



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019



KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bank Albilad (“the Bank”) and its subsidiaries (collectively referred to as “the Group”) as at 30 September 2019, and the related interim consolidated statements of income and comprehensive income for the three months and nine months periods then ended, and the interim consolidated statements of changes in shareholders’ equity and cash flows for the nine months period then ended, and other explanatory notes (collectively referred to as “the interim condensed consolidated financial statements”).

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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



KPMG Al Fozan & Partners
Certified Public Accountants

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

Other regulatory matters

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

PricewaterhouseCoopers

P O Box 8282
 Riyadh 11482
 Kingdom of Saudi Arabia

Mufaddal A. Ali
 Certified Public Accountant
 License Number 447

KPMG Al Fozan & Partners
Certified Public Accountants
 P O Box 92876
 Riyadh 11663
 Kingdom of Saudi Arabia

Nasser Ahmed Al Shtairy
 Certified Public Accountant
 License Number 454

29 Safar 1441H
 (28 October 2019)



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		September 30, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	September 30, 2018 SAR'000 (Unaudited)
	<u>Note</u>			
ASSETS				
Cash and balances with SAMA		5,604,801	6,438,201	5,427,500
Due from banks and other financial institutions, net		5,775,592	8,334,284	7,784,227
Investments, net	6	9,991,225	6,465,710	6,146,946
Financing, net	7	56,446,320	50,593,033	49,738,261
Property and equipment, net		1,928,178	1,146,848	1,005,612
Other assets		1,460,927	658,050	604,685
Total assets		<u>81,207,043</u>	<u>73,636,126</u>	<u>70,707,231</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		796,244	3,100,791	3,662,639
Customers' deposits	8	64,057,713	57,175,594	54,574,279
Sukuk	9	2,007,883	2,008,587	2,007,937
Other liabilities		5,272,959	3,518,205	2,521,826
Total liabilities		<u>72,134,799</u>	<u>65,803,177</u>	<u>62,766,681</u>
Equity				
Share capital	14	7,500,000	6,000,000	6,000,000
Statutory reserve		-	-	866,508
Other reserves		544,155	(69,832)	(90,028)
Retained earnings		1,102,329	483,441	1,253,271
Proposed issuance of bonus shares	14	-	1,500,000	-
Treasury shares		(80,670)	(90,780)	(96,335)
Employees' share plan reserve		6,430	10,120	7,134
Total equity		<u>9,072,244</u>	<u>7,832,949</u>	<u>7,940,550</u>
Total liabilities and equity		<u>81,207,043</u>	<u>73,636,126</u>	<u>70,707,231</u>

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

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	<u>Note</u>	<u>For the three months</u> <u>period ended</u>		<u>For the nine months</u> <u>period ended</u>	
		<u>September</u> <u>30, 2019</u> <u>SAR'000</u>	<u>September</u> <u>30, 2018</u> <u>SAR'000</u> <u>(restated)</u>	<u>September</u> <u>30, 2019</u> <u>SAR'000</u>	<u>September</u> <u>30, 2018</u> <u>SAR'000</u> <u>(restated)</u>
Income					
Income from investing and financing assets		873,140	706,327	2,465,842	1,958,391
Return on deposits and financial liabilities		(159,455)	(154,195)	(484,209)	(396,622)
Income from investing and financing assets, net		713,685	552,132	1,981,633	1,561,769
Fee and commission income, net		212,096	236,153	620,027	644,814
Exchange income, net		78,247	84,411	229,023	238,758
Dividend income		6,291	4,273	15,097	17,624
Gain / (loss) on fair value through profit or loss investments, net		6,299	(3,342)	27,073	10,897
Other operating income		7,034	6,620	31,451	40,036
Total operating income		1,023,652	880,247	2,904,304	2,513,898
Expenses					
Salaries and employee related expenses		289,393	256,504	844,957	765,147
Rent and premises related expenses		26,172	57,278	76,986	182,505
Depreciation and amortization		63,252	27,719	184,299	72,236
Other general and administrative expenses		142,421	103,590	377,491	296,480
Impairment charge for expected credit losses, net		137,555	148,137	400,196	378,501
Total operating expenses		658,793	593,228	1,883,929	1,694,869
Net income for the period before zakat		364,859	287,019	1,020,375	819,029
Zakat for the period	5	38,230	50,000	103,782	70,000
Net income for the period after zakat		326,629	237,019	916,593	749,029
Basic and diluted earnings per share (SAR)	15	0.44	0.32	1.23	1.00

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

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	<u>For the three months</u> <u>period ended</u>		<u>For the nine months</u> <u>period ended</u>	
	<u>September</u> <u>30, 2019</u> <u>SAR'000</u>	<u>September</u> <u>30, 2018</u> <u>SAR'000</u> <u>(restated)</u>	<u>September</u> <u>30, 2019</u> <u>SAR'000</u>	<u>September</u> <u>30, 2018</u> <u>SAR'000</u> <u>(restated)</u>
Net income for the period after zakat	326,629	237,019	916,593	749,029
Other comprehensive income:				
Items that will not be reclassified to consolidated statement of income in subsequent periods				
- Net changes in fair value reserve (equity instruments)	6,236	(24,891)	15,390	(19,790)
- Re-measurement of employees' End of Service Benefits ("EOSB")	(96)	-	(500)	-
Items that may be reclassified to consolidated statement of income in subsequent periods				
- Debt instrument at fair value through other comprehensive income:				
• Net changes in fair value	204,096	12,697	599,097	(63,375)
Total other comprehensive income / (loss)	210,236	(12,194)	613,987	(83,165)
Total comprehensive income for the period	536,865	224,825	1,530,580	665,864

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

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

2019 SAR' 000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed issuance of bonus shares	Treasury shares	Employees' share plan reserve	Total equity
Balance at the beginning of the period	6,000,000	-	(69,832)	483,441	1,500,000	(90,780)	10,120	7,832,949
Net changes in fair value of FVOCI (equity instruments)			15,390					15,390
Re-measurement of employees "End of Service Benefits ("EOSB")"			(500)					(500)
Net changes in fair value of FVOCI (debt instruments)			599,097					599,097
Total other comprehensive income			613,987					613,987
Net income for the period after zakat				916,593				916,593
Total comprehensive income for the period			613,987	916,593				1,530,580
Realized gain from sale of investments in FVOCI				2,295				2,295
Treasury shares						10,110		10,110
Employees' share plan reserve							(3,690)	(3,690)
Cash dividend				(300,000)				(300,000)
Issuance of bonus shares	1,500,000				(1,500,000)			-
Balance at end of the period	7,500,000	-	544,155	1,102,329	-	(80,670)	6,430	9,072,244

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

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

<u>2018</u> SAR' 000		Share capital	Statutory reserve	Other reserves	Retained earnings	Treasury shares	Employees' share plan reserve	Total equity
Balance at the beginning of the period	Note	6,000,000	866,508	47,420	530,805	(104,575)	8,635	7,348,793
Effect of change in accounting policy				(54,283)	(26,345)			(80,628)
Balance at the beginning of the period as restated		6,000,000	866,508	(6,863)	504,460	(104,575)	8,635	7,268,165
Net changes in fair value of FVOCI (equity instruments)				(19,790)	(218)			(20,008)
Re-measurement of employees "End of Service Benefits ("EOSB")				-	-			-
Net changes in fair value of FVOCI (debt instruments)				(63,375)				(63,375)
Total other comprehensive income				(83,165)	(218)			(83,383)
Net income for the period after zakat (restated)	5				749,029			749,029
Total comprehensive income for the period (restated)				(83,165)	748,811			665,646
Treasury shares						8,240		8,240
Employees' share plan reserve							(1,501)	(1,501)
Balance at end of the period (restated)		6,000,000	866,508	(90,028)	1,253,271	(96,335)	7,134	7,940,550

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30**

	<u>Note</u>	<u>2019 SAR' 000</u>	<u>2018 SAR' 000</u>
OPERATING ACTIVITIES			
Net income before zakat for the period		1,020,375	819,029
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Profit on Sukuk		73,089	62,831
Gains on FVTPL investments, net		(27,073)	(10,897)
Gains from disposal of property and equipment, net		(73)	(54)
Depreciation and amortization		184,299	72,236
Impairment charge for expected credit losses, net		400,196	378,501
Employees' share plan		6,420	6,739
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(399,249)	(365,441)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(391,935)	(2,242,066)
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		(301,940)	296,444
Financing		(6,252,301)	(6,735,629)
Other assets		(802,877)	(255,192)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		-	(2,012,518)
Due to banks and other financial institutions		(2,304,547)	1,913,702
Customers' deposits		6,882,119	6,791,320
Other liabilities		1,650,972	383,932
Net cash used in operating activities		(262,525)	(897,063)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held as FVOCI		292,176	39,522
Purchase of investments held as FVOCI		(2,841,133)	(1,956,947)
Proceeds from sales and maturities of investments held as FVTPL		-	503,451
Purchase of investments held as FVTPL		(332,495)	(274,881)
Proceeds from sale of property and equipment		239	85
Purchase of property and equipment		(965,795)	(202,455)
Net cash used in investing activities		(3,847,008)	(1,891,225)
FINANCING ACTIVITIES			
Distributed Sukuk profit		(73,793)	(61,469)
Cash dividends paid		(300,000)	(240,000)
Net cash used in financing activities		(373,793)	(301,469)
Net change in cash and cash equivalents		(4,483,326)	(3,089,757)
Cash and cash equivalents at the beginning of the period		9,574,966	9,064,626
Cash and cash equivalents at the end of the period	11	5,091,640	5,974,869
Supplemental non cash information			
Income received from investing and financing assets		2,448,422	1,868,822
Return paid on deposits and financial liabilities		485,776	409,654

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

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019

1. GENERAL

a) Incorporation and operation

Bank Albilad (“the Bank”), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers’ resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004). The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and the Bank provides these services through 110 banking branches (September 30, 2018: 111) and 179 exchange and remittance centers (September 30, 2018: 179) in the Kingdom of Saudi Arabia.

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

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

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

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

b) Shariah Authority

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the nine months period ended September 30, 2019 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2018.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019

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

The consolidated financial statements of the Group as at and for the period and year ended March 31, 2019 and December 31, 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these related to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On July 17, 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Accordingly, beginning period ended June 30, 2019 and onwards, the Group changed its accounting treatment for zakat by retrospectively adjusting the impact in line with the International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the effects of this change are disclosed in note 5 to the interim condensed consolidated financial statements.

The Bank has adopted IFRS 16 Leases from January 1, 2019 and accounting policies for this new standard are disclosed in note 5.

3. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the interim condensed consolidated financial statements of the subsidiaries, where necessary, to align with the Bank’s interim condensed consolidated financial statements.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed-off during the period, if any, are included in the interim condensed consolidated income statement from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

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

IFRS 16 Leases

Prior to January 1, 2019, the Bank applied the following policy for the accounting of leases:

(i) Where the Bank is the lessee

Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

(ii) Where the Bank is the lessor

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

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the bank's statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019**

apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

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

5. SIGNIFICANT ACCOUNTING POLICIES

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

Right of Use Asset ("RoU") / Lease Liabilities

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

Right of Use Assets

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

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

Generally, the RoU asset would 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 interest on the lease liability;
- 2. Reducing the carrying amount to reflect the lease payments made; and
- 3. Re-measuring the carrying amount to reflect any re-assessment or any lease modification.

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019****Change in the accounting for zakat**

As mentioned above, the basis of preparation has been changed beginning the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, zakat is recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for zakat retrospectively and the effects of the change to the interim condensed consolidated financial statements are disclosed below. The change has resulted in reduction of reported income of the Group, while the change has had no impact on the statement of cash flows for the period ended September 30, 2018.

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"), and zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The change in the accounting treatment for zakat has the following impact on the line items of the statements of income, and changes in shareholders' equity:

As at and for the nine-month period ended September 30, 2018:

Financial statement impacted	Account	Before the restatement for the nine-month period ended September 30, 2018	Effect of restatement	Effect of issuance of bonus shares	As restated as at and for the nine-month period ended September 30, 2018:
Statement of changes in Equity	Provision for zakat (retained earnings)	70,000	(70,000)	-	-
Statement of income	Zakat expense	-	70,000	-	70,000
Statement of income	Earnings per share	1.37	(0.09)	(0.28)	1.00

For the three -month period ended September 30, 2018:

Financial statement impacted	Account	Before the restatement for the three-month period ended September 30, 2018:	Effect of restatement	Effect of issuance of bonus shares	As restated as at and for the three-month period ended September 30, 2018
Statement of income	Zakat expense	-	50,000	-	50,000
Statement of income	Earnings per share	0.48	(0.06)	(0.10)	0.32

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019****6. INVESTMENTS, NET**

	September 30, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	September 30, 2018 SAR' 000 (Unaudited)
Fair Value Through Other Comprehensive Income (FVOCI)			
Equities	408,799	381,512	374,473
Sukuk	7,527,042	4,390,851	3,998,614
	<u>7,935,841</u>	<u>4,772,363</u>	<u>4,373,087</u>
Fair value through profit or loss (FVTPL)			
Mutual funds	760,197	400,083	478,489
Amortized Cost			
Commodity Murabaha with SAMA	1,295,187	1,293,264	1,295,370
Total	<u>9,991,225</u>	<u>6,465,710</u>	<u>6,146,946</u>

7. FINANCING, NET

	September 30, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	September 30, 2018 SAR'000 (Unaudited)
Commercial	31,456,515	30,235,333	30,590,968
Consumer	26,152,196	21,344,690	20,159,155
Performing financing	57,608,711	51,580,023	50,750,123
Non-performing financing	793,170	728,626	659,921
Gross financing	58,401,881	52,308,649	51,410,044
Allowance for expected credit loss	(1,955,561)	(1,715,616)	(1,671,783)
Financing, net	<u>56,446,320</u>	<u>50,593,033</u>	<u>49,738,261</u>

8. CUSTOMERS' DEPOSITS

	September 30, 2019 SAR'000 (Unaudited)	December 31, 2018 SAR'000 (Audited)	September 30, 2018 SAR'000 (Unaudited)
Demand	34,971,571	29,290,547	29,477,870
Albilad account (Mudarabah)	20,104,737	15,781,512	16,457,998
Direct investment	7,632,508	11,023,615	7,522,665
Others	1,348,897	1,079,920	1,115,746
Total	<u>64,057,713</u>	<u>57,175,594</u>	<u>54,574,279</u>

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019****9. SUKUK**

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears on February 29, May 30, August 30, November 30 each year until August 30, 2026, on which date the Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30, 2021 as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. The Bank has not defaulted on any of payments (profit / principal) due during the period. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

10. COMMITMENTS AND CONTINGENCIES

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

	September 30, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	September 30, 2018 SAR' 000 (Unaudited)
Letters of guarantee	5,026,747	4,276,157	4,229,846
Letters of credit	755,688	825,898	426,072
Acceptances	418,169	454,411	527,328
Irrevocable commitments to extend credit	1,125,000	496,104	496,104
Total	7,325,604	6,052,570	5,679,350

b) The group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at December 31, 2018.

11. CASH AND CASH EQUIVALENTS

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

	September 30, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	September 30, 2018 SAR' 000 (Unaudited)
Cash and balances with SAMA (excluding statutory deposit)	2,054,251	3,286,900	2,326,802
Due from banks and other financial institutions (maturing within ninety days from acquisition)	3,037,389	5,988,016	3,648,067
Investments held at amortized cost (maturing within ninety days from acquisition)	-	300,050	-
Total	5,091,640	9,574,966	5,974,869

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019****12. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the interim condensed (consolidated) financial statements.

Determination of fair value and fair value hierarchy

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

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

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

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

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

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
September 30, 2019					
Financial assets measured at fair value					
Held as FVTPL	760,197	323,567	436,630	-	760,197
Held as FVOCI	7,935,841	7,506,547	-	429,294	7,935,841
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	5,775,592	-	-	5,775,592	5,775,592
Investments held at amortized cost	1,295,187	-	-	1,295,187	1,295,187
Financing, net	56,446,320	-	-	56,044,433	56,044,433

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019**

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

SAR' 000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
September 30, 2019					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	796,244	-	-	796,244	796,244
Customers' deposits	64,057,713	-	-	64,057,713	64,057,713
Sukuk	2,007,883	-	-	2,007,883	2,007,883

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

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

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019**

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

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

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

Reconciliation of level 3 fair values held as FVOCI

	September 30, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	September 30, 2018 SAR' 000 (Unaudited)
Beginning balance	668,268	1,466,429	1,466,429
Purchase	-	256,250	1,108,253
Sales	(249,375)	(1,048,754)	(1,977,773)
Gain / (loss) included in OCI			
Net changes in fair value (unrealised)	10,401	(5,657)	74,486
Total	429,294	668,268	671,395

13. SEGMENT INFORMATION

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

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

The Group's reportable segments are as follows:

Retail banking

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

Corporate banking

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019****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.

The Group's total assets and liabilities as at September 30, 2019 and 2018, together with its total operating income and expenses, and net income before zakat, for the nine months periods then ended, for each segment are as follows:

September 30, 2019 (Unaudited)

SAR'000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	34,645,998	28,903,016	16,768,846	889,183	81,207,043
Total liabilities	46,758,838	17,110,876	7,945,489	319,596	72,134,799
Net income from investing and financing assets	1,089,662	673,078	208,329	10,564	1,981,633
Fee, commission and other income, net	619,036	82,568	110,828	110,239	922,671
Total operating income	1,708,698	755,646	319,157	120,803	2,904,304
Impairment charge for Credit and other Financial Assets, net	144,452	254,803	941	-	400,196
Depreciation and amortization	142,033	35,563	4,580	2,123	184,299
Total operating expenses	1,278,339	488,172	49,807	67,611	1,883,929
Net income for the period before zakat	430,359	267,474	269,350	53,192	1,020,375

September 30, 2018 (Unaudited)

SAR'000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	26,512,061	27,274,046	16,083,947	837,177	70,707,231
Total liabilities	38,730,432	13,433,889	10,563,366	38,994	62,766,681
Net income from investing and financing assets	777,665	597,403	180,063	6,638	1,561,769
Fee, commission and other income, net	619,116	96,810	125,574	110,629	952,129
Total operating income	1,396,781	694,213	305,637	117,267	2,513,898
Impairment charge for Credit and other Financial Assets, net	180,278	201,712	(3,539)	50	378,501
Depreciation and amortization	62,255	7,387	1,221	1,373	72,236
Total operating expenses	1,159,430	412,177	54,667	68,595	1,694,869
Net income for the period before zakat	237,351	282,036	250,970	48,672	819,029

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019**

14. SHARE CAPITAL AND DIVIDENDS

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (September 30, 2018: 600 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on December 17, 2018 to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every four shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million, which has been approved in the Extraordinary General Assembly meeting held on April 9, 2019.

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

On July 18, 2019, the Board of Directors resolved on the distribution of cash dividend of SAR 300 million (SAR 0.4 per share). This was paid on August 8, 2019.

15. EARNING PER SHARE ("EPS")

Basic and diluted earnings per share for the nine months period ended September 30, 2019 and 2018 is calculated by dividing the net income for the period by the weighted average number of outstanding shares 2019: 746 million shares (2018: 746 million shares) during the period adjusted for treasury shares. Also see note 5.

16. CAPITAL ADEQUACY

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

BANK ALBILAD

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2019**

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

	September 30, 2019 SAR' 000 (Unaudited)	December 31, 2018 SAR' 000 (Audited)	September 30, 2018 SAR' 000 (Unaudited)
Credit Risk RWA	60,298,227	55,268,406	53,281,644
Operational Risk RWA	6,174,649	5,572,623	5,402,224
Market Risk RWA	356,752	231,436	184,247
Total Pillar-I RWA	66,829,628	61,072,465	58,868,115
Tier I Capital	9,115,041	7,890,012	7,997,612
Tier II Capital	2,753,728	2,690,855	2,666,021
Total Tier I & II Capital	11,868,769	10,580,867	10,663,633
Capital Adequacy Ratio %			
Tier I ratio	13.64%	12.92%	13.59%
Tier I + Tier II ratio	17.76%	17.33%	18.11%

17. COMPARATIVE FIGURES

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

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

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on Safar 28, 1441H (corresponding to October 27, 2019).