INFORMATION (continued)**

a) The Group's total operating income and expenses, and net income before zakat, for the years ended December 31, 2023 and 2022 for each segment are as follows:

<b>2023</b> <b>SAR' 000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment banking and brokerage</b>	<b>Total</b>
Net income from investing and financing assets	1,756,588	1,706,432	522,394	124,425	4,109,839
Fee, commission and other income, net	492,183	156,104	368,249	176,413	1,192,949
<b>Total operating income</b>	<b>2,248,771</b>	<b>1,862,536</b>	<b>890,643</b>	<b>300,838</b>	<b>5,302,788</b>
<b>Impairment charge for expected credit losses, net</b>	<b>136,819</b>	<b>183,994</b>	<b>(4,028)</b>	<b>7,045</b>	<b>323,830</b>
<b>Depreciation and amortization</b>	<b>268,519</b>	<b>21,556</b>	<b>5,197</b>	<b>3,024</b>	<b>298,296</b>
<b>Total operating expenses</b>	<b>1,929,237</b>	<b>479,024</b>	<b>97,823</b>	<b>155,747</b>	<b>2,661,831</b>
<b>Net income for the year before zakat</b>	<b>319,534</b>	<b>1,383,512</b>	<b>792,820</b>	<b>145,091</b>	<b>2,640,957</b>
<b>2022</b> <b>SAR' 000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment banking and brokerage</b>	<b>Total</b>
Net income from investing and financing assets	2,161,894	1,229,852	444,622	50,300	3,886,668
Fee, commission and other income, net	606,109	184,424	297,204	217,027	1,304,764
<b>Total operating income</b>	<b>2,768,003</b>	<b>1,414,276</b>	<b>741,826</b>	<b>267,327</b>	<b>5,191,432</b>
<b>Impairment charge for expected credit losses, net</b>	<b>194,386</b>	<b>327,441</b>	<b>26,179</b>	<b>2,646</b>	<b>550,652</b>
<b>Depreciation and amortization</b>	<b>246,732</b>	<b>36,716</b>	<b>3,908</b>	<b>3,054</b>	<b>290,410</b>
<b>Total operating expenses</b>	<b>2,033,852</b>	<b>583,515</b>	<b>117,447</b>	<b>135,895</b>	<b>2,870,709</b>
<b>Net income for the year before zakat</b>	<b>734,151</b>	<b>830,761</b>	<b>624,379</b>	<b>131,432</b>	<b>2,320,723</b>

The Group's total assets and liabilities at December 31, 2023 and 2022, for each segment are as follows:

<b>2023</b> <b>SAR' 000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment banking and brokerage</b>	<b>Total</b>
<b>Total assets</b>	<b>59,606,734</b>	<b>52,043,297</b>	<b>30,430,092</b>	<b>1,025,696</b>	<b>143,105,819</b>
<b>Total liabilities</b>	<b>66,161,722</b>	<b>30,250,481</b>	<b>31,334,756</b>	<b>100,750</b>	<b>127,847,709</b>
<b>2022</b> <b>SAR' 000</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment banking and brokerage</b>	<b>Total</b>
<b>Total assets</b>	<b>58,022,131</b>	<b>44,450,264</b>	<b>26,015,078</b>	<b>1,055,383</b>	<b>129,542,856</b>
<b>Total liabilities</b>	<b>59,423,524</b>	<b>23,526,969</b>	<b>33,034,229</b>	<b>159,186</b>	<b>116,143,908</b>

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**30. SEGMENTAL INFORMATION (continued)**

**b) Credit exposure by operating segments is as follows:**

<b>2023</b>				
<b>SAR' 000</b>	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Total</b>
<b>Total assets</b>	<b>50,165,132</b>	<b>51,914,933</b>	<b>28,736,557</b>	<b>130,816,622</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>13,989,739</b>	<b>-</b>	<b>13,989,739</b>
<b>2022</b>				
<b>SAR' 000</b>	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Total</b>
<b>Total assets</b>	<b>46,082,860</b>	<b>45,096,345</b>	<b>25,140,253</b>	<b>116,319,458</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>10,242,361</b>	<b>-</b>	<b>10,242,361</b>

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with Saudi central bank regulations.

**31. FINANCIAL RISK MANAGEMENT**

**CREDIT RISK**

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Risk Committee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, limits and review of the policies.

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in financing and investment activities. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also the Group uses the external ratings of the major rating agency, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continue)**

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of financing refer to note 8. Information on credit risk relating to commitments and contingencies in note 19. The information on Bank's maximum credit exposure by business segment is given in note 30.

**Concentration of risks of financial assets with credit risk exposure and financial liabilities**

**a. Geographical concentration**

**The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of December 31:**

**BANK ALBILAD**  
(A Saudi Joint Stock Company)

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

<b>2023</b>	<b>Kingdom of</b>	<b>Other</b>					
<b>SAR' 000</b>	<b>Saudi</b>	<b>GCC and</b>		<b>North</b>	<b>South</b>	<b>Other</b>	<b>Total</b>
	<b>Arabia</b>	<b>Middle</b>	<b>Europe</b>	<b>America</b>	<b>East Asia</b>	<b>countries</b>	
<b>Assets</b>		<b>East</b>					
<b>Cash and balances with</b>							
<b>Saudi central banks</b>	<b>6,983,098</b>	-	-	-	-	-	<b>6,983,098</b>
Cash in hand	1,168,927	-	-	-	-	-	1,168,927
Balances with Saudi Central Bank	5,814,171	-	-	-	-	-	5,814,171
<b>Due from Banks and</b>							
<b>other financial institutions</b>	<b>6,635,990</b>	<b>987,602</b>	<b>119,663</b>	<b>315,755</b>	<b>68,985</b>	<b>42,099</b>	<b>8,170,094</b>
Demand	-	97,182	119,663	3,223	68,985	42,099	331,152
Commodity murabaha	6,635,990	890,420	-	312,532	-	-	7,838,942
<b>Investments, net</b>	<b>18,583,155</b>	<b>3,221,044</b>	<b>275,719</b>	-	-	-	<b>22,079,918</b>
FVOCI	6,622,850	70,745	-	-	-	-	6,693,595
FVSI	495,087	544,306	22,489	-	-	-	1,061,882
Amortized cost	11,465,218	2,605,993	253,230	-	-	-	14,324,441
<b>Financing, net</b>	<b>102,080,065</b>	-	-	-	-	-	<b>102,080,065</b>
Retail	50,165,132	-	-	-	-	-	50,165,132
Commercial	51,914,933	-	-	-	-	-	51,914,933
<b>Other assets</b>	<b>1,414,299</b>	-	-	-	-	-	<b>1,414,299</b>
<b>Total</b>	<b>135,696,607</b>	<b>4,208,646</b>	<b>395,382</b>	<b>315,755</b>	<b>68,985</b>	<b>42,099</b>	<b>140,727,474</b>
<b>Liabilities</b>							
<b>Due to banks, Saudi</b>							
<b>Central Bank and</b>							
<b>other financial</b>							
<b>institutions</b>	<b>3,792,439</b>	<b>407,363</b>	-	<b>33,214</b>	<b>831</b>	<b>40,061</b>	<b>4,273,908</b>
Demand	-	109,665	-	33,214	831	11,888	155,598
Direct investment	3,792,439	297,698	-	-	-	28,173	4,118,310
<b>Customer deposits</b>	<b>112,831,245</b>	-	-	-	-	-	<b>112,831,245</b>
Demand	42,878,418	-	-	-	-	-	42,878,418
Direct investment	36,641,769	-	-	-	-	-	36,641,769
Albilad account (Mudarabah)	30,410,877	-	-	-	-	-	30,410,877
Other	2,900,181	-	-	-	-	-	2,900,181
<b>Sukuk</b>	<b>3,051,613</b>	-	-	-	-	-	<b>3,051,613</b>
<b>Other liabilities</b>	<b>6,682,221</b>	-	-	-	-	-	<b>6,682,221</b>
<b>Total</b>	<b>126,357,518</b>	<b>407,363</b>	-	<b>33,214</b>	<b>831</b>	<b>40,061</b>	<b>126,838,987</b>
<b>Commitments and contingencies</b>							
<b>Letters of credit</b>	<b>2,151,601</b>	-	-	-	-	-	<b>2,151,601</b>
<b>Letter of guarantee</b>	<b>14,636,202</b>	-	-	-	-	-	<b>14,636,202</b>
<b>Acceptances</b>	<b>723,129</b>	-	-	-	-	-	<b>723,129</b>
<b>Irrevocable commitments</b>							
<b>to extend credit</b>	<b>1,380,747</b>	-	-	-	-	-	<b>1,380,747</b>
	<b>18,891,679</b>	-	-	-	-	-	<b>18,891,679</b>
<b>Credit risk*</b>	<b>13,989,739</b>	-	-	-	-	-	<b>13,989,739</b>

\*Stated at credit equivalent amounts on commitments and contingencies

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**31. FINANCIAL RISK MANAGEMENT (continued)****CREDIT RISK (continued)**

<u>2022</u> <u>SAR' 000</u>	Kingdom of Saudi <u>Arabia</u>	Other GCC and Middle <u>East</u>	<u>Europe</u>	North <u>America</u>	South <u>East</u> <u>Asia</u>	Other <u>countries</u>	<u>Total</u>
<u>Assets</u>							
Cash and balances with							
Saudi Central Banks	8,710,916	-	-	-	-	-	8,710,916
Cash in hand	1,255,392	-	-	-	-	-	1,255,392
Balances with Saudi central bank	7,455,524	-	-	-	-	-	7,455,524
Due from Banks and other financial institutions	3,802,606	1,080,769	59,179	936,745	152,757	35,137	6,067,193
Demand	-	158,108	59,179	636,989	152,757	35,137	1,042,170
Commodity murabaha	3,802,606	922,661	-	299,756	-	-	5,025,023
Investments, net	18,426,527	2,155,302	18,296	-	-	-	20,600,125
FVOCI	7,107,491	68,819	-	-	-	-	7,176,310
FVSI	448,471	423,255	18,296	-	-	-	890,022
Amortized cost	10,870,565	1,663,228	-	-	-	-	12,533,793
Financing, net	91,179,205	-	-	-	-	-	91,179,205
Retail	46,082,860	-	-	-	-	-	46,082,860
Commercial	45,096,345	-	-	-	-	-	45,096,345
Other assets	692,677	-	-	-	-	-	692,677
<b>Total</b>	<u>122,811,931</u>	<u>3,236,071</u>	<u>77,475</u>	<u>936,745</u>	<u>152,757</u>	<u>35,137</u>	<u>127,250,116</u>
<u>Liabilities</u>							
Due to banks, Saudi Central Bank and other financial institutions							
	10,237,817	294,152	-	-	2,666	86,806	10,621,441
Demand	-	72,794	-	-	2,666	11,207	86,667
Direct investment	10,237,817	221,358	-	-	-	75,599	10,534,774
Customer deposits	94,842,747	-	-	-	-	-	94,842,747
Demand	47,470,751	-	-	-	-	-	47,470,751
Direct investment	25,366,482	-	-	-	-	-	25,366,482
Albilad account (Mudarabah)	18,857,171	-	-	-	-	-	18,857,171
Other	3,148,343	-	-	-	-	-	3,148,343
Sukuk	3,040,452	-	-	-	-	-	3,040,452
Other liabilities	7,451,101	-	-	-	-	-	7,451,101
<b>Total</b>	<u>115,572,117</u>	<u>294,152</u>	<u>-</u>	<u>-</u>	<u>2,666</u>	<u>86,806</u>	<u>115,955,741</u>
<u>Commitments and contingencies</u>							
Letters of credit	1,780,819	-	-	-	-	-	1,780,819
Letter of guarantee	11,433,834	-	-	-	-	-	11,433,834
Acceptances	918,049	-	-	-	-	-	918,049
Irrevocable commitments to extend credit	358,408	-	-	-	-	-	358,408
	<u>14,491,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,491,110</u>
<b>Credit risk*</b>	<u>10,242,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,242,361</u>

\*Stated at credit equivalent amounts on commitments and contingencies

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by Saudi central bank. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

**b. The geographical distribution of the impaired financial assets and the allowance for expected credit losses are set out as below:**

<u>2023</u> SAR' 000	<u>Kingdom</u>	<u>Other</u>	<u>Europe</u>	<u>North</u>	<u>South</u>	<u>Other</u>	<u>Total</u>
	<u>of Saudi</u>	<u>GCC</u>		<u>America</u>	<u>East</u>		
	<u>Arabia</u>	<u>and</u>			<u>Asia</u>		
		<u>Middle</u>					
		<u>East</u>					
Non-Performing financing	1,432,961	-	-	-	-	-	1,432,961
Allowance for expected credit losses	2,895,861	-	-	-	-	-	2,895,861
<u>2022</u> SAR' 000							
Non-Performing financing	1,246,435	-	-	-	-	-	1,246,435
Allowance for expected credit losses	2,845,631	-	-	-	-	-	2,845,631

**Credit quality analysis**

The following table sets out information about the credit quality of financial assets measured at amortized cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

<u>December 31, 2023</u> SAR' 000	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	<u>(12 month ECL)</u>	<u>(Life time ECL not credit impaired)</u>	<u>(Life time ECL credit impaired )</u>	
<b>Due from bank and other financial institutions</b>				
Investment grade	8,173,007	-	-	8,173,007
Non-investment grade	-	-	-	-
<b>Gross carrying amount</b>	<b>8,173,007</b>	<b>-</b>	<b>-</b>	<b>8,173,007</b>
<u>December 31, 2022</u> SAR' 000	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	<u>(12 month ECL)</u>	<u>(Life time ECL not credit impaired)</u>	<u>(Life time ECL credit impaired )</u>	
Due from bank and other financial institutions				
Investment grade	5,936,928	-	-	5,936,928
Non-investment grade	131,530	-	-	131,530
<b>Gross carrying amount</b>	<b>6,068,458</b>	<b>-</b>	<b>-</b>	<b>6,068,458</b>

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Credit quality analysis (continue)**

**Financing to customers at amortized cost**

December 31, 2023 SAR' 000	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
<b>Commercial</b>	<b>45,092,129</b>	<b>8,087,412</b>	<b>1,044,658</b>	<b>54,224,199</b>
Grades 1-15: Low – fair risk	44,110,801	2,682,022	-	46,792,823
Grades 16-20: Watch list	981,328	5,405,390	-	6,386,718
Grades 21: Substandard	-	-	599,753	599,753
Grades 22: Doubtful	-	-	108,529	108,529
Grades 23: Loss	-	-	336,376	336,376
<b>Retail</b>				
Unrated	49,940,140	423,284	388,303	50,751,727
<b>Gross carrying amount</b>	<b>95,032,269</b>	<b>8,510,696</b>	<b>1,432,961</b>	<b>104,975,926</b>

December 31, 2022 SAR' 000	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
<b>Commercial</b>	<b>38,545,021</b>	<b>7,924,051</b>	<b>914,165</b>	<b>47,383,237</b>
Grades 1-15: Low – fair risk	37,401,548	2,361,634	-	39,763,182
Grades 16-20: Watch list	1,143,473	5,562,417	-	6,705,890
Grades 21: Substandard	-	-	139,433	139,433
Grades 22: Doubtful	-	-	623,353	623,353
Grades 23: Loss	-	-	151,379	151,379
<b>Retail</b>				
Unrated	46,051,457	257,872	332,270	46,641,599
<b>Gross carrying amount</b>	<b>84,596,478</b>	<b>8,181,923</b>	<b>1,246,435</b>	<b>94,024,836</b>

December 31, 2023 SAR' 000	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
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**Debt investment securities  
at amortized cost**

Investment grade	11,765,521	-	-	11,765,521
Non-Investment grade	1,301,417	-	-	1,301,417
Unrated	1,277,216	-	-	1,277,216
<b>Gross carrying amount</b>	<b>14,344,154</b>	<b>-</b>	<b>-</b>	<b>14,344,154</b>

December 31, 2022 SAR' 000	Stage 1 (12 month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Life time ECL credit impaired )	Total
Debt investment securities at amortized cost				
Investment grade	12,554,953	-	-	12,554,953
<b>Gross carrying amount</b>	<b>12,554,953</b>	<b>-</b>	<b>-</b>	<b>12,554,953</b>

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Credit quality analysis (continue)**

<b>December 31, 2023</b> <b>SAR' 000</b>	<b>Stage 1</b> <b>(12 month ECL)</b>	<b>Stage 2</b> <b>(Life time ECL not</b> <b>credit impaired)</b>	<b>Stage 3</b> <b>(Life time ECL</b> <b>credit impaired )</b>	<b>Total</b>
<b>Debt investment securities at FVOCI</b>				
Investment grade	<b>6,094,926</b>	-	-	<b>6,094,926</b>
Unrated	<b>147,098</b>	-	-	<b>147,098</b>
<b>Gross carrying amount</b>	<b>6,242,024</b>	-	-	<b>6,242,024</b>
<b>December 31, 2022</b> <b>SAR' 000</b>				
<b>Debt investment securities at FVOCI</b>				
Investment grade	6,318,850	-	-	6,318,850
Unrated	220,417	-	-	220,417
<b>Gross carrying amount</b>	<b>6,539,267</b>	-	-	<b>6,539,267</b>
<b>December 31, 2023</b> <b>SAR' 000</b>				
<b>Commitments and contingencies</b>				
Grades 1-15: Low – fair risk	<b>16,796,820</b>	<b>917,038</b>	-	<b>17,713,858</b>
Grades 16-20: Watch list	<b>603,730</b>	<b>335,164</b>	-	<b>938,894</b>
Grades 21: Substandard	-	-	<b>148</b>	<b>148</b>
Grades 22: Doubtful	-	-	-	-
Grades 23: Loss	-	-	<b>238,779</b>	<b>238,779</b>
<b>Gross carrying amount</b>	<b>17,400,550</b>	<b>1,252,202</b>	<b>238,927</b>	<b>18,891,679</b>
<b>December 31, 2022</b> <b>SAR' 000</b>				
<b>Commitments and contingencies</b>				
Grades 1-15: Low – fair risk	12,947,686	1,012,937	-	13,960,623
Grades 16-20: Watch list	6,688	229,148	-	235,836
Grades 21: Substandard	-	-	348	348
Grades 22: Doubtful	-	-	13,854	13,854
Grades 23: Loss	-	-	280,449	280,449
<b>Gross carrying amount</b>	<b>12,954,374</b>	<b>1,242,085</b>	<b>294,651</b>	<b>14,491,110</b>



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**31. FINANCIAL RISK MANAGEMENT (continued)****CREDIT RISK (continued)****Amounts arising from ECL – Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The PD at the reporting date; with
- The PD estimated at the time of initial recognition of the exposure.

In addition to the above, other major quantitative consideration include days past due and rating of customer.

**Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due;
- Change in risk of default occurring since initial recognition;
- Expected life of the financial instrument; and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. There is a rebuttable presumption that recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Credit risk grades**

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

<b>Commercial exposures</b>	<b>Retail exposures</b>	<b>All exposures</b>
<ul style="list-style-type: none"> <li>Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, and compliance with covenants, quality management, and senior management changes.</li> <li>Data from credit reference agencies, press articles, changes in external credit ratings</li> <li>Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> <li>Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior.</li> <li>Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate.</li> </ul>	<ul style="list-style-type: none"> <li>Internally collected data and customer behavior – e.g. utilization of credit card facilities.</li> <li>Affordability metrics.</li> <li>External data from credit reference agencies including industry-standard credit.</li> </ul>	<ul style="list-style-type: none"> <li>Payment record – this includes overdue status as well as a range of variables about payment ratios.</li> <li>Utilization of the granted limit</li> <li>Requests for and granting of forbearance.</li> <li>Existing and forecast changes in business, financial and economic conditions.</li> </ul>

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Generating the term structure of PD**

Credit risk grades (or for aforementioned bucket created for retail portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank employs following steps in order to generated term structure of the PD:

The Bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast in to the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The "Point in Time" PD, and later adjusted for macroeconomic overlay to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition matrix. This provide the grade wise PD over the upcoming years, thus the term structure of the PD.

**Definition of 'Default'**

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default. The Bank considers indicators that are:

- Qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources; and
- inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Modified financial assets**

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

When the terms of the financial assets are modified that does not result into de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for asset modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

The Bank renegotiates financing to customers in financial difficulties referred to as “forbearance activities” to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, financing forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both retail and commercial financing are subject to the forbearance policy.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

During the year, no material losses were recognized on modification or restructuring of any facility.

**Incorporation of forward looking information**

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Incorporation of forward looking information (continue)**

For the purpose of ECL measurement with respect to the retail and commercial (including SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the Bank assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by independent external agencies.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The economic scenarios used as at December 31 included the following ranges of key indicators.

<b>Economic Indicators</b>	<b>2023</b>	<b>2022</b>
GDP, oil prices and inflation	<b>Upside 30%</b> <b>Base case 40%</b> <b>Downside 30%</b>	Upside 30% Base case 40% Downside 30%

The Bank has updated its forward-looking variables (key economic drivers).

a) Scenario assumptions:

As at December 31, 2023, the scenario assumptions are updated to reflect the continuing situation around the pandemic. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

b) Probability weightages

The Bank considered the probability weightages to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Probability weightages of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Incorporation of forward looking information (continued)**

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 7 to 10 years. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2023 ECL model			Forecast calendar years used in 2022 ECL model		
	2024	2025	2026	2023	2024	2025
GDP (SAR in Billions)	3,121	3,200	3,272	3,023	3,090	3,149
Oil prices (USD per barrel)	81.09	72.31	70.53	80.20	69.95	68.98
Inflation (Consumer Price Index)	112.96	115.35	117.78	109.84	112.63	114.96

With respect to the listed, sovereign and Financial Institutions, the bank utilizes a Credit Default Swap based methodology (extracted from independent sources), which incorporates the market's forward looking view in order to arrive at the ECL.

**Sensitivity of ECL allowance**

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end:

Assumptions sensitized	ECL impact 2023 (SAR' 000 )
<i>Macro-economic factors:</i>	
Decrease in \$10 oil price per barrel	359,269
Decrease in \$20 oil price per barrel	718,538
Decrease in GDP growth rate by 0.5%	232,540
Decrease in GDP growth rate by 1%	465,383

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**31. FINANCIAL RISK MANAGEMENT (continued)****CREDIT RISK (continued)****Sensitivity of ECL allowance (continued)**

Where modeling of a parameter is carried out on a collective basis, the financial instruments are assessed on the basis of shared risk characteristics that include:

- Product type
- Delinquency
- Employer (Government & Private segmentation)
- Income (Salary & Non salary transfer)
- Collateral type;

**Measurement of ECL**

For retail and commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

- a) Probability of default (PD);
- b) Loss given default (LGD); and
- c) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset. LGD is calculated on a discounted cash flow basis using the contractual profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Measurement of ECL (continued)**

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

The PD, EAD and LGD models are subject to the Bank's IFRS 9 model validation policy that stipulates periodic model monitoring, periodic revalidation.

During the year, the Bank has validated and redeveloped some models where necessitates based on updated default data / macroeconomic information.

- **Economic Sector risk concentration for the financing and allowance for ECL are as follows:**

<b>2023 SAR, 000'</b>	<b>Performing</b>	<b>Credit- impaired</b>	<b>Allowance for expected credit losses</b>	<b>Financing, net</b>
<b>Retail</b>	50,363,423	388,303	(586,595)	50,165,131
<b>Real estate and rental</b>	22,960,948	448,267	(548,096)	22,861,119
<b>Industrial</b>	5,278,155	33,879	(472,240)	4,839,794
<b>Electricity, water, gas &amp; health services</b>	4,686,187	4,090	(5,776)	4,684,501
<b>Commercial</b>	4,265,397	252,638	(506,228)	4,011,807
<b>Services</b>	3,865,767	7,788	(31,618)	3,841,937
<b>Building and construction</b>	3,328,562	67,083	(460,968)	2,934,677
<b>Transportation and communication</b>	3,094,422	-	(32,697)	3,061,725
<b>Mining &amp; Quarrying</b>	1,598,263	-	(3,314)	1,594,949
<b>Agriculture and fishing</b>	1,236,178	-	(10,541)	1,225,637
<b>Other</b>	2,865,663	230,913	(237,788)	2,858,788
<b>Total</b>	<b>103,542,965</b>	<b>1,432,961</b>	<b>(2,895,861)</b>	<b>102,080,065</b>



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**31. FINANCIAL RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

**Measurement of ECL (continued)**

2022 SAR, 000'	Performing	Credit- impaired	Allowance for expected credit losses	Financing, net
Retail	46,309,329	332,270	(558,739)	46,082,860
Real estate and rental	18,528,328	256,110	(474,432)	18,310,006
Industrial	5,188,355	42,649	(379,649)	4,851,355
Commercial	4,404,627	445,787	(685,999)	4,164,415
Services	3,377,447	23,968	(43,579)	3,357,836
Electricity, water, gas & health services	3,274,446	586	(1,915)	3,273,117
Transportation and communication	2,960,671	82	(59,814)	2,900,939
Building and construction	2,305,410	128,041	(365,137)	2,068,314
Mining & Quarrying	1,809,702	-	(4,540)	1,805,162
Agriculture and fishing	1,371,937	-	(12,557)	1,359,380
Other	3,248,149	16,942	(259,270)	3,005,821
<b>Total</b>	<b>92,778,401</b>	<b>1,246,435</b>	<b>(2,845,631)</b>	<b>91,179,205</b>

• **Collateral**

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the financing. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and retail financing and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of commercial collateral held as security for financing that are credit-impaired as at December 31, 2023 and 2022 are as follows:

SAR '000	2023	2022
Total fair value of collateral	<u>528,311</u>	<u>408,015</u>

• **Financial assets subject to offsetting, netting arrangements**

SAR '000 December 31, 2023	Related amounts not offsetted		Net amount
	Gross assets before offset	Amounts subject to masted netting arrangement	
Derivative financial instruments	<u>25,114</u>	<u>(26,366)</u>	<u>(1,252)</u>

  

SAR '000 December 31, 2022	Related amounts not offsetted		Net amount
	Gross assets before offset	Amounts subject to masted netting arrangement	
Derivative financial instruments	<u>39,138</u>	<u>(34,436)</u>	<u>4,702</u>

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**32. MARKET RISK**

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates and equity prices.

**a. Profit rate risk**

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the consolidated financial statements at amortized cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

**b. Foreign exchange rate risk**

Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

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

	2023		2022	
	Saudi Riyal SAR' 000	Foreign currency SAR' 000	Saudi Riyal SAR' 000	Foreign currency SAR' 000
<b>Assets</b>				
Cash and balances with Saudi Central Bank	6,917,907	65,191	8,582,236	128,680
Due from banks and other financial institutions, net	7,088,350	1,081,744	4,026,884	2,040,309
Investments, net	15,953,952	6,125,966	16,414,882	4,185,243
Financing, net	99,950,410	2,129,655	89,037,352	2,141,853
Other assets	1,551,655	83,029	336,528	544,328
<b>Liabilities and equity</b>				
Due to banks, Saudi Central Bank and other financial institutions	2,988,184	1,285,724	9,326,121	1,295,320
Customer deposits	105,640,490	7,190,755	90,793,508	4,049,239
Sukuk	3,051,613	-	3,040,452	-
Other liabilities	7,616,699	74,244	6,141,950	1,497,318
Equity	15,258,110	-	13,398,948	-

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**32. MARKET RISK (continued)**

**b. Foreign exchange rate risk (continued)**

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

**Currency position**

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	<b>2023</b> <b>SAR' 000</b> <b>Long/(short)</b>	<b>2022</b> <b>SAR' 000</b> <b>Long/(short)</b>
US Dollars	<b>830,150</b>	2,333,195
Euro	<b>48,579</b>	(6,068)
Philippine Peso	<b>18,481</b>	(3,504)
Indian Rupees	<b>17,860</b>	(2,072)
Pakistani Rupees	<b>12,468</b>	(32,822)
Others	<b>20,460</b>	(47,704)
<b>Total</b>	<b>947,998</b>	2,241,025

**c. Investment price risk**

Investment risk refers to the risk of change in fair values of equities and mutual funds in the Group's investment portfolio as a result of possible changes in levels of market indices and the value of individual stocks.

The effect on the Group's investments due to reasonable possible change in market indices, with all other variables held constant is as follows:

Security types	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Change in investment price %</b>	<b>Effect in SAR' 000</b>	<b>Change in investment price %</b>	<b>Effect in SAR' 000</b>
<b>Fair value through other comprehensive income (FVOCI)- Retained earnings</b>				
<b>Equity</b>				
Quoted	±10	<b>30,004</b>	±10	53,292
Unquoted	±2	<b>3,031</b>	±2	2,082
<b>Fair value through statement of income (FVSI)- Statement of income</b>				
<b>Equity</b>				
Quoted	±10	<b>6,726</b>	±10	14,372
<b>Mutual Funds</b>				
Quoted	±10	<b>7,695</b>	±10	5,586
Unquoted	±2	<b>18,353</b>	±2	13,809

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**33. LIQUIDITY RISK**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets Liability Committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by Saudi central bank, the Bank maintains a statutory deposit with Saudi central bank equal to 7% (2022: 7%) of total monthly average demand deposits and 4% (2022: 4%) of monthly average time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with Saudi central bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**33. LIQUIDITY RISK (continued)**

**a. Analysis of discounted financial assets and financial liabilities by expected maturities:**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

<u>2023</u> <u>SAR' 000</u>	<u>Within 3</u> <u>Months</u>	<u>3 months</u> <u>to 1 year</u>	<u>Over one</u> <u>year to 5</u> <u>years</u>	<u>Over 5</u> <u>years</u>	<u>No fixed</u> <u>maturity</u>	<u>Total</u>
<b><u>Assets</u></b>						
<b>Cash and balances with</b>						
<b>Saudi Central Banks</b>	1,535,339	-	-	-	5,447,759	6,983,098
Cash in hand	1,168,927	-	-	-	-	1,168,927
Balances with Saudi Central Bank	366,412	-	-	-	5,447,759	5,814,171
<b>Due from Banks and other financial institutions, net</b>						
Demand	5,401,087	1,195,004	1,574,003	-	-	8,170,094
Commodity murabaha	331,152	-	-	-	-	331,152
<b>Investments, net</b>	5,069,935	1,195,004	1,574,003	-	-	7,838,942
FVOCI	129,183	950,161	6,598,351	12,888,770	1,513,453	22,079,918
FVSI	14,610	408,880	1,919,286	3,899,248	451,571	6,693,595
Amortized cost	-	-	-	-	1,061,882	1,061,882
<b>Financing, net</b>	114,573	541,281	4,679,065	8,989,522	-	14,324,441
Retail	10,915,068	17,735,588	41,249,488	32,179,921	-	102,080,065
Commercial	1,535,219	4,166,622	16,872,813	27,590,478	-	50,165,132
<b>Other assets</b>	9,379,849	13,568,966	24,376,675	4,589,443	-	51,914,933
	379,524	-	-	-	1,034,775	1,414,299
<b>Total assets</b>	<u>18,360,201</u>	<u>19,880,753</u>	<u>49,421,842</u>	<u>45,068,691</u>	<u>7,995,987</u>	<u>140,727,474</u>
<b><u>Liabilities</u></b>						
<b>Due to banks, Saudi Central Bank and other financial institutions</b>						
Demand	977,905	1,342,767	1,953,236	-	-	4,273,908
Direct investment	155,598	-	-	-	-	155,598
<b>Customer deposits</b>	822,307	1,342,767	1,953,236	-	-	4,118,310
Demand	24,328,626	11,973,075	340,068	-	76,189,476	112,831,245
Direct investment Albilad account (Mudarabah)	-	-	-	-	42,878,418	42,878,418
Other	24,328,626	11,973,075	340,068	-	-	36,641,769
<b>Sukuk</b>	-	-	-	3,051,613	-	3,051,613
<b>Other liabilities</b>	-	-	-	-	30,410,877	30,410,877
	2,430,152	-	-	-	2,900,181	2,900,181
<b>Total Liabilities</b>	<u>27,736,683</u>	<u>13,315,842</u>	<u>2,293,304</u>	<u>3,051,613</u>	<u>80,441,545</u>	<u>126,838,987</u>
<b>Commitments &amp; contingencies*</b>	4,080,937	5,778,978	6,458,312	2,573,452	-	18,891,679

\* The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements.

**BANK ALBILAD**  
(A Saudi Joint Stock Company)

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**33. LIQUIDITY RISK (continued)**

<u>2022</u> <u>SAR' 000</u>	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
<u>Assets</u>						
Cash and balances with Saudi						
Central Banks	3,698,040	-	-	-	5,012,876	8,710,916
Cash in hand	1,255,392	-	-	-	-	1,255,392
Balances with Saudi Central Bank	2,442,648	-	-	-	5,012,876	7,455,524
Due from Banks and other financial institutions, net						
Demand	5,367,440	25,270	674,483	-	-	6,067,193
Commodity murabaha	1,042,170	-	-	-	-	1,042,170
Investments, net	4,325,270	25,270	674,483	-	-	5,025,023
FVOCI	-	1,956,426	5,679,846	11,436,788	1,527,065	20,600,125
FVSI	-	446,805	2,331,052	3,761,410	637,043	7,176,310
Amortized cost	-	1,509,621	3,348,794	7,675,378	-	12,533,793
Financing, net	7,970,325	11,898,746	38,314,701	32,995,433	-	91,179,205
Retail	618,673	4,021,602	16,067,708	25,374,877	-	46,082,860
Commercial	7,351,652	7,877,144	22,246,993	7,620,556	-	45,096,345
Other assets	461,847	31,161	-	-	199,669	692,677
<b>Total assets</b>	<b>17,497,652</b>	<b>13,911,603</b>	<b>44,669,030</b>	<b>44,432,221</b>	<b>6,739,610</b>	<b>127,250,116</b>
<u>Liabilities</u>						
Due to banks, Saudi Central Bank and other financial institutions						
Demand	5,544,100	2,852,919	2,224,422	-	-	10,621,441
Direct investment	86,667	-	-	-	-	86,667
Customer deposits	5,457,433	2,852,919	2,224,422	-	-	10,534,774
Demand	14,634,883	10,303,873	427,726	-	69,476,265	94,842,747
Direct investment Albilad account (Mudarabah)	-	-	-	-	47,470,751	47,470,751
Other	14,634,883	10,303,873	427,726	-	-	25,366,482
Sukuk	-	-	-	3,040,452	-	3,040,452
Other liabilities	2,406,618	-	-	-	5,044,483	7,451,101
<b>Total Liabilities</b>	<b>22,585,601</b>	<b>13,156,792</b>	<b>2,652,148</b>	<b>3,040,452</b>	<b>74,520,748</b>	<b>115,955,741</b>
Commitments & contingencies*	3,043,967	4,918,440	4,356,721	2,171,982	-	14,491,110

\* The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**33. LIQUIDITY RISK (continued)**

**b. Analysis of financial liabilities by the remaining undiscounted contractual maturities as at December 31, are as follows:**

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2023 and 2022 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As investment and financing profit payments up to contractual maturity are included in the table, totals do not match with the statement of financial position.

<u>2023</u> SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 Years	No fixed Maturity	Total
<b>Financial liabilities</b>						
Due to banks, Saudi central bank and other financial institutions	1,086,102	1,425,179	2,067,614	-	-	4,578,895
Customers' deposits	24,196,428	12,265,092	349,962	-	76,968,944	113,780,426
<u>2022</u> SAR' 000						
<b>Financial liabilities</b>						
Due to banks, Saudi central bank and other financial institutions	5,574,284	2,888,276	2,224,422	-	-	10,686,982
Customers' deposits	14,696,899	10,549,281	436,998	-	69,476,265	95,159,443

**34. 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 consolidated financial statements.

**• 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.

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**34. 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 for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2023</b>					
<b>Financial assets measured at fair value</b>					
Held as FVSI (mutual funds)	994,619	76,946	917,673	-	994,619
Held as FVSI (equity instruments)	67,263	67,263	-	-	67,263
Held as FVOCI (equity instruments)	451,571	300,041	-	151,530	451,571
Held as FVOCI (debt instruments)	6,242,024	5,631,950	610,074	-	6,242,024
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	8,170,094	-	-	8,170,094	8,170,094
Investments held at amortized cost	14,324,441	9,075,916	4,411,371	-	13,487,287
Financing, net	102,080,065	-	-	102,241,157	102,241,157

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2022</b>					
<b>Financial assets measured at fair value</b>					
Held as FVSI (mutual funds)	746,306	249,630	496,676	-	746,306
Held as FVSI (equity instruments)	143,716	143,716	-	-	143,716
Held as FVOCI (equity instruments)	637,043	532,920	-	104,123	637,043
Held as FVOCI (debt instruments)	6,539,267	634,184	5,905,083	-	6,539,267
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	6,067,193	-	-	6,067,193	6,067,193
Investments held at amortized cost	12,533,793	7,954,732	4,579,061	-	12,533,793
Financing, net	91,179,205	-	-	91,400,639	91,400,639

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2023</b>					
<b>Financial liabilities not measured at fair value</b>					
Due to banks, Saudi central bank and other financial institutions	4,273,908	-	-	4,273,908	4,273,908
Customers' deposits	112,831,245	-	-	112,831,245	112,831,245
Sukuk	3,051,613	-	-	3,051,613	3,051,613
<b>December 31, 2022</b>					
<b>Financial liabilities not measured at fair value</b>					
Due to banks, Saudi central bank and other financial institutions	10,621,441	-	-	10,621,441	10,621,441
Customers' deposits	94,842,747	-	-	94,842,747	94,842,747
Sukuk	3,040,452	-	-	3,040,452	3,040,452



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**34. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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

Cash and balances with Saudi central banks, 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 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.

**Valuation technique and significant unobservable inputs**

Type	Valuation technique	Significant unobservable input	Inter-relationship between significant unobservable inputs and fair value measurement
FVSI investments	Fair value is determined based on the investee fund's most recent reported net assets value.	None	Not applicable
FVOCI equity instruments	Fair value is determined based on the latest financial statements	None	Not applicable

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

During the current year, 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**

	December 31, 2023 SAR' 000	December 31, 2022 SAR' 000
Balance at the beginning of the year	104,123	104,129
Purchase	-	-
Sale	-	-
<b>Gain / (loss) included in OCI</b>		
Net changes in fair value unrealised	47,407	(6)
<b>Total</b>	<b>151,530</b>	<b>104,123</b>

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**35. RELATED PARTY BALANCES AND TRANSACTIONS**

In the ordinary course of activities, the Group transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by Saudi central bank.

The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	<b>2023</b>	2022
	<b><u>SAR' 000</u></b>	<u>SAR' 000</u>
<b>a. Directors, key management personnel, other major shareholders, their affiliates balances and others:</b>		
• Financing	<b>2,343,953</b>	1,987,593
• Commitments and contingencies	<b>129,069</b>	115,537
• Deposits	<b>17,559</b>	26,823
	<b>2023</b>	2022
	<b><u>SAR' 000</u></b>	<u>SAR' 000</u>
<b>b. Group's mutual funds:</b>		
These are the outstanding balances with Group's mutual funds as of December 31:		
• Customers' deposits	<b>15,818</b>	148
• Investments - units	<b>360,807</b>	268,545
<b>c. Income and expense:</b>		
<b>Directors, Key management personnel, other major shareholders and their affiliates and mutual funds managed by the Group:</b>		
	<b>2023</b>	2022
	<b><u>SAR' 000</u></b>	<u>SAR' 000</u>
• Income	<b>308,116</b>	210,897
• Expenses	<b>14,487</b>	8,658
<b>d. The total amount of compensation paid to key management personnel during the year is as follows:</b>		
	<b>2023</b>	2022
	<b><u>SAR' 000</u></b>	<u>SAR' 000</u>
• Employee benefits	<b>166,411</b>	151,667

**36. CAPITAL ADEQUACY**

The Group's objectives when managing capital are to comply with the capital requirements set by Saudi central bank; 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. Saudi central bank requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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**36. CAPITAL ADEQUACY (continued)**

SAMA through its Circular Number 391000029731 dated Rabi Al-Awwal 15, 1439H (December 3, 2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years' period comprising 2021 and 2022 effective from March 31, 2021 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

The current period numbers are presented as per Basel III final reform issued by SAMA (circular number 44047144) effective from January 01, 2023, while the prior period is based on Basel III regulations.

The Group monitors the adequacy of its capital using ratios established by Saudi central bank. These ratios measure capital adequacy by comparing the Group's eligible capital with its 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.

	<b>2023</b>	2022
	<b><u>SAR' 000</u></b>	<u>SAR' 000</u>
Credit Risk RWA	<b>102,026,814</b>	88,162,110
Operational Risk RWA	<b>6,066,316</b>	8,712,282
Market Risk RWA	<b>2,007,432</b>	2,242,872
<b>Total Pillar-I RWA</b>	<b><u>110,100,562</u></b>	<u>99,117,264</u>
Tier I Capital	<b>15,281,887</b>	13,446,502
Tier II Capital	<b>4,273,911</b>	4,102,026
<b>Total Tier I &amp; II Capital</b>	<b><u>19,555,798</u></b>	<u>17,548,528</u>
<b><u>Capital Adequacy Ratio %</u></b>		
Common Equity Tier I ratio	<b>13.88%</b>	13.57%
Tier I ratio	<b>13.88%</b>	13.57%
Tier I + Tier II ratio	<b>17.76%</b>	17.70%

**37. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES**

The Bank offers investment management services to its customers through its subsidiary, Albilad Investment Company. These services include the management of 14 public mutual funds (2022: 12 public mutual funds) with assets under management (AUM) totaling SAR 2,668 million (2022: SAR 2,105 million). Albilad Investment Company acts as the fund manager of these funds. All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 1,558 million (2022: SAR 1,480 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 35).

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**38. IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS)**

Management has completed the Group's overall transition activities through engagement with various stakeholders to support an orderly transition and concluded on the transition plan for the exposures not yet transitioned to alternate benchmark profit rates. The Group was exposed to the effects of USD LIBOR reform on its financial assets and liabilities, as set out within the table below. The Group had no exposure to any other LIBOR rates.

**Yet to transitioned to an alternative benchmark profit rate as at  
December 31, 2023**

	<b>Carrying Value (SAR'000)</b>		<b>Transition plan</b>
	<b>Assets</b>	<b>Liabilities</b>	
Commercial financing	83,910	-	Expected to be transitioned by March 31, 2024

The Group does not have any hedging instruments used in the Group's hedging strategies which reference USD LIBOR and which have been transitioned to SOFR or an alternative interest rate benchmark.

**39. PROFIT SHARING INVESTMENT ACCOUNTS**

**a) Analysis of PSIA income according to types of financing and investments**

As of December 31, 2023, all financing and investments are funded by depositors' pool which includes funds from Unrestricted Investment Account holder.

Gross Financing by type of contract:

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
Bei Ajel	<b>52,779,464</b>	46,561,551
Musharaka financing	<b>1,249,578</b>	686,641
Other instruments	<b>6,858,033</b>	6,856,935
<b>Total financing and investments</b>	<b>60,887,075</b>	54,105,127

**b) The basis for calculating and allocating profits between the bank and the IAHS;**

Computation of Pool income is as follows:

	<b>2023</b>	<b>2022</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
Pool Income from Financing	<b>3,861,292</b>	2,142,843
Income from Investments	<b>272,451</b>	99,086
<b>Total Pool Income</b>	<b>4,133,743</b>	2,241,929
Total amount attributable to IAH	<b>1,851,919</b>	539,103
<b>Total amount attributable to shareholders</b>	<b>2,281,824</b>	1,702,826

The basis of allocating the profits between IAH and the Bank:

	<b>IAH Share</b>	<b>Bank Share</b>
Profit Sharing Allocation Percentages	63%	37%

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**39. PROFIT SHARING INVESTMENT ACCOUNTS (continued)**

**c) The equity of the IAHs at the end of the reporting period;**

	<b>2023</b>	2022
	<u><b>SAR' 000</b></u>	<u>SAR' 000</u>
Investment account holders balance before profit	<b>43,271,598</b>	23,544,722
Add: Profit for the IAH during the year	<b>1,851,919</b>	539,103
Less: Profit paid out during the year	<u><b>(1,750,198)</b></u>	<u>(517,372)</u>
Total equity for Investment Account Holders	<u><b>43,373,319</b></u>	<u>23,566,453</u>

**d) Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR)**

i) Profit equalization reserve (PER) is created by appropriating a specific amount out of the profits earned on the commingled pool of assets before the allocation to shareholders and unrestricted investment account holders. The amounts appropriated to PER reduce the profits available for distribution to both categories of investors, shareholders and investment account holders.

PER allows Bank to mitigate considerably their exposure to displace commercial risk. PER collectively belongs to investment account holders and shareholders for smoothing their profit payouts. While the purpose of these reserves is to enhance the profit payout to IAH in periods when the assets in an Bank's asset pool have underperformed, it is also the case that a PER can be used for smoothing or enhancing dividend payouts to shareholders if so desired by the management. Currently, the bank is not maintaining PER.

ii) Investment risk reserve (IRR) is created by setting aside amounts out of the profit attributable to investment account holders, after deducting the Mudarib share, in order to cushion the effects of future investment losses on investment account holders. The IRR enables the Bank's to cover, fully or partially, unexpected losses on investments. Where the losses are fully covered, use of PER may enable a profit payout to be made to the IAH notwithstanding the loss. With regard to both the PER and IRR, IAH agree in advance in the contract that regulates their relationship with Bank, on the proportion of their income that may be appropriated to each of these reserves. This amount is determined by the management of the Bank at their discretion. Currently, the bank is not maintaining IRR.

**40. MORTGAGE SUPPORT PROGRAM FROM REAL ESTATE DEVELOPMENT FUND**

During the year, the bank signed an agreement with REDF on November 11, 2023. As part of the agreement, the bank received a compensation to support residential mortgage finance to certain eligible customers at a below market rate and within a specified period.

In accordance with the requirements of IFRS 9, the program will result in a fair value loss being booked on origination of the subsidized mortgage facilities on day one due to the below-market rate.

The Bank's management has determined that the compensation amount received from REDF qualifies as a government grant under IAS 20, that will be recognized as income on a systematic basis to off-set the fair value losses arising over the course of the program. As origination of such mortgages under the program being granted, the pro-rata compensation received from REDF has been classified under "Other liabilities".

During the year ended 31 December 2023, management has not recognized any government grant gains nor fair value loss in the consolidated statement of income, due to materiality considerations.

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**41. COMPARATIVE FIGURES**

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

**42. EVENTS AFTER THE REPORTING DATE**

The Board of Directors in its meeting held on February 4, 2024 corresponding to Rajab 23, 1445 recommended to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every four shares held, which will increase the Bank's capital from SAR 10,000 million to SAR 12,500 million. The increase will be done through capitalisation of SAR 2,500 million from the retained earnings. The number of shares outstanding after the bonus issuance will increase from 1,000 million shares to 1,250 million shares.

The Board of Directors' recommended to the General Assembly to distribute cash dividends of SAR 500 million to shareholders for the year 2023 in the meeting held on February 4, 2024 corresponding to Rajab 23, 1445.

**43. BOARD OF DIRECTORS' APPROVAL**

The consolidated financial statements were authorized for issue by the Board of Directors on Rajab 23, 1445 (corresponding to February 4, 2024).