بنك الجزيرة
BANK ALJAZIRA

ANNUAL REPORT 2017

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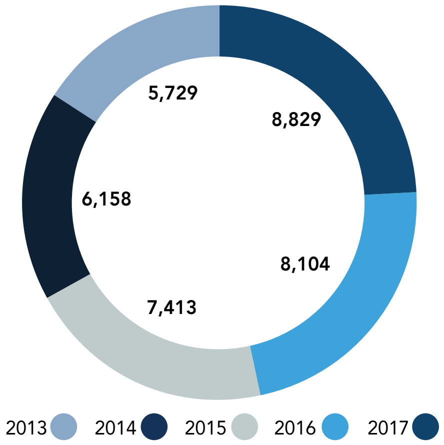
In the Name of Allah,
The most gracious, the most merciful

King Salman bin Abdulaziz Al Saud
Custodian of the Two Holy Mosques

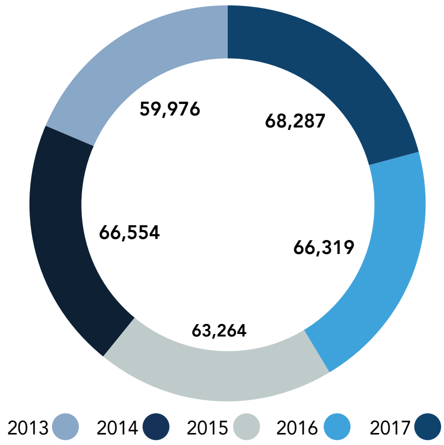
HRH Prince Mohammed bin Salman bin Abdulaziz Al Saud
The Crown Prince & Deputy Prime Minister
& Defense Minister

FINANCIAL HIGHLIGHTS

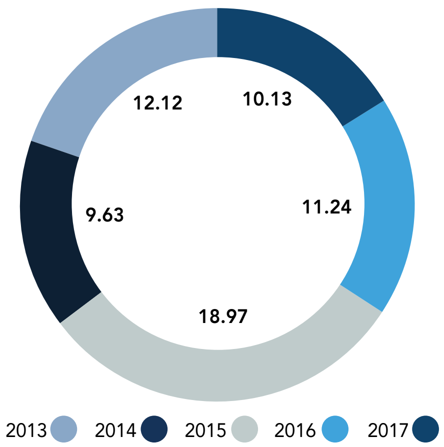
(In SAR millions, except where indicated)	2013	2014	2015	2016	2017
Loans and advances, net	34,995	41,245	42,174	42,099	39,790
Total assets	59,976	66,554	63,264	66,319	68,287
Customer deposits	48,083	54,569	49,765	51,602	50,278
Total liabilities	54,248	60,396	55,851	58,216	59,459
Shareholders' equity	5,729	6,158	7,413	8,104	8,829
Net income	651	572	1,287	872	858
Total operating income	1,839	2,226	2,922	2,519	2,580
Net income growth (%)	30.20	(12.01)	124.84	(32.26)	(1.65)
Total operating income growth (%)	14.87	21.04	31.25	(13.78)	2.41
Return on average equity (%)	12.12	9.63	18.97	11.24	10.13
Return on average assets (%)	1.17	0.90	1.98	1.35	1.27
Earnings per share (SAR)	1.25	1.10	2.48	1.68	1.65



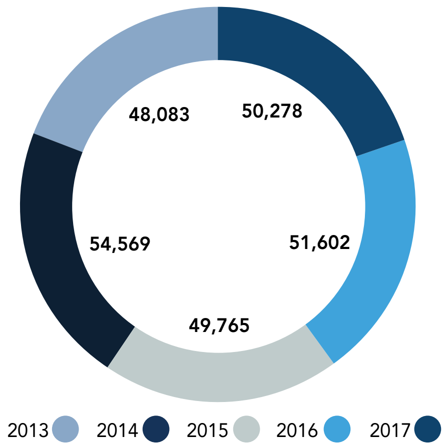
Shareholders' equity (In SAR millions)



Total Assets (In SAR millions)



Return on average equity (%)



Customer deposits (In SAR millions)

OUR MISSION

Be the core bankers to our chosen target customers, helping them grow their business and their wealth through:

- Offering exceptional client service
- Offering tailored products and services
- Be a trusted advisor

Board of Directors

Engr. Tarek Othman Al-Kasabi
Chairman of the Board

Mr. Khalifa Abdulatif Al-Mulhem
Member

Engr. Abdulmajeed Ibrahim Al-Sultan
Member

Mr. Mohamed Abdullah Al-Hagbani
Member

Mr. Nabil Dawood Al-Hoshan
Member

Dr. Saeed Saad Al-Martan
Member

Mr. Abdulsalam Abdulrahman Alagil
Member

Mr. Abdullah Saleh Al-Rasheed
Member

Mr. Ibrahim Abdul-Aziz Al-Shaia
Member

CHAIRMAN'S STATEMENT

Praise be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers.

Dear Shareholders,

On behalf of the Board of Directors of Bank AlJazira, I present to you the Annual Report for the year 2017.

2017 witnessed the continuation of many of the economic challenges which prevailed in 2016, some of which include continued oil price challenges and geo - political instability in parts of the Middle East. Despite this, BAJ continued to maintain its core health and growth indicators whilst supporting the Kingdom's vision 2030 and the national transformation program.

Financially, the Bank has a grown its balance sheet to SAR 68.3Bn whilst making a profit of SAR 857.5M. This gives an earnings per share of SAR 1.65 with a return on assets of 1.3% and a return on equity of 9.7%. These figures underline our strength in a challenging time period. Our regulatory ratios show sound and prudent management with a capital adequacy ratio of 20.9%, reflecting excellent capital preservation by the bank.

Turning to the business performance of the Bank, we are extremely pleased to report that the Fawri remittance business network became profitable within three years of its inception. Treasury performance remained strong with the continuing acquisition and support of Government issued Sukuks. Our Retail business recorded record growth, despite the general slowdown of Real Estate market. The Bank's real estate finance portfolio grew by 7.3% in 2017, with an estimated market share of 7% by year end. Private banking services posted strong results with growth in customer numbers as well as offering more discretionary portfolio management services with our investment company, AlJazira Capital. The bank continued to consolidate corporate lending, focusing on improving the quality of loans.

The Bank has updated the look and feel of its brand at the level of all branches and services, with a subtle change reflecting the progress the bank is making on customer perception.

Bank AlJazira continues to invest into building an infrastructure to manage the ever evolving risks the Bank is faced with. The board and management teams continue to keep a close track of the top and emerging risks and their effects on the Saudi Financial Industry and how we in the Bank mitigate such risks.

The National Vision 2030 policies continued in 2017 with rapid implementation, providing the Kingdom the tools and abilities to make significant economic and social gains both regionally and internationally, shifting to an economy that is diversified and technologically driven.

During the year, the banking sector in the Kingdom focused on the preparations for the implementation of VAT and the implementation of the new International Financial Reporting Standard (IFRS-9) on impairment and provisioning. Both regimes went live on 1st January 2018.

Bank AlJazira continued to be a strong contributor to Corporate governance and social responsibility. Our plans have included such diverse areas as Al Qard Al Hasan benevolent loans, training and rehabilitation for businesses, programs for people with special needs, educational and cultural programs and participation in national and Islamic events, among others. Our focus on these priority areas continued in 2017 and will intensify further in the coming years.

Furthermore, we are proud to say that during the year, the Bank was awarded the Best Social Responsibility Program by CPI Financial, in recognition of its excellence and diversity of the Bank AlJazira's programs of social responsibility through "Khair AlJazira le Ahl AlJazira".

Looking ahead, and in view of the challenges expected in 2018, we remain positive that liquidity and the economic environment will continue to improve. We will continue focusing on prudently growing our balance sheet, while maintaining strong liquidity and capital ratios. We hope to maintain the profit growth witnessed over the last few years whilst remaining cautious in risk management.

On Behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the continuing support of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al Saud, His Royal Highness Prince Mohammed Bin Salman Bin Abdulaziz Al Saud, Crown Prince and Defense Minister, The Minister of Finance, SAMA, all government ministers, the Board of Directors, the executive management team, and all staff members for their support, guidance and efforts as we continue our journey in serving the needs of our customers and creating a strong and profitable bank for our shareholders.

In conclusion, we deeply extend all gratitude to Allah the Almighty for this blessed success, and prayers upon our Messenger Prophet Mohammed – may peace be upon him, his descendants and all his followers.

Engr. Tarek Othman Al-Kasabi

Chairman

Best Social Responsibility Programme - KSA

Executive Management

Mr. Nabil AlHoshan
CEO and Managing Director

Mr. Yasser Al Hedaithy
Senior Vice President &
Group Treasurer

Mr. Tarek Al Shubaily
Senior Vice President &
Head of Human Capital Group

Mr. Khalid Al-Othman
Senior Vice President &
Head of Retail Banking Group

Mr. Abdullah Al-Shmassi
Senior Vice President & Head of Corpo-
rate and Institutional Banking Group

Mr. Hamad Al-Ajaji
Senior Vice President &
Head of Private Banking

Mr. Osama Al-Ibrahim
Senior Vice President &
Chief Risk Officer

Mr. Ahmed S. Alhassan
Senior Vice President &
Chief Operating Officer

Mr. Shahid Amin
Senior Vice President &
Chief Financial Officer

Mr. Khalid Al-Mogrin
Senior Vice President &
Head of Legal and Board Secretary

Dr. Fahad Al-Elayan
Senior Vice President & Head of
Sharia & Social Responsibility Group

Mr. Ibrahim Al-Hurabi
Senior Vice President &
Head of Internal Audit

Mr. Fahad Al-Akeel
Senior Vice President &
Chief Strategy Officer

Mr. Sami Al-Rahji
Senior Vice President & Head of
Fawri Money Transfer Services
Group

CEO STATEMENT

Praise be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers.

Dear Shareholders,

On behalf of the Management of Bank AlJazira, I am pleased to present to you the financial performance for the year 2017.

Many of the previous year's economic challenges continued in 2017 including fluctuations in oil prices and continued political instability in the Middle East region. Despite these challenges, BAJ maintained the strength of its base indicators and continued to focus on product enhancement and customer centricity to maximize profitability and achieve long term returns on investments for our shareholders. The bank recorded profits of SAR 857.5 million reflecting a solid performance in challenging times requiring a conservative approach towards lending operations, particularly in corporate lending.

Loans and advances portfolio decreased slightly to SAR 39.8 billion compared to the previous year, in line with our more cautious lending policy, whilst the investment portfolio increased to SAR 20.4 billion compared to SAR 16.3 billion in 2016. Customer deposits decreased slightly to SAR 50.3 billion, and earnings per share was SAR 1.65.

Among the factors which contributed to the bank's robust performance in the year were the improved profitability of Fawri remittance business and the continuing strong performance of our retail banking division at the back of our innovative products and customer focus. This was also supported by the strong performance of Treasury group, as well as our continued conservative approach towards corporate lending.

Treasury group enjoyed continued success with strong financial results whilst facing a challenging domestic and global economic environment. Treasury has successfully managed the Bank's liquidity profile and profit rate risk, and, increased its investment portfolio by 25% to SAR 20.2 billion by investing in high quality assets.

Corporate and Institutional Banking Group (CIBG) focused on diversifying the customer base and attracting government or quasi-government bodies and financial institutions. Combined with our more cautious lending policy, the finance portfolio was reduced by 14% to SAR 19.2 billion and posted net income of SAR 64 Million for the year 2017, after including credit loss provisions of SAR 252 million to cater for any possible losses.

The Private Banking Group serves the high net worth individuals segment by providing a comprehensive array of private Sharia- compliant banking services and products. Private Banking achieved record growth rates in 2017 surpassing the bank's targets, with customer deposits reaching SAR 10.2 billion as at the end of 2017.

The Retail Banking Group continues to redefine banking services and reinforces BAJ position within the Saudi banking market by offering innovative Sharia-compliant products and smart banking solutions through a growing network of distribution channels with a nationwide distribution network of 79 branches, 19 Ladies' units, 630 ATMs and 8,633 Point of Sale devices. Our Electronic Banking services are among the best in the Saudi Market including AlJazira Online, AlJazira SMART, and AlJazira Phone.

As part of 2020 National Transformation Program, BAJ has introduced several financing products in partnership with the Real Estate Development Fund such as Subsidized funding that provides monthly subsidies to applicable candidates, and also a down payment guaranteed scheme offering a discounted down payment percentage from 10% to 15% of the property value.

In 2017, Fawri remittance became profitable within 3 years of its inception with a substantial increase in customer base and market share. Fawri has opened 50 remittance centers across the Kingdom by the end of 2017. The growth of customers and agreements with correspondent banks around the world has enabled Fawri to increase its ability to reach all parts of the globe.

The Bank continued to emphasize its role as a principal contributor to the development of the community by implementing programs and social partnerships with non-profit institutions and charities. The Bank (through 'Khair AlJazira le Ahl AlJazira' program) conducted an array of high quality programs in line with the Kingdom's Vision 2030, in 67 cities and regions of the Kingdom.

In 2016, Human Resources Department continued its focus on attracting Saudi cadres for "Fawri" remittance centres and "Branch development program". The two programs attracted over 100 Saudi youth to join this business. Furthermore, the bank continued its commitment to provide various employment opportunities for holders of high school certificates, diploma and university graduates which was proved to be among the most successful means for attracting new and developing Saudi skills.

The bank has maintained its high rate of effective Saudization of more than 92%. Furthermore, there were more than 350 annual training events to meet the bank's needs and market requirements, including mandatory regulatory training such as Security Awareness and AML for all staff.

Initiatives in 2017 included gearing up for the enforcement of VAT and modifications to introduce the zodiac calendar. Moreover, significant operational cost savings were achieved through automations and process enhancements to optimize delivery.

Major accomplishments within BAJ included the future proofing of our core banking system customer account capability. We also implemented a bulk payment solution resulting in significant cost savings, enhanced cash deposit machines to reduce the number of claims, and, improved the disaster recovery capabilities of all BAJ systems.

In addition, 2017 has witnessed the launch of the bank's enhanced brand identity, after improvement of the logo and brand and enforcement thereof in all our channels, branches and services of the bank to reflect our increased awareness of customer perceptions.

Our aim in 2018 is to meet all challenges head-on, retain our credit ratings and continue to review our capital needs, ensuring that the bank remains well capitalized. To enhance the bank's capital base, the Board of Directors recommended a capital increase by way of a SAR 3 billion rights issue.

BAJ is well placed to take advantage of strategic shift in Kingdom's economic policies, and will continue to set benchmarks for the banking industry in the Kingdom through performance and innovation. We intend to partner with the private sector and the government support the growth for longer term development in the Kingdom.

Many awards and recognitions were received in 2017 from prominent organizations. The top of that being the Best Customer Service, through its Abshir Baezzak Program, by Banker Middle East, a well-known Magazine, and in recognition of the bank's exceptional client service and exemplary performance in the field of Customer Service. Also added in the list of accolades the bank received for the year 2017 was the Critics' Choice Best Islamic Retail Bank award earned for the second time, Contact Center Award from Contact Center World, a Global Association for Contact Center & Customer Engagement Best Practices, whom the bank received the Silver Medal for Best Customer Service in the Middle East, Europe and Africa and lastly the Most Innovative Personal Banking Provider from AI Global Media.

At the end, I would like to thank our customers for the trust that they have placed in the bank, the Ministry of Finance, SAMA, Chairman and the Board of Directors, Senior Management and all the staff for their untiring efforts in bringing BAJ to where it stands today and I look forward to your support in strengthening and consolidating our position further in the future.

May Allah the Almighty always guide us towards success in times to come.

Nabil AlHoshan

CEO and Managing Director

Board of Directors Report

The Board of Directors is pleased to present the Bank' s annual report and consolidated financial statements for the financial year ended 31 December 2017

INTRODUCTION

Bank AlJazira here-in-after referred to as "the Bank" or "BAJ" is a joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree No. 46/M dated Jumad Al-Thani 12, 1395H (i.e. June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (i.e. October 9, 1976) with the takeover of the National Bank of Pakistan's (NBP) branches in the Kingdom of Saudi Arabia and operates under commercial registration No. 4030010523 dated Rajab 29, 1396H (i.e. July 27, 1976) issued in Jeddah. The objective of the Bank is to provide a full range of Shari'ah compliant banking products and services comprising of Murabaha, Istisna'a, Ijarah and Tawarruq, Which are approved and supervised by an independent Shari'ah Board.

The Bank is recognized as one of the leading Shari'ah compliant fast growing financial institutions in Saudi Arabia, client-driven and service oriented Saudi Financial group which provides individuals, businesses and institutions with innovative Shari'ah compliant financial services through professional and dedicated staff.

The authorized, issued and fully paid share capital of the Bank consists of 520 million shares of SAR 10 each.

FIVE-YEAR FINANCIAL HIGHLIGHTS

Table below depicts the five year historical financial performance of the Bank:

Financial highlights

(In SAR millions, except where indicated)	2013	2014	2015	2016	2017
Loans and advances, net	34,995	41,245	42,174	42,099	39,790
Total assets	59,976	66,554	63,264	66,319	68,287
Customer deposits	48,083	54,569	49,765	51,602	50,278
Total Liabilities	54,248	60,396	55,851	58,216	59,459
Shareholders' equity	5,729	6,158	7,413	8,104	8,829
Net income	651	572	1,287	872	858
Total operating income	1,839	2,226	2,922	2,519	2,580
Net income growth (%)	30.20	(12.01)	124.84	(32.26)	(1.65)
Total operating income growth (%)	14.87	21.04	31.25	(13.78)	2.41
Return on average equity (%)	12.12	9.63	18.97	11.24	10.13
Return on average assets (%)	1.17	0.90	1.98	1.35	1.27
Earnings per share (SAR)	1.25	1.10	2.48	1.68	1.65

Note: The Earnings per Share has been retrospectively adjusted for prior periods to reflect the effect of the changes in weighted average number of shares due to issuance of bonus shares.

LOANS AND ADVANCES, NET:

Totaled SAR 39.8 billion at the year-end, registering a slight decrease comparing to SAR 42.1 billion in 2016. The Bank continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk concentration.

PLACEMENTS WITH OTHER BANKS AND OTHER FINANCIAL INSTITUTIONS:

Total outstanding at the end of 2017 were SAR 369 million versus SAR 1.3 billion in 2016. This is a short term activity and represents the day to day liquidity / cash flow management.

INVESTMENTS BOOK:

The investment portfolio comprises of Sukuk, investment in equities and mutual funds. Total portfolio at the year-end was SAR 20.4 billion versus SAR 16.3 billion in 2016, increased by 25%. This increase is mainly due to investment in government Sukuks.

TOTAL ASSETS:

Reached SAR 68.3 billion in 2017, as compared to SAR 66.3 billion in 2016, representing a slight increase of 3%.

CUSTOMER DEPOSITS:

Decreased by 2.6%, reaching SAR 50.3 billion in 2017, as compared to SAR 51.6 billion in 2016. The decrease is associated with the decrease in Demand deposits by 2.1 % from 25.5 billion to 25.0 billion and decrease in Time deposits by 4 % from 25.2 billion to 24.2 billion.

TOTAL LIABILITIES:

Reached SAR 59.5 billion in 2017, as compared to SAR 58.2 billion in 2016, representing a slight increase of 2.1%.

GEOGRAPHICAL ANALYSIS OF INCOME

The table below depicts region-wise analysis of the total operating income of the Bank. The operating profit of AlJazira Capital (100% subsidiary of the Bank) for the year ended amounted to SAR 177 million and is included below in groups total operating income:

	SAR 000				
Regions	Central	Eastern	Western	Head office	Total
Total Groups Operating Income	946,517	424,700	590,635	617,886	2,579,738

MAIN BUSINESS SEGMENTS/SECTORS

The Bank's activities comprises mainly of the following business lines:

Personal banking	Deposit, credit and investment products for individuals.
Corporate banking	Loans, deposits and other credit products for corporate, small to medium sized business and institutional customers.
Treasury	Treasury includes money market, foreign exchange, trading and treasury services.
Brokerage and asset management	Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).
Takaful Ta'awuni	Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. Current segment represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.
Others	Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

Table below depicts total operating income, total operating expenses, and net profit for each sector:

2017 (SAR'000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Management	Takaful Ta'awuni	Others	Total
Total operating income	1,082,223	538,186	950,310	176,946	19,749	(187,676)	2,579,738
Total operating expenses	(818,600)	(473,848)	(277,014)	(145,241)	(22,190)	3,988	(1,732,905)
Share in profit of associates	-	-	-	1,526	-	9,155	10,681
Net income/(loss)	263,623	64,338	673,296	33,231	(2,441)	(174,533)	857,514

SUBSIDIARIES AND ASSOCIATES

Following table summarizes the names of every subsidiary/associate, its share capital, the issuer's ownership percentage in it, its main business, its principal country of operation and its country of incorporation as at 31st December 2017:

Subsidiaries / Associates	Country of incorporation	Country of operation	Nature of business	Share Capital	Owner-ship
Subsidiaries:					
AlJazira Capital Company	Saudi Arabia	Saudi Arabia	Brokerage, margin financing and asset management	SAR 500 million	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	SAR 1 million	100%
Aman Insurance Agency Company	Saudi Arabia	Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank. The company has not yet commenced commercial operations	SAR 500 Thousands	100%
Al Jazira Securities Limited	Cayman Islands	Saudi Arabia	Carry out Shari'ah compliant derivative and capital market transactions	Authorized capital: 50,000 USD, Paid up Capital: 100 USD	100%
Associate:					
AlJazira Takaful Ta'awuni Company	Saudi Arabia	Saudi Arabia	Fully Shari'ah compliant protection and saving products	SAR 350 million	35%

The issued share capital of AlJazira Capital amounts to SAR 500 million comprising of 50 million shares of SAR 10 each. The issued share capital of Aman Development and Real Estate Investment Company amounts to SAR 1 million comprising of 100 shares of SAR 10,000 each. The issued share capital of Aman Insurance Agency Company amounts to SAR 500 Thousands comprising of 50 thousand shares of SAR 10 each. The authorized capital of Al Jazira Securities Limited Company amounts to USD 50,000, and its paid up capital is USD 100 comprising of 100 shares of USD 1 each. The issued share capital of AlJazira Takaful Ta'awuni amounts to SAR 350 million comprising of 35 million shares of SAR 10 each.

BANKS PROFITABILITY AND GROWTH IN FINANCIAL ASSETS AND LIABILITIES

The Bank has recorded a net profit of SAR 857.5 million for the year ended December 31, 2017. This represents a decrease of SAR 14.4 million or 1.7 % compared to SAR 871.9 million for the same period in 2016. The decrease is mainly due to the fact that in comparative period income was higher as a result of sale of land owned by the Bank which resulted in a gain amounting to SAR 208.6 million. Furthermore operating expenses have also increased by 7.7% mainly due to increase in the net impairment charge for credit losses by SAR 141.9 million, or 113.4% from SAR 125.2 million for the year ended in 31 December 2016 to SAR 267.1 million for the year ended in 31 December 2017. On the other hand total operating income has increased by 4.3% after considering the decline in gain on sale of other real estate mainly due to increase in net special commission income by SAR 251.1 million, or 16.0%, from SAR 1,566.5 million for the year ended in 31 December 2016 to SAR 1,817.6 million for the year ended in 31 December 2017 and increase in net exchange income by SAR 46.6 million, or 45.2%, from SAR 103.2 million for the year ended in 31 December 2016 to SAR 149.8 million for the year ended in 31 December 2017. Earnings per share were SAR 1.65 for the year ended 31 December 2017 against SAR 1.68 for the same period last year.

Total assets were SAR 68.3 billion as at 31 December 2017, compared with SAR 66.3 billion at 31 December 2016, an increase of 3.0% or SAR 2.0 billion. Net loans and advances to customers amounted to SAR 39.8 billion at 31 December 2017, with a decrease of SAR 2.3 billion, or 5.5%, from SAR 42.1 billion at 31 December 2016. The Bank's investment portfolio totaled SAR 20.4 billion as at 31 December 2017, an increase of SAR 4.1 billion or 25.0% compared with SAR 16.3 billion at 31 December 2016. Total liabilities were SAR 59.5 billion as at 31 December 2017, compared with SAR 58.2 billion at 31 December 2016, an increase of 2.1% or SAR 1.2 billion. Customer deposits totaled SAR 50.3 billion at 31 December 2017, decrease of SAR 1.3 billion, or 2.6%, compared with SAR 51.6 billion as at 31 December 2016. Subordinated Sukuk totaled SAR 2.0 billion as at 31 December 2017 compared with SAR 2.0 billion as at 31 December 2016.

BORROWINGS AND DEBT SECURITIES IN ISSUE

In the context of normal business practices, the Bank exchanges borrowings and funds with banks and SAMA, in accordance with the commission rate accepted in the market and are appropriately disclosed in the consolidated financial statements of the Bank.

	As at
	31 December 2017
	SAR'000
SAR 2,000 million 10 year subordinated sukuk	2,000,000
Total	**2,000,000**

SAR 2,000 MILLION 10 YEAR SUBORDINATED SUKUK

On 2 June 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on 2 June and 2 December each year until 2 June 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after 2 June 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi Stock Exchange (Tadawul).

BORROWING FROM BANKS

Total outstanding at the end of 2017 were SAR 6.2 billion versus SAR 3.5 billion in 2016, higher by 74.1%. This is a short term activity and represents day to day liquidity / cash flow management.

STAFF BENEFITS AND SCHEMES

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Bank to keep abreast of the local and regional market conditions relating to bank staff employed in the Kingdom, which are contrasted to cyclical performance levels, and mitigated for any associated risks.

The distribution of compensation is composed of a pay mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to the Labor Law of the Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefits are due for payment at the end of a staffer's service period. The total accrued amount of End of Service Benefits outstanding at the end of December 2017 totaled SAR 244 million.

KEY RISKS FACED BY THE BANK

Bank AlJazira (BAJ) has adopted a fair, transparent and prudent approach towards Risk Management and thus continues to invest into building an infrastructure that is able to proactively identify, assess, measure and control the risks the Bank is faced with on an Enterprise Wide basis. As a core risk management practice, BAJ management keeps a close track of the top and emerging risks, that are expected to emanate and challenge not only the International economies and financial markets but also their ripple effects on the Saudi Economy and thus the Financial Industry.

2017 has been a challenging year in many respects, some of the most prominent regional and global issues have been:

- Global oil prices continued to remain low and hovered around USD 50 for almost the entire year. Economic activity therefore, remained subdued.
- GDP growth, because of economy's dependence on oil, remained at the lowest since 2011.
- Burgeoning fiscal deficit is another concern that pushed the decision makers to cut capital spending which as a result also stifled economic activity.
- Regional political instability of Middle East witnessed a period of high uncertainty and destabilization with key players playing their part in finding a solution to regional conflicts.
- Global Regulators like IMF, World Bank and Bank of International Settlements (BIS) issuing new pronouncements to further tighten and discipline the capital management and liquidity management regimes.
- International and Local regulatory bodies joining forces to ensure implementation of the new International Financial Reporting Standard (IFRS-9) on impairment and provisioning mandated to be implemented by January 2018

The management has taken a pragmatic view of the prevailing and / or emerging global and local events and continued to focus on a careful assessment and management of the above challenges.

1. MAINTENANCE OF CAPITAL ADEQUACY:

Management ensured that the Bank continues to maintain adequate levels of quality capital, allowing it to support the envisaged growth in Risk Weighted Assets (RWA) and also meet the regulatory capital adequacy expectations. In this regard, the Bank has developed a detailed and well thought of capital enhancement plan, which takes into consideration various possible scenarios of capital enhancement and their underlying advantages, limitations, cost of capital generation and implementation timelines. The issuance of Sukuk last year and expected right issue next year by the Bank signify Bank's efforts towards enhancing and strengthening its capital base.

In its endeavor to fortify the Bank's capital position, the management continues to remain at work and has chosen the optimal scenarios which would ensure not only the quantity of capital but also the quality of the capital whilst meeting the regulatory expectations.

2. LIQUIDITY MANAGEMENT:

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a proactive identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets.

3. ASSET QUALITY:

The global and regional financial industry has been plagued with some significant erosion of quality assets forcing some of the most Systemically Important Financial Institutions (SIFI) to either provide for Non- Performing Assets or undertaken substantive write-offs citing maximum loss given defaults.

Building on the above notion, in 2017 BAJ's management focused on ensuring that the quality of assets, across its lines of businesses remains of an acceptable quality, thus rationalizing any unwarranted classifications, provisioning and / or write-offs. The Bank has remained selective across all business segments and has approached its target customer segments with a well-defined approach based on:

- A clearly defined Risk Appetite.
- A defined Target Market and Wallet Share
- Identified industry segments in terms of risks, rewards, regulatory requirements and their performance trends.
- Risk Acceptance Criteria to ensure risk associated with a particular industry and / or segment are assessed and managed through specific qualifying parameters.
- Maintenance of a Target Obligor Risk Rating across its business segments and portfolios to ensure that the same supports the planned asset quality growth, probability of default and cost of credit estimates. Furthermore, the management is cognizant of the on-going implementation and adoption of IFRS-9 and its likely implications on its portfolio. The Bank has adopted a structured approach to adopt IFRS-9 in line with the regulatory mandate. The Bank expects that the transition to IFRS-9 standard will not significantly undermine bank's strategy to maintain quality portfolios.

MARKET RISK MANAGEMENT

The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The Bank continually monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits. Risk appetite covering Market Risk is subject to the following drivers:

- Capital Adequacy Ratio (CAR)
- Liquid Assets Ratio
- Net Stable Funding Ratio (NSFR)
- Liquidity Coverage Ratio (LCR)
- Loan-to-Deposit Ratio (LDR)
- Concentration of Funding Sources
- Market Risk Factors

MARKET RISKS

INTRODUCTION

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

MANAGEMENT OF MARKET RISKS

Delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risks. The Bank has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings and highlight the market risk and liquidity risk profile to Senior Management, Board Risk Committee (BRC), Asset and Liability Committee (ALCO), the Board of Directors and SAMA.

FOREIGN EXCHANGE RISKS

Foreign Exchange risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The MRPC has set limits on net open positions by currency. There are limits for USD, Other G10 Currencies, GCC Currencies, and currencies in other regions. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a limited extent in United States Dollars (USD) or in USD-pegged currencies.

EQUITY PRICE RISK

Equity price risk refers to the risk of a decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities is regularly marked to market and positive/negative changes are taken into the Bank's equity or income statement.

CAPITAL TREATMENT FOR MARKET RISK

Bank AlJazira computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk and liquidity risks are covered under BASEL Pillar 2 risk assessments which are the primary risk factors experienced in the Bank's activities.

STRESS TESTING

The Bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios, and undertake the appropriate measures. Given the current economic environment, a broad spectrum of scenarios including liquidity and impact on sources of funding are considered. These scenarios are updated and may be redefined on an ongoing basis. The Stress Test results are reported to Senior Management, Board Risk Committee, Executive Committee, the Board and SAMA to facilitate and manage risk with more transparency.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank 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. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the Bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

LIQUIDITY RISK MANAGEMENT APPROACH

In terms of day-to-day liquidity management, Treasury Business Group ensures sufficient funding is available to meet the Bank's payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short term and long term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained above the required levels.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the liquidity plans.

All liquidity policies and procedures are governed by the Market Risk Policy Manual which is subject to review and approval every year by the Market Risk Policy Committee. In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities in the form of cash and liquid assets which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

CAPITAL ADEQUACY UNDER BASEL II AND BASEL III

The Basel Accord, issued by the Bank for International Settlements (BIS), is an international standard for risk and capital management practices. The objective is to provide a framework that would strengthen the soundness and stability of the international banking system.

The Saudi Arabian Monetary Authority (SAMA) has been at the forefront of ensuring that the Saudi Banking Sector adopts and implements the best practices that Bank for International Settlements proposes and has accordingly issued various guidelines to that effect.

As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework. In December 2017, the Basel Committee on Banking Supervision (BCBS) issued remaining Basel III reforms which are meant to complement the initial phase of the Basel III reforms announced previously. The 2017 reforms seek to restore credibility in the calculation of risk weighted assets (RWAs) and improve the comparability of banks' capital ratios. RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework.

With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. These standards and ratios measure capital adequacy by comparing the Banks eligible capital with its consolidated statement of financial assets, commitments and notional amount of derivatives upon conversion to their equivalent risk weighted exposures.

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios.

Bank's ICAAP is a comprehensive document designed to evaluate the Banks risk profile, the process for identifying, measuring and controlling risk and its capital requirements and resources. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

The capital adequacy disclosures have been prepared in accordance with the Basel disclosure guidelines, as issued by SAMA from time to time and as applicable to the Bank.

As a new requirement for 2018, the Saudi Arabian Monetary Authority (SAMA) requires that Banks develop the Internal Liquidity Assessment Plan (ILAAP) to be submitted by end of Q1 2018. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant. ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank is in the development phase of ILAAP and on track to comply with regulatory guidelines in this regard.

ACCOUNTING STANDARDS

The Bank maintains proper books of accounts and records in an accurate manner. The consolidated financial statements have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Article of Association of the Bank.

The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2017 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016 except for change in accounting policy related to Zakat & Income tax and for initial recognition and de-recognition of all regular-way purchases and sales of financial assets on trade date.

APPOINTMENT OF EXTERNAL AUDITORS

The External Auditors are responsible for the annual audit and quarterly review of the banks financial statements. The Bank's Annual General Meeting held on 10 April 2017 (corresponding to 13/7/1438) approved the recommendation of the Board of Directors and the Audit Committee to re appoint EY and KPMG Al Fozan and partners as the external Auditors of the Bank for the financial year ended 31 December 2017.

STATUTORY PAYMENTS

The Bank has made the following payments during the year in respect of the mentioned captions:

Type of Statutory Payments	SAR in million
Zakat paid during 2017 (against 2016)	20.57
Withholding tax	6.11
Advance income Tax (for the year 2017)	7.22
GOSI (including Bank and the employees)	72.59
Visa, Iqama and related services etc.,	1.03

The zakat liability due for 2017 has been estimated at SAR 20.68 million that is attributable to Saudi shareholders. The Bank has adequate provision in the books to settle the estimated zakat liability. An amount of SAR 10.25 million has been estimated as income tax liability attributable to non-Saudi shareholders, and this will be ultimately borne by the non-Saudi shareholders themselves. The Bank has received zakat assessment for the years up to and including 2011 raising additional demand which is more fully explained in note 26 to the annual financial statements of the Bank.

PENALTIES AND REGULATORY RESTRICTIONS

SAUDI ARABIAN MONETARY AUTHORITY PENALTIES

Subject of violation	Current fiscal year	
	Number of Penalties	Total amount of Penalties SAR
Violation of SAMA supervisory instructions	4	410,000
Violation of SAMA instructions for protecting customers	2	15,000
Violation of SAMA instructions related due diligence	-	-
Violation of SAMA instructions regarding the level of performance of ATMs and point of sale machines	1	20,000
Violation of SAMA instructions for due diligence in Anti money laundering and the financing of terrorism	1	215,000

OTHER PENALTIES AND REGULATORY RESTRICTIONS

CMA, Municipalities and other government related entities have imposed fines on the Bank with a total of SAR 347.2 thousand during 2017 as specified below:

Name of the Authority	SAR in thousand
CMA	160.0
Riyadh municipality	156.0
Jeddah municipality	15.5
Ministry of Labor and Social Development	10.0
General Organization for Social Insurance (GOSI)	4.4
General Authority of Zakat and Tax (GAZT)	1.3
Total	347.2

RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2017 SAR' 000	2016 SAR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**71**	75
Due to banks and other financial institutions	**190**	198
Subsidiary companies		
Investments	**501,480**	500,980
Customer deposits	**20,407**	625,042
Due from banks and other financial institutions	**656,118**	-
Receivables	**184,984**	45,917
Payables	**16,365**	21,485
Commitments and contingencies	**630,247**	630,247
Notional values of outstanding derivative contracts	**4,369,369**	-
Associate and affiliate entities with significant influence		
Investments	**134,071**	129,977
Customer deposits	**401,763**	384,353
Accrued expenses payables	**2,211**	2,253
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**120,473**	48,524
Customers' deposits	**85,055**	390,992
Contingencies and commitments	**6,447**	-

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

	2017 SAR' 000	2016 SAR' 000
Mutual Funds under subsidiary's management		
Investments	**60,870**	91,429
Loans and advances, net	**356,334**	392,076
Customer deposits	**531**	2,989

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2017 SAR' 000	2016 SAR' 000
Special commission income	**58,979**	20,161
Special commission expense	**57,990**	120,948
Fees and commission income	**132**	166
Advisory fee paid	-	1,600
Net share of expenses to associate	**15,850**	9,732
Insurance premium paid	**38,114**	35,462
Surplus distribution received from associate	**1,524**	-
Claims received	**12,977**	8,502
Directors' remuneration	**7,562**	7,409
Dividend received	**5,250**	5,250
Income under shared service agreements	**3,988**	3,988
Reimbursement of expense to a subsidiary	**47**	-
Expenses under revenue sharing agreement	**3,109**	31,837
Reimbursement of rent expense	**9,355**	9,355
Rent expense for branches	**2,345**	615

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2017 SAR' 000	2016 SAR' 000
Short-term employee benefits	**89,652**	87,944
Termination benefits	**25,735**	22,869

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The agreements and dealings between the Bank and AlJazira Takaful Taawuni Company (AJT), noting that the total dealings with the company in the previous year reached SAR 80.5 MM. These transactions are deemed to be related party transactions given that below member of the Board of directors of the Bank has direct or indirect interest in them as he is a member of Borad of Directors for Bank AlJazira and the Chairman of AJT:

- Engr. Abdulmajeed Ibrahim Al-Sultan

	SAR'000	
Nature of Contract	**Period of the Contract**	**Transaction amount in 2017**
Cost & Resource allocation arrangement - net amount	Ongoing	15,850
Personal Dinar Insurance Policy	One Year	16,958
Mortgage Insurance Policy	One Year	16,373
Group Life Insurance Policy	One Year	2,350
Staff Bait AlHasan Policy	One Year	907
Dividend Received	Dealings	5,250
Special commission expense	Dealings	9,804
Claims received	Dealings	12,977
Total		**80,471**

The agreements and dealings between the Bank and AlJazira Capital, noting that the total dealings with the company in the previous year reached SAR 24.7 MM. These transactions are deemed to be related party transactions given that below members of Board of directors of the Bank have direct or indirect interests in them as they are both board members in the Bank and AJC:

- Mr. Nabil Dawood Al-Hoshan
- Mr. Mohammed Abdullah Al-Hagbani

	SAR'000	
Nature of Contract	Period of the Contract	Transaction amount in 2017
Service Level Agreement	Effective, unless terminated	3,988
TAMAM Income sharing	Terminated	10,252
Special Commission expense on time deposits	Dealings	1,138
Rent Expense for branches	Dealings	9,355
Total		**24,733**

List of rental contracts where the below listed members of board directors may have direct or indirect interest:

				SAR'000	
Contractor	Name of the related party	Relationship	Nature of Contract	Period of the Contract	Amount Paid in Year 2017
Mr. Ahmed bin Othman Al-Kasabi	Eng. Tarek bin Othman Al-Kasabi	Brother of Mr. Ahmed bin Othman Al-Kasabi	Rental for Al-Hassan Bin Ali Road branch	10 years	285
Consolidated Brothers Co.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Owns part of shares of Consolidated Brothers Co. for development	Rental for Al-Rehab Branch	12 years	330
Total					**615**

BOARD OF DIRECTORS' ASSURANCE

The Board of Directors control the Bank's performance and operation through periodic meetings during the year, develops policies, and ensures proper implementation. In addition, the Board periodically reviews the effectiveness of existing regulations and internal controls and monitors the key sectors of the Bank to make sure that the general policies and risk management levels set by the Board are implemented.

Through the Audit Committee, the board also reviews the financial position of the Bank with the external auditors to ensure the integrity of its financial performance and full compliance with the laws and regulations and accounting standards applicable in the Kingdom of Saudi Arabia. The Board of Directors confirms its statutory responsibility for the accuracy of financial statements and that they fairly reflect the financial position of the Bank and its results, and ensure compliance of all its operations with the controls laid-down by the Shari'ah Board of the Bank.

The Board of Directors assures shareholders and other stakeholders that to the best of their knowledge and in all material aspects:

- Proper books of account have been maintained
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the bank ability to continue as a going concern;
- There is no contract the Bank is part of, where or when there were substantial interests for one of the Board members, Managing Director, Chief Financial Officer or any person who has a relationship with them, except for that which was mentioned in the Related Party Transactions in this report.

As indicated in their audit report, the Bank's auditors for the purpose of their review of the financial statements, have considered internal controls relevant to the preparation and fair presentation of the Bank's financial Statements in order to enable them to design audit procedures which are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. The auditors have reported to the Board certain deficiencies or recommendations arising from this exercise. In the managements opinion these items do not constitute material weaknesses. The Auditors have issued an unqualified audit report on the financial statements of the Bank.

DIVIDENDS POLICY

The Bank complies with the rules and regulations issued by the various competent regulatory authorities and its Articles of Association in the process of dividend distribution. In this regard, the Bank pays dividends to shareholders in line with Article No (43) of the Bank›s Articles of Association as follows:

The company's annual net profits, as determined, shall be distributed after deduction of general expenses and other costs, and after allocations of provisions against doubtful debts, losses on investments and other contingent liabilities which the Board of Directors considers necessary as required under the provisions of the Banking Control Law, as follows:

a) Sums required for payment of the Zakat due on Saudi shareholders and the tax due on non-Saudi shareholders shall be calculated according to the laws and regulations in force in Kingdom of Saudi Arabia. Such sums shall be remitted by the Company to authorities concerned. Zakat paid in respect of the Saudi shareholders shall be deducted from their share in the net profits. Similarly, tax paid in respect of non-Saudi shareholders will be deducted from their share in the net profits.

b) A minimum of 25% of net profits, after deduction of Zakat and Tax as hereinabove detailed in (a) will be transferred to statutory reserve until this reserve is equal to the paid up capital of the bank as a minimum.

c) Out of the remainder of the profit after deduction of the statutory reserve and Zakat and tax, a sum of not less than 5% of the paid-up capital shall be allocated for distribution to Saudi and non-Saudi shareholders in proportion to the paid-up part of the shares of the Saudi and non-Saudi shareholders as recommended by the Board of Directors and endorsed by General Meeting. In case the remainder of the profits payable to the shareholders concerned is not sufficient for paying such dividend, shareholders may not be entitled to claim the payment thereof in the following year or years. The General Meeting may not resolve to pay a percentage of the dividends which exceeds the percentage that is recommended by the Board of Directors.

d) The remainder after the sums set forth in paragraph (a), (b), (c) herein have been allocated shall be utilized in the manner recommended by the Board of Directors and approved by the General Meeting.

e) The respective percentage of shareholding of each of the Saudi and non-Saudi shareholders shall be maintained (observed) when calculating the sum to be allocated as statutory reserve and other reserves out of the net profit (after Zakat and Tax). Each of the two categories of shareholders shall participate in the transfer to such reserves on a pro-rata basis of their shareholding in the capital provided their contributions will be deducted from their shares in the net profits.

PROPOSED WAY TO DISTRIBUTE DIVIDENDS FOR THE YEAR 2017

Based on our dividends announcement on 8th February 2018, which the Board of Directors of Bank AlJazira recommended on 22/05/1439 H corresponding to 8th February 2018 to distribute cash dividends to the shareholders of the Bank for the fiscal year 2017, the Bank has obtained the approval of Capital Market Authority to increase its capital from SAR 5,200 million to SAR 8,200 million on 05/06/1439 H corresponding to 21st February 2018, through a rights issue which represents an increase in the Bank's shares from 520 million ordinary shares to 820 million ordinary shares.

Therefore, the distribution of dividends according to the number of shares of the Bank after the increase in capital as follows:

1- The total amount to be distributed is SAR 262.4 million.
2- Distribution is SAR 0.32 per share.
3- Distribution ratio to nominal value per share: 3.2%
4- Number of shares due for dividends: 820 million ordinary shares representing the total shares of the Bank after the capital increase referred to above.
5- The eligibility of dividends to shareholders registered with the Securities Depository Center by the end of the second trading day after the date of the General Assembly to be held to approve the distribution of these profits.
6- The dividend distribution date will be announced later.

Note that the dividend distribution subject to the approval of the General Assembly of the Bank and to amend the minimum percentage of the amount of profits to be distributed under the Bank's Articles of Association from 2.5% to 5% of paid-up capital, after deducting the statutory reserve and Zakat and tax amounts.

It should be noted that the approval of the distribution of such dividends shall not be on the agenda of the Extraordinary General Meeting which will be held by the Bank to approve the increase of its capital through a rights issue but the bank will call for the convening of another assembly later, to approve the distribution of such profits.

ISSUANCE OF RIGHT SHARES

With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SR 3 billion through a right issue. The increase is conditional on obtaining the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price of the shares and numbers. Included in the "other reserves" are total expenses of SR 21.15 million (31 December 2016: SR 18.12 million) incurred in respect of the legal and professional matters for right issue. The Bank has obtained the approval of Capital Market Authority to increase its capital from SR 5,200 million to SR 8,200 million on 05/06/1439 H corresponding to 21st February 2018, through a rights issue which represents an increase in the Bank's shares from 520 million ordinary shares to 820 million ordinary shares.

BANKING TRANSACTIONS WITH THE DIRECTORS, CEO AND CFO:

Notwithstanding the Related Parties Transactions (the details of which are as specified above) in this report which were conducted with third parties at an arm's length, no essential interests exist for any director, the CEO or the CFO.

CREDIT RATING

Referred below are the latest credit rating of the bank:

	Islamic Int'l Rating Agency	Moody's	Fitch Rating
Credit Ratings	Nov-16	Oct-17	Sep-17
Foreign Currency Risk - Short term			F2
Foreign Currency Risk - Long term			BBB+
Credit rating - International Scale	A-/A2		
Support Rating			2
Outlook Rating	Negative	Stable	Stable
Bank Deposits		Baa1 / P-2	
Credit rating- National scale	A+ / A1 SA		
Sovereign Risk- long tem			
Viability Rating			bb+

1. **Names of Board Directors, Board Committee members and Executive management and their present and past positions, qualifications and experience:**

A. BOARD OF DIRECTORS:

S	Name	Present Position	Past Position	Qualifications	Experience
1	Eng. Tarek bin Othman Al-Kasabi	1. 1994 – Vice Chairman, Aseer Trading, Tourism and Manufacturing Company 2. 1995 – Chairman, Dallah Healthcare Company. 3. 2006 - Board Director, Kingdom University (Kingdom of Bahrain) 4. 2008 – Chairman, Rozam Investment Company 5. 2010 - Chairman, Ataa Educational Company 6. 2012 – Chairman, Sarb Real-Estate Investment Company 7. 2013 – Chairman RZM Gayrimenkul Anonim Sirketi (Turkey) 8. 2013 – Chairman, NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey) 9. 2016- Chairman of Bank AlJazira	1. 1998-2015 – Bank AlJazira board Member. 2. 2008 -2013 – Chairman, AlJazira Capital . 3. 2015-2016 – Chairman of the Board, AlJazira Capital.	Bachelor of Civil Engineering, King Saud University - 1976.	Member of the Board of BAJ since 1998, member of Executive Committee Chairman and member of the Boards of many investment companies in and out of the Kingdom of Saudi Arabia.
2.	Mr. Khalifa bin Abdul Latif Al-Mulhem	1. 1995 – Member of the Board of Saudi White Cement Company 2. 2004 - Chairman of Advanced Petrochemical Company 3. 2007 - Member, BAJ Board of Directors. 4. 2007 - Member of the Board of International General Insurance (IGI) Company (Jordan). 5. 2012 – Member of the Board of Al Ettifaq Steel Company. 6. 2013 - Member of the Board of Al Jazeera Support Services Company. 7. 2014 - Member of the Board of General Organization for Social Insurance (GOSI) 8. 2017 - Member of the Board of National Shipping Company of Saudi Arabia	1. 1985 – 2002 – Member of the Board of SABB. 2. 2009-2011 - Member of the Board of Saudi United Cooperative Insurance Company (Walaa Cooperative Insurance Co.) 3. 2007 – 2012 – Member of the Board of Riyadh Cement Factory 4. 2003-2012 –2007 – 2012 – Member of the Board of Nama Chemicals Company	Bachelor of Business Management, Colorado University, USA – 1978.	Member of the Board of BAJ since 2007, previous membership of SABB Board of Directors. Chairmanship and membership of various investment companies in and out of the Kingdom of Saudi Arabia.
3.	Mr. Nabil bin Dawood AlHoshan	1. 2010 – CEO, BAJ 2. 2013 – Managing Director, BAJ 3. 2013 – Member of the Board, AlJazira Capital	1. 1984 – 1998 – Head of Retail Banking Group, Central province, SABB 2. 1998 – 2001 : Head of Retail Banking Services, Eastern Province, SAMBA 3. 2001-2006: Head of Retail Banking, ANB 4. 2006-2010: Head of Retail Banking, SABB	1984- Bachelor of Accounting, University of King Saud, Riyadh	Wide past experience in a number of Saudi banks at Corporate Banking Group, Retail Banking Group and branch network.

S	Name	Present Position	Past Position	Qualifications	Experience
4.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 1993 - Consolidated Brothers for Development Co - Member of the Board 2. 1998 - Qassim Cement Company - Member of the Board 3. 2004 - Member of the Board, AlJazira Bank 4. 2009 – Chairman of the Board, Royal and Sun Alliance Insurance Company (Egypt). 5. 2013 - AlJazira Takaful Taawuni Co. - Chairman of the Board.		1989 – Bachelor of Engineering –King Saud University, Riyadh.	Member of the Board of Directors of Bank AlJazira since 2004. Chairman of the Board, AlJazira Takaful Company. Member of the Boards of various other investment companies in and out of the Kingdom of Saudi Arabia
5.	Mr. Mohammed Bin Abdullah Al Hagbani	1. 2016 – Member of the Board of Bank AlJazira. 2. 2016 – Chairman of Audit Committee-Bank AlJazira. 3. 2010 - AlJazira Capital Member of the Board 4. 2014 - CEO, Astra Industrial Group 5. 2014 – Chairman, Board of Managers, Astra Mining Company. 6. 2016 - Chairman of the Board, AlJazira Capital. 7. 2017 – Member of the Board, Herfy Food Services Company.	1. 2005-2006: Portfolio Manager, Al Rajhi Bank. 2. 2006-2013 - Member of Advisors Committee, Global Investment House, Kuwait. 3. 2006-2013: Director of Investment Research, GOSI. 4. 2008-2013: Member of Investment Committee, Tawuniya Insurance Company. 5. Member of Advisors Committee, Cerberus Capital Partner International (USA). 6. Member of Investment Committee, Apollo Capital Management Company LP (USA). 7. Member of Advisors Committee, Axa Capital Management Company (USA). 8. 2009-2013 – Board Member of Bank AlJazira. 9. 2010-2013 – Chairman of Audit Committee- Bank AlJazira. 10. 2010-2013 – Chairman of Audit Committee, National Petrochemical Company. 11. 2012-2013 Member of Investment Committee- AlJazira Capital.	2005 – Bachelor of Finance, University of Virginia For Technology, USA	Previous experience at Al Rajhi Bank and GOSI in addition to membership of the Boards of Directors of many financial and investment companies in and out of the Kingdom. Previous membership of the Board of Directors of Bank AlJazira.
6.	Mr. Abdullah Bin Saleh Al Rasheed	1. 2016 – Member of the Board, Bank Al Jazira 2. 2015 – Constituent Partner, CEO and Member of the Board, Adae Financial and Management Consulting Company 3. 2017 – member of the Board, Mahara Human Resource Company.	1. 1983-1984, Estimate Budgets Officer, ANB 2. 1984-1988: Financial Affairs Officer, Educational Attach of KSA in Canada 3. 1988-1992: Financial Affairs Office, Ministry of Higher Education 4. 1992-2001- Assistant General Manager, Saudi Traveller Cheques Company 5. 2001-2005: Deputy Chief Financial Affairs and member of the Board, Al-Othaim Holding Company 6. 2006-2008: Deputy Chief of Finance and member of the Board of Abdullah Al-Othaim Markets Company 7. 2008-2014: Deputy Chief Officer, Khalid Al Baltan Group Co., Riyadh	1983 – Bachelor of Management, King Saud University, Riyadh.	Previous experience in a number of Financial, Investment, Administrative and Retail companies

S	Name	Present Position	Past Position	Qualifications	Experience
7.	Mr. Abdulsalam Bin Abdulrahman Alagil	1. 2001- Chairman of Audit Committee-Jarir Co. 2. 2002: Chairman of the Board of Governors, Saudi 21 Century Saudi Company. 3. 2006: General Manager, Future Markets Company 4. 2007: Chairman of Board of Governors, Advanced Markets Company 5. 2008: Managing Director and Chairman of the Board, Riyadh Najd National School. 6. 2006- Board Member Kannan International Co. 7. 2010: General Manager, Arabian Afras Company. 8. 2013: Director of the Board, Etaam Charitable Society 9. 2013: Chairman of the Board, National Harma Company 10. 2013: Member of the Board, Wadi Harma Company 11. 2014: Member of the Board of Governors, Khumasiat Taiba Company 12. 2014: Member of the Board of Governors, Khumasiat Taba Company 13. 2014: Member of the Board of Governors, Sorooh El Marakez Company Ltd. 14. 2014: Director of the Board, Asala Holding Company. 15. 2014: Member of the Board, Saudi Arabian General Investment Authority - SAGIA 16. 2014: Director of the Board, Al Andalus Real-Estate Company 17. Managing director, Jarir Commercial Investment Company. 18. 2016: Managing director, Jarir Commercial Development Company. 19. Chairman of the Board, Imtiaz Al Arabia Company. 20. Member of the Board of Directors, Bank Al Jazira. 21. 2017: Chairman of the Board of Governors, Al-Khoyool Al-Arabia Urban Development Company 22. 2016 – Chairman of Board of Managers – Future Houses for Development & Real Estate Investment.	1. 2008-2015: Member of the Board of Directors, Jarir Holding Company 2. 2009-2013: Member of the Board of Directors, Malaz Insurance and Reinsurance Company. 3. 2010-2013: Director of the Board, Herfy Food Services Company 4. 2013-2016: Member of Advisory Committee, Capital Market Authority	1990 – Bachelor of Science – Industrial Management – King Fahd University For Petroleum and Minerals	various experience gained from occupying membership and chairmanship of many companies and institutions of various investment activities

S	Name	Present Position	Past Position	Qualifications	Experience
8.	Dr. Saeed Bin Saad Al Martan	1. 2005: Chairman of The Board of Governors, Elite Information Technology Company 2. 2015: Director of the Board, Fortune Lights Real-Estate Investment Company 3. 2016: Member of the Board of Directors of Bank AlJazira.	1. 1972-1980: Assistant Teacher for higher studies, University of Riyadh 2. 1980-1992: Assistant Professor, Economics Department, King Saud University 3. 1984-1987: Acting and Vice Dean, University Studies Center For Girls, King Saud University 4. 1987-1992: Associate professor at Economic Department and Head of Economics Department, University of King Saud. 5. 1992-1998: Assistant General Manager and Manager of Islamic Banking Services Department, NCB 6. 1998-1999: Executive Advisor to the Chairman of Head Office Committee, NCB 7. 1999-2000: Executive Advisor to the Chairman and Managing Director, NCB 8. 2000-2004:CEO, Shamil Bank of Bahrain 9. 2000-2004: Deputy Chairman of the Board, Shamil Bank of Yemen-Bahrain Bank (Yemen) 10. 2000-2004: member of the Board of Directors, Faisal Financial Foundation. (Switzerland) 11. 2000-2004: Member of the Board of Directors, General Council of Islamic Banks and Financial Institutions. 12. 2000-2004: Faisal Bank Limited (Pakistan) 13. 2001-2004: Member of the Board of Directors, International Islamic Financial Market (Bahrain) 14. 2002-2005: Member of the Board of Directors, Solidarity Islamic Takaful Company (Bahrain) 15. 2004-2005: Executive Vice CEO, Dar Al Mal Al-Islami (Switzerland) 16. 2005-2006: Member of the Board of Governor, Al-Raed Islamic Fund 17. 2006-2008: CEO, Al-Sarat Financial and Economic Consulting Center. 18. 2008-2012: Chairman of the Board, Adeem Financial Company 19. 2009-2015: Member of the Board of Governors and General Manager, Business Solutions Company 20. 2007-2016: Chairman of the Board of Governors, Gulf Consultants Company for Financial Consultations. 21. 2016-2017 – General Manager and Member of Board of Managers –Qanadeel Al-Tharwah Real Estate Investment Co.	1971: Bachelor of Economics and Political Science, Riyadh University 1975: Masters Degree in economics, Nebraska Lincoln, USA 1980 PhD in Economics-Nebraskan University (USA)	Past wide experience at a number of local and international financial and investment institutions.
9	Mr. Ibrahim Bin Abdulaziz Al-Shaia	1. 2014: Manager Finance, GOSI 2. 2016: Member of the Board of Directors, Bank AlJazira. 3. Member of the Executive Committee. 4. Member of Risk Committee.	1. 2002 – 2004: Financial Auditor, Al-Rashid Accountants, Auditors and Legal Consultants. 2. 2008-2009: Part-time advisor for development of financial and electronic administrative work, International Accounting and Auditing Authority for GCC Countries. 3. 2010-2013: Member of the Audit Committee, Saudi Insurance Co. 4. 2011-2015: Director of the Board, Safwa Cement Company 5. 2011-2015: Head of Budget Department, GOSI. 6. 2013-2015: Chairman of the Audit Committee, Safwa Cement Company. 7. 2015-2016: Member of the Audit Committee, Safwa Cement Company	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, USA	Previous and present experience at financial and investment institutions in accounting and auditing fields.

B. COMMITTEE MEMBERS

S	Name	Present Position	Past Position	Qualifications	Experience
1	Eng. Tarek bin Othman Al-Kasabi	1. 2016: Chairman of the Executive Committee, BAJ		Bachelor of Civil Engineering, King Saud University - 1976	Member of the Board of BAJ since 1998, member of Executive Committee, Member of the Boards of many investment companies in and out of the Kingdom of Saudi Arabia
2	Mr. Khalifa bin Abdul Latif Al-Mulhem	1. 2007: Member of BAJ Executive Committee 2. 2016: Chairman of BAJ Remuneration and Nomination Committee		Bachelor of Business Management, Colorado University, USA – 1978.	Member of the Board of BAJ since 2007, previous membership of SABB Board of Directors. Chairmanship and membership of various investment companies in and out of the Kingdom of Saudi Arabia
3	Mr. Nabil bin Dawood AlHoshan	1. 2013: Member of BAJ Executive Committee		1984- Bachelor of Accounting, University of King Saud, Riyadh	Various past experience in a number of Saudi banks at Corporate Banking Group, Retail Banking Group and branch network
4	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 2016: Member of BAJ Executive Committee 2. 2016: Member of Khair AlJazira Le-Ahl AlJazira Committee.		1989 – Bachelor of Engineering – King Saud University, Riyadh.	Member of the Board of Directors of Bank AlJazira since 2004. Chairman of the Board, AlJazira Takaful Company. Member of the Boards of various other investment companies in and out of the Kingdom of Saudi Arabia
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	1. 2014: GM Financial Affairs GOSI. 2. 2016: Member of BAJ Executive Committee 3. 2016: Member of of BAJ Risk Committee 4. 2016: Member of Audit Committee – Elite Cement Company.	1. 2010-2013: Member of Audit Committee, Saudi Fransi Insurance Company. 2. 2013-2015: Chairman, Audit Committee – Safwa Cement Company	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, USA	Previous and present experience at financial and investment institutions in accounting and auditing fields.
6	Mr. Mohammed Bin Abdullah Al Hagbani	1. 2016: Chairman of BAJ Audit Committee.		2005 – Bachelor of Finance, University of Virginia For Technology, USA	Previous experience at Al Rajhi Bank and Gosi in addition to previous membership of the Board of Directors of Bank AlJazira.
7	Mr. Abdusalam Bin Abdulrahman Al Agil.	1. 2001: Chairman of Audit Committee, Jarir Marketing Company 2. 2016: Member of BAJ Remuneration and Nomination Committee	1. 2013-2016: Member of the Advisory Committee, Capital Market Authority.	1990 – Bachelor of Science – Industrial Management – King Fahd University For Petroleum and Minerals	Wide experience gained from occupying membership and chairmanship of many companies and institutions of various investment activities
8	Dr. Saeed bin Saad Almartan	2016: Chairman of BAJ Risk Committee		1971: Bachelor of Economics and Political Science, Riyadh University 1975: Masters of Economics, AIWA University, USA 1980: PhD. In Economics, Nebraska Lincoln University, USA	Past wide experience at a number of local and international financial and investment institutions.

S	Name	Present Position	Past Position	Qualifications	Experience
9	Mr. Abdullah Bin Saleh Al Rasheed	1. 2016: Member of of BAJ Risk Committee 2. 2016: Member of BAJ Remuneration and Nomination Committee 3. 2016: Member of Audit Committee, Saudi Gas Cylinder Factory.		1983 – Bachelor of Management, King Saud University, Riyadh	Previous experience in a number of financial, Investment, Administrative and Retail companies
10	Mr. Fawaz Bin Mohammed Al-Fawaz	1. 2012: Member of BAJ Audit Committee 2. 2013: Member of Audit Committee, Malaz Insurance Company 3. 2015: Chief Financial Officer, National Industrialization Company	1. 1983-1999: Assistant Deputy Head of Finance, SABIC 2. 2000-2004: Director General of Services, Accounting Department, SABIC 3. 2004-2009: Director General of Finance, SABIC 4. 2007-2015: Deputy Chairman of the Board and Chairman of Audit Committee, Yanbu National Petrochemical Company	1983: Bachelor of Accounting, King Saud University	Wide previous experience in accounting and auditing fields at investment institutions
11	Mr. Taha Bin Mohammed Azhari	1. 2012: Member of BAJ Audit Committee 2. 2015: Senior Financial Officer, Saudi Civil Aviation Company Holding 3. 2017: Member of the Board of Directors, Batec Logistics and Investment Company 4. 2017: Director of the Board, Zahrat Al Waha Company.	1. 1993-1995: Financial Auditor, Arthur Anderson, Riyadh 2. 1995-1998: Internal Auditor, SAMBA Group 3. 1998-2001: Compliance and Quality Assurance Officer, SAMBA Group 4. 1999-2001: Internal Auditor, SAMBA Group 5. 2001-2004: Head of Internal Audit and Risk Department, Al-Othaim Trading Group. 6. 2004-2008: General Manager Finance Department, Saudi Exclusive Stores Company (Carrefour) 7. 2008-2015: Economic Advisor to the CEO, National Water Company. 8. 2013-2016: member of Audit Committee, AlJazira Capital	1993: Bachelor of Accounting, King Saud University	Wide previous experience in accounting and auditing fields at many financial and investment institutions in and out of the Kingdom
12	Mr. Abdulaziz Bin Ibrahim Al-Hadlaq	1. 2013: Member of Khair AlJazira Le-Ahl AlJazira Committee. 2. 2017: Advisor to the Minister of Labour and Social Development, Ministry of Labour and Social development	1. 1996-1998: Assistant General Manager, International Organizations Affairs, Ministry of Labor and Social Affairs. 2. 1998-2005: General Manager, International Organizations Affairs, Ministry of Labour and Social Affairs 3. 1996-2005: Member of the Board, International Work Organization 4. 2005-2006: General Supervisor of Public Affairs and Social Media Department, Ministry of Social Affairs 5. 2005-2007: Director of International Cooperation, Ministry of Social Affairs For Social Development 6. 2007-2011: Deputy Assistant Minister, Ministry of Social Affairs For Social Development 7. 2011-2013: Deputy Minister, Ministry of Social Affairs For Social Development 8. 2013-2017: Member of Shura Council	1982: Bachelor of Social Services, King Saud University 1984: Diploma in Community Development, Research and Training Center. 1991: Diploma in International Development, Missouri Columbia University, USA 1992: Masters in Community Development, Missouri Columbia University, USA	Past experience at various departments of the Ministry of Social Affairs in additional to membership of many international community-related organizations

C. EXECUTIVE MANAGEMENT

Name: **Mr. Nabil AlHoshan**
Position: Chief Executive Officer and Managing Director

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University, Kingdom of Saudi Arabia	Accounting	Bachelor Degree	1984

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Retail Banking - Central Region	1984 - 1998
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Head of Retail Banking - Eastern Region	1998 - 2001
Banks and Financial Services	Listed Joint-Stock Company	ANB	Head of Retail Banking	2001 - 2006
Insurance	Listed Joint-Stock Company	SABB Takaful	Member of Board of Directors	2006 – 2010
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Retail Banking	2006 - 2010
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Member of Nomination and Remuneration Committee	2013
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Member of the Risk Management Committee	2013

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	CEO and Managing Director	2010
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Executive Committee Member	2013
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Managing Director	2013
Securities	Closed Joint-Stock Company	AlJazira Capital	Member of Board of Directors	2013

Name: **Mr. Yasser Al-Hedaithy**
Position: Senior Vice President and Head of Treasury Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University, Riyadh, Kingdom of Saudi Arabia	Accounting	Bachelor Degree	1994

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Director of Derivatives Trading	1994 – 2001
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Head of Trading Department - Treasury Group	2001 – 2008
Banks and Financial Services	Listed Joint-Stock Company	ANB	Head of Treasury Group	2008 – 2009
Investment	Limited Liability Company	Emaar Investment	Private Business Management	2009 – 2010

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Treasury Group	2010

Name: **Mr. Tarek Al-Shubaily**

Position: Senior Vice President and Head of Human Capital Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Ohio State University, United States of America	Business Administration	Bachelor Degree	1981

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Oil	A Company owned by the Kingdom's Government	ARAMCO	Deputy Head of Finance and Administration	1982 – 1994
Trading	Limited Liability Company	Mada Trading Co. Ltd. - United Kingdom	Special Projects Deputy General Manager	1994 – 1995
Multi-investment	Limited Liability Company	Mawaridh Holding Co.	Assistant Vice Chairman	1996 – 1997
Banks and Financial Services	Listed Joint-Stock Company	SABB	Director General of Human Resources	1997 – 2008
Capital Market	Joint - Stock Company	Capital Market Authority (Tadawul)	Director General of Human Resources	March/September 2009

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Human Capital Group	2010

Name: **Mr. Hamad Al-Ajaji**

Position: Senior Vice President and Head of Private Banking Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
University of Tennessee, Knoxville - USA	Business Administration	Bachelor Degree	1984

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Credit Cards Divisions	1994 – 2002
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Consumer Credit Services	
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Credit Card Products Division	
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Premiere Division	2002 – 2004
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Private Banking Group	2004 – 2011

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Private Banking Group	2012

Name: **Mr. Khalid Al-Othman**

Position: Senior Vice President and Head of Retail Banking Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
London Business School - UK	Business Administration	Master Degree	2012

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Banque Saudi Fransi	Head of Retail Banking in Central Region	2003 - 2006
Banks and Financial Services	Listed Joint-Stock Company	NCB	Head of Retail Banking in Central Region	2006 – 2008
Banks and Financial Services	Listed Joint-Stock Company	Al Bilad Bank	Head of Retail Banking Branches	2008 - 2010
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Retail Banking Branches	2010 – 2011

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Retail Banking Group	2011

Name: **Mr. Abdullah Al-Shmassi**

Position: Senior Vice President and Head of Corporate and Institutional Banking Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University - Kingdom of Saudi Arabia	Petroleum Engineering	Bachelor Degree	1992

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Saudi Hollandi Bank	Team Leader - Corporate Banking	1993 – 2000
Banks and Financial Services	Listed Joint-Stock Company	Gulf International Bank - Branch of KSA	Head of Corporate Banking	2000 – 2001
Banks and Financial Services	Listed Joint-Stock Company	Saudi Investment Bank	Head of Corporate Banking and Financial Institutions Group	2001 – 2011

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Corporate and Institutional Banking Group	2012

Name: **Mr. Ahmed Al Hassan**

Position: Senior Vice President and Chief Operating Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University - Kingdom of Saudi Arabia	Computer Sciences	Bachelor Degree	2002

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Governmental	Governmental Body	SAMA	Systems Analyst	2002- 2005
Governmental	Governmental Body	SADAD	IT Director	2005-2009
Banks and Financial Services	Listed Joint-Stock Company	SABB	Director of Banking Channels Development	2009-2011
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Logistics Transformation Department	Feb 2011-Jun 2011
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of IT Department	Jun 2011-2017

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Chief Operations Officer	2017

Name: **Mr. Shahid Amin**

Position: Senior Vice President and Chief Financial Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
University of West London	Economics	Bachelor Degree	1990
The Association of Chartered Certified Accountants - UK	Accounting	Member FCCA	1997

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Financial Consultations	Shareholding Company	Lauren Consulting Group - London Branch	Senior Consultant	1998 – 2000
Financial Consultations	Private Company	BA Consulting- London Branch	Senior Consultant	2000 -2002
Banks and Financial Services	Shareholding Company	HSBC Group - London Branch, has been authorized to work in the Group's branch in Saudi Arabia	Head of Cost Management and Finance Coordinator	2002 – 2007
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Finance Products Development	2007 - 2010
Banks and Financial Services	Shareholding Company	Al Hilal Bank	Executive Vice President for Finance and Strategic Planning	2010 - 2012

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Chief Financial Officer	2012

Name: **Mr. Khalid O. Al-Mogrin**

Position: Senior Vice President and Head of Legal and Board Secretary

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University, Kingdom of Saudi Arabia	Law	Bachelor Degree	1990
American University, Washington D.C. U.S.A	Law	Master of Law	1998

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Government	Government	Saudi industrial Development Fund, SIDF	Assistant Legal Advisor	1994 - 1995
Energy	Closed Joint-Stock Company	Arab petroleum Investment Corporation	Cases Researcher	1995 - 1999
Energy	Closed Joint-Stock Company	Arab petroleum Investment Corporation	Legal Counsel	1999 - 2001
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Senior Manager	2001 -2002
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Deputy of Legal Department Head	2002 - 2004
Government	Government	Communication and Information Technology Commission	Legal Counsel & Manager of Dispute Resolution	2004 - 2005
Banks and Financial Services	Listed Joint-Stock Company	Bank Albilad	GM of Legal Affairs	2005 - 2010

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Legal and Board Secretary	2010

Name: **Dr. Fahad Al-Elayan**
Position: Senior Vice President and Head of Sharia and Social Responsibility Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Faculty of Sharia- Al Imam University	Education	Bachelor Degree	1990
Applied Linguistics - Al Imam University	Education	Master Degree	1995
Ohio University, United States of America	Education	PhD	2001

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Charity	Charity Foundation	King Abdul Aziz Public Library	Director of the National Cultural Project to boost the book interaction	2003
Education	Governmental Organization	Ministry of Education	Part time consultant	2003-2007
Education	Governmental Organization	Al Imam Mohammed bin Saud Islamic University, Saudi Arabia	Vice Dean of the University Center for Community Service and Continuing Education	2005-2008
Sport and Youth	Governmental Organization	General Sports Authority	Member of the Al Shabab Club's Board of Directors	2005-2014

Current Positions

Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Sharia'h and Social Responsibility Group	2008
Education	Governmental Organization	Al Imam Mohammed Bin Saudi Islamic University	Professor of Curricula and Methods of Language Teaching	2001

Name: **Mr. Ibrahim Al-Hurabi**
Position: Senior Vice President and Head of Internal Audit

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Al Imam Mohammed bin Saud University - Qassim Branch	Sharia	Bachelor Degree	1980
Institute of Public Administration - KSA	Financial Regulatory	High Diploma	1982

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Governmental	Governmental Organization	General Authority for Zakat & Tax	Internal Auditor - Corporate Department	1982-1983
Governmental	Governmental Organization	SAMA	IT Auditor - Internal Audit	1983-1984
Financial Audit	Solidarity Company	Ernst & Young, London, UK (Authorized by SAMA)	IT Auditor	1994-1995
Governmental	Governmental Organization	SAMA	Director of Information Systems Security and Control - Banking Technology	1995-2000
Governmental	Governmental Organization	SAMA	Director of Treasury and Issuance Management	2000-2002
Governmental	Governmental Organization	Communications and Information Technology Commission	Director General of Finance and Administration	2002-2008

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Head of Internal Audit Group	2008

Name: **Mr. Osama Al-Ibrahim**
Position: Senior Vice President and Chief Risk Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Fahd University of Petroleum and Minerals	Industrial Management	Bachelor Degree	1994

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Customer Relations Manager and Head of Customer Relations	1996-2006
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Corporate Banking Division - Central Region	2006-2008
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Corporate Banking Division - KSA	2008-2014

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Chief Risk Officer	2017

Name: **Mrs. Mona Al-Shaghaa**

Position: Head of Compliance Division

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Institute of Public Administration	Banks	Diploma in Banking Operations	1995

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Employee in the Electronic Banking Division - Corporate Sector	1996-1998
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Head of Commitment Department in Corporate Banking, and Product Manager of GTC for Corporate Banking	1998-2000
Finance	A Limited Liability Company	Olayan Financing Company	Senior Officer, Treasury Operations Department	2006-2008
Securities	Governmental Organization	Capital Market Authority	Administrative manager in the General Administration of Internal audit	2008-2012
Securities	Governmental Organization	Capital Market Authority	Advisor in the General Administration of Supervision of Financial Market Institutions	2012-2013

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Compliance Division	2013

Name: **Mr. Hassan Barasheed**

Position: Head of AML Supervisory Division

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
University of Colorado - United States of America	Financial Administration	Bachelor Degree	2005

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Accounting	Professional company	Ernst & Young Accounting Office	Financial Analyst	2005-2007
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Assistant Director in Commitment Group	2007-2009
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Director of Self-supervision Department	2009-2017

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Director of Self-supervision Department	2009
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of AML Supervisory Division	2017

Name: **Mr. Sami Al-Rajhi**
Position: Head of Fawri Banking Services Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Nebras Commercial Secondary Institute, Riyadh, Saudi Arabia	Banking	Commercial Diploma	2002
The Arab Financial Academy for Banking & Financial Sciences - The Hashemite Kingdom of Jordan	Banking	Banking Diploma	2003

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	Operations Management Supervisor	1990-1993
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	transfer center Supervisor	1993-1996
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	transfer centers Supervisor	1996-2006
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	Director of Brokerage Department	2006-2007
Banks and Financial Services	Listed Joint-Stock Company	NCB	Director of Transfer Department	2007
Banks and Financial Services	Listed Joint-Stock Company	Al Bilad Bank	Director General of Injaz Sector	2008-2013

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Fawri Banking Services Group	2013

Name: **Mr. Fahad bin Ibrahim Al Akeel**
Position: Senior Vice President and Chief Strategy Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Toronto Business School	Computer Sciences	Diploma/Bachelor Degree	1997

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Riyadh Bank	Advanced Systems Analyst	1998
Technical	Listed Joint-Stock Company	.Oracle Co	Applications Advisor	2000
Banks and Financial Services	Listed Joint-Stock Company	ANB	Director of Projects Management	2002
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Projects Management & Customer Experience	2007

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Senior Vice President and Chief Strategy Officer	2010

2. Names of Companies in and out of the Kingdom in which members of the Bank Board presently hold or previously held board membership or management positions:

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/unlisted joint-stock/limited liability, etc…	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ unlisted joint-stock/limited liability, etc…
Engr. Tarek bin Othman Al-Kasabi	1. Aseer Trading, Tourism and Industry Company 2. Dallah Health Services Company 3. Ataa Educational Company 4. Serb Real-Estate Investment Company 5. Rozam Investment Company 6. Kingdom University Company (Bahrain Kingdom) 7. RZM Gayrimenkul Anonim Sirketi (Turkey) 8. NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey)	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom	Listed Joint-Stock Listed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock	1. AlJazira Capital	In Kingdom	Closed Joint-Stock
Mr. Khalifa bin Abdul Latif Al-Mulhem	1. Saudi White Cement Company 2. Advanced Petrochemicals Co. 3. Al Ettifaq Steel Industries Co. 4. IGA Company (Jordan) 5. Jazira Support Services Co. 6. Saudi National Shipping Co.	In Kingdom In Kingdom In Kingdom Out of Kingdom In Kingdom In Kingdom	Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Listed Joint-Stock	1. SABB 2. Namaa Chemicals Co. 3. Saudi Cooperative Insurance Co. 4. Riyadh Cement Co.	In Kingdom In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock Closed Stock Closed Stock
Mr. Nabil bin Dawood AlHoshan	1. AlJazira Capital	In Kingdom	Closed Joint-Stock			
Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. Consolidated Brothers for Development Co. 2. Qassim Cement Company 3. AlJazira Takaful 4. Royal and Sun Insurance Company (Egypt)	In Kingdom In Kingdom In Kingdom Out of Kingdom	Closed Joint-Stock Listed Joint-Stock Listed Joint-Stock Listed Joint-Stock			
Mr. Mohammed Bin Abdullah Al Hagbani	1. AlJazira Capital 2. Astra Industrial Group 3. Astra Mining Company 4. Herfi Food Services Co.	In Kingdom In Kingdom In Kingdom In Kingdom	Closed Joint-Stock Listed Joint-Stock Limited Liability Listed Joint-Stock	1. Al Rajhi Bank 2. International Investment House (KWT) 3. Tawunieh 4. National Petrochemical Co.	In Kingdom Out of Kingdom In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock Listed Joint-Stock Listed Joint-Stock
Dr. Saeed bin Saad Almartan	1. Elite Information Technology Company	In Kingdom	Limited Liability	1. NCB 2. Shamil Bank of Bahrain 3. Yemen-Bahrain Al-Shamel Bank (Yemen) 4. Faisal Bank Limited (Pakistan) 5. Faisal Financial Foundation (Switzerland) 6. Solidarity Islamic Takaful Company (Bahrain) 7. Dar Al Mal Al-Islami (Switzerland) 8. Al-Raed Islamic Fund (UK) 9. Al-Sarat Financial and Economic Consulting Center. 10. Adeem financial. 11. Business Solutions 12. Gulf Advisors 13. Qanadeel Al-Tharwah Real Estate Investment Co.	In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Closed Joint-Stock Limited Liability Consulting office Closed Stock Closed Stock Limited Liability Limited Liability Limited Liability
Mr. Abdullah Bin Saleh Al Rasheed	1. Adae Financial and Management Consulting Co. 2. Mahara Human Resources Co.	In Kingdom In Kingdom	Limited Liability Closed Joint-Stock	1. ANB 2. Saudi Traveller Cheques Co. 3. Al- Othaim Commercial Co. 4. Al-Othaim Holding Company 5. Khalid Al Baltan Group, Riyadh	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Limited Liability
Mr. Ibrahim Bin Abdulaziz Al Shaia				1. Safwa Cement Company	In Kingdom	Closed Joint-Stock
Mr. Abdusalam Bin Abdulrahman Al Agil	1. Saudi 21 Century Company. 2. Jarir Commercial Investments Co. 3. Jarir Commercial Development Co. 4. Future Markets Company 5. Advanced Markets Company 6. Riyadh Najd National School. 7. Arabian Imtiaz Company 8. Taiba Khomasia Company 9. Taba Khomasia Company 10. Sorooh Al Marakez Company 11. General Investment Authority 12. Kinan International Real-Estate Development Company 13. Harma National Company 14. Wadi Harma Company 15. Asala Holding Company 16. Al Andalus Real-Estate Co. 17. Arabian Horses For Urban Development Company 18. Arabian Afras Company	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Limited Liability Closed Joint-Stock Closed Joint-Stock Limited Liability Limited Liability Closed Joint-Stock Closed Joint-Stock Charitable Society Limited Liability Limited Liability Limited Liability Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Listed Joint-Stock Limited Liability Limited Liability	1. Jarir Holding Company 2. Malaz Insurance and Re-Insurance Company 3. Herfy Food Services Company	In Kingdom In Kingdom In Kingdom	Closed Joint-Stock Listed Joint-Stock Listed Joint-Stock

3. Composition of the Board of Directors and membership categories:

Executive member/ Non-Executive member / Independent member

Serial No.	Director's name	Membership Category (Executive – Non-Executive – Independent)
1	Eng. Tarek bin Othman Al-Kasabi	Non-Executive
2	Mr. Khalifa bin Abdul Latif Al-Mulhem	Non-Executive
3	Mr. Nabil bin Dawood Al-Hoshan Chief Executive Officer & Managing Director	Executive
4	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Non-Executive
5	Mr. Mohammed Bin Abdullah Al Hagbani	Non-Executive
6	Mr. Abdulsalam Bin Abdulrahman Alagil	Independent
7	Dr. Saeed bin Saad Almartan	Non-Executive
8	Mr. Abdullah Bin Saleh Al Rasheed	Independent
9	Mr. Ibrahim Bin Abdulaziz Al Shaia	Independent

4. Actions taken by the Board to notify its members – particularly non-executives – of shareholders suggestions and comments regarding the company and performance:

During the 54th extra-ordinary general meeting held on 10 April 2017, some shareholders raised questions, inquiries and suggestions to the chairman and members of the Board regarding the bank's performance and results achieved for the fiscal year 2016. Clarifications and answers were made to all the questions and suggestions raised regarding the bank's performance and its present and future plans.

5. Brief description of the responsibilities and functions of Board committees such as Audit, and Nomination and Remuneration Committees. Details of committee names, chairmen and members, number and dates of meetings and member attendance for each meeting are also listed:

1) Board Executive Committee

The Executive Committee of the Bank AlJazira consists of members chosen by the Board of Directors and chaired by the chairman of Board of Directors at this session of the Board. The Board of Directors determines the authorities and powers of this Committee. It is the responsibility of the Executive Committee, in accordance with the delegated powers, to monitor the implementation of the strategy and policies set by the Board of Directors, Risk management and control of the Bank's performance, recommend the balance sheet and action plan submitted for the fiscal year, and ensure proper implementation of the policies of the Board of Directors, in addition to monitoring the efficiency of internal control standards and policies implementation.

The Executive Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabi Awal 1437 H (03 January 2016). The Committee held ten meetings during 2017 (nine meetings in 2016), attended by members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 10 (Ten) meetings									
			1st. meeting 16/1 2017	2nd. meeting 22/2 2017	3rd. meeting 22/3 2017	4th. meeting 10/4 2017	5th, meeting 14/5 2017	6th. meeting 4/6 2017	7th. meeting 13/9 2017	8th. meeting 25/10 2017	9th. meeting 22/11 2017	10th. meeting 20/12 2017
1	Eng. Tarek bin Othman Al-Kasabi	Chairman of Executive Committee	√	√	√	√	√	√	√	√	√	√
2	Mr. Khalifa bin Abdul Latif Al-Mulhem	Member	X	√	√	√	√	√	√	√	√	X
3	Mr. Nabil bin Dawood Al-Hoshan	Member	√	√	√	√	√	√	√	√	√	√
4	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member	√	√	√	√	√	√	√	√	√	√
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member	√	√	√	√	√	√	√	√	√	√

2) Audit Committee:

This committee plays a key role in helping the Board of Directors to meet its supervisory duties in respect of the integrity of the bank's financial statements and the independency and qualifications of auditors, effectiveness of disclosure controls and procedures, effectiveness of internal audit and the external auditors, adequacy of the Bank's internal accounting systems and financial controls, bank's commitment to the ethical policies and regulatory and supervisory requirements in addition to management of risks and compliance and control activities in the bank.

The Committee reviews on quarterly basis the financial statements and assists the Board of Directors in carrying out the evaluation and annual review to ensure the effectiveness of internal controls, identify potential risks and develop strategic plans to mitigate them.

The results of the annual audit of the effectiveness of the internal control procedures of the Bank have reflected good and acceptable levels of controls. In this regard, BAJ adopts all policies and procedures required by the various statutory bodies and best of international practices.

The Audit Committee consists of the chairman to be chosen from among the non-executive members of the Board of Directors and two independent members at least from outside the Bank. The meetings of Audit Committee are attended by the Chief Internal Audit and the Chief Financial Officer on a regular basis. The meetings are also attended by the CEO and senior executives as required.

The Audit Committee was re-formed for this term at the Board of Directors Meeting No. 196 held on 23 Rabia Awal 1437H (03 Jan 2016). The Committee held six meetings during 2017 (4 meetings in 2016), attended by the Chairman and Members, as shown below table:

	Name	Functional Duties	No. of meetings: 6 (Six) meetings					
			1st. meeting 11/1/2017	2nd. meeting 8/4/2017	3rd. meeting 13/4/2017	4th. meeting 20/7/2017	5th. meeting 19/10/2017	6th. meeting 29/10/2017
1	Mr. Mohammed Bin Abdullah Al Haqbani	Chairman of Audit Committee	√	√	√	√	√	√
2	Mr. Fawaz Mohammed Al Fawaz	Member of Audit Committee	√	√	√	√	√	√
3	Mr. Taha Bin Mohammed Azhari	Member of Audit Committee	√	√	√	X	√	X

3) Remuneration & Compensation Committee (REMCO)

Following the issuance of BAJ's Governance policy, work started to form this committee as a subcommittee reporting to the Board of Directors. Annex (G) of BAJ Governance Policy specified the basis of committee's structure, its powers and responsibilities as well as anything that relates to its work, as per the requirements of the Corporate Governance Rules issued by CMA.

The functions and responsibilities of this committee focus on recommending nominations to the Board of Directors as per the approved policies and standards, performing annual review on the skills required, and reviewing the Board of Directors' structure and recommending those changes that can be carried out. The Committee is also responsible for ensuring the independence of independent members and non-existence of any conflict of interests if any director of the Board is also a member in any other company board of directors, ensuring recommended appointment is commensurate with the proper skills and required qualifications, development and review of remuneration of directors and senior executives.

The 42nd Extraordinary General Meeting ratified, in its meeting held on 10 Rabi II, 1429H corresponding to 16 April 2008, the rules for selection of the Remuneration and Nomination Committee members and the committee duties in accordance with article No. 15 issued by CMA and as per the Board of Directors' recommendation.

The Nomination and Remuneration Committee was re-formed for the current term at the Board's Meeting No. 196 held on 23 Rabie I, 1437H (corresponding to January 03, 2016). The Committee held two meetings during 2017 (2 meetings during 2016), attended by the Chairman and Members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 2 (Two) meetings	
			2nd.meeting (25/10/2017)	1st. meeting (22/2/2017)
1	Mr. Khalifa bin Abdul Latif Al-Mulhem	Chairman of the Nomination and Remuneration Committee	√	√
2	Mr. Abdulsalam Bin Abdulrahman Alagil	Member of the Nomination and Remuneration Committee	√	√
3	Mr. Abdullah Bin Saleh Al Rasheed	Member of the Nomination and Remuneration Committee	√	√

4) Risk Management Committee

This committee assists the Board of Directors in fulfilling the responsibilities of overseeing the risks in the Bank's businesses and controls. Its duties and responsibilities are focused in the supervision and control. It reviews the ability of the Bank to manage and undertake risks based on appropriate analysis and formulation of appropriate risk management policies. It also approves the credit rating system in the bank and risk policies for assets and liabilities management as developed by the Assets and Liabilities Committee. The committee measures the exposures to financial risks and other significant exposures and the steps taken by management to monitor, control and report cases of risks, including, but not limited to, review of credits, market, liquidity, reputational, operational, fraud and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions or commercial restrictions. The committee reviews the scope of the risk management and the targeted activities related to the activities of the Bank's risk management.

The Risk Management Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabie I, 1437 H (corresponding to January 03, 2016). The Committee held 4 meetings during 2017 (4 meetings in 2016), attended by the chairman and members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 4 (Four) meetings			
			1st. meeting 21/2/2017	2nd. Meeting 24/5/2017	3rd. meeting 27/9/2017	4th. Meeting 13/12/2017
1	Dr. Saeed bin Saad Almartan	Chairman of the Risk Management Committee	√	√	√	√
2	Mr. Abdullah Bin Saleh Al Rasheed	Member of the Risk Management Committee	√	√	√	√
2	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Risk Management Committee	√	√	√	√

5) Committee of the 'Khair AlJazira le Ahl AlJazira' program

This committee plays an important role in assisting the Board of Directors in the fulfillment of its social responsibilities related to the 'Khair AlJazira le Ahl AlJazira' program. It is responsible for the formulation of policies and procedures related to the activities and social responsibility programs, adoption of the annual budget for 'Khair AlJazira le Ahl AlJazira' program, approval of the annual plan for the program, creating solutions for the obstacles that might hinder the social responsibility programs and reviewing the objectives of the program through highlighting the bank's role in the community service. It also contributes and participates actively in many social responsibility programs in the Kingdom, builds cooperation and communication between the bank and the authorities related to those programs and the establishment of specific partnerships with associations and charities in the kingdom which contribute to highlight the role of the private sector in enhancing the process of social responsibility. The Committee also strives to create an appropriate environment to help the youth and rehabilitate them for the market, and it provides distinctive programs for rehabilitating disabled people. The Committee of the 'Khair AlJazira le Ahl AlJazira' program reports annually to the Board of Directors about the activities and programs of 'Khair AlJazira le Ahl AlJazira' program.

The Committee of the 'Khair AlJazira le Ahl AlJazira' program for the current term was re-formed at the Board of Directors' meeting (196) held on 23 Rabi I, 1437 H (corresponding to 03 January 2016). The Committee held two meetings during 2017 (3 meetings in 2016), as below:

	Name	Functional Duties	No. of meetings: 2 (Two) meetings	
			2nd. meeting (7/6/2017)	1st. meeting (8/1/2017)
1	Mr. Khaled bin Omar Al-Baltan	Chairman of the 'Khair AlJazira le Ahl AlJazira' program Committee	√	√
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member of the 'Khair AlJazira le Ahl AlJazira' program Committee	√	√
3	Mr. Abdul Aziz bin Ibrahim Al-Hadlaq	Member of the 'Khair AlJazira le Ahl AlJazira' program Committee	√	√

6) Details of the dates of shareholders general meetings held during the fiscal year 2017 and names of board directors who attended these meetings:

S	Name	Attendance record		
		1st.meeting(10/4/2017)	2nd.meeting (.../.../....)	3rd.meeting (.../.../....)
1	Member (1): Eng. Tarek bin Othman Al-Kasabi	√		
2	Member (2): Mr. Khalifa bin Abdul Latif Al-Mulhem	√		
3	Member (3): Mr. Nabil bin Dawood Al-Hoshan	√		
4	Member (4): Eng. Abdul Majeed bin Ibrahim Al-Sultan	√		
5	Member (5): Mr. Mohammed Bin Abdullah Al Hagbani	√		
6	Member (6): Dr. Saeed bin Saad Almartan	√		
7	Member (7): Mr. Abdulsalam Bin Abdulrahman Alagil	√		
8	Member (8): Mr. Abdullah Bin Saleh Al Rasheed	√		
9	Member (9): Mr. Ibrahim Bin Abdulaziz Al Shaia	√		

7. Description of any interest, held by persons (except the Directors of the Board and senior executives and their relatives) in the voting shares who advised the company of such rights under Article 45 of the Listing Rules, and any change in such rights in the fiscal year 2017:

Description of any interest, held by persons (except the Directors of the Board and senior executives and their relatives) in the voting shares who advised the company of such rights under Article 45 of the Listing Rules, and any change in such rights in the fiscal year 2017

S	Name of Interested Person	No. of shares at the beginning of the year	No. of shares at the end of the year	Net change	Change %
1	National Bank of Pakistan	23,333,333	30,333,332	6.999.999	30%
2	Sheikh Saleh Abdullah Mohammed Kamel	20,000,000	26,000,000	6.000.000	30%

* The 54th Extra-Ordinary meeting (Second Meeting) held on 13 Rajab 1438H (10 April 2017) approved the increase of the Bank's capital from SAR 4 billion to SAR 5.2 billion which translates into an increase of the number of the bank's shares from 400 million shares to 520 million shares, by issue of 3 bonus shares for each 10 shares held to the shareholders registered in the bank's registers with the Securities Depository Company as at the end of trading on the above-mentioned General meeting day.

8) Description of any interest, securities and subscription rights held by the members of the board and senior executives and their relatives in the shares or debt instruments of the bank or any of its subsidiaries, and any change in such interest or rights in the last fiscal year:

S	Name of interested person	Beginning of the year 2017		End of the year 2017		Net change	% Change
		No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Eng. Tarek bin Othman Al-Kasabi	13,574		15,913		2,339	17.23%
2	Mr. Khalifa bin Abdul Latif Al-Mulhem	2,670.668		2,707,468		36,800	1.38%
3	Mr. Nabil bin Dawood Al- Hoshan	2,666		3,465		799	30%
4	• Eng. Abdul Majeed bin Ibrahim Al-Sultan • Consolidated Brothers Company for Development	1,333 26,375,754		1,732 34,288,480		399 7,912,726	30% 30%
5	Mr. Mohammed Bin Abdullah Al Hagbani	1,000		1,300		300	30%
6	Dr. Saeed bin Saad Almartan	2,000		2,600		600	30%
7	Mr. Abdulsalam Bin Abdulrahman Alagil	1,000		1,300		300	30%
8	Mr. Abdullah Bin Saleh Al Rasheed	1,000		1,300		300	30%
9	GOSI, represented by Mr. Ibrahim Bin Abdulaziz Al Shaia	19,915,671		25,890,372		5,974,701	30%

* The 54th Extra-Ordinary meeting (Second Meeting) held on 13 Rajab 1438H (10 April 2017) approved the increase of the Bank's capital from SAR 4 billion to SAR 5.2 billion which translates into an increase of the number of the bank's shares from 400 million shares to 520 million shares, by issue of 3 bonus shares for each 10 shares held to the shareholders registered in the bank's registers with the Securities Depository Company as at the end of trading on the above-mentioned General meeting day.

9) Number and dates of Board meetings held in the last fiscal year, and attendance record detailing names of attending directors:

Director's name	No. of meetings: 5 (Five) meetings				
	1st. meeting 16/01/2017	2nd. meeting 10/04/2017	3rd. meeting 04/06/2017	4th. meeting 13/09/2017	5th. meeting 20/12/2017
Eng. Tarek bin Othman Al-Kasabi	√	√	√	√	√
Mr. Khalifa bin Abdul Latif Al-Mulhem	X	√	√	√	X
Mr. Nabil bin Dawood Al-Hoshan Chief Executive Officer & Managing Director	√	√	√	√	√
Eng. Abdul Majeed bin Ibrahim Al-Sultan	√	√	√	√	√
Dr. Saeed bin Saad Almartan	√	√	√	√	√
Mr. Abdulsalam Bin Abdulrahman Alagil	√	√	√	√	√
Mr. Mohammed Bin Abdullah Al Hagbani	√	√	√	√	√
Mr. Abdullah Bin Saleh Al Rasheed	√	√	√	√	√
Mr. Ibrahim Bin Abdulaziz Al Shaia	√	√	√	√	√

10) Number, dates and reasons of Company's submissions to share registry:

No of Company's submissions to share registry	Submission date	ompa
(1)	29/12/2016	Requirements for preparation of financial statements for the 4th quarter 2016
(2)	08/01/2017	Requirements for capital increase through rights issue
(3)	30/03/2017	Requirements for preparation of financial statements for the 1st quarter 2017
(4)	10/04/2017	Requirements of dividends distribution for 2016
(5)	29/06/2017	Requirements for preparation of financial statements for the 2nd quarter 2017
(6)	08/10/2017	Requirements for capital increase through rights issue
(7)	15/10/2017	Requirements for capital increase through rights issue
(8)	23/11/2017	Requirements for capital increase through rights issue
(9)	28/11/2017	Requirements for capital increase through rights issue
(10)	17/12/2017	Requirements for capital increase through rights issue
(11)	21/12/2017	Updating of pledged share records
(12)	31/12/2017	Requirements for preparation of financial statements for the 4th quarter 2017

11) Details of any arrangements or agreement under which any director of the board or senior executive of the bank has waived any remuneration or right:

The Bank is not aware of any arrangements or agreements for the waiver by any of the directors of the board or senior executives of any of their rights to any remuneration.

12) Details Of Any Arrangements Or Agreement Under Which Any Shareholder Of The Bank Has Waived Any Right To Dividends:

The Bank is not aware of any arrangements or agreements for the waiver by any of the bank shareholders of any of their rights to any dividends.

Payment of allowances and remuneration to Board members and senior executives:

The Bank shall pay to directors the expenses and remuneration for attending the meetings of the Board of Directors. Total expenses and remunerations paid to Board members and five senior executives, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in 2017 were as follows:

Details of remuneration and allowances paid to directors of the board and 5 executives including the CEO and CFO

Description	Executive Members of the Board	Non-Executive Members of the Board	Independent Members of the Board	Payments to five Senior Executives, including CEO & CFO
Salaries and compensations	-	-	-	14,197
Allowances	500	2,610	1,522	1,252
Periodic and annual bonuses	-	-	-	13,631
Incentive plans	-	-	-	-
Any compensation or benefits payable on a monthly or annual basis	-	-	-	1,510
Total	**500**	**2,610**	**1,522**	**30,590**

COMPENSATION POLICY

The remuneration of the Chairman and members of the Board of Directors shall be fixed at a minimum of SAR 360,000 and a maximum of SAR 500,000 per Director per annum, INCLUSIVE OF a per meeting stipend of SAR 5,000 for each director attending each meeting, but not inclusive of travel and accommodation expenses, provided that the total remuneration so paid to all directors combined shall not exceed 5% of the annual net profits, all of which are subject to proper disclosure, as per SAMA regulations conveyed via their Memorandum 371000078099 of 13/07/1437H, corresponding to April 20, 2016G, and further confirmed by SAMA follow up memorandum 381000063670, of 14/06/1438H, corresponding to 13/03/2017G, which clearly states that the SAR 500,000 cap is absolute and all-inclusive of the SAR 5,000 per director per meeting stipend, with exception for members of the Audit Committee.

Means used by the Board to assess its performance, the performance of its committees and members

1. Introduction

Part of every Director's responsibilities is to participate in an annual evaluation of the Board on which he serves, as decreed by SAMA in 2014G, and further enshrined by the CMA in 2017. This annual assessment is a valuable opportunity for Directors to take an honest, open look at their own performance and compare that with the opinions and outlook of their colleagues who share their responsibilities.

Accordingly, Bank AlJazira Corporate Governance (CG) framework, which was prepared by PWC Consulting and approved by the Board of Directors during their meeting number 187, held on July 08, 2014, specified a framework and path forwards for the ways and means by which this is accomplished.

However, not all annual assessments are conducted in the same manner and follow the same format.

There are 2 types of Board Assessments at Bank AlJazira, following the recommendations of the industry standards in this respect.

- Type "A" – The Annual Self-Assessment:- Where the Board looks at itself and evaluates its own performance over the past year, and in-house specialists at the Bank tabulate findings, analysis and suggest recommendations.
- Type "B" – The "Once per Term" Independent 3rd Party assessment: - Where an outside consultant or specialized independent party performs the assessment, and tabulates findings, analysis and issues recommendations.

2. Details

At the start of the term of the last Board of Directors (2013 – 2015), the Board of Directors Institute (BDI) of the GCC was commissioned to conduct the "B" type assessment for the outgoing BAJ Board of Directors. It was named The BDI Board Effectiveness Initiative (BEI).

The BDI BEI method centered around using a two-step approach:

- A standardized, online self-assessment survey filled by board members, followed by;
- A deep-dive, one-on-one interview with board members and senior managers of the bank.

A final report was issued at the beginning of 2014 summarizing the findings and recommendations of this review which outlined major areas of strength and areas for improvement.

This same methodology and protocol was closely followed used for the 1st of the Type "A" self-assessments conducted by the new BAJ Board of Directors in 2017, after their initial 1 year tenure.

The exercise was highly successful, and yielded meaningful results.

INTERNAL AUDIT GROUP

The Bank's Internal Audit Group performs internal independent audit and control review function for the Bank, covering all businesses, functions, and geographies. The group uses standardized audit methodologies to execute a rigorous assessment of risks and control environments.

The Chief Audit Executive manages the group and the Audit Committee has an oversight responsibility for ensuring that the group's objectives are achieved. Internal Audit pursues a risk based approach in the planning and execution of audit evaluation engagements. The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the Bank's controls, governance, risk management process, structure of internal control system, and the quality of performance in carrying out assigned responsibilities.

Internal Audit provides an independent and objective evaluation assurance of risk and control activity for senior management and furnishes them with recommendation and information concerning activities reviewed.

The Group maintains a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity.

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES

Being a financial institution, the Bank attached high importance to the internal control environment. At the Bank, effective internal control procedures are in place across the organization and their effectiveness is continuously monitored and tested by the control functions in the Bank and additionally tested by the independent external auditors and regulatory inspection team.

The results of the annual audit of the effectiveness of the internal control procedures of the Bank have reflected good and acceptable levels of controls

RETAIL BANKING GROUP

The Retail Banking Group continues to redefine banking services and reinforces BAJ position within the Saudi banking market by offering innovative products and smart banking solutions with a nationwide distribution network of 79 branches, 19 Ladies' units, 630 ATMs and 8,633 Point of Sale devices. Our products and services are designed to meet the end-to-end needs of all customers from account opening to time deposits, debit and credit cards to personal finance in addition to a wide range of mortgage finance products. Furthermore, our Electronic Banking services are among the best in the Saudi Market including AlJazira Online, AlJazira SMART and AlJazira Phone.

Overall, the Group's liabilities book has increased by 26% in 2017 to reach SAR 35,540 million from SAR 28,109 million in Dec 2016. The Lending portfolio has closed at SAR 19,811 million in 2017.

Despite the slowdown in the Real Estate finance market, the Bank's real estate finance portfolio grew by 7.3% in 2017, with an estimated market share of 7% by year end.

As part of 2020 National Transformation Program, BAJ has introduced several financing products in connection to Real Estate Development Fund such as Subsidized funding that provides monthly subsidies to applicable candidates. Down payment guaranteed product on the other hand, offers a discounted down payment percentage from 10% to 15% of the property value.

The bank is fully focused on maintaining it's Real Estate financing leadership position in the market by launching new solutions in 2018 starting with Ijara-Mawsufa-fi-al-Dhimmah (Forward Ijara) product, that enables the customer to receive financing against off-plan property purchase based on agreed upon terms.

PRIVATE BANKING GROUP

The Private Banking Group takes pride in serving the high net worth individuals segment by providing a comprehensive array of private Sharia- compliant banking services and products. The group devotes all its experience and capabilities to achieve the financial goals and objectives of its customers in a professional and timely manner.

- Private Banking Group of BAJ managed to achieve record growth rates which exceeded the 2017 planned targets. Customer deposits as an example reached SAR 10,222 Million as of the end of 2017
- The Group cooperates closely with AlJazira Capital to provide advisory services and investment opportunities for HNW individuals. This continuous cooperation has led to a significant increase in the size of our customer investment portfolios, where the total value of the Group's customer portfolios grew to SAR 6,129 Million as of the end of 2017.

- The Group meets the credit needs of its customers through its credit unit with an objective to meet the credit requirements of all its customers in a way that meets their finance needs and purpose of investments. Total credit facilities portfolio amounted to SAR 751 Million as of the end of 2017.
- The Group won for the third time "Best Private Bank Saudi Arabia 2017" award by Global Banking and Finance Review, which is one of the most popular media publications focusing on the global banking and financial sectors, which serves as a testament of the bank's leading role in the Private Banking sector in the Kingdom.
- The Group serves its customers through 4 centers located in Riyadh, Jeddah, Al-Khobar and Makkah. These centers offer all services and banking transactions needed by HNW individuals through highly qualified Saudi cadres.

BANKING SERVICES GROUP - FAWRI

In 2017, Fawri recorded further growth and profits with a substantial increase in customer base by acquiring a new market share. The growth of customers and partners base enabled Fawri to cover all parts of the world with its products.

In the same context, work is continuing to enforce the instructions and regulations governing the provision of Fawri products. In its endeavors to deliver higher service quality standards and safeguard both customers' and bank's interests, Fawri continued to pursue overall development in terms of system development, remittance centers expansion, correspondent relations and professional development of its staff in line with the regulatory guidelines, thereby recreating money transfer services to be more efficient and a reliable experience.

Keeping up pace with the Global technologies and requirements, Fawri has successfully launched DIRECT remittance services to Philippines, Pakistan, Egypt, Nepal, Sri Lanka, Yemen, India and Indonesia and is still focused on expanding its relations with correspondent banks by entering into agreements based on SAMA regulations and Bank Al Jazira policies. The strength of Fawri services was enhanced by its partnership with top global foreign remittance and technology companies.

Contributing to achieve one of our strategic objectives, Fawri is constantly expanding its reach by penetrating closer to its customers taking the tally to 50 remittance centers as of end of 2017 across all of the Kingdom's regions.

In 2018, Fawri will continue to achieve its objectives by acquiring and retaining more customers in addition to development of BAJ revenue pool by introducing new product lines, development of e-channels, new correspondent partners and innovative marketing initiatives, thereby exceeding customer expectations and BAJ aspirations.

CORPORATE & INSTITUTIONAL BANKING (CIBG)

The strategy of the Bank's Corporate and Institutional Banking Group (CIBG) focused on expanding and diversifying customer base by reducing focus on large corporations in the loan portfolio while increasing focus on the medium size enterprises segment and on attracting government or quasi-government bodies and financial institutions. The bank endeavors also to increase the number and quality of products used per customer seeking to increase revenues and diversify customer's base while maintaining the good quality of our loan portfolio in consideration of the stressed liquidity in the Saudi market.

Considering this policy, the finance portfolio was reduced by 14% to 19.2 SAR Billion and registered a total operating income of SAR 560 Million for the year 2017.

Fee income from banking activities grew by 12% to SAR 162.3 million against SAR 145 Million last year. CIBG, which offers a wide range of Sharia-compliant Islamic banking solutions to corporate entities, will continue to expand and innovate in the years to come. CIBG's activities are concentrated in Riyadh, Jeddah and Dammam, with the required expertise and resources deployed in each of the three regional offices to handle the banking needs of the customers in each region.

COMMERCIAL BANKING SERVICES (CBS)

Commercial Banking Services (CBS) was established in 2012 to provide a wide range of commercial banking services and products to small and medium enterprises in the Kingdom. CBS achieved major progress through the establishment of regional offices that tie-up all commercial banking clients around the Kingdom via its various channels. CBS has also focused on increasing its customer base, benefiting from credit demand, increased lending volume, and growing and diversify the finance portfolio. This trend reflects the main goals of BAJ for participation in the achievement of the Kingdom's Vision 2030 as well as the bank's endeavors to increase the contribution of small and medium enterprises sector in the Kingdom's GDP from 20% to 35%.

The bank's partnership with the Saudi Industrial Development Fund in the establishment of Kafalah Scheme for SME finance was the major factor for the achievement of many successes and contribution to the enhancement of the national economy. The establishment of the General Authority for Small and Medium Enterprises in 2016 will increase the positive opportunities for market prosperity as in the Kingdom's Vision 2030.

Going forward, CBS will continue to provide enhanced services to play a pivotal role in delivering Sharia compliant offerings and providing services that meet customer requirements.

GLOBAL TRANSACTION SERVICES (GTS)

Global Transaction Services (GTS) stands as the leading business in providing banking solutions, liquidity services, and commercial and investment transactions to the customers of commercial and financial institutions in all parts of the Kingdom of Saudi Arabia. The business established itself as an effective and reliable partner to many global companies in the Kingdom including small and medium enterprises, government institutions (Public Sector), and Financial institutions.

GTS also endeavors to provide local and global trading services at higher levels and in short time in addition to multi-currency accounts and integrated facilities accounts which combine payment capacity and collection, thereby enabling our customers to improve the use of financial resources and improve specialized efficiency in this field as management solutions are considered for their capacity to provide payment services in local and global currencies in addition to check payment and collection services.

Our various online corporate banking service channels, such as "Jazira Online Trade" (for trading services) and "Jazira Online Corporates" provide support to all products offered by GTS as well as to commercial finance services such as enabling the full sight of account information, and the establishment of local or foreign payments services within a secure environment around the clock; these features are in addition to salary management service offered under the name of "Rawatibukum" which simplifies the administrative procedures relating to payment of the salaries of companies' employees. This service is provided with high level of IT security and protection enabling the management of salary information easily and up to the satisfaction of customers. The growth strategy of Global Transaction Services operates in line with the general guidelines, which call for change in terms of electronic transactions and introduction of updated systems in the various commercial sectors in the Kingdom of Saudi Arabia.

SPECIALIZED FINANCE (SFD)

The Specialized Finance Division provides innovative, customized, structured financial solutions to large corporate customers. Specialized Finance Division consists of 3 main units namely Project and Structured Finance, Syndication, and Agency. This defined objectives operational mode contributed to the enhancement of the Bank's capabilities through the whole specialized finance processes.

SFD continues to play its active role in the project and syndication finance arena with other leading banks to ensure constructive participation in major mega-deals.

SFD has distinctively positioned itself among the Islamic Banks roles for the diversification of Sharia'ah compliant finance products.

FINANCIAL INSTITUTIONS UNIT (FIU)

Financial Institutions Unit (FIU) continues to build a strong network of excellent banking correspondent relationships around the world by enhancing the capabilities of BAJ for meeting customer requirements and facilitating the finance of money remittances and the commercial transactions of customers. Financial Institutions Unit maintain strong relationships with banks, financial institutions, government and quasi-government bodies, investment and brokerage companies, insurance companies and export credits security companies. The unit specializes in the management of international and regional trade, cash management business needs, along with an intensive insight into the dynamic variables of our Correspondents' home countries.

PUBLIC SECTOR UNIT (PSU)

Public Sector is a business unit within Corporate & Institutional Banking Group that actively manages Government and quasi-government entities in the public sector. Our portfolio consists of various sectors such as the industrial, Petrochemical, Shipping, transportation and Telecommunications. The complex nature and quality of the services required by Public Sector clients, the Unit employs a dedicated and well-established specialists team to serve the needs of public sector customers. The services provided by the team cover finance solutions, property finance, banking investment services, project finance, cash management solutions and electronic banking services. The unit provides to the Bank's Public Sector customers international trade finance services, products relating to capital and debt finance, treasury products and global banking services.

MICRO, SMALL AND MEDIUM SIZED ENTERPRISES (MSMES)

- **Currently approved definition of MSMEs**

  MSMEs customers have been categorized in line with the regulatory guidance and internal policy of the Bank, which has been segmented with the following measurement and approval of credit and the associated credit risk policy subsequent with New SAMA definition of SME.

Entity Type	Annual Revenues (Sales)SR MM	Number of Employees (Full Time)*
Micro Small	0 to 3	01 to 05
Small	3 to 40	06 to 49
Medium	40 to 200	50 to 249
Large	Greater than the above criteria	

*Bank AlJazira considers Annual revenue as the main criteria, however, if this criteria is not available, then the number of full time employees becomes the main criteria for segmenting MSME clients.

- **Initiatives for MSMEs taken by the Bank**
  - BAJ has established 3 dedicated Units for SME located in 3 Regions (i.e. Central, Eastern & Western)
  - Established Kafalah Team to cater the needs of Micro Small Entities clients.
  - Established a new Risk Acceptance Criteria / Customer Selection Criteria for SME including a scoring mechanism for a fast track approval.
  - Established a dedicated Segmentation & Quality team to look for a high service quality for SME clients.
  - Established a dedicated Call Centre (SME Phone Banking) to serve SME existing and new prospect clients. Toll free number "800 244 9090"
  - Develop a dedicated training programs for RM focusing on relationship, credit & risk management.
  - SME is also on the final stage of concluding Credit Card for SME customers.
  - Participates in the recently BIBAN events which was partly sponsored by BAJ (Golden sponsor) and organized by SMEA.
  - Participates as a guest in the launching of the DULANI business center initiatives by Saudi Social Development Bank (SSDB).
  - Sponsored and participates in Arab Urban Development Institute (AUDI) to promote MSME in Jordan during 2017.
  - Attended a meeting with the CEO of Arab Trade Financing Program – ATFP in Abu Dhabi, UAE to activate an agreement between the program and BAJ to finance Saudi exporter clients.

- **MSMEs unit and staff in the unit**

  MSMEs has been organized in Corporate & Institutional Banking Group (CIBG) form, with sales turnover lesser than SR 200MM under the supervision of Commercial Banking Services (CBS) and Risk. Currently, CBS has more than 59 dedicated staff serving SME clients headed by CBS Group Head, 3 Regional Heads. In addition to SME services, Kafalah Unit has been established to serve Micro Small Entities under the supervision of CBS.

Number of training and workshop for staff and customers :

Number of training for Staff	20
Number of training for Customer	0

Loans, Commitments and Contingencies granted to micro, small and medium enterprises:

SAR'000

2017	Micro	Small	Medium	Total
Loans to MSMEs on BS	85,108	495,062	845,692	1,425,862
Loans to MSMEs off BS	31,969	159,058	468,856	659,883
On BS MSMEs Loans as a % on Total BS Loans	0.2%	1.2%	2.1%	3.6%
Off BS MSMEs Loans as a % on Total BS Loans	0.1%	0.4%	1.2%	1.7%
Number of Loans on and Off	236	427	297	960
Number of Customers for Loans	239	437	306	982
Number of Loans guaranteed by Kafalah program (on & Off)	48	86	6	140
Amount of Loans guaranteed by Kafalah program (on & Off)	50,508	80,665	6,724	137,897

2016	Micro	Small	Medium	Total
Loans to MSMEs on BS	306,616	790,286	636,677	1,733,579
Loans to MSMEs off BS	15,827	175,711	459,650	651,188
On BS MSMEs Loans as a % on Total BS Loans	0.8%	2.0%	1.6%	4.4%
Off BS MSMEs Loans as a % on Total BS Loans	0.0%	0.4%	1.2%	1.6%
Number of Loans on and Off	187	483	275	945
Number of Customers for Loans	193	1,607	362	2,162
Number of Loans guaranteed by Kafalah program (on & Off)	104	178	2	284
Amount of Loans guaranteed by Kafalah program (on & Off)	46,735	94,030	1,176	141,941

TREASURY GROUP

Treasury continues its success in achieving strong financial results, although, domestic and global economic environment were not favorable due to various factors, including but not limited to, low oil prices and liquidity shortage. Treasury has successfully managed the Bank's liquidity profile and profit rate risk.

Focus on customer business remained strong as continued offering Shari'ah compliant solutions to our corporate and private banking customers for their exposure management. This has resulted in growth in foreign exchange and derivatives revenues. To this end, treasury and FAWRI division collaborated efforts, which resulted in a 25% increase in FX income and increased remittance market share.

Treasury increased its investment portfolio from SAR 16.1 billion to SAR 20.2 billion by 25% by investing in high quality assets which also enhance our investment book liquidity.

Treasury has successfully implemented Front Arena/Ambit Focus, fully integrated end to end processing system. This has increased Treasury capability to offer more derivatives & structured products to BAJ customers for their exposure management. The new system has also enhanced risk management process and support the implementation of Basel III applicable regulations.

HUMAN CAPITAL GROUP (HCG)

Following through from the goals and progress achieved in 2016, the HCG continued its vital strategic role in 2017 as a full practical, consultative, advisory and administrative partner to all business functions, while complying with all relevant regulatory guidelines and mandates, with continued focus on recruitment, development, systems application enhancements, leading to a mix of long term top talent retention and a noticeably improved performance excellence curve for all bank staff.

As before, the HCG continues to address the entire range of generalized and specialized HC roles and exercises line control oversight over all HC and staff issues and practices, including line HC management awareness and capability elevation, aimed at supporting and achieving the Bank's corporate goals and business targets to sustain continued growth and increased shareholder value, while enhancing BAJ reputation, as a workplace of choice.

In 2017, the HCG continued to partner with all business groups to increase proficiency and effectiveness of all available manpower resources by focusing on the Human Capital Relationship Management role in conveying all strategic and critically important business line staff initiatives and programs to all business areas. This was spearheaded by the completion and launch of the Apple® IoS and Android® Apps for the "E-learning platform" for staff training and continuing education, designed to establish and enforce a cohesive and uniform learning culture for all Bank personnel, and to advance the administrative capabilities of managers by utilizing the latest technologies, through continual system upgrades of all staff facilities and protocols on the HRMS system and pages on the bank's general "Tawasul" portal.

Additionally, the HCG assured the highest possible HC practices audit ratings by maintaining its "Zero Findings" record in all financial and regulatory compliance audits and through the continual development and update of policy and practices enhancements and governance initiatives, especially and noticeably in the new HCG Policy Manual in general and the annually updated Master Compensation and Benefits Policy development and continuing top level of regulatory compliance.

As was the case in 2016, Saudi recruitment and training for the new "Fawri" remittance centers took a leading role in 2017, through the recruitment of over 100 fresh Saudi talents for that rapidly expanding business line, as well as continuing to be great talent attractor in general, in keeping with the bank's continued commitment towards numerous new job and internship training opportunities for high school and trade school diploma holders, undergrads & post graduate candidates.

The Bank has accordingly maintained its high success rate of effective Saudization of more than 92%. Furthermore, 2017, also reflected an optimum current bank needs and market demand training activity totals with more than 350 annual training events taking place, in addition to the administration of Bank and System wide required regulatory Compliance, Security and Anti Money Laundering and other compliance requirement refreshers for the entire bank population.

As a cumulative result, impressive significant improvement across all categories and overall ratings serve to even further consolidate the strong strategic partnership ties between the HCG and all other BAJ banking units, and establishing one of the most dynamic, attractive and satisfying yet challenging banking work environment.

ENTERPRISE RISK MANAGEMENT GROUP (ERMG)

During the year 2017 Bank AlJazira continued its drive to focus on strengthening the Risk Management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management remained committed to ensure that the bank adopts best in class risk management practices and has the necessary infrastructure, in terms of people, processes and systems so that the practices adopted become embedded in the cultural fabric of the bank.

With the vision and tone set by the bank's top management, the priority has been to strengthen the Enterprise Risk Management function with core emphasis on:

1. Building a robust architecture and risk strategy to facilitate not only the current business strategy but also to adapt to the changes in the bank's future business landscape and vision.
2. Investment and development of risk analytics capabilities and technology to lay a strong foundation for the Risk Data Warehouse. In this regards the bank has planned to invest in relevant technology infrastructure to adopt the BCBS 239 practices. The ultimate vision of the bank is aimed at developing a state of the art Risk Data Warehouse serving as the single source of truth for all risk data and analytics needs.
3. Delineation of the approvals and review processes, ensuring that Risk Approvers and Reviewers remain independent with an objective of strict adoption to Credit Committee Culture and minimum four eyes principle.
4. Alignment and enrichment of the Enterprise Information Security Function in line with SAMA regulations and guidelines. The bank continued its effort to strengthen its Enterprise Information Security practices and to align the same with the best in class. Specific projects focusing on fortifying the Enterprise Information Security practices and awareness thereof have been undertaken.
5. Alignment and strategizing Capital Adequacy process in sync with bank's strategic direction. The Internal Capital Adequacy Assessment Process (ICAAP) goals are being continually rationalized in accordance with the existing strategic focus and the business plan on an annual basis. Capital adequacy assessment has been carried out in accordance with the nature, size and complexity of the Bank's Business Model along with detailed documentation.
6. The Bank is also in process of developing its Internal Liquidity Adequacy Assessment Process (ILAAP) Framework in accordance with regulatory mandate. ILAAP will primarily focus on BAJ's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity crunches.

7. Implementation of the Basel Program, perceived as a critical opportunity to:
    a. Upgrade and align the bank's policies and procedures to ensure that the same are in line with the global best practices and local regulatory requirements.
    b. Develop, institutionalize and monitor detailed Risk Appetite Framework, which acts not only as a connection between the Board's strategy and Business's execution of the same, but also serves as a feedback loop to ensure alignment of the strategy with the prevailing business and regulatory environment.
    c. Review, validate and improve the Pillar – 2 Risk Assessment Models, on a continuing basis, aligning them to the industry's best practices and SAMA guidelines and expectations.
    d. Automate Pillar-1 reporting to ensure that these reports are accurate, timely and remain in line with the regulatory expectations. In this respect the bank has successfully tested and implemented the automated preparation and generation of the Pillar-1 regulatory reporting.
8. Refining and Strengthening the Stress Testing framework, prepared in light of best in class practices, SAMA, Basel, IMF and World bank guidelines, inclusive of procedures and methodology, enabling the bank to not only conduct Regulatory stress testing but also perform in-house and / or ad hoc stress testing for various business lines and their respective portfolios. Results of the stress testing are taken as a valuable feedback for business and capital planning purposes on a forward looking basis.
9. Ensuring that the bank remains one of the early adopters of IFRS-9. In this regards the bank had adopted a project centric approach to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank is now in advanced stages of implementing Expected Credit Loss (ECL) methods, appropriate scenarios and models and to ensure impairments and expected credit loss calculations for the bank are in compliance with the requirements of IFRS-9 well within SAMA deadlines.
10. Ensuring through validation and calibration that our credit risk rating models and score cards maintain their forecasting power to assess the risk associated with default of a prospective and / or existing customer. The bank has been on the forefront in successfully validating and implementing its recalibrated risk rating models. The enhanced and IFRS-9 compliant risk rating models have moved to production and the bank's portfolios are in the process of being rerated based on the new models.

SHARI'AH GROUP

Sharia'h Quality:

The Group focuses on Sharia Quality control of the bank services and products with a view to achieve the expectations of its customers and shareholders as a pioneer Islamic bank through intensive review and audit of the bank's transactions to ensure all activities of the Bank and its subsidiaries are compliant with the Islamic Sharia rules. The group submits quarterly reports to the bank's Sharia Supervisory Board. The average of review samples amounted to 29% of total executed transactions in the bank.

Services and Products:

The Sharia Group believes that innovation and development derived from the Islamic Sharia rules is an essential requirement to promote Islamic Banking industry in order to be able to grow, compete and meet the accelerating and renewable market requirements. Therefore, the Group permanently cooperates with business groups within the bank to innovate and develop their tools and services and seek to automate a lot of their processes to facilitate customer transactions and enable them to invest their time in a better manner and avoid human errors as far as possible.

Research:

The Group is aware that to maintain the Bank's status as a pioneer bank in the Islamic banking field, it is required to collect information and prepare reports and questionnaires about Islamic banking market and its products and the extent of customers satisfaction about it. So, the Research Department of the Group continued to collect and analyze data and information, prepare various reports about the banking market in the Kingdom of Saudi Arabia, fields of competition, strengths and weaknesses and customers' expectations.

Learning and Training:

The Bank considers its employees its most valuable assets and most important tools for conducting its business. Therefore, the Sharia Group focused on the development of employees' skills in the Islamic Banking field. To this effect, the Group has in cooperation with HR Group developed a training program to train the staff of the bank on the fundamentals of Islamic banking through online learning and also conducted direct training sessions to the bank staff in cooperation with HR Group.

The role of the Bank's Sharia Group reflected positively on how the community and customers looked at the bank and also enhanced the level of confidence in the Bank as an Islamic bank; it also contributed to the Bank›s winning of many awards in the Islamic Financial Services field.

Our excellence and leadership in the Islamic banking industry is due to the Bank's compliance in all its transactions with the principles and rules of Islamic Sharia as well as with the decisions and recommendations of their honor the scholars, members of the bank's Sharia'h Supervisory Board.

COMMUNITY SERVICE

The Bank continued to emphasize its role as a principal contributor to the running of sustained development wheel in the community by continuing to implement its programs and social partnerships with non-profit institutions and charities. The Bank continued through ('Khair AlJazira le Ahl AlJazira' program) the introduction and implementation of an array of high quality programs which are in line with the Kingdom's Vision 2030, in 67 cities and regions of the Kingdom

Training and rehabilitation of needy segments in our community are among the main targets of Khair AlJazira le Ahl AlJazira program. For this reason, the bank offered support to small and micro projects by providing (interest-free loans) for needy families to enable them to establish their own commercial, industrial or service projects, thereby helping them to shift to the productive side. The bank also continued its focus on providing educational and professional rehabilitation to male and female youth by introducing training programs to prepare them to the labor market and to enable them to own life basic skills.

During the holy month of Ramadan, the Bank, in participation with the National Committee for Prisoners Relief – Tarahum, contributed to the release of 32 male and female financial-right prisoners in the regions of Jizan and Qassim; The Bank also provided support to the programs targeting special needs individuals (Disabled, Blind, Deaf, Down Syndrome, Hypertension, and Autism). Quality programs were also provided to the families of handicapped persons and those who deal with them.

In it's endeavor to develop non-profit sector, the Bank contributed to the building of the sector's capabilities through a set of leading development programs for the social work leaders and workers, establishment of the infra-structure for charitable and community societies by introducing many computer labs and business incubators and training halls; electronic labs in a number of Koran reciting societies as well as financial, legal, health and educational awareness programs and others in various cities and regions of the Kingdom.

The number of male and female youth who benefited from the various activities and functions of ('Khair AlJazira le Ahl AlJazira') program in 2017 stands at 5,699 persons in different cities and regions of the Kingdom of Saudi Arabia.

SUPPORT GROUPS

Support Group consists of various subgroups and divisions such as Operations, Technology, Logistics, Supplier Relations & Cost Rationalization, Contracts & Property Management and Support Governance, Quality & Control.

Support Group continues to provide all required assistance to all other groups in the bank with the related services to achieve the banks goals.

Strategy and Business Transformation

The S & BTG supported various bank-wide implementation of regulatory and operational improvements in partnership with all business areas. Achievements included managing key SAMA engagements, important personal loan and credit card service enhancements, significant changes to the online functionality for the Corporate Division, Treasury system enhancements and FAWRI Remittance capabilities along with several key mandatory SAMA developments (e.g. MADA offline, Credit Card, Consumer lending requirements, etc.)

Supplier Management and Cost Rationalization

With this re-engineered division numerous achievements were accomplished as a result of the obtained increase in efficiency and the fresh look at rationalizing cost without jeopardizing quality. This resulted in cost reduction of office printing, publications, bank's checks, and other supply chain items.

A substantial savings were realized while procuring new advanced technologies, logistical, operational, security, and business-related services.

Information Technology

Information Technology Group (ITG) continued to build and maintain technology systems according to best banking standards to support existing and development of new banking products and services aligned with the Bank›s strategic goals and objectives providing the eminent quality performance, protection and continuity for all BAJ services. ITG embarked, in partnership with all business areas, on vital projects to comply with predetermined regulatory deadlines, meet business objectives, support expansion as well as the delivery of banks' internal initiatives along with the unavoidable systems upgrade.

Examples of major turning points achievements in 2017 are the completion of the mega project to expand our core banking system customer account capability to cater for future demand. Major reduction in local transfer costs amount by implementing bulk payment solution. Reduction in the number of ATM cash deposit claims by applying enhancement on cash deposit machines.

Improved the recovery and resilience of all BAJ systems in case of disaster.

Logistics Division

Delivery of 7 new Fawri locations during this year. Lighting in our HO building and North Al Olaya was converted from conventional to LED lighting and with this new technology the electricity bill of both locations has reduced significantly. Jointly with Marketing, providing the required support for BAJ corporate identity rebranding for all branches, ATM's and premises. The signage lighting system is LED lights. Continued providing effective physical security and monitoring for ATM's and premises bank-wide on 24/7 basis. Emergency evacuation drills were conducted successfully for 7 buildings during 2017 in different locations kingdom wide.

Operations

Significant saving in operational cost, several automations activities and operational process enhancements to optimize delivery and minimize errors. Also, modifications were conducted to introduce zodiac calendar.

Support Governance, Quality and Control Division, Support Group

Was newly established to be "Documenting what you do, and do what you document", the team is heavily engaged in reviewing & documenting the Support Group's Policy & Procedures.

Properties & Contracts Management Division

Purchased a land on King Salman road for the purpose of Regional office, Riyadh and obtained SAMA approval.

Progressed "Highest and Best Use Study" for the above land through Colliers International. Concluded the invitation, short listing, and qualification analysis for this regional office "Project Management firms ".

Approved BIAs and BCPs for critical business functions and create, update BCM Policy, Strategy and Risk assessment.

Conduct 15 business continuity test successfully Managing Real Estates Properties and Around 60 valuations have been conducted, Managing and signing Technical Contracts and maintaining 212 contracts.

ALJAZIRA CAPITAL COMPANY

2017 was another profitable year for AlJazira Capital (AJC) – a year during which the company maintained its leading market position in spite of lower trading volumes in the local equity market compared to the previous year. The Company retained its leading local brokerage market position with a market share of 12.6% (2016: 14.8%)

The success of AJC business reflects its commitment to the maintenance and development of Tadawulcom, its well-known online trading platform. Customers now have the capability to trade online using the device of their choice and benefit from an appealing user friendly interface. Margin finance facilities are offered to AJC's clients on a selective basis so that clients have the opportunity to enhance their trading returns with leverage. AJC's local brokerage business executed trades during 2017 amounting to SAR 211 billion (2016: SAR 342 Billion).

AJC's strategic investment in the development of its asset management business is reflected in the fact that assets under management grew during 2017 from SAR7.8 billion to SAR 13.9 billion by the end of the year. This growth was, in part, due to the growth in sales of AJC's non-disecretionary money market investment products to clients. Assets under management by the Company for clients in public funds grew by 32% during the year from SAR 3.7 billion to SAR 4.9 billion. Management is particularly pleased to report that AJC's Al-Qawafel Fund remained one of the top 3 performing Funds in its category during 2017; assets under management in this particular fund grew by 28% during 2017 from SAR 2.5 billion to SAR 3.2 billion by the end of the year.

AJC was pleased to receive from Thomson Reuters the 'Lipper Fund Award Global Islamic, 2017' and the 'Lipper Fund Award, MENA Markets: Domestic Funds, 2017'. Both awards were for the "Best Group over 3 years in Equity" and in recognition of the successful performance by AJC's fund managers in these categories of funds.

AJC management looks to 2018 with optimism. Management believes that the solid underlying fundamentals for the Saudi economy will continue to have a positive influence in the further development of capital markets in the Kingdom of Saudi Arabia.

CORPORATE GOVERNANCE

Bank AlJazira is committed to the rules of the corporate governance to enable the successful application of the comprehensive internal control systems, disclosure and transparency policies. The Bank's activities are moving in full conformity with the Kingdom's laws and regulations. This has been showcased through the BAJ's wise utilization of the latest performance standards in the international banking, in supervising its performance, including the directives issued by the Saudi Arabian Monetary Authority, Capital Market Authority, and Ministry of Commerce and Investment.

FUTURE PLANS

Bank AlJazira is one of the leading Sharia compliant financial services institutions in the Kingdom of Saudi Arabia. Over the past years the bank has applied a strategic and transformed into a full pledge bank with a wide range of products and services.

The bank's principal lines of business are Retail Banking, FAWRI (Remittance Business), Private Banking, Corporate Banking, Global Transaction Services and Treasury Services. These offerings are complimented by other financial services such as Takaful Insurance, Investment Banking, Asset Management, Brokerage and Securities Services from our sister companies.

In 2017، the bank achieved several significant milestones and has continued to post strong asset growth. This has been driven by building a strong customer franchise with retail and corporate customers ranging from large corporations to SMEs, applying extensive focus towards cross selling of the bank's retail, treasury, corporate, finance and investment banking franchise.

Moreover many initiatives were successfully completed and contributed to increase the business profitability and customer service quality, many key initiatives were to enhance the bank efficiency that will scale up the Bank's service level.

On the Retail Banking front, we have also developed our digital services and enhanced customers' banking experience through the Bank's platforms, with a particular emphasis on simplifying the procedures and improving the distribution channels by increasing the number of branches and expanding ATM network. Adding to that, the introduction of new products and services that provide solutions to all segments with a focus on the quality of the provided services all aims to increase our market share, coupled with an optimized sales force have produced increased revenues and reduced expenses.

Corporate Banking has strengthen their business model aiming at better serving the Bank's corporate customers in providing banking solutions for corporate enterprises sectors and businesses through extensive packaged finance operations, trade and import operations, in addition, cash management services and e-banking have been instrumental in the overall growth of the Bank AlJazira's assets and profitability.

In the coming year we will continue in having our customer as the focal point for our business and therefore we will continue in our digital transformation strategy to provide innovative products that meet our customer demands.

AWARDS AND CERTIFICATION

Bank AlJazira has received the following awards:

- Best Social Responsibility Program K.S.A. 2017 – CPI Financial
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2017 – Cambridge IF Analytica
- Contact Center Award – Silver Medal Best Customer Service 2017 in the Middle East, Europe and Africa
- Best Customer Service, Abshir Baezzak Program – Awarded to BAJ by Banker Middle East Product Awards
- Most Innovative Personal Banking Provider, Saudi Arabia – Awarded to BAJ by AI Global Media
- Top Three Banks with the Highest ATM Performance and Cash Management – Awarded to BAJ by Saudi Arabian Monetary Authority (SAMA)
- Best Private Bank in Saudi Arabia 2016 – awarded to BAJ by Global Banking and Finance Review
- Best Regional Bank to Watch 2016 – awarded to BAJ by Private Banker International
- Top 100 CEO in GCC –awarded to BAJ by Trends Magazine and INSEAD Business School
- Best Donor Organization 2016 – Non Governmental Arab Grants Council

- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2015 – Cambridge IF Analytica
- Best Remittance Middle East 2015 – CPI Financial
- Best Donor Organization – Non Governmental Arab Grants Council
- Best Private Bank 2015 – Global Banking and Finance Review
- Contact Center Award for Best Mid-Sized Inhouse Contact Center and Best Customer Service – Mid Sized Inhouse Center in EMEA 2015 Rank Number 1–Contact Center World
- Okaz Awards for Professional Excellence – Okaz Newspaper
- Award for Being among the Top 100 Saudi Brands for 2015 – Al Watan Newspaper
- Data Quality Award 2015 – awarded to BAJ by Saudi Credit Bureau
- Best Retail Bank 2014 – World Finance Awards
- Best Credit Card 2014 – Banker Middle East Product Awards
- Best Real Estate Financing 2014 – Banker Middle East Industry Awards
- Best Islamic Bank – World Finance Award, KSA – World Finance Magazine
- Best Mobile Banking Award – MENA region by the EUROPEAN Magazine
- Ideal Institution award for Supporting Social and Developmental Actions – Bahrain / GCC Council of Ministers of Social Affairs.
- Award for being among the TOP 100 Saudi Brands in the presence of Prince Bandar Bin Khalid Al-Faisal, Chairman of Aseer Publishing, and Large Number of Government, Private and Media Representatives.
- 7 awards in the Contact Center World Awards – EMEA region 2013 Vienna as follows
    - Gold Medal – Best Call Center Awards
    - Gold Medal – Best Customer Service Award
    - Silver Medal – Sales Incentives Award
    - Gold Medal – Executive Leader Award
    - Gold Medal – Technical Support Award
    - Gold Medal – Supervisor Award
    - Silver Medal – Call Center Agent Award
- Best Contact Center Manager in the Middle East – Dubai Insights Middle East
- Best Contact Center in the World 2013 Rank 1 and Gold Medal, Contact Center World
- Best Customer Service in the World 2013, Rank 1 & Gold Medal, Contact Center World
- Best Executive Leader in the World 2013, Rank 3 and Bronze Medal, Contact Center World

GRATITUDE

The Board of Directors of Bank AlJazira takes this opportunity to express their thanks and gratitude to our wise government under the leadership of the Custodian of the two Holy Mosques, King Salman bin Abdul Aziz Al Saud, HRH Prince Mohammad bin Salman Abdulaziz Al Saud, the Crown Prince and Deputy Prime Minister and Minister of Defense, and all Ministers.

We are also grateful for the continued support and guidance of the Ministry of Finance, the Ministry of Commerce and Industry, Saudi Arabian Monetary Authority and Capital Market Authority.

The Board also want to take this opportunity to express its sincere thanks and appreciation to the Bank's Shareholders and customers for their confidence and continued support and to the Bank's management and all staff members for their performance and achievements.

SHARIA'H SUPERVISORY BOARD'S REPORT

Praise be to Allah, The Almighty, The Lord of the worlds and Prayers and Peace be upon Allah's Messenger Prophet Mohammed, his companions and all his followers.

DEAR SHAREHOLDERS,

The Sharia'h Board has reviewed and discussed the final annual report prepared by the Shari'ah Group of the Bank that includes but not limited to examination and auditing of procedures based on random samples of each type of products and services offered by the bank.

The Shari'ah Board of Bank AlJazira also reviewed and observed principles related to the contracts, transactions and products launched by the Bank during the period ended 31 / 12 / 2017. The Shari'ah Board issued fatwas, instructions and necessary decisions for guidance of the Bank's management. The executive management of the bank is responsible to make sure that the bank operates in accordance with the rules and principles of Islamic Sharia'h and the guidance provided by the Bank's Shari'ah Board. Whereas the Sharia'h Board's responsibility is restricted to providing an independent opinion based on it's monitoring of the operations of the Bank and presenting its report in the Annual General Assembly.

The Shari'ah Board obtained all the necessary information and explanations which it considered necessary to provide reasonable assurance that the Bank did not violate the Shari'ah rules and principles of Islamic law.

Operations and transactions executed by the Bank during the period mentioned in the report are compliant with the rules of Islamic Shari'ah. The observations related to some non – Shari'ah compliant instances reported in the annual report of Shari'ah compliance review do not materially affect in the overall operations of the Bank. Some of these instances are rectified by the management of the Bank, and the remaining will be handled during the course of the current Fiscal year.

May Allah guide us to the right path.

Assalamu'alaikum warahmatullahi wabarakatuh

Sheik Abdulla Bin Suleiman Al-Mane'e	**Chairman**
Dr. Abdullah Bin Mohammed Al-Mutlaq	**Vice Chairman**
Dr. Mohammed Bin Ali El-Gari	**Member**
Dr. Abdulsatar Abu-Ghuddah	**Member**
Dr. Fahad Bin Ali Al-Elayan	**Rapporteur**

INTERNAL CONTROL STATEMENT

Management Responsibility

Management is responsible for establishing and maintaining an adequate and effective internal control system. An internal control system includes the policies, procedures and processes, which are designed under supervision of the Board of Directors (the Board) to achieve the strategic objectives of the Bank.

Scope of Internal Audit Department

The scope of internal Audit Department, independent from line management, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank, as well as to ensure the implementation of the compliance with all prescribed policies and procedures. All significant and material findings of internal Audit assessments are reported to the Board audit committee of the Bank. The Audit committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The Compliance function, through centrally automated applications and physical examinations, ensures adherence to regulatory requirements and the Bank's internal policies and procedures.

Evaluation and Assessment of the Effectiveness of the Internal Controls

The Bank's Internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes or compliance with policies or procedures.

Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls.

Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the internal Audit department of the Bank. The report on assessment of internal controls does not contain material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

Management Response on the Evaluation of Internal Controls

Based on the results of the ongoing evaluation of internal controls carried out by the Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Board of Directors Response on the Evaluation of Internal Controls

Based on the above, the Board of Directors has duly endorsed Management's evaluation of the internal control system, as prescribed by SAMA.

Shahid Amin	Ibrahim Al-Hurabi	Mona Al-Shaghaa
Chief Financial Officer	Head of Internal Audit	Head of Compliance

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Western Region

Makkah

Aziziah Branch Tel: (+966) 12 5571010 Fax: (+966) 12 5531655	**Al Shawqiya Branch** Tel: (+966) 12 5391826 Fax: (+966) 12 5382493	**Al-Awali Branch** Tel: (+966) 12 5501453 Fax: (+966) 12 5501453

Madinah

Madinah Branch Tel: (+966) 14 8451111 Fax: (+966) 14 8451953		**Khalidiyah Branch** Tel: (+966) 14 8491328 Fax: (+966) 14 8692579
Madinah Branch (Ladies) Tel: (+966) 14 8451956 Fax: (+966) 14 8451952		**Khalidiyah Branch (Ladies)** Tel: (+966) 14 8693381 Fax: (+966) 14 8692579

Jeddah

Jeddah Main Branch (Al Nahda; formerly) Tel: (+966) 12 6098500 Fax: (+966) 12 2346838	**Al Bsateen Branch** (Alaya; formerly) Tel: (+966) 12 6949224 Fax: (+966) 12 6949117	**Al Rehab Branch** Tel: (+966) 12 6748585 Fax: (+966) 12 6756460
Jeddah Main Branch (Ladies) Tel: (+966) 12 6098520 Fax: (+966) 12 2347227	**Al Salama Branch** Tel: (+966) 12 6919719 Fax: (+966) 12 6919717	**Al Rehab Branch (Ladies)** Tel: (+966) 12 6750190 Fax: (+966) 12 6731846
Tahlia St. Branch Tel: (+966) 12 261072 Fax: (+966) 12 2610485	**Al Safa Branch** Tel: (+966) 12 6736712 Fax: (+966) 12 6736874	**Makkah Road Branch** Tel: (+966) 12 6896600 Fax: (+966) 12 6874729
Tahlia St. Branch (Ladies) Tel: (+966) 12 2610730 Fax: (+966) 12 2610731	**Al Steen King Fahad St. Branch** Tel: (+966) 12 6597749 Fax: (+966) 12 6597251	**Al Musa'adia Branch** Tel: (+966) 12 6610112 Fax: (+966) 12 6610108
Al Balad Branch Tel: (+966) 12 6485533 Fax: (+966) 12 6484599	**Al Samer Branch** Tel: (+966) 12 2716058 Fax: (+966) 12 2721870	**Al Musa'adia Branch (Ladies)** Tel: (+966) 12 6673700 Fax: (+966) 12 6673700 Ext 8357
Khalid Bin Al-Waleed St. Branch Tel: (+966) 12 6518070 Fax: (+966) 12 6518070 Ext 1025	**Al Rabwa Branch** (Almakaronah; formerly) Tel: (+966) 12 6827683 Fax: (+966) 12 6836578	**Al Noor Branch** Tel: (+966) 12 6098752 Fax: (+966) 12 6098752
Prince Sultan St. Branch Tel: (+966) 12 6075450 Fax: (+966) 12 6075450 Ext 208	**Al Naeem Branch** Tel: (+966) 12 6134333 Fax: (+966) 12 6130401	**Sari Branch** Tel: (+966) 12 6901392 Fax: (+966) 12 6901392
Prince Sultan St. Branch (Ladies) Tel: (+966) 12 6070828 Fax: (+966) 12 6070125		

Taif

Shehar Branch Tel: (+966) 12 7426678 Fax: (+966) 12 7401737		**Al Faisaliah Branch** Tel: (+966) 12 7600116 Fax: (+966) 12 7600116

Rabigh	Tabouk	Yanbu
Rabigh Branch Tel: (+966) 12 4233311 Fax: (+966) 12 4233366	**Tabouk Branch** Tel: (+966) 14 4432676 Fax: (+966) 14 4218320	**Yanbu Branch** Tel: (+966) 14 3572953 Fax: (+966) 14 3572953

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Central Region

Riyadh

Olaya Branch Tel: (+966) 11 2157000 Fax: (+966) 11 2157016	**Al Malqa Branch** Tel: (+966) 11 4103017 Fax: (+966) 11 4103017	**Al Kharj Branch** Tel: (+966) 11 5476254 Fax: (+966) 11 5476273
King Fahad Road Branch Tel: (+966) 11 2051870 Fax: (+966) 11 2051870 Ext 6151	**Al-Rayyan Branch** Tel: (+966) 11 2080166 Fax: (+966) 11 2080166 Ext 210	**Al Rawdah Branch** Tel: (+966) 11 2543847 Fax: (+966) 11 2543843
King Fahad Road Branch (Ladies) Tel: (+966) 11 2256161 Fax: (+966) 11 2256166	**Al-Rayyan Branch (Ladies)** Tel: (+966) 11 2085366 Fax: (+966) 11 2080166 Ext 258	**Al Shefa Branch** Tel: (+966) 11 2715589 Fax: (+966) 11 2715590
King Abdullah Road Branch Tel: (+966) 11 2071460 Fax: (+966) 11 2071362	**West Ring Road Br.** (Dahrat Al-Badiah;formerly) Tel: (+966) 11 4338441 Fax: (+966) 11 4303682	**Ishbilia Branch** Tel: (+966) 16 8123689 Fax: (+966) 16 8128543
King Abdullah Road Br. (ladies) Tel: (+966) 11 2696228 Fax: (+966) 11 2693650	**Al Takhasusi Branch** Tel: (+966) 11 2936599 Fax: (+966) 11 2936560	**Al Sahafa Branch** Tel: (+966) 11 8102590 Fax: (+966) 11 2936560
Al Qods Branch (Uqba Bin Nafe'a; formerly) Tel: (+966) 11 2781416 Fax: (+966) 11 2784616	**Al-Suwaidi Branch** Tel: (+966) 11 4289476 Fax: (+966) 11 4493064	**Al Mrouj Branch** Tel: (+966) 11 4154893 Fax: (+966) 11 4154893
Al Qods Branch (Ladies) Tel: (+966) 11 2784387 Fax: (+966) 11 2784359	**Al-Suwaidi Branch (Ladies)** Tel: (+966) 11 4287523 Fax: (+966) 11 4288735	**Al Malaz Branch** Tel: (+966) 11 2913948 Fax: (+966) 11 2913948
Khurais Road branch Tel: (+966) 11 2256399 Fax: (+966) 11 2350380	**Al-Nafl Branch** Tel: (+966) 11 2751086 Fax: (+966) 11 274150	**Huteen Branch** Tel: (+966) 11 2145324 Fax: (+966) 11 2145324
Al Nassem Branch Tel: (+966) 11 2357813 Fax: (+966) 11 2356876	**Al-Nafl Branch (Ladies)** Tel: (+966) 11 2751086 Fax: (+966) 11 2755681	**Qurtobah Branch** Tel: (+966) 11 2936599 Fax: (+966) 11 2936560
Al Ma'ather Branch Tel: (+966) 11 8108058 Fax: (+966) 11 8108058		

Qasim		Hail
Buraidah Branch Tel: (+966) 16 3835310 Fax: (+966) 16 3835306	**Onizah Branch** Tel: (+966) 16 3617547 Fax: (+966) 16 3618412	**Hail Branch** Tel: (+966) 16 5712157 Fax: (+966) 16 5712157

Southern Region

Khamis Mushait		Abha
Khamis Mushait Branch Tel: (+966) 17 2216465 Fax: (+966) 17 2260798	**Khamis Mushait Branch (Ladies)** Tel: (+966) 17 2216465 Fax: (+966) 17 2351022	**Abha Branch** Tel: (+966) 17 2260798 Fax: (+966) 17 2296243
Jazan		**Najran**
Jazan Branch Tel: (+966) 17 3228594 Fax: (+966) 17 3228601	**Abu Areesh Branch** Tel: (+966) 17 3346477 Fax: (+966) 17 3346477	**Najran Branch** Tel: (+966) 17 5236291 Fax: (+966) 17 5238267

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Eastern Region

Dammam		
Dammam Main Branch Tel: (+966) 13 8321272 Fax: (+966) 13 8343314	**Jarir Branch** Tel: (+966) 13 8421961 Fax: (+966) 13 8417226	**Al Jalawea Branch** Tel: (+966) 13 8153394 Fax: (+966) 13 8153379
Al Faisaliah Branch Tel: (+966) 13 8116653 Fax: (+966) 13 8116702		**Al Khaleej Branch** Tel: (+966) 13 8346928 Fax: (+966) 13 8348156

Al Khobar		
Al-Hada District Branch Tel: (+966) 13 8820040 Fax: (+966) 13 8878653	**Al Shatee Branch** Tel: (+966) 13 8087758 Fax: (+966) 13 8084458	**King Khalid St. Branch** Tel: (+966) 13 8942512 Fax: (+966) 13 8985330
Al-Hada District Branch (Ladies) Tel: (+966) 13 8828848 Fax: (+966) 13 8828722	**Al Shatee Branch (Ladies)** Tel: (+966) 13 8089986 Fax: (+966) 13 8082283	**Al Khobar Main Branch** Tel: (+966) 13 8668012 Fax: (+966) 13 8348156

Dhaharan		
Al Doha Branch Tel: (+966) 13 8916148 Fax: (+966) 13 8912059	**Al Doha Branch (Ladies)** Tel: (+966) 13 8916149 Fax: (+966) 13 8912869	**Tilal Al Doha Branch** Tel: (+966) 13 8309188 Fax: (+966) 13 8309188

Al Ahsa		
Al Hofuf Main branch Tel: (+966) 13 5863555 Fax: (+966) 13 5843111	**Al Shahbiyah Branch** Tel: (+966) 13 5893952 Fax: (+966) 13 5889078	**Al Shahbiyah Branch (Ladies)** Tel: (+966) 13 5995560 Fax: (+966) 13 5995560
Al Mabraz Branch Tel: (+966) 13 8084381 Fax: (+966) 13 8084381		**Al Salmaniyah Br.** (Al Nakheel; formerly) Tel: (+966) 13 5754310 Fax: (+966) 13 5364987

Jubail		Hafer Al Baten
Jubail Industrial –AlFanateer Br. Tel: (+966) 13 3670157 Fax: (+966) 13 3670157	**Jubail Plaza Branch** Tel: (+966) 13 3471386 Fax: (+966) 13 3471426	**Hafer Al Baten Branch** Tel: (+966) 13 7313417 Fax: (+966) 137313417
Qateef		
Qateef Branch Tel: (+966) 13 8545463 Fax: (+966) 13 8545367	**Qateef Branch (Ladies)** Tel: (+966) 13 8529900 Fax: (+966) 13 8558437	

Fawri فوري

خدمـــات تحـــويل الأمـــوال
Money Transfer Services

Central Region

Al Batha/ Gaghazali BR. - 6101 Tel : (+966) 11 4068467 11 4068524	**Al-Rawdah Br. - 6110** Tel : (+966) 11 2278447 11 2277506	**Industrial 2 - 6119** Tel : (+966) 11 8104209 11 8109653
AL-Balad (Manila) Br. - 6102 Tel : (+966) 11 8108056 11 8108058	**Al-Sulimania Br. - 6104** Tel : (+966) 11 4778350 11 4778541	**Buraidah Br. Qaseem 6501** Tel : (+966) 16 3694869 16 3271294
AL-Askary Br. - 6105 Tel : (+966) 11 4774889 11 4776472	**Manfouha Br. - 6108** Tel : (+966) 11 4571278 11 4571329	**Haiel Br. - 6510** Tel : (+966) 16 5349317 16 5314518
AL-Morooj Br. - 6106 Tel : (+966) 11 2031861 11 2033058	**Al Naseem Br. - 6111** Tel : (+966) 11 2324529 11 2328366	**Um Al Hammam Br. - 6117** Tel : (+966) 11 4824559 11 4824327
Al-Khalidiya Br. - 6103 Tel : (+966) 11 4469290 11 4469311	**Al Badiah Br. - 6109** Tel : (+966) 11 4101878 11 4101890	**Sultanah Br. - 6114** Tel : (+966) 11 4283873 11 4285096
Al-Kharj Br. - 6120 Tel : (+966) 11 5456467 11 5456476	**Al Sulay - 6113** Tel : (+966) 11 2415523 11 2415570	**Al Yarmouk Br. - 6112** Tel : (+966) 11 8103904 11 8103905
Al-Mountazah Br. - 6107 Tel : (+966) 11 4083414 11 4083384	**Al Yasmine - 6115** Tel : (+966) 11 8120043 11 8120051	**Al Rass Br. - 6522** Tel : (+966) 16 3392670 16 3392680

Eastern Region

Jubail - 6705 Tel : (+966) 13 3448685 13 3448760	**Al Eisa Mall – Al-Khobar Br. - 6710** Tel : (+966) 13 8084917 13 8088173	**Al Akrabiah Br. - 6714** Tel : (+966) 13 8984349 13 8949425
Dammam Main - 6701 Tel : (+966) 13 8341347 13 8341976	**Al-Jalaweyah Br. - 6703** Tel : (+966) 13 8172190 13 8172623	**Al Ahsa Br. - 6731** Tel : (+966) 13 5732774 13 5732775
Block 91 – 6702 Tel : (+966) 13 8190058 13 8190049	**Al Jubail 2 Br. - 6706** Tel : (+966) 13 3615383 13 3632256	**Jubail - Industrial Br. - 6707** Tel : (+966) 13 3441119 13 3618118
Al Thouqba Br. - 6711 Tel : (+966) 13 8088319 13 8089747	**Industrial 2 Br. - 6709** Tel : (+966) 13 8021910 13 8021859	

Western Region

Al- Balad Br. - 6301 Tel : (+966) 12 2899757 12 2894596	**Bani Malik Br. - 6307** Tel : (+966) 12 6727797 12 6727727	**Bin Ladin Br. - 6316** Tel : (+966) 12 6811358 12 6811357
Al- Heraa Br. - 6302 Tel : (+966) 12 6826902 12 6834007	**Al-Hamdaniyah Br. - 6311** Tel : (+966) 12 6071194 12 6070316	**Khamis Musheit Br. - 6614** Tel: (+966) 17 2740534 17 2740535
Al- Bawadi Br. - 6303 Tel : (+966) 12 6558167 12 6558592	**Yanbu Br. - 6347** Tel : (+966) 14 3572748 14 3573406	**Al Salamh Br. - 6304** Tel : (+966) 12 2861719 12 605 8581
Mishrifa Br. - 6306 Tel : (+966) 12 6737669 12 6736713	**Al Medina Al Menwara Br. - 6340** Tel : (+966) 14 8280357 14 8280328	**Al Sharafiah Br. - 6308** Tel : (+966) 12 6304023 12 6303762
Abha Br. - 6605 Tel : (+966) 17 2240401 17 2283150	**Najran Br. - 6620** Tel : (+966) 17 5221993 17 5221846	**Jizan Br. - 6646** Tel : (+966) 17 3220638 17 3220640
Taif Br. - 6330 Tel : (+966) 12 7322543 12 7327792	**Al Kakyah Br. - 6360** Tel : (+966) 12 5307034 12 5306986	**Tabuk Br. - 6580** Tel : (+966) 14 4216147 14 4221603

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Central Region

King Fahd Road Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**King Fahd Road-Ladies** Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**Al-Nafel** Tel: (+966) 11 2751086 Fax: (+966) 11 2742590
Ocbah Bin Nafee Tel: (+966) 11 2781416 Fax: (+966) 11 2780486	**Ocbah Bin Nafee-Ladies** Tel: (+966) 11 2781416 Fax: (+966) 11 2780486	**Al-Suwaidi** Tel: (+966) 11 4288749 Fax: (+966) 11 4493064
Al-Riyan Tel: (+966) 11 2083316 Fax: (+966) 11 2080166 - Ext. 306	**Al-Riyan - Ladies** Tel: (+966) 11 2083316 Fax: (+966) 11 2080166 - Ext. 306	

Qasim Region

Oniza Tel: (+966) 16 3617547 Fax: (+966) 16 3618412		**Buraida** Tel: (+966) 16 3835230 Fax: (+966) 16 3835204

Eastern Region

Al-Khubar Alhada Tel: (+966) 13 8820040 Fax: (+966) 13 8820040		**Jubail** Tel: (+966) 13 3471422 Fax: (+966) 13 3471426
Qatif Tel: (+966) 13 8545370 Fax: (+966) 13 8529925		**Hafuf** Tel: (+966) 13 5861590 Fax: (+966) 13 5854092

Western and Southern Region

Mosaadia Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Mosaadia - Ladies** Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Al-Nahda** Tel: (+966) 12 6098888 Fax: (+966) 12 6098560
Madina Al-Monawara Tel: (+966) 14 8451111 Fax: (+966) 14 8451959	**Khamees Mushait** Tel: (+966) 17 2219580 Fax: (+966) 17 2358385	**Makkah Al-Mukarrama** Tel: (+966) 12 5230421 Fax: (+966) 12 5571010 - Ext. 600

P.O.Box 20438 Riyadh 11455

الجزيرة تكافل
Aljazira Takaful

Western Region		
Jeddah (Ladies)	Al Andalus Dist Madina Rd - South (Mosaedia Center 3)	Tel: (+966) 12 6688877 Fax: (+966) 12 6677319
Madinah (Ladies)	King Abdullah Rd. - Sultana St. Intersection – Entrepreneurship Bldg 2nd Floor	Tel: (+966) 14 8318311

Central Region		
Riyadh (Men)	King Abdullah Rd., Al Quds Dist.	Tel.: (+966) 11 2784214 Fax: (+966) 11 2784214 Ext : 381

Eastern Region		
Khobar (Men/Ladies)	King Saud Rd with Prince Faisal bin Fahad Rd. Close to Abdulatif Jamil Co. Side of Mall of Dhahran	Tel: (+966) 13 8821157

Takaful Ta'awuni Toll free Number

800 244 0959

FINANCIAL STATEMENT

CONTENTS

Ernst & Young & Co.
(Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45

KPMG Al Fozan & Partners
Certified Public Accountant
9th Floor, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Bank Al Jazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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 summary of significant accounting policies and other explanatory notes from 1 to 43.

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 period. 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 each matter below, our description of how our audit addressed the matter is set out below provided in that context:

Title of risk	Key audit matter	How our audit addressed the key audit matter
Loan impairment	At 31 December 2017, the gross financing balance was SR 40.49 billion against which an aggregate impairment allowance of SR 704.73 million was maintained. This includes both impairment against specific corporate financing and collective impairment recorded on a portfolio basis calculated using models based on historical defaults patterns and SAMA guidelines. We considered this as a key audit matter as the Group makes complex and subjective judgements and uses assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against financing includes: • the identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing; the use of assumptions underlying the calculation of collective impairment for financing portfolios, and the use of the models, as mentioned above to make those calculations; and • an assessment of the Group's exposure to certain industries affected by economic conditions. Refer to the significant accounting policies note 2(m) to the financial statements, note 2(d)(ii) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances, note 6 which contains the disclosure of impairment against loans and advances and note 2(d)(iii) which explains the impairment assessment methodology used by the Group.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. To form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner, we performed detailed credit assessments on a sample of loans and advances (including loans that had not been identified by management as potentially impaired) Our procedures included assessing and testing the key controls and management procedures relating to: • The credit grading process, to assess if the risk grades allocated to individual exposures were appropriate. • Identification of impairment events. • Controls over valuation of collaterals held. The timely recognition of impaired loans and advances through automated and manual controls. Where impairment was individually assessed, we obtained an understanding of the latest developments with respect to the borrowers and the basis of measuring the impairment allowances and considered whether key judgments were appropriate given the borrowers' circumstances on sample basis . We also tested on a sample basis the impairment calculation performed by the management. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, discount rates and valuation of collateral held, and challenged the management to consider that the valuations were up to date and consistent with the strategy being followed in respect of the particular borrower. For individually assessed loans, we also selected a sample of loans for industries adversely affected by the current economic conditions and compared them with our own understanding of the relevant industries and business environments to evaluate management's impairment assessment for such loans. For the collective impairment models used by the Group, we: • tested the completeness and accuracy of the underlying loans and advances information used in the impairment models by agreeing the details to the Group's source general ledger system • tested the historical data used in the models from underlying systems and records on sample basis; • evaluated the assumptions used by management including those used in validation of probability of default, loss given default and delinquency days analysis etc. used in the models; and • Checked the arithmetical accuracy and formulae used within the model.

Title of risk	Key audit matter	How our audit addressed the key audit matter
Fee from banking operations	The Group's accounting policy related to revenue measurement and recording were described in note 2(i) to the consolidated financial statements The Group charges loan processing fee and certain other amounts upfront to the customers on corporate and retail financing and recognizes the same within fee and commission income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be recognized as an adjustment to effective yield within special commission income. However, due to large volume of transactions with mostly insignificant fee amounts, adjustments to effective yield is made by the management based on certain thresholds and assumptions. We considered this as a key audit matter since the use of inappropriate thresholds and assumptions could result in material over / under statement of fee and commission income and special commission income.	We performed following audit procedures in response to this risk: • We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds for making the adjustments to the effective yield of financing for which the commission has been received. • We assessed the reasonableness of assumptions used and thresholds established by the Group to record the fee and commission income on financing. • We obtained the management's assessment of the impact of the use of thresholds and assumptions on fees and commission income and: o traced the historical and current year data used by the management to the source documents; o assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee and commission income and special commission income.
Zakat and income tax	The Group's accounting policy related to zakat and income tax is described in note 2 (w) and the Group's zakat and tax status is disclosed in note 26 to the consolidated financial statements As explained in note 26 to the consolidated financial statements, the Group received claims from the General Authority of Zakat and Tax (GAZT) for the years up to 2011 raising additional demands aggregating to Saudi Riyals 462.2 million. The additional demand arose, as GAZT considered certain earning assets including investments as non-deductible for the purpose of computation of Zakat base which consequently increased the Zakat liability. The interpretation by the GAZT is being challenged by the Group individually and collectively with other banks in the Kingdom of Saudi Arabia as the treatment is considered inequitable with other sectors. The matter has been escalated to the higher authorities and ultimate outcome of the matter cannot be determined at this stage. The treatment of certain items in the Zakat calculation (resulting in additional demands) is uncertain until resolved with the GAZT. Consequently, the management makes judgments about the incidence and quantum of zakat liabilities which are subject to the future outcome of assessments by the GAZT. The Group recognizes provisions when a reliable estimate can be made 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 embodying economic benefits will be required to settle the obligation. The Group currently considers that the outflow of resources is remote and has accordingly not provided for the additional liability and have disclosed the related contingency in note 26 to the consolidated financial statements. We considered this as a key audit matter as this matter is subjective and the amounts claimed are material.	In our audit, we addressed the appropriateness and timely recognition of costs and provisions in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. • We reviewed the correspondences between the Group and the GAZT and the Group's Zakat and tax advisors. • We examined the matters in dispute, used our knowledge of Zakat regulations and involved our Zakat specialists to assess available evidence, adequacy of the net exposure disclosed, in light of the fact and circumstances of the Group. • We held meetings with those charged with governance and executive management of the Group to obtain update on the Zakat matter and the results of their interactions with the relevant authorities and SAMA. • We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Group.

Title of risk	Key audit matter	How our audit addressed the key audit matter
Hedge accounting	The Group's accounting policy related to hedge accounting described in note 2 (f), the carrying amount of derivative designated for hedge accounting in note 10 and movement in hedging reserves in note 17 to the consolidated financial statements The Group's hedge its exposure to cash flow risk arising from variability of profit rates associated with the forecast payment of profit on Bank's funding activities. The hedging is achieved by entering into derivative (special commission rate swaps) contracts with independent third parties. Under IFRSs in order to qualify for hedge accounting, among other criteria, the hedging transactions should be expected to be highly effective, i.e. the changes in cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. Hedge effectiveness test was significant to the audit because of strict IFRSs requirement to qualify for the hedge accounting and volume and amounts of hedged items and instruments. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically, maturity of the hedged item and instrument estimated future profit rates and fair valuation of the derivatives, which are affected by expected future market or economic conditions globally and in the Kingdom of Saudi Arabia.	Our audit procedures in response to the risk associated with the application of hedge accounting included a detailed analysis of the Group's framework for financial risk management and hedge accounting. We assessed and tested management's controls over the establishment of hedging relationships, related documentation and monitoring, including performance of prospective and retrospective effectiveness testing. Moreover, for a selected sample of hedges, we also have performed the following: • Assessing the appropriateness of the assumptions used by the management when performing hedge effectiveness test; • While considering retrospective and prospective testing, checked the historic results with regard to existing hedging relationships, and evaluated forecasted analysis based on management's best estimates keeping in view future plans and budget to date. • Assessing the appropriateness of the fair values assigned by referring to third-party data as applicable. • Assessed how effectively the changes in cash flows of the hedging instrument offsets corresponding changes in the hedged item and whether the hedge remains effective in line with the requirements of the relvant accounting standards. • Involved our hedge accounting specialists to independently reperform the hedge effectiveness test. Further, we assessed whether the financial statement disclosures appropriately reflect the Group's hedge accounting policy, as well as, it's on and off balance sheet exposures to derivatives designated under hedging relationships.
Valuation of derivatives financial instruments carried at fair value	Refer to the significant accounting policies note 2 to the Group's consolidated financial statements, note 2(f) which explains the derivative positions and note 2d (iv) which explains the valuation methodology used by the Group. As disclosed in note 10, the Group has entered into special commission rate swaps, cross currency commission rate swaps, structure deposits, foreign exchange options (Wa'ad Fx), and Sharia'h compliant derivatives. Majority of these derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as the valuation are ascertained through use of various techniques, which are inherently complex and often entail the exercise of significant judgment along with the use of sensitive assumptions. This in turn gives rise to an estimation uncertainty which is particularly high for those derivatives where related valuation techniques incorporate significant unobservable inputs. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation in general and structured derivatives in particular, where complex modelling techniques are being used and the valuation inputs in certain cases are not market observable. Also, the impact of credit and debit value adjustments could be material to the consolidated financial statements.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation framework; including: • Obtaining an understanding of the management processes for identification, and mitigation of valuation risk, • Conducting an evaluation of applied judgments and significant inputs used in the valuation, • testing internal controls around reliability of the source and appropriateness of key assumptions, and • testing the controls over approval of new models or changes to existing valuation models. We carried out an independent valuation assessment for a sample of derivatives, and in respect of valuation adjustments relating to credit and funding; we assessed the valuation assumptions used, including consideration of alternative valuation methodologies used by other market participants.

Other Information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 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 do not and 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 other information, 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 as modified by SAMA for the accounting of zakat and income tax, 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 intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 ISAs 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 ISAs 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.

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, related safeguards.

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 period 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 while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of Regulation 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.

for Ernst & Young
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February 07, 2018
21 Jumada I 1439H

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
ASSETS			
Cash and balances with SAMA	3	**5,975,067**	5,196,815
Due from banks and other financial institutions	4	**369,249**	1,337,778
Investments	5	**20,360,547**	16,292,744
Positive fair value of derivatives	10	**104,021**	128,718
Loans and advances, net	6	**39,789,846**	42,098,695
Investment in an associate	7	**134,071**	129,977
Other real estate	6(e)	**445,046**	62,012
Property and equipment, net	8	**784,526**	701,659
Other assets	9	**325,082**	370,970
Total assets		**68,287,455**	66,319,368
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**6,172,545**	3,545,112
Customers' deposits	12	**50,278,366**	51,602,354
Negative fair value of derivatives	10	**220,987**	333,718
Subordinated Sukuk	13	**2,006,382**	2,006,471
Other liabilities	14	**780,336**	728,187
Total liabilities		**59,458,616**	58,215,842
SHAREHOLDERS' EQUITY			
Share capital	15	**5,200,000**	4,000,000
Statutory reserve	16	**2,159,483**	1,945,105
General reserve	16	**68,000**	68,000
Other reserves	17	**(125,185)**	(211,790)
Retained earnings		**1,526,541**	2,302,211
Total shareholders' equity		**8,828,839**	8,103,526
Total liabilities and shareholders' equity		**68,287,455**	66,319,368

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
Special commission income	19	**2,756,927**	2,655,823
Special commission expense	19	**(939,314)**	(1,089,341)
Net special commission income		**1,817,613**	1,566,482
Fees and commission income, net	20	**600,889**	586,359
Exchange income, net		**149,781**	103,157
Trading income, net	21	**8,353**	4,832
Dividend income	22	**190**	32
Gain on sale of other real estate	23	**630**	210,518
Other operating income, net	24	**2,282**	1,135
Total operating income		**2,579,738**	2,472,515
Salaries and employee-related expenses	36	**856,884**	894,313
Rent and premises-related expenses		**140,013**	136,670
Depreciation and amortisation	8	**86,526**	81,108
Other general and administrative expenses		**380,411**	370,508
Impairment charge for credit losses, net	6(c)	**267,149**	125,214
Other operating expenses, net		**1,922**	1,044
Total operating expenses		**1,732,905**	1,608,857
Operating income		**846,833**	863,658
Share in net income of an associate	7	**10,681**	8,284
Net income for the year		**857,514**	871,942
Basic and diluted earnings per share (expressed in SR per share)	25	**1.65**	1.68

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
Net income for the year		**857,514**	871,942
Other comprehensive income:			
Items to be reclassified to consolidated statement of income in subsequent periods:			
Cash flow hedges:			
Fair value gains / (losses) on cash flow hedges	17	**87,609**	(36,217)
Net amount transferred to consolidated statement of income	17	**185**	627
Items not to be reclassified to consolidated statement of income in subsequent periods:			
Net changes in fair value of investments classified as at fair value through other comprehensive income (FVTOCI)	17	**3,771**	104
Actuarial losses on defined benefit obligation	17	**(1,931)**	-
Total other comprehensive income / (loss) for the year		**89,634**	(35,486)
Total comprehensive income for the year		**947,148**	836,456

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

2017	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2017		**4,000,000**	**1,945,105**	**68,000**	**(211,790)**	**2,302,211**	**8,103,526**
Net income for the year		-	-	-	-	**857,514**	**857,514**
Other comprehensive income for the year		-	-	-	**89,634**	-	**89,634**
Total comprehensive income for the year		-	-	-	**89,634**	**857,514**	**947,148**
Zakat and income tax	26	-	-	-	-	**(27,117)**	**(27,117)**
Share in Zakat of an associate	7	-	-	-	-	**(462)**	**(462)**
Issue of bonus shares	15	**1,200,000**	-	-	-	**(1,200,000)**	-
Dividend paid	26	-	-	-	-	**(191,227)**	**(191,227)**
Transfer to statutory reserve	16	-	**214,378**	-	-	**(214,378)**	-
Other	17	-	-	-	**(3,029)**	-	**(3,029)**
Balance at December 31, 2017		**5,200,000**	**2,159,483**	**68,000**	**(125,185)**	**1,526,541**	**8,828,839**

2016	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2016		4,000,000	1,727,119	68,000	(172,656)	1,791,006	7,413,469
Net income for the year		-	-	-	-	871,942	871,942
Other comprehensive loss for the year		-	-	-	(35,486)	-	(35,486)
Total comprehensive (loss) / income for the year		-	-	-	(35,486)	871,942	836,456
Zakat and income tax	26	-	-	-	-	(142,235)	(142,235)
Share in Zakat of an associate	7	-	-	-	-	(516)	(516)
Transfer to statutory reserve	16	-	217,986	-	-	(217,986)	-
Other	17	-	-	-	(3,648)	-	(3,648)
Balance at December 31, 2016		4,000,000	1,945,105	68,000	(211,790)	2,302,211	8,103,526

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
OPERATING ACTIVITIES			
Net income for the year		**857,514**	871,942
Adjustments to reconcile net income to net cash from operating activities:			
Trading income, net	21	**(8,353)**	(4,832)
Depreciation and amortisation	8	**86,526**	81,108
Dividend income	22	**(190)**	(32)
Loss on sale / write off of property and equipment		**81**	1,424
Impairment charge for credit losses, net	6 (c)	**267,149**	125,214
Share in net income of an associate	7	**(10,681)**	(8,284)
		1,192,046	1,066,540
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**39,329**	12,161
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(167,049)**	768,750
Investments held at Fair Value Through Income Statement		**39,494**	273,332
Positive fair value of derivatives		**24,697**	68,793
Loans and advances		**2,041,700**	(50,062)
Other real estate, net		**(383,034)**	(17,886)
Other assets		**45,888**	(117,610)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**2,627,433**	(512,199)
Customers' deposits		**(1,323,988)**	1,837,161
Negative fair value of derivatives		**(112,731)**	(38,235)
Other liabilities		**138,221**	30,727
Net cash from operating activities		**4,162,006**	3,321,472
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		**740,075**	8,109
Acquisition of non-trading investments		**(4,839,019)**	(5,296,752)
Dividend received from an associate	7	**6,125**	6,125
Acquisition of property and equipment	8	**(169,674)**	(105,203)
Proceeds from sale of property and equipment		**200**	101
Dividends received	22	**190**	32
Net cash used in investing activities		**(4,262,103)**	(5,387,588)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
FINANCING ACTIVITIES			
Proceeds from issuance of Subordinated Sukuk		-	2,006,471
Payment of Subordinated Sukuk and Special commission expense		**(89)**	(1,006,936)
Dividends paid	26	**(190,034)**	(25)
Zakat and tax paid		**(27,777)**	(50,403)
Net cash (used in) / from financing activities		**(217,900)**	949,107
Net decrease in cash and cash equivalents		**(317,997)**	(1,117,009)
Cash and cash equivalents at the beginning of the year		**3,796,821**	4,913,830
Cash and cash equivalents at the end of the year	27	**3,478,824**	3,796,821
Special commission income received during the year		**2,497,366**	2,574,031
Special commission expense paid during the year		**679,560**	1,227,513
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		**87,794**	(35,590)

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

1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (2016: 80 branches) and 50 Fawri Remittance Centres (2016: 41 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,256 staff as of 31 December 2017 (2016: 2,219 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda District, Malik Road, P.O. Box 6277
Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Tadawul in the Kingdom of Saudi Arabia.

The details of the Bank's subsidiaries and associate are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) 31 December 2017	Ownership (direct and indirect) 31 December 2016
Subsidiaries				
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%
Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank. The company has not yet commenced commercial operations	**100%**	-
Al Jazira Securities Limited	Cayman Islands	Carry out Shari'ah compliant derivative and capital market transactions	**100%**	-
Associate				
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements have been prepared;

- In accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International

Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

- In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Article of Association of the Bank.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017.

This change in framework did not have any material impact on the consolidated financial statements of the Group as of December 31 and for the year then ended.

Refer note 2w for the accounting policy of zakat and income tax and note 2c(i) for the impact of change in the accounting policy resulting from the SAMA Circular.

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Statement of Income (FVTIS) and Fair Value through Other Comprehensive Income (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

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

iii. Functional and presentation of currency

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all the subsidiaries of the Bank is the Saudi Arabian Riyal (SR) except for Al Jazira Securities Limited whose functional currency is US Dollars.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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.

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

1. The Group has power over an entity;
2. The Group has exposure, or rights, to variable returns from its involvement with the entity; and
3. The Group has the ability to use its power over the entity to affect the amount of the entity's returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which 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 of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

ii- Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv. Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share in profit / (loss) of an associate' in the consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

c) Changes 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, 2016 except for the change in accounting policies as mentioned below and amendments to existing standards which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

i. Zakat and income tax

As stated in note 2(a)(i), the Group has amended its accounting policy relating to Zakat and income tax and has started to accrue Zakat and income tax on a quarterly basis and charging it to retained earnings in accordance with SAMA guidance on Zakat and income tax. Previously, Zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. If no dividend is distributed, the amount was charged to retained earnings as an appropriation of net income and corresponding liability is accounted for as payable to the General Authority for Zakat and Tax (GAZT).

The change in the accounting policy has been applied retrospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). However, for the purpose of the annual consolidated financial statements, the adoption of SAMA's new guidance has not resulted in any changes of accounting treatment or amounts reported in the annual consolidated financial statements for the current or prior years.

ii. Trade date accounting

The Group has changed its accounting policy relating to initial recognition and derecognition of all regular-way purchases and sales of financial assets and has started to recognise and derecognise these on trade date. Previously, all regular way purchases and sales of financial assets were recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date were accounted for in the same way as acquired assets.

The change in the accounting policy has been applied retrospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The change in the accounting policy did not have any impact on annual consolidated financial statements as no transaction was outstanding at the end and start of the comparative period with different trade and settlement dates.

iii. Amendments to existing standards

Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after January 1, 2017

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The adoption of these standards have no material impact on the consolidated financial statements.

The Group has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the banks for the accounting years beginning on or after January 1, 2018 (please refer note 41).

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS and the SAMA guidance on accounting for zakat and tax 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 judgment 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 advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and only future periods affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

1. Business model for managing financial assets (note 2(d)(i))
2. Contractual cashflows of financial assets (note 2(d)(ii))
3. Impairment of financial assets (note 2(d)(iii))
4. Fair value measurement (note 2(d)(iv))
5. Impairment of non-financial assets (note 2(d)(v))
6. Classification of investments (note 2(l))
7. Determination of control over investment funds (note 2(d)(vi))
8. Depreciation and amortisation (note 2(q))
9. Provisions for liabilities and charges (note 2(d)(vii))
10. Going concern (note 2(d)(viii))
11. Employee benefit obligation (note 2(d)(ix))

i. Business model for managing financial assets

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities, such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way the business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether management's strategy focuses on earning contractual special commission income;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

ii. Contractual cash flows of financial assets

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and commission income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

iii. Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in the consolidated statement of income and reflected in impairment for credit losses. Commission on impaired assets continues to be recognised until its maturity for all consumer loans.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cashflows. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Loans and advances are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the financing has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

The carrying amount of the asset is adjusted through the use of an allowance for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

The Group also considers evidence of impairment at a collective assets level. The collective allowance for impairment could be based on certain criteria i.e. deterioration in internal grading or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through statement of income (FVTIS) and fair value through other comprehensive income (FVTOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (d) and note 34 (b).

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

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

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 34).

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

v. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

vi. Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

vii. Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

viii. Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

ix. Employee Benefit Obligation

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard 19 – Employee Benefits, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 28.

e) Trade date accounting

All regular-way purchases and sales of financial assets are initially recognised and derecognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

f) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured at their 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 associated with these agreements 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 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 in "trading income, net". Derivatives held for trading also includes those derivatives, which do not qualify for hedge accounting.

ii. Embedded derivative

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

- The host contract is not an asset in the scope of IFRS 9;
- The host contract is not itself carried at fair value;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- 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 profit or loss 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

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates and foreign currencies. In order to manage risks, the Group applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into following 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.

In order 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 is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group 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.

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 the consolidated statement of income, changes in fair value of the derivative are 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 yield rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

For designated and qualifying cash flow hedging, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly as "other reserve" in consolidated statement of 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 Group 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 reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

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 Group 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 consolidated statement of comprehensive income is transferred immediately to the consolidated statement of income.

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis as well as variability of special commission rate on Wakala floating rates notes. The Group designate profit rate swaps as hedging instrument against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the "net cash flow" exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancing's and repricing's. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes.

The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in "trading income, net". 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 hedge transactions affect the consolidated statement of income.

g) Foreign currencies

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

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

h) Offsetting financial instruments

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a legally currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not set off in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

i) Revenue /expense recognition

Special commission income and expenses

Special commission income and expenses arising on financial assets and financial liabilities, except for those classified as FVTIS and FVTOCI, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income using the effective yield basis and include premiums amortised and discounts accreted during the year.

The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective yield rate and the change in carrying amount is recorded as income or expense.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment allowances. The calculation of the effective yield rate takes into account all contractual terms of the financial instrument and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective yield rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent the hedge is considered to be effective.

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred. Refer note 2(g).

Fees and commissions

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield rate on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis i.e. as and when the services are rendered. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Fees from Fawri operations are mainly remittance fees, which recognised at the time which transaction is executed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Dividend income is recognised when the right to receive income is established.

j) Trading income / (loss), net

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets and financial liabilities designated as FVTIS and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

k) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "SAMA cash borrowing" under "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement using the effective yield rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

l) Investments

A financial asset is measured initially at fair value plus, for an item not through statement of income, transaction costs that are directly attributable to acquisition or issue. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. At inception, the financial asset is classified at amortized cost or fair value.

i. Investments in debt instruments classified as amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether the management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

ii. Financial assets classified as Fair Value Through Income Statement (FVTIS)

Investments in equity instruments are classified as FVTIS, unless the Group designates an investment that is not held for trading as fair value through other comprehensive income (FVTOCI) on initial recognition.

A financial asset or financial liability is held for trading if:

(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Debt instruments that do not meet the amortised cost criteria are measured as FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as FVTIS are measured at fair value through income statement.

A debt instrument may be designated as FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as FVTIS on initial recognition is irrevocable.

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Special commission income on debt instruments as FVTIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVTIS is recognised in the consolidated statement of income when the Group's right to receive the dividend is established and is included in the consolidated statement of income.

iii. Investment in equity instruments designated as Fair Value Through Other Comprehensive Income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI. Designation as FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments as FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVTIS as FVTOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Fair value reserve includes the cumulative net change in fair value of equity investment measured at FVTOCI. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

m) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value of the consideration given.

Following initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and collective allowances for impairment.

All loans and advances are carried at amortised cost calculated using the effective yield rate.

For presentation purposes, impairment allowance for credit losses is deducted from loans and advances.

n) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amounts written-off and specific allowance for impairment, if any, and a collective allowance for counterparty risk.

o) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

On derecognition of a financial asset, measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated statement of income.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in other comprehensive income is not reclassified to consolidated statement of income, but is transferred to retained earnings.

p) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due loans and advances and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

q) Property and equipment

Property and equipment are measured at cost less accumulated depreciation / amortisation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Freehold land is not depreciated. The cost of other property and equipment is depreciated / amortised using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years
Computer softwares and automation projects	4 to 10 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 amount. These are included in 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.

r) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

s) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin.

Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in impairment charge for credit losses. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The specific and collective allowance for letters of credit, guarantees and acceptances are included and presented in other liabilities.

t) Provisions

Provisions (other than provisions for credit losses and investments) are recognised when a reliable estimate can be made by the Group 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.

u) Accounting for leases

i. Where the Group is the lessee

Leases entered into by the Group as a lessee are all 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which the termination takes place.

ii. Where the Group is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under "loans and advances, net". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

v) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair values.

w) Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income tax is computed on the foreign shareholder's share of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on Zakat and income tax. Previously, Zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. If no dividend is distributed, the amount was charged to retained earnings as an appropriation of net income and corresponding liability is accounted for as payable to the General Authority for Zakat and Tax (GAZT).

x) Fiduciary assets

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.

The financial statements of investment management mutual funds are not included in these consolidated financial statements of the Group. Transactions with the Funds' are disclosed under related party transactions. The Group's share of these Funds', if any, are included in FVTIS investments.

y) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. The liability is included in 'other liabilities' in the consolidated statement of financial position.

Short term benefits

Short term employee benefits are measured on an undiscounted basis and are 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 the 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.

z) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank 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.

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

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these financial statements.

3. CASH AND BALANCES WITH SAMA

	2017 SR'000	2016 SR'000
Cash in hand	**1,183,711**	927,043
Cash with SAMA	**2,092,913**	1,532,000
Cash and cash equivalents (note 27)	**3,276,624**	2,459,043
Statutory deposit with SAMA	**2,698,443**	2,737,772
Total	**5,975,067**	5,196,815

In accordance with article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 33). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SR'000	2016 SR'000
Current accounts	**202,200**	224,748
Money market placements	**167,049**	1,113,030
Total	**369,249**	1,337,778

The money market placements represent funds placed on Shari'ah compliant (non-interest based) murabaha basis.

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The table below shows the credit quality by class

	2017 SR'000	2016 SR'000
Investment grade	**334,486**	1,319,695
Non-investment grade	**8,012**	5,499
Unrated	**26,751**	12,584
Total	**369,249**	1,337,778

5. INVESTMENTS

a) As of December 31, 2017 investments are classified as follows:

	2017 SR'000		
	Domestic	International	Total
i) Designated as FVTIS			
Mutual funds	**28,623**	**32,247**	**60,870**
Equities	**545**	**-**	**545**
	29,168	**32,247**	**61,415**
ii) FVTOCI			
Equities	**4,143**	**12,245**	**16,388**

iii) Amortised cost

	2017 SR'000		
	Domestic	International	Total
Sukuk investments	**15,374,113**	**-**	**15,374,113**
Wakala floating rate notes	**4,908,631**	**-**	**4,908,631**
	20,282,744	**-**	**20,282,744**
Total	**20,316,055**	**44,492**	**20,360,547**

b) As of December 31, 2016 investments were classified as follows:

i) Designated as FVTIS

	2016 SR'000		
	Domestic	International	Total
Mutual funds	61,881	30,052	91,933
Equities	623	-	623
	62,504	30,052	92,556

ii) FVTOCI

Equities	3,250	8,474	11,724

iii) Amortised cost

Sukuk investments	11,277,741	-	11,277,741
Wakala floating rate notes	4,910,723	-	4,910,723
	16,188,464	-	16,188,464
Total	16,254,218	38,526	16,292,744

c) The composition of investments as quoted and unquoted is as follows:

	2017			2016		
	Quoted SR'000	Unquoted SR'000	Total SR'000	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments	**2,935,255**	**12,438,858**	**15,374,113**	3,251,297	8,026,444	11,277,741
Wakala floating rate notes	-	**4,908,631**	**4,908,631**	-	4,910,723	4,910,723
Equities	**12,602**	**4,331**	**16,933**	8,909	3,438	12,347
Mutual funds	**60,870**	-	**60,870**	91,933	-	91,933
Total investments	**3,008,727**	**17,351,820**	**20,360,547**	3,352,139	12,940,605	16,292,744

d) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

	2017				2016			
	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Sukuk investments	**15,374,113**	**23,642**	**(9,559)**	**15,388,196**	11,277,741	30,096	(11,481)	11,296,356
Wakala Floating rate notes	**4,908,631**	-	-	**4,908,631**	4,910,723	-	-	4,910,723
Total	**20,282,744**	**23,642**	**(9,559)**	**20,296,827**	16,188,464	30,096	(11,481)	16,207,079

e) The analysis of the Group's investments by nature of counterparty is as follows:

	2017 SR'000	2016 SR'000
Government and quasi Government	**17,849,936**	13,126,017
Corporate	**745,448**	926,249
Banks and other financial institutions	**1,765,163**	2,240,478
Total	**20,360,547**	16,292,744

The fair values of investments carried at amortised cost are not significantly different from their carrying values. The certain of the Sukuk investments (disclosed in note 5d) are quoted in different markets but not actively traded.

Equities reported under FVTOCI includes unquoted shares of SAR 4.33 million (2016: SAR 3.44 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia (disclosed in note 5a) with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

6. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs and credit card balances.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprised the following:

	SR'000			
	Consumer	Commercial	Others	Total
2017				
Performing loans and advances	**18,016,579**	**21,550,527**	**423,106**	**39,990,212**
Non-performing loans and advances	**75,721**	**428,642**	**-**	**504,363**
Total loans and advances	**18,092,300**	**21,979,169**	**423,106**	**40,494,575**
Impairment allowance for credit losses:				
Specific allowance	**(33,093)**	**(261,250)**	**-**	**(294,343)**
Collective allowance	**(193,361)**	**(217,025)**	**-**	**(410,386)**
Total impairment allowance for credit losses	**(226,454)**	**(478,275)**	**-**	**(704,729)**
Loans and advances, net	**17,865,846**	**21,500,894**	**423,106**	**39,789,846**

	SR'000			
	Consumer	Commercial	Others	Total
2016				
Performing loans and advances	17,650,960	24,329,749	390,555	42,371,264
Non-performing loans and advances	61,021	422,978	-	483,999
Total loans and advances	17,711,981	24,752,727	390,555	42,855,263
Impairment allowance for credit losses:				
Specific allowance	(23,987)	(262,282)	-	(286,269)
Collective allowance	(236,769)	(233,530)	-	(470,299)
Total impairment allowance for credit losses	(260,756)	(495,812)	-	(756,568)
Loans and advances, net	17,451,225	24,256,915	390,555	42,098,695

Loans and advances, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SAR 7.50 billion (2016: SAR 7.48 billion).

b) Movements in impairment allowance for credit losses are as follows:

2017	SR'000		
	Consumer	**Commercial**	**Total**
Balance at the beginning of the year	**260,756**	**495,812**	**756,568**
Impairment charge for the year	**77,630**	**254,209**	**331,839**
Bad debts written off during the year	**(97,522)**	**(270,893)**	**(368,415)**
Recoveries / reversals of amounts previously provided	**(14,410)**	**(853)**	**(15,263)**
Balance at the end of the year	**226,454**	**478,275**	**704,729**

2016	SR'000		
	Consumer	Commercial	Total
Balance at the beginning of the year	307,329	307,275	614,604
Impairment charge for the year	70,610	153,416	224,026
Bad debts written off during the year	(89,071)	(39,811)	(128,882)
Recoveries / reversals of amounts previously provided	(28,112)	(1,424)	(29,536)
Allowance written back upon restructuring of loan	-	76,356	76,356
Balance at the end of the year	260,756	495,812	756,568

i) The bad debts written off during the year included receivables against credit cards amounting to SAR 26.40 million (2016: SAR 28.66 million).

c) Net impairment charge for credit losses for the year in the consolidated statement of income is as follows:

	2017 SR'000	2016 SR'000
Impairment charge for credit losses for the year	**331,839**	224,026
Recoveries / reversal of amounts previously provided	**(15,263)**	(29,536)
Recoveries from debts previously written off	**(49,427)**	(69,276)
Impairment charge for credit losses, net	**267,149**	125,214

d) Economic sector risk concentrations for the loans and advances and impairment allowance for credit losses are as follows:

2017	**Performing SR'000**	**Non performing SR'000**	**Specific allowance for impairment of credit losses SR'000**	**Loans and advances, net SR'000**
Government and quasi Government	**1,042,133**	-	-	**1,042,133**
Banks and other financial institutions	**687,813**	-	-	**687,813**
Agriculture and fishing	**7,417**	-	-	**7,417**
Manufacturing	**4,599,130**	**104,677**	**(101,408)**	**4,602,399**
Building and construction	**766,447**	**59,298**	**(45,535)**	**780,210**
Commerce	**8,591,559**	**177,237**	**(98,734)**	**8,670,062**
Transportation and communication	**76,361**	-	-	**76,361**
Services	**885,105**	**77,324**	**(10,319)**	**952,110**
Consumer loans	**18,016,579**	**75,721**	**(33,093)**	**18,059,207**
Share trading	**1,294,176**	**1,596**	-	**1,295,772**
Others	**4,023,492**	**8,510**	**(5,254)**	**4,026,748**
	39,990,212	**504,363**	**(294,343)**	**40,200,232**
Collective allowance	-	-	**(410,386)**	**(410,386)**
Total	**39,990,212**	**504,363**	**(704,729)**	**39,789,846**

2016	Performing SR'000	Non performing SR'000	Specific allowance for impairment of credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	1,065,248	-	-	1,065,248
Banks and other financial institutions	897,188	-	-	897,188
Agriculture and fishing	25,000	-	-	25,000
Manufacturing	5,334,211	89,010	(76,357)	5,346,864
Building and construction	1,546,976	58,578	(26,879)	1,578,675
Commerce	9,791,162	162,223	(105,704)	9,847,681
Transportation and communication	171,221	4,590	(4,590)	171,221
Services	1,070,159	67,210	(8,900)	1,128,469
Consumer loans	17,650,960	61,021	(23,987)	17,687,994
Share trading	1,217,291	1,596	-	1,218,887
Others	3,601,848	39,771	(39,852)	3,601,767
	42,371,264	483,999	(286,269)	42,568,994
Collective allowance	-	-	(470,299)	(470,299)
Total	42,371,264	483,999	(756,568)	42,098,695

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances portfolio. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by the Group against loans and advances by each category are as follows:

	2017 SR'000	2016 SR'000
Collateral against performing loans	**16,577,571**	17,523,750
Collaterals against non-performing loans	**161,070**	187,339
Total	**16,738,641**	17,711,089

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with an intent to dispose of, after legal recourse, in case of default by the customer.

e) Other real estate, net

	Note	2017 SR'000	2016 SR'000
Balance at the beginning of the year		**62,012**	44,126
Additions during the year		**383,137**	27,686
Disposals during the year	23	**(103)**	(9,800)
Balance at the end of the year		**445,046**	62,012

7. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'awuni Company ("ATT"). The details related to ATT are explained in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2017 is SR 335.65 million (2016: SR 368.11 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2017 SR'000	2016 SR'000
Total shareholders assets	**386,531**	373,685
Total shareholders liabilities	**(3,470)**	(2,321)
Total shareholders equity	**383,061**	371,364
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**134,071**	129,977

	2017 SR'000	2016 SR'000
Total profit for the year before Zakat	**30,517**	23,670
The Group's share of profit for the year	**10,681**	8,284

The following table summarises the movement of the investment in associate during the year:

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	**129,977**	128,334
Share in profit for the year before zakat	**10,681**	8,284
Share of Zakat	**(462)**	(516)
Dividend received	**(6,125)**	(6,125)
Balance at the end of the year	**134,071**	129,977

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	Leasehold improvements SR'000	,Furniture equipment and vehicles SR'000	Computer Softwares SR'000	Capital work in progress SR'000	Total 2017 SR'000	Total 2016 SR'000
Cost							
Balance at the beginning of the year	**157,569**	**494,128**	**619,581**	**43,270**	**183,574**	**1,498,122**	1,405,146
Additions during the year	**83,557**	**1,752**	**14,375**	**328**	**69,662**	**169,674**	105,203
Transfers during the year	**-**	**38,754**	**52,184**	**53,909**	**(144,847)**	**-**	-
Reclassification during the year	**-**	**-**	**(105,888)**	**105,888**	**-**	**-**	-
Disposals during the year	**-**	**(73)**	**(6,237)**	**-**	**-**	**(6,310)**	(12,227)
Balance at the end of the year	**241,126**	**534,561**	**574,015**	**203,395**	**108,389**	**1,661,486**	1,498,122
Accumulated depreciation / amortisation							
Balance at the beginning of the year	**5,040**	**266,922**	**501,531**	**22,970**	**-**	**796,463**	726,058
Charge for the year	**-**	**25,612**	**41,362**	**19,552**	**-**	**86,526**	81,108
Reclassification during the year	**-**	**-**	**(92,312)**	**92,312**	**-**	**-**	-
Disposals	**-**	**(10)**	**(6,019)**	**-**	**-**	**(6,029)**	(10,703)
Balance at the end of the year	**5,040**	**292,524**	**444,562**	**134,834**	**-**	**876,960**	796,463
Net book value							
At December 31, 2017	**236,086**	**242,037**	**129,453**	**68,561**	**108,389**	**784,526**	
At December 31, 2016	152,529	227,206	118,050	20,300	183,574		701,659

9. OTHER ASSETS

	2017 SR'000	2016 SR'000
Advances, prepayments and other receivables	**146,253**	148,010
Margin deposits against derivatives	**152,081**	158,906
Others	**26,748**	64,054
Total	**325,082**	370,970

10. DERIVATIVES

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and strategic hedging purposes:

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.1 Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, 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.

10.2 Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2017 SAR'000	Within 1 year	years 1-3	years 3-5	Over 5 years
(Cash inflows (assets	**41,999**	**90,265**	**90,196**	**132,569**
(Cash out flows (liabilities	**(164,921)**	**(367,310)**	**(341,106)**	**(2,346,634)**
Net cash outflow	**(122,922)**	**(277,045)**	**(250,910)**	**(2,214,065)**

2016 SAR'000	Within 1 year	years 1-3	years 3-5	Over 5 years
(Cash inflows (assets	78,684	149,704	123,154	189,442
(Cash out flows (liabilities	(218,989)	(468,526)	(481,343)	(2,912,221)
Net cash outflow	(140,305)	(318,822)	(358,189)	(2,722,779)

The gains / (losses) on cash flow hedges reclassified to the consolidated statement of income during the year is as follows:

	2017 SR'000	2016 SR'000
Special commission income	**1,981**	704
Special commission expense	(2,166)	(1,331)
Net losses on cash flow hedges reclassified to the consolidated statement of income	(185)	(627)

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	(200,828)	(165,238)
Gains /(losses) from change in fair value recognised directly in equity, net (effective portion)	87,609	(36,217)
Losses removed from equity and transferred to consolidated statement of income	185	627
Balance at the end of the year	(113,034)	(200,828)

Fair value gain on cash flow hedges amounting to SAR 87.6 million (2016: loss of 36.2 million) included in the consolidated statement of comprehensive income comprised of net unrealized gain of SAR 81.6 million (2016: unrealized loss of SAR 36.2 million) and realized gain of SR 6 million (2016: SAR nil).

During the year, the Bank sold certain of its special commission rate swaps used for cash flows hedge. However, the gain would continue to be classified in consolidated other comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain will be reclassified to consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the consolidated statement of income.

The table below sets out the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the year end, do not necessarily reflect the amount of future cash flows involved. The notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	2017 SR'000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Options	1,794	1,794	459,895	269,097	190,798	-	-	1,098,712
Currency swaps	1,242	-	188,750	188,750	-	-	-	252,474
Currency Forwards	1	-	224	224	-	-	-	224
Special commission rate swaps	54,059	54,059	5,652,788	1,889,539	63,850	3,621,388	78,011	5,839,711
Structured deposits	20,558	20,558	2,450,000	-	-	2,450,000	-	1,916,667
Held as cash flow hedges:								
Special commission rate swaps	-	112,649	3,250,625	-		828,750	2,421,875	4,038,229
Accrued special commission	26,367	31,927	-	-	-	-	-	-
Total	104,021	220,987	12,002,282	2,347,610	254,648	6,900,138	2,499,886	13,146,017

	2016 SR'000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Options	24,464	24,464	2,178,472	645,376	1,077,190	455,906	-	3,567,388
Currency swaps	-	1,392	187,500	187,500	-	-	-	577,061
Special commission rate swaps	66,788	66,788	5,942,128	100,000	-	5,318,795	523,333	5,977,338
Structured deposits	4,168	4,168	1,650,000	-	-	1,650,000	-	1,650,000
Held as cash flow hedges:								
Special commission rate swaps	-	194,261	5,624,063	-	304,688	1,350,000	3,969,375	4,967,891
Accrued special commission	33,298	42,645	-	-	-	-	-	-
Total	128,718	333,718	15,582,163	932,876	1,381,878	8,774,701	4,492,708	16,739,678

During the years ended on December 31, 2017 and December 31, 2016, there was no ineffectiveness in the cash flow hedges.

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely AlJazira Securities Limited and intends to transfer all of its Profit Rate Swaps (PRS) derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed between the Bank, the SPV and one of the counter parties and all the derivatives positions with this counterparty have been transferred to SPV. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believes that existing hedging relationships continue to remain effective.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SR'000	2016 SR'000
Current accounts	**181,638**	98,267
Money market deposits from banks and other financial institutions	**5,990,907**	3,446,845
Total	**6,172,545**	3,545,112

12. CUSTOMERS' DEPOSITS

	2017 SR'000	2016 SR'000
Demand	**24,990,180**	25,522,256
Time	**24,172,493**	25,167,027
Other	**1,115,693**	913,071
Total	**50,278,366**	51,602,354

Time deposits comprise deposits received on Shari'ah Compliant Murabaha.

Other customers' deposits include SAR 736.50 million (2016: SAR 730.31million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2017 SR'000	2016 SR'000
Demand	**1,195,328**	1,585,806
Time	**917,268**	1,539,802
Other	**11,103**	21,089
Total	**2,123,699**	3,146,697

The foreign currency deposits are mainly in US dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

13. SUBORDINATED SUKUK

On 2 June 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on 2 June and 2 December each year until June 2, 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after June 2, 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Stock Exchange (Tadawul).

14. OTHER LIABILITIES

	2017 SR'000	2016 SR'000
Accounts payable	**257,809**	264,937
Employee benefit obligation (refer note 28)	**244,024**	217,763
AlJazira Philanthropic Program (note below)	**39,581**	34,314
Dividend payable	**28,223**	27,030
Other	**210,699**	184,143
Total	**780,336**	728,187

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Group's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society.

For this purpose, the Group contributed SR 100 million to this program during 2006.

A Social Committee has been established to coordinate this program, consisting of three Board members, and it is the intention of the Board of Di rectors to seek assistance of other independent members from the business community and the Shari'ah Board of the Group to overview and provide guidance for the activities of the program.

15. SHARE CAPITAL

The shareholders of the Bank in their Extra Ordinary General Assembly Meeting held on 10 April 2017 approved to increase the Bank's share capital from SR 4 billion to SR 5.2 billion through the issuance of bonus shares to shareholders of the Bank (three shares for every ten shares held). The legal formalities relating to the increase in share capital completed during second quarter of the current year. Accordingly, the authorized, issued and fully paid share capital of the Bank consists of 520 million shares of SR 10 each (31 December 2016: 400 million shares of SR 10 each).

The ownership of the Bank's share capital is as follows:

	2017	2016
Saudi shareholders	**91.38%**	92.00%
Non Saudi shareholder - National Bank of Pakistan Limited	**5.83%**	5.83%
Non Saudi shareholder - others	**2.79%**	2.17%

16. STATUTORY AND GENERAL RESERVES

Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 214.38 million has been transferred from net income (2016: SR 217.99 million). The statutory reserve is not available for distribution.

General reserve

In addition, when considered appropriate, the Bank set aside its profits to cater general banking risks.

17. OTHER RESERVES

2017	Cash flow hedges SR' 000	Fair value reserve SR' 000	Actuarial losses (note 28) SR' 000	Right issue costs (note 17 (a)) SR' 000	Total SR' 000
Balance at beginning of the year	(200,828)	7,157	-	(18,119)	(211,790)
Net change in fair value	87,609	3,771	-	-	91,380
Transfer to consolidated statement of income	185	-	-	-	185
Actuarial losses on defined benefit obligation	-	-	(1,931)	-	(1,931)
Other	-	-	-	(3,029)	(3,029)
Net movement during the year	87,794	3,771	(1,931)	(3,029)	86,605
Balance at end of the year	(113,034)	10,928	(1,931)	(21,148)	(125,185)

2016	Cash flow hedges SR' 000	Fair value reserve SR' 000	Actuarial losses SR' 000	Right issue costs (note 17 (a)) SR' 000	Total SR' 000
Balance at beginning of the year	(165,238)	7,053	-	(14,471)	(172,656)
Net change in fair value	(36,217)	104	-	-	(36,113)
Transfer to consolidated statement of income	627	-	-	-	627
Other	-	-	-	(3,648)	(3,648)
Net movement during the year	(35,590)	104	-	(3,648)	(39,134)
Balance at end of the year	(200,828)	7,157	-	(18,119)	(211,790)

a) With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SAR 3 billion through a right issue. The increase is conditional on taking the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price and numbers of shares. Included in the "other reserves" are total expenses of SAR 21.15 million (31 December 2016: SAR 18.12 million) incurred in respect of the legal and professional matters for right issue. The Bank has resubmitted the registration and listing file of its right issue to the Capital Market Authority (CMA).

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2017, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

As at December 31, 2017, the Group had capital commitments of SAR 103.36 million (2016: SAR 86.35 million) in respect of the construction of branches and IT related projects.

c) Credit related commitments and contingencies

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

Guarantees 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 loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related 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 credit 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 customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments as 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 the commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

	(SR'000)				
2017	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**616,482**	**391,337**	**7,500**	**-**	**1,015,319**
Letters of guarantee	**1,040,955**	**2,587,366**	**519,011**	**23,513**	**4,170,845**
Acceptances	**405,001**	**-**	**-**	**-**	**405,001**
Irrevocable commitments to extend credit	**-**	**-**	**150,000**	**-**	**150,000**
Total	**2,062,438**	**2,978,703**	**676,511**	**23,513**	**5,741,165**

	(SR'000)				
2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	545,647	424,845	2,500	-	972,992
Letters of guarantee	671,477	2,616,230	806,930	49,637	4,144,274
Acceptances	611,960	-	-	-	611,960
Irrevocable commitments to extend credit	-	-	150,000	-	150,000
Total	1,829,084	3,041,075	959,430	49,637	5,879,226

The outstanding unused portion of commitments as at December 31, 2017, which can be revoked unilaterally at any time by the Group, amounts to SAR 4.64 billion (2016: SAR 5.17 billion).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2017 SR'000	2016 SR'000
Corporate	**5,680,130**	5,828,126
Banks and other financial institutions	**61,035**	51,100
Total	**5,741,165**	5,879,226

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2017 SR'000	2016 SR'000
Less than 1 year	**9,643**	11,411
to 5 years 1	**28,014**	25,603
Over 5 years	**3,400**	7,155
Total	**41,057**	44,169

19. NET SPECIAL COMMISSION INCOME

	2017 SR'000	2016 SR'000
Special commission income		
Investments held at amortised cost	**506,525**	419,594
Due from banks and other financial institutions	**27,073**	22,231
Derivatives	**262,477**	264,029
Loans and advances	**1,960,852**	1,949,969
Total	**2,756,927**	2,655,823
Special commission expense		
Customers' deposits	**496,163**	643,096
Derivatives	**265,485**	290,913
Due to banks and other financial institutions	**94,376**	97,656
Subordinated Sukuk	**82,752**	56,161
Others	**538**	1,515
Total	**939,314**	1,089,341
Net special commission income	**1,817,613**	1,566,482

20. FEES AND COMMISSION INCOME, NET

	2017 SR'000	2016 SR'000
Fees and commission income		
Loan commitment and management fees	**193,031**	184,228
Local share trading	**177,727**	204,728
Fees from remittance business	**96,886**	65,311
Fees from ATM transactions	**91,840**	88,433
Trade finance	**52,237**	53,696
Mutual funds fees	**46,775**	31,502
Takaful Ta'awuni (insurance) Wakala fees	**19,138**	19,794
International share trading	**2,959**	3,856
Others	**85,845**	79,962
Total fees and commission income	**766,438**	731,510
Fees and commission expense		
Brokerage fees	**(106,154)**	(99,024)
Cards related expenses	**(59,391)**	(46,122)
Takaful Ta'awuni – sales commission	**(4)**	(5)
Total	**600,889**	586,359

21. TRADING INCOME, NET

	2017 SR'000	2016 SR'000
Equities	**(77)**	(2,013)
Mutual funds	**8,430**	6,282
Derivatives	**-**	563
Total	**8,353**	4,832

Trading income includes unrealized gain of SAR 6.3 million (2016: Unrealised loss of SAR 3.2 million).

22. DIVIDEND INCOME

	2017 SR'000	2016 SR'000
Dividend income on FVTPL investments	**190**	32

23. GAIN ON SALE OF OTHER REAL ESTATE

During current year, the Group sold a land with a carrying value of SAR 0.1 million (2016: SAR 9.8 million) previously included under "other real estate, net". The sale proceed of land amounting to SAR 0.73 million (2016: SAR 220.32 million) resulted in a gain of SAR 0.63 million (2016: SAR 210.52 million).

24. OTHER OPERATING INCOME, NET

	2017 SR'000	2016 SR'000
Rental income	**90**	90
Gain / (loss) on sale of property and equipment	**42**	(217)
Other	**2,150**	1,262
Total	**2,282**	1,135

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2017 and December 31, 2016 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding, as follows. The weighted average number of shares have been retrospectively adjusted for prior period to reflect the effect of the changes in number of shares due to issue of bonus shares during the year (refer note 15).

	2017 SR'000	2016 SR'000
		(Restated)
Profit attributable to ordinary share holders		
For basic and diluted earnings per share	**857,514**	871,942
	Shares	Shares
		(Restated)
Weighted-average number of ordinary shares		
For basic and diluted earnings per share	**520,000,000**	520,000,000
Basic and diluted earnings per share (in SAR)	**1.65**	1.68

The calculations of basic and diluted earnings per share are same for the Bank.

26. DIVIDEND, ZAKAT AND INCOME TAX

The estimated Zakat and Tax for the year ended 2017 amounted to SAR 20.68 million (2016: SAR 19.87 million) and SAR 10.25 million (2016: SAR 12.93 million) respectively.

Status of assessments:

The Bank has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2016 and has received the assessments for the years up to and including 2011 in which GAZT raised additional demands aggregating to SAR 462.2 million for the years 2006 to 2011. These additional demands include SR 392.9 million on account of disallowance of long-term investments and the addition of long term financing to the Zakat base by GAZT. The basis for the additional Zakat demand is being contested by the Bank before the Higher Appeal Committee. Management is confident of a favourable outcome on the aforementioned appeals and has therefore not made any provisions in respect of the above.

The assessments for the years 2012 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred above, it would result in a significant additional Zakat exposure to the Bank which remains an industry wide issue and disclosure of the amount might affect the Bank's position in this matter.

Dividend

During the year, the Bank paid final cash dividend of SAR 200 million equal to SAR 0.5 per share, net of Zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on April 10, 2017.

27. CASH AND CASH EQUIVALENTS

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

	2017 SR'000	2016 SR'000
(Cash and balances with SAMA, excluding statutory deposit (note 3	3,276,624	2,459,043
Due from banks and other financial institutions with original maturity of days or less from the date of acquisition 90	202,200	1,337,778
Total	3,478,824	3,796,821

28. EMPLOYEE BENEFIT OBLIGATION

a) The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2017 SR'000	2016 SR'000
Defined benefit obligation at the beginning of the year	217,763	197,959
Charge for the year	**37,961**	33,857
Benefits paid	(13,631)	(14,053)
Unrecognized actuarial loss	**1,931**	-
Defined benefit obligation at the end of the year	**244,024**	217,763

b) Charge for the year

	2017 SR'000	2016 SR'000
Current service cost	29,523	27,365
Special commission cost	**8,438**	6,492
	37,961	33,857

c) Past service cost directly charged to consolidated statement of comprehensive income due to changes in actuarial assumptions:

	2017 SR'000	2016 SR'000
Changes in experience assumptions	437	-
Changes in financial assumptions	1,494	-
	1,931	-

d) Principal actuarial assumptions used in estimating the defined benefit obligation included:

	2017	2016
Discount rate	3.85% p.a	4% p.a
Expected rate of salary increase	2.85% p.a	3.5% p.a
Withdrawal rate	10% p.a	12% p.a
Average duration	6.97 years	5.22 years
Normal retirement age	60 years	60 years

e) The table below illustrates the sensitivity of the defined benefit obligation due to changes in the key assumptions and holding all other variables constant:

		2017	
		SR'000	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	**(16,021)**	**18,272**
Expected rate of salary increase	1%	**19,504**	**(17,385)**
Withdrawal rate	10%	**(432)**	**416**

f) Expected maturity analysis of undiscounted defined benefit obligation for the end of service plan is as follows:

	SR'000				
	Less than a year	years 1-2	years 2-5	Over 5 years	Total
December 31, 2017	33,860	21,387	65,985	210,066	331,298
December 31, 2016	59,214	23,308	55,569	141,076	279,167

29. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

For management reporting purposes, the Group is organized into following main operating segments:

Personal banking

Deposit, credit and investment products for individuals.

Corporate banking

Loans, deposits and other credit products for corporate, small to medium sized business and institutional customers.

Treasury

Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management

Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Takaful Ta'awuni

Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. Current segment represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

Others

Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

	(SR'000)						
2017	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	19,810,852	19,820,983	26,938,427	1,510,873	72,249	134,071	68,287,455
Total liabilities	35,539,607	14,563,514	8,532,527	750,719	72,249	-	59,458,616
Inter - segment operating (loss) / income	(11,591)	(97,494)	120,236	(11,151)	-	-	-
Total operating income	1,082,223	538,186	950,310	176,946	19,749	(187,676)	2,579,738
Net special commission income	631,409	356,161	786,169	45,471	614	(2,211)	1,817,613
Fee and commission income, net	310,072	164,698	9,710	121,291	19,134	(24,016)	600,889
Trading income, net	-	-	-	8,353	-	-	8,353
Share in profit of an associate	-	-	-	1,526	-	9,155	10,681
Impairment charge for credit losses, net	(15,118)	(252,031)	-	-	-	-	(267,149)
Depreciation and amortisation	(48,087)	(10,655)	(18,865)	(8,111)	(808)	-	(86,526)
Total operating expenses	(818,600)	(473,848)	(277,014)	(145,241)	(22,190)	3,988	(1,732,905)
(Net income / (loss	263,623	64,338	673,296	33,231	(2,441)	(174,533)	857,514

2016	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
	(SR'000)						
Total assets	20,166,780	22,681,991	22,435,005	814,899	90,716	129,977	66,319,368
Total liabilities	28,108,647	19,347,976	10,569,772	98,731	90,716	-	58,215,842
Inter - segment operat-(ing income/ (loss	4,188	(99,328)	89,531	5,609	-	-	-
Total operating income	919,286	484,208	763,934	193,482	20,211	91,394	2,472,515
Net special commission income	590,888	322,436	646,117	9,299	588	(2,846)	1,566,482
Fee and commission income, net	234,621	147,022	8,169	178,033	19,789	(1,275)	586,359
Trading income / (loss), net	(406)	150	366	5,285	-	(563)	4,832
Share in profit of an associate	-	-	-	-	-	8,284	8,284
Impairment charge for credit losses, net	(2,211)	(123,003)	-	-	-	-	(125,214)
Depreciation and am-ortisation	(42,614)	(12,815)	(17,698)	(7,076)	(905)	-	(81,108)
Total operating expenses	(777,126)	(395,506)	(265,298)	(149,557)	(25,404)	4,034	(1,608,857)
(Net income / (loss	142,159	88,702	498,636	43,925	(5,193)	103,713	871,942

a Group's credit exposure by operating segment is as follows:

2017	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
	(SR'000)						
Assets	19,110,372	19,219,978	1,325,681	20,785,808	-	-	60,441,839
Commitments and contingencies	-	3,453,240	-	-	-	-	3,453,240
Derivatives	-	-	-	120,024	-	-	120,024

	(SR'000)						
2016	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Assets	19,357,562	22,748,241	-	17,519,134	-	-	59,624,937
Commitments and contingencies	-	3,501,109	-	-	-	-	3,501,109
Derivatives	-	-	-	155,821	-	-	155,821

Credit exposure comprises the carrying value of the consolidated assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

30. CREDIT RISK

Credit risk, which is the result of a delay or failure by counterparty to meet its financial and/or contractual obligations to the Group, is managed in accordance with the Group's comprehensive risk management control framework. Three credit committees are responsible for the oversight of credit risk, The Board Risk Committee, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

The Group assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by major rating agencies.

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 credit policy aims at maintaining the high quality of the loan portfolio and ensuring proper risk diversification. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

The Group manages the credit exposures relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

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 the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Majority of the debt securities included in the investment portfolio represents sovereign risk. Analysis of the Group's investments by nature of counter-party is provided in note 5(e). For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 18. Information on the Group's maximum credit exposure by operating segment is given in note 29.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks and other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2017 and December 31, 2016. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

The Group uses an internal credit classification and review system to manage the credit risk within its wholesale loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio as follows:

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7
- Start-up category that represents loans to newly formed businesses/ projects.

Three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific allowances for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Group's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Collective allowances are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit grading allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Group's Internal Audit Division independently reviews the overall system on a regular basis.

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

a) Credit quality of financial assets

The table below shows the credit quality by class of asset.

	SR'000					
	Loans and advances				Due from banks and other financial institutions	Total
2017	Consumer	Commercial	Others	Subtotal		
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	2,940,428	-	2,940,428	369,249	3,309,677
Standard – medium risk	-	10,293,035	-	10,293,035	-	10,293,035
Standard – unclassified	16,559,099	3,286,012	423,106	20,268,217	-	20,268,217
Sub total - standard	16,559,099	16,519,475	423,106	33,501,680	369,249	33,870,929
Special mention	-	3,309,729	-	3,309,729	-	3,309,729
Sub total	16,559,099	19,829,204	423,106	36,811,409	369,249	37,180,658
Past due but not impaired						
Less than 30 days	919,065	1,110,847	-	2,029,912	-	2,029,912
30-60 days	227,469	96,182	-	323,651	-	323,651
60-90 days	108,392	12,026	-	120,418	-	120,418
Over 90 days	202,554	502,268	-	704,822	-	704,822
Total performing	18,016,579	21,550,527	423,106	39,990,212	369,249	40,359,461
Less: collective allowance	(193,361)	(217,025)	-	(410,386)	-	(410,386)
Net performing	17,823,218	21,333,502	423,106	39,579,826	369,249	39,949,075
Non-performing						
Total non-performing	75,721	428,642	-	504,363	-	504,363
Less: specific allowance	(33,093)	(261,250)	-	(294,343)	-	(294,343)
Net-non performing	42,628	167,392	-	210,020	-	210,020

SR'000

2016	Loans and advances: Consumer	Commercial	Others	Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,222,724	-	5,222,724	1,337,778	6,560,502
Standard – medium risk	-	10,248,268	-	10,248,268	-	10,248,268
Standard – unclassified	16,460,498	3,753,874	390,555	20,604,927	-	20,604,927
Sub total - standard	16,460,498	19,224,866	390,555	36,075,919	1,337,778	37,413,697
Special mention	-	3,647,560	-	3,647,560	-	3,647,560
Sub total	16,460,498	22,872,426	390,555	39,723,479	1,337,778	41,061,257
Past due but not impaired						
Less than 30 days	791,922	1,249,891	-	2,041,813	-	2,041,813
30-60 days	138,454	196,340	-	334,794	-	334,794
60-90 days	104,121	170	-	104,291	-	104,291
Over 90 days	155,965	10,922	-	166,887	-	166,887
Total performing	17,650,960	24,329,749	390,555	42,371,264	1,337,778	43,709,042
Less: collective allowance	(236,769)	(233,530)	-	(470,299)	-	(470,299)
Net performing	17,414,191	24,096,219	390,555	41,900,965	1,337,778	43,238,743
Non-performing						
Total non-performing	61,021	422,978	-	483,999	-	483,999
Less: Specific allowance	(23,987)	(262,282)	-	(286,269)	-	(286,269)
Net-non performing	37,034	160,696	-	197,730	-	197,730

Consumer loans are unrated and are disclosed as standard-unclassified. These consumer loans mainly comprise of loans given to individuals through Shari'ah compliant products.

Others mainly comprise employee loans

Performing loans as at December 31, 2017 include renegotiated loans restructured due to deterioration in the borrower's financial position of SR 4.13 billion (2016: SR 3.26 billion).

The special mention / watch list category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that might, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention / watch list loans and advances do not expose the Group to sufficient risk to warrant a lower classification.

b) Credit quality of investments

The credit quality of investments comprising solely of debt instruments held as amortised cost (all debt instruments are under amortised cost category) is primarily managed with reference to the independent credit ratings of the counterparties. The rating issuers' of the debt instruments been considered as rating of the debt instrument.

Unrated investments are debt instruments which have not been rated by any external credit rating agency.

The table below shows the credit quality by class of asset.

	2017	2016
Performing	SR'000	SR'000
High grade (AAA – BBB)	19,482,479	15,229,219
Unrated	800,265	959,245
Total performing and overall investments	20,282,744	16,188,464

As at December 31, 2017 and December 31, 2016, no impairment was required against investments held as amortised cost.

c) An economic sector analysis of the Bank's loans and advances

The tables below show an economic sector analysis of the Bank's loans and advances, net of specific and collective allowances for impairment; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2017	Loans and advances, net of allowances for impairment SR'000	Credit related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	1,031,918	2,209	1,034,127
Banks and other financial institutions	681,071	1,387,023	2,068,094
Agriculture and fishing	7,344	123,452	130,796
Manufacturing	4,557,286	230,302	4,787,588
Mining and quarrying	-	150,000	150,000
Electricity, water, gas and health services	-	8,670	8,670
Building and construction	772,562	1,950,614	2,723,176
Commerce	8,585,079	751,736	9,336,815
Transportation and communication	75,613	48,542	124,155
Services	942,778	216,437	1,159,215
Consumer loans and credit cards	17,865,846	-	17,865,846
Share trading	1,283,071	-	1,283,071
Other	3,987,278	872,180	4,859,458
Maximum exposure	39,789,846	5,741,165	45,531,011
Less: collateral for performing and non-performing	(16,738,641)	(2,388,806)	(19,127,447)
Net maximum exposure	23,051,205	3,352,359	26,403,564

2016	Maximum exposure: Loans and advances, net of allowances for impairment SR'000	Maximum exposure: Credit related commitments and contingencies, net of allowances for impairment SR'000	Maximum exposure: Total SR'000
Government and quasi government	1,055,250	-	1,055,250
Banks and other financial institutions	888,767	1,169,309	2,058,076
Agriculture and fishing	24,765	126,105	150,870
Manufacturing	5,296,680	289,842	5,586,522
Mining and quarrying	-	150,000	150,000
Electricity, water, gas and health services	-	3,570	3,570
Building and construction	1,563,858	2,170,711	3,734,569
Commerce	9,755,252	964,251	10,719,503
Transportation and communication	169,614	48,795	218,409
Services	1,117,877	223,201	1,341,078
Consumer loans and credit cards	17,451,224	-	17,451,224
Share trading	1,207,447	-	1,207,447
Other	3,567,961	733,442	4,301,403
Maximum exposure	42,098,695	5,879,226	47,977,921
Less: collateral for performing and non-performing	(17,711,089)	(2,447,251)	(20,158,340)
Net maximum exposure	24,387,606	3,431,975	27,819,581

a) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2017 SR'000	2016 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**369,249**	1,337,778
Investments at amortised cost (note 5)	**20,282,744**	16,188,464
Loans and advances, net (note 6)	**39,789,846**	42,098,695
Other assets - margin deposits against derivatives (note 9)	**152,081**	158,906
Total assets	**60,593,920**	59,783,843
Contingencies and commitments, net (note 18 & 30(c))	**3,352,359**	3,431,975
Derivatives - positive fair value, net (note 10)	**104,021**	128,718
Total maximum exposure	**64,050,300**	63,344,536

31. GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of financial assets, financial liabilities, commitments and contingencies, and credit exposure are as follows:

	(SR'000)						
2017	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,183,711	-	-	-	-	-	1,183,711
Balances with SAMA	4,791,356	-	-	-	-	-	4,791,356
Due from Banks and other financial institutions							
Current accounts	20,580	42,929	91,944	29,657	3,635	13,455	202,200
Money market placements	71,200	95,849	-	-	-	-	167,049
Investments							
Held as FVTIS	61,415	-	-	-	-	-	61,415
Held as FVTOCI	4,143	188	-	12,057	-	-	16,388
Held at amortised cost	20,282,744	-	-	-	-	-	20,282,744
Positive fair value of derivatives							
Held for trading	92,735	-	-	-	-	-	92,735
Held as cash flow hedges	11,286	-	-	-	-	-	11,286
Loans and advances, net							
Credit Cards	472,466	-	-	-	-	-	472,466
Consumer Loans	17,393,263	117	-	-	-	-	17,393,380
Commercial Loans	21,500,894	-	-	-	-	-	21,500,894
Others	423,106						423,106
Investment in an Associate	134,071	-	-	-	-	-	134,071
Other assets	325,082	-	-	-	-	-	325,082
Total	66,768,052	139,083	91,944	41,714	3,635	13,455	67,057,883

2017	Kingdom of Saudi Arabia (SR'000)	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	24,867	76,387	14,334	55,629	-	10,421	181,638
Money market deposits	5,632,612	-	-	-	358,295	-	5,990,907
Customer deposits							
Demand	24,986,120	3,710	257	6	2	85	24,990,180
Time	24,172,493	-	-	-	-	-	24,172,493
Other	1,108,868	-	-	-	-	6,825	1,115,693
Negative fair value of derivatives							
Held for trading	91,492	-	-	-	-	-	91,492
Held as cash flow hedges	129,495	-	-	-	-	-	129,495
Subordinated Sukuk	2,006,382	-	-	-	-	-	2,006,382
Other liabilities	780,336	-	-	-	-	-	780,336
Total	58,932,665	80,097	14,591	55,635	358,297	17,331	59,458,616
Commitments and Contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	3,904,859	159,125	77,773	5,487	2,001	21,600	4,170,845
Acceptances	398,698	4,599	1,491	-	-	213	405,001
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,465,715	166,200	79,264	5,487	2,001	22,498	5,741,165
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	1,952,429	79,563	38,886	2,744	1,000	10,800	2,085,422
Acceptances	199,349	2,299	745	-	-	106	202,499
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for trading	47,387	4,582	35,548	-	-	-	87,517
Held for hedging	7,000	4,538	20,969	-	-	-	32,507
	3,368,323	93,458	96,148	2,744	1,000	11,591	3,573,264

2016	(SR'000) Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	927,043	-	-	-	-	-	927,043
Balances with SAMA	4,269,772	-	-	-	-	-	4,269,772
Due from Banks and other financial institutions							
Current accounts	9,584	51,910	131,581	26,284	725	4,664	224,748
Money market placements	719,662	393,368	-	-	-	-	1,113,030
Investments							
Held as FVTIS	92,556	-	-	-	-	-	92,556
Held as FVTOCI	3,250	188	-	8,286	-	-	11,724
Held at amortised cost	16,188,464	-	-	-	-	-	16,188,464
Positive fair value of derivatives							
Held for trading	110,733	-	-	-	-	-	110,733
Held as cash flow hedges	17,985	-	-	-	-	-	17,985
Loans and advances, net							
Credit cards	426,108	-	-	-	-	-	426,108
Consumer loans	17,024,741	376	-	-	-	-	17,025,117
Commercial loans	24,256,915	-	-	-	-	-	24,256,915
Others	390,555	-	-	-	-	-	390,555
Investment in an associate	129,977	-	-	-	-	-	129,977
Other assets	370,970	-	-	-	-	-	370,970
Total	64,938,315	445,842	131,581	34,570	725	4,664	65,555,697

2016	Kingdom of Saudi Arabia (SR'000)	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	30,412	20,301	9,775	30,641	1,169	5,969	98,267
Money market deposits	2,626,836	471,240	-	-	348,769	-	3,446,845
Customer deposits							
Demand	25,517,733	4,217	239	2	3	62	25,522,256
Time	25,167,027	-	-	-	-	-	25,167,027
Other	905,620	1	-	-	-	7,450	913,071
Negative fair value of derivatives							
Held for trading	112,125	-	-	-	-	-	112,125
Held as cash flow hedges	221,593	-	-	-	-	-	221,593
Subordinated Sukuk	2,006,471	-	-	-	-	-	2,006,471
Other liabilities	728,187	-	-	-	-	-	728,187
Total	57,316,004	495,759	10,014	30,643	349,941	13,481	58,215,842
Commitments and Contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	3,907,238	139,791	70,842	5,000	2,203	19,200	4,144,274
Acceptances	605,090	1,300	-	-	-	5,570	611,960
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,625,774	141,091	71,393	5,000	2,203	33,765	5,879,226
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	1,953,619	69,895	35,421	2,500	1,102	9,600	2,072,137
Acceptances	302,545	650	-	-	-	2,785	305,980
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for Trading	65,479	452	33,649	-	-	-	99,580
Held for Hedging	23,000	12,272	20,969	-	-	-	56,241
	3,458,089	83,269	90,590	2,500	1,102	21,380	3,656,930

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 5(a) to these financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

b) The distributions by geographical concentration of non-performing loans and advances and impairment allowance for credit losses are as follows:

	Non-performing loans, net		Impairment allowance for credit losses	
	2017 SR' 000	2016 SR' 000	**2017 SR' 000**	2016 SR' 000
Kingdom of Saudi Arabia				
Credit cards	**25,838**	28,968	**16,750**	6,008
Consumer loans	**49,883**	32,053	**209,704**	254,748
Commercial loans	**428,642**	422,978	**478,275**	495,812
Total	**504,363**	483,999	**704,729**	756,568

32. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK - TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2017 SR'000	2016 SR'000
US Dollar	**7,300**	5,551
Euro	**-**	355
Hong Kong Dollar	**9,432**	5,472
Taiwan Dollar	**5,579**	3,696

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	2017		2016	
	Increase/ decrease in currency rate in %	Effect on net income SR'000	Increase/ decrease in currency rate in %	Effect on net income SR'000
US Dollar	± 0.08	± 6	± 0.37	± 21
Euro	± 7.36	± -	± 8.28	± 29
Hong Kong Dollar	± 0.53	± 50	± 0.72	± 39
Taiwan Dollar	± 4.88	± 272	± 6.23	± 230

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVTIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

Portfolio	2017		2016	
	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Global Emerging Markets	± 15.84%	± 5,108	± 9.01%	± 2,708
Others	± 0.22%	± 63	± 4.70%	± 2,908

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2017 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2017		2016	
	Increase / decrease in index %	Effect on consolidated statement of income SR'000	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	± 0.22%	± 1	± 4.70%	± 29

b) MARKET RISK – NON TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2017 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	2017		2016	
	Increase / decrease in basis points	Sensitivity of special commission income	Increase / decrease in basis points	Sensitivity of special commission income
		SR'000		SR'000
SR	± 25	± 17,802	± 25	± 13,173
USD	± 25	± 3,085	± 25	± 1,930
AED	± 25	± 18	± 25	± 2

Commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,183,711	1,183,711	-
Balances with SAMA	2,092,913	-	-	-	2,698,443	4,791,356	1.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	202,200	202,200	-
Money market placements	163,750	-	-	-	3,299	167,049	2.18%
Investments							
Held as FVTIS	-	-	-	-	61,415	61,415	-
Held as FVTOCI	-	-	-	-	16,388	16,388	-
Held at amortised cost	8,485,654	530,252	3,872,500	7,254,937	139,401	20,282,744	2.80%
Positive fair value of derivatives							
Held for trading	-	-	-	-	92,735	92,735	-
Held as cash flow hedges	-	-	-	-	11,286	11,286	-
Loans and advances, net							
Credit cards	472,466	-	-	-	-	472,466	24.81%
Consumer loans	1,684,673	4,926,225	10,621,646	49,374	111,462	17,393,380	4.74%
Commercial loans	10,071,716	11,219,098	-	-	210,080	21,500,894	5.05%
Others	-	-	-	-	423,106	423,106	-
Investment in an associate	-	-	-	-	134,071	134,071	-
Other real estate, net	-	-	-	-	445,046	445,046	-
Property and equipment, net	-	-	-	-	784,526	784,526	-
Other assets	-	-	-	-	325,082	325,082	-
Total assets	22,971,172	16,675,575	14,494,146	7,304,311	6,842,251	68,287,455	

2017	(SR'000) Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	181,638	181,638	-
Money market deposits	5,311,250	646,250	-	-	33,407	5,990,907	1.85%
Customer deposits							
Demand	-	-	-	-	24,990,180	24,990,180	-
Time	15,269,223	7,040,291	1,728,780	-	134,199	24,172,493	2.11%
Other	-	-	-	-	1,115,693	1,115,693	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	91,492	91,492	-
Held as cash flow hedges	-	-	-	-	129,495	129,495	-
Subordinated Sukuk	-	2,000,000	-	-	6,382	2,006,382	3.96%
Other liabilities	-	-	-	-	780,336	780,336	-
Equity	-	-	-	-	8,828,839	8,828,839	-
Total liabilities and Equity	20,580,473	9,686,541	1,728,780	-	36,291,661	68,287,455	
On-balance sheet Gap	2,390,699	6,989,034	12,765,366	7,304,311	(29,449,410)	-	
Commission rate sensitivity – off balance sheet	450,625	-	(828,750)	378,125	-	-	
Total commission rate sensitivity gap	2,841,324	6,989,034	11,936,616	7,682,436	(29,449,410)	-	
Cumulative commission rate sensitivity gap	2,841,324	9,830,358	21,766,974	29,449,410	-	-	

	(SR'000)						
2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	927,043	927,043	-
Balances with SAMA	1,531,904	-	-	-	2,737,868	4,269,772	0.75%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	224,748	224,748	-
Money market placements	1,112,000	-	-	-	1,030	1,113,030	1.13%
Investments							
Held as FVTIS	-	-	-	-	92,556	92,556	-
Held as FVTOCI	-	-	-	-	11,724	11,724	-
Held at amortised cost	8,745,106	785,517	375,000	6,190,273	92,568	16,188,464	2.89%
Positive fair value of derivatives							
Held for trading	-	-	-	-	110,733	110,733	-
Held as cash flow hedges	-	-	-	-	17,985	17,985	-
Loans and advances, net							
Credit cards	426,108	-	-	-	-	426,108	24.82%
Consumer loans	1,646,835	4,330,956	10,917,959	45,498	83,869	17,025,117	4.52%
Commercial loans	11,440,974	11,474,786	1,038,972	16,414	285,769	24,256,915	5.09%
Others	-	-	-	-	390,555	390,555	-
Investment in an associate	-	-	-	-	129,977	129,977	-
Other real estate, net	-	-	-	-	62,012	62,012	
Property and equipment, net	-	-	-	-	701,659	701,659	
Other assets	-	-	-	-	370,970	370,970	-
Total assets	24,902,927	16,591,259	12,331,931	6,252,185	6,241,066	66,319,368	

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
	(SR'000)						
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	98,267	98,267	-
Money market deposits	2,796,000	648,000	-	-	2,845	3,446,845	1.41%
Customer deposits							
Demand	-	-	-	-	25,522,256	25,522,256	-
Time	17,573,782	6,449,026	984,534	-	159,685	25,167,027	2.95%
Other	-	-	-	-	913,071	913,071	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	112,125	112,125	-
Held as cash flow hedges	-	-	-	-	221,593	221,593	-
Subordinated Sukuk	-	2,000,000	-	-	6,471	2,006,471	4.23%
Other liabilities	-	-	-	-	728,187	728,187	-
Equity	-	-	-	-	8,103,526	8,103,526	-
Total liabilities and Equity	20,369,782	9,097,026	984,534	-	35,868,026	66,319,368	
On-balance sheet Gap	4,533,145	7,494,233	11,347,397	6,252,185	(29,626,960)	-	
Commission rate sensitivity – off balance sheet	2,062,500	(1,381,875)	(1,350,000)	669,375	-	-	
Total commission rate sensitivity gap	6,595,645	6,112,358	9,997,397	6,921,560	(29,626,960)	-	
Cumulative commission rate sensitivity gap	6,595,645	12,708,003	22,705,400	29,626,960	-	-	

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2017 SR' 000 Long / (Short)	2016 SR'000 Long /(Short)
USD	**986,974**	912,880
AED	**7,602**	9,807

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2017. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	2017		2016	
	Increase / decrease in currency rate in %	Effect on net income SR'000	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	**±0.05**	**±493**	±0.05	±456
AED	**±0.05**	**±4**	±0.05	±5

iii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVTOCI at December 31, 2017 and December 31, 2016 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	2017		2016	
	Increase / decrease in % index	Effect on shareholders' equity (other (reserve SR'000	Increase / decrease in % index	Effect on shareholders' equity (other (reserve SR'000
New York Stock Exchange	**15.84% ±**	**±1,910**	9.01% ±	±747

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 82% of the value of debt securities issued by SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

The liquidity ratio during the year was as follows:

	2017 %	2016 %
As at December 31	**44**	29
Average during the year	**40**	25
Highest	**49**	31
Lowest	**32**	18

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2017 and December 31, 2016 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2017						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	181,638	181,638
Money market deposits	5,347,704	662,577	-	-	-	6,010,281
Customers' deposits						
Demand	-	-	-	-	24,990,180	24,990,180
Time	15,381,382	8,139,532	824,592	4,516	-	24,350,022
Other	1,115,693	-	-	-	-	1,115,693
Negative fair value of derivatives						
Held for trading	18,547	1,189	69,873	1,883	-	91,492
Held as cash flow hedges	16,847	-	11,845	100,803	-	129,495
Subordinated Sukuk	19,807	60,520	321,305	2,275,090	-	2,676,722
Other liabilities	-	-	-	-	780,336	780,336
Total undiscounted financial liabilities	21,899,980	8,863,818	1,227,615	2,382,292	25,952,154	60,325,859
Derivatives	1,279,363	198,482	4,199,923	2,928,347	-	8,606,115

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2016						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	98,267	98,267
Money market deposits	2,799,830	655,345	-	-	-	3,455,175
Customers' deposits						
Demand	-	-	-	-	25,522,256	25,522,256
Time	18,062,435	8,628,925	60,760	-	-	26,752,120
Other	913,071	-	-	-	-	913,071
Negative fair value of derivatives						
Held for trading	18,194	8,529	75,384	10,018	-	112,125
Held as cash flow hedges	27,332	110	6,947	187,204	-	221,593
Subordinated Sukuk	20,800	63,556	337,422	2,373,244	-	2,795,022
Other liabilities	-	-	-	-	728,187	728,187
Total undiscounted financial liabilities	21,841,662	9,356,465	480,513	2,570,466	26,348,710	60,597,816
Derivatives	581,262	946,138	5,617,337	5,158,461	-	12,303,198

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

	SR 000							
2017	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,183,711	1,183,711
Balances with SAMA	-	-	-	-	-	-	4,791,356	4,791,356
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	202,200	202,200
Money market placements	-	167,049	167,049	-	-	-	-	167,049
Investments								
Held as FVTIS	-	-	-	-	-	-	61,415	61,415
Held as FVTOCI	-	-	-	-	-	-	16,388	16,388
Held at amortised cost	-	89,535	89,535	5,248,125	14,945,084	20,193,209	-	20,282,744
Positive fair value of derivatives								
Held for trading	19,789	1,189	20,978	69,874	1,883	71,757	-	92,735
Held as cash flow hedges	11,286	-	11,286	-	-	-	-	11,286
Loans and advances, net								
Credit cards	150,146	-	150,146	-	-	-	322,320	472,466
Consumer loans	123,684	169,837	293,521	8,744,923	8,354,936	17,099,859	-	17,393,380
Commercial loans	9,023,118	8,972,133	17,995,251	2,069,874	1,435,769	3,505,643	-	21,500,894
Others	-	422,805	422,805	301	-	301	-	423,106
Investment in an associate	-	-	-	-	-	-	134,071	134,071
Other real estate, net	-	-	-	-	-	-	445,046	445,046
Property and equipment, net	-	-	-	-	-	-	784,526	784,526
Other assets	56,459	101,693	158,152	-	-	-	166,930	325,082
Total assets	9,384,482	9,924,241	19,308,723	16,133,097	24,737,672	40,870,769	8,107,963	68,287,455

2017	SR'000							
	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	181,638	181,638
Money market deposits	-	5,342,233	5,342,233	648,674	-	648,674	-	5,990,907
Customer deposits								
Demand	-	-	-	-	-	-	24,990,180	24,990,180
Time	4,606,310	13,162,878	17,769,188	6,399,283	4,022	6,403,305	-	24,172,493
Other	-	-	-	-	-	-	1,115,693	1,115,693
Negative fair value of derivatives								
Held for trading	18,547	1,189	19,736	69,873	1,883	71,756	-	91,492
Held as cash flow hedges	16,847	-	16,847	11,845	100,803	112,648	-	129,495
Subordinated Sukuk	-	6,382	6,382	-	2,000,000	2,000,000	-	2,006,382
Other liabilities	-	-	-	-	-	-	780,336	780,336
Total liabilities	4,641,704	18,512,682	23,154,386	7,129,675	2,106,708	9,236,383	27,067,847	59,458,616

2016	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
	SR'000							
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	927,043	927,043
Balances with SAMA	-	-	-	-	-	-	4,269,772	4,269,772
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	224,748	224,748
Money market placements	-	1,113,030	1,113,030	-	-	-	-	1,113,030
Investments								
Held as FVTIS	-	-	-	-	-	-	92,556	92,556
Held as FVTOCI	-	-	-	-	-	-	11,724	11,724
Held at amortised cost	-	147,074	147,074	2,978,812	13,062,578	16,041,390	-	16,188,464
Positive fair value of derivatives								
Held for trading	16,802	8,529	25,331	75,384	10,018	85,402	-	110,733
Held as cash flow hedges	17,985	-	17,985	-	-	-	-	17,985
Loans and advances, net								
Credit Cards	146,283	-	146,283	-	-	-	279,825	426,108
Consumer Loans	95,638	118,770	214,408	9,001,079	7,809,630	16,810,709	-	17,025,117
Commercial Loans	10,647,878	9,695,123	20,343,001	2,230,080	1,683,834	3,913,914	-	24,256,915
Others	-	389,896	389,896	659	-	659	-	390,555
Investment in an Associate	-	-	-	-	-	-	129,977	129,977
Other real estate, net	-	-	-	-	-	-	62,012	62,012
Property and equipment, net	-	-	-	-	-	-	701,659	701,659
Other assets	50,576	95,224	145,800	-	-	-	225,170	370,970
Total assets	10,975,162	11,567,646	22,542,808	14,286,014	22,566,060	36,852,074	6,924,486	66,319,368

	SR'000							
2016	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	98,267	98,267
Money market deposits	-	2,798,076	2,798,076	648,769	-	648,769	-	3,446,845
Customer deposits								
Demand	-	-	-	-	-	-	25,522,256	25,522,256
Time	5,303,285	14,613,295	19,916,580	5,250,447	-	5,250,447	-	25,167,027
Other	-	-	-	-	-	-	913,071	913,071
Negative fair value of derivatives								
Held for trading	18,194	8,529	26,723	75,384	10,018	85,402	-	112,125
Held as cash flow hedges	27,332	110	27,442	6,947	187,204	194,151	-	221,593
Subordinated Sukuk	-	6,471	6,471	-	2,000,000	2,000,000	-	2,006,471
Other liabilities	-	-	-	-	-	-	728,187	728,187
Total liabilities	5,348,811	17,426,481	22,775,292	5,981,547	2,197,222	8,178,769	27,261,781	58,215,842

34. FAIR VALUE MEASUREMENT

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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 instrument (i.e., without modification or repacking):

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.

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

	2017 (SR'000)		
	Level 1	Level 2	Total
Financial assets			
FVTIS			
Mutual Funds	60,870	-	60,870
Equities	545		545
FVTOCI			
Equities	12,057	-	12,057
Derivatives	-	104,021	104,021
Total	73,472	104,021	177,493
Financial liabilities			
Derivatives	-	220,987	220,987
Total	-	220,987	220,987

	2016 (SR'000)		
	Level 1	Level 2	Total
Financial assets			
FVTIS			
Mutual Funds	91,933	-	91,933
Equities	623	-	623
FVTOCI			
Equities	8,286	-	8,286
Derivatives	-	128,718	128,718
Total	100,842	128,718	229,560
Financial liabilities			
Derivatives	-	333,718	333,718
Total	-	333,718	333,718

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, interest rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps, options and structured deposits are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between Levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

Investments amounting to SAR 4.33 million (2016: SAR 3.44 million) are carried at cost and, accordingly, are not fair valued.

a) **Following table represent fair values of financial assets and liabilities measured at amortised cost.**

	31 December 2017 (SR'000)		31 December 2016 (SR'000)	
	Amortised cost	Fair value	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**369,249**	**369,196**	1,337,778	1,338,102
Investment held at amortised cost	**20,282,744**	**20,296,827**	16,188,464	16,207,079
Loans and advances, net	**39,789,846**	**41,260,628**	42,098,695	43,467,763
Total	**60,441,839**	**61,926,651**	59,624,937	61,012,944
Financial liabilities:				
Due to banks and other financial institutions	**6,172,545**	**6,174,470**	3,545,112	3,545,375
Customers' deposits	**50,278,366**	**50,288,545**	51,602,354	51,615,457
Total	**56,450,911**	**56,463,015**	55,147,466	55,160,832

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount.

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2017 SR' 000	2016 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**71**	75
Due to banks and other financial institutions	**190**	198
Subsidiary companies		
Investments	**501,480**	500,980
Customer deposits	**20,407**	625,042
Due from banks and other financial institutions	**656,118**	-
Receivables	**184,984**	45,917
Payables	**16,365**	21,485
Commitments and contingencies	**630,247**	630,247
Notional values of outstanding derivative contracts	**4,369,369**	-
Associate and affiliate entities with significant influence		
Investments	**134,071**	129,977
Customer deposits	**401,763**	384,353
Accrued expenses payables	**2,211**	2,253

	2017 SR' 000	2016 SR' 000
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**120,473**	48,524
Customers' deposits	**85,055**	390,992
Contingencies and commitments	**6,447**	-

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

	2017 SR' 000	2016 SR' 000
Mutual Funds under subsidiary's management		
Investments	**60,870**	91,429
Loans and advances, net	**356,334**	392,076
Customer deposits	**531**	2,989

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2017 SR' 000	2016 SR'000
Special commission income	**58,979**	20,161
Special commission expense	**57,990**	120,948
Fees and commission income	**132**	166
Advisory fee paid	-	1,600
Net share of expenses to associate	**15,850**	9,732
Insurance premium paid	**38,114**	35,462
Surplus distribution received from associate	**1,524**	-
Claims received	**12,977**	8,502
Directors' remuneration	**7,562**	7,409
Dividend received	**5,250**	5,250
Income under shared service agreements	**3,988**	3,988
Reimbursement of expense to a subsidiary	**47**	-
Expenses under revenue sharing agreement	**3,109**	31,837
Reimbursement of rent expense	**9,355**	9,355
Rent expense for branches	**2,345**	615

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2017 SR' 000	2016 SR'000
Short-term employee benefits	**89,652**	87,944
Termination benefits	**27,735**	22,869

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

36. SALARIES AND EMPLOYEE RELATED EXPENSES

	2017			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis)**	**Variable compensation (on cash basis)**	**Total**
		SR' 000	**SR' 000**	**SR' 000**
Senior executives that require SAMA no Objection	**16**	**39,857**	**18,767**	**58,624**
Employees involved in control functions	**174**	**70,319**	**5,294**	**75,613**
Employees involved in risk taking activities	**208**	**74,805**	**13,355**	**88,160**
Other employees	**2,029**	**453,738**	**62,840**	**516,578**
Outsourced employees	**604**	**84,889**	**2,959**	**87,848**
Total	**3,031**	**723,608**	**103,215**	**826,823**
Variable compensation (accrual basis)		**96,456**		
Other employee related benefits		**36,820**		
Total salaries and employee-related expenses		**856,884**		

	2016			
Categories of employees	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)	Total
		SR' 000	SR' 000	SR' 000
Senior executives that require SAMA no objection	16	37,758	21,248	59,006
Employees involved in control functions	175	69,317	5,397	74,714
Employees involved in risk taking activities	208	71,639	11,483	83,122
Other employees	2,038	462,976	46,573	509,549
Outsourced employees	609	96,084	2,957	99,041
Total	3,046	737,774	87,658	825,432
Variable compensation (accrual basis)		97,870		
Other employee related benefits		58,669		
Total salaries and employee-related expenses		894,313		

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefit outstanding at end of December 2017 amounted to SR 244.02 million (2016: SR 217.76 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. 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 on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2017		2016	
	Eligible capital SR '000	Capital adequacy ratio %	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**8,941,872**	**16.52%**	8,304,283	15.31%
Supplementary capital (Tier 2)	**2,396,689**	-	2,470,299	-
Core and supplementary capital (Tier 1 + Tier 2)	**11,338,561**	**20.94%**	10,774,582	19.86%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2017 SR'000	2016 SR'000
Credit risk	**48,032,983**	48,372,180
Operational risk	**4,975,084**	4,750,113
Market risk	**1,127,857**	1,129,288
Total pillar-1 – risk weighted assets	**54,135,924**	54,251,581

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Thirteen such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel Commodities Fund, AlJazira Residential Projects Fund, AlJazira Residential Projects Fund 2, AlJazira GCC Income Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund, AlJazira Global Emerging market Fund and AlJazira Mawten REIT Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund and AlJazira Residential Projects Fund 2 which are closed-ended funds and AlJazira Mawten REIT Fund which is a public traded fund on Tadawul. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invests in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha.

The objective of AlJazira Global Emerging Market Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

The Group also provides investment management and other services to the policy holders of its Takaful Ta'awuni program.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 43.8 billion (2016: SAR 34.7 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SAR 4.9 billion (2016: SAR 3.7 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets SR '000
Investment in funds	Mutual Funds managed by Alazira Capital Company (Subsidiary of the Bank Al Jazira)	**% of holding**	
	AlJazira Global Emerging Markets Fund	48.32%	67,110
	AlJazira GCC Income Fund	9.69%	41,222
	AlJazira Residential Projects Fund	43.64%	30,347
	AlJazira Residential Projects Fund 2	13.05%	100,385

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR '000
AlJazira Global Emerging Markets Fund	32,247
AlJazira GCC Income Fund	3,969
AlJazira Residential Projects Fund	12,983
AlJazira Residential Projects Fund 2	11,671

40. TAKAFUL TA'WUNI

Takaful Ta'awuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2017. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after January 1, 2018 and is currently assessing their impact. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 1, 2018:

- IFRS 15 - "Revenue from contracts with customers", applicable for the periods beginning on or after January 1, 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will not have a significant impact on how and when you recognize revenue, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

- Amendments to IFRS 2 - "Share-based Payment", applicable for the periods beginning on or after January 1, 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.
- IFRS 16 – "Leases", applicable for the period beginning on or after January 1, 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.
- IFRS 9 Financial Instruments will be effective from January 1, 2018 and will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7. Implementation strategy and impact analysis of IRFS 9 is detailed in note 41(a)

a) Implementation and Impact Analysis of IFRS 9 – "Financial Instruments" Implementation strategy

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from January 1, 2018, with early adoption permitted. The version of IFRS 9 issued in 2014 supersedes all previous versions. The Bank considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and the Chief Risk Officer.

Classification and measurement

As the Group has already adopted the IFRS 9, issued in November 2009 and revised in October 2010 therefore no significant changes are expected with respect to classification and measurement of financial assets and liabilities. The significant changes in IFRS 9 with respect to classification and measurement compared to earlier version as adopted by the Group are mainly related to the following:

- Contractual cash flow characteristics assessment;
- Introduction of a FVOCI measurement category for debt instruments;
- Accounting for the reclassification of financial assets between measurement categories.

These changes are not expected to have any material effect on the consolidated financial statements of the Group.

Impairment

The Bank will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. This mainly include, financing, investments that are measured at amortised cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Bank will categorise its financial assets into following three stages in accordance with IFRS 9 methodology:

- Stage 1 – Performing assets: Financial asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL
- Stage 2 – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- Stage 3 – Impaired assets: For Financial asset(s) that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Bank intends to formulate various scenarios. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Bank is now in the final phase of implementation; whereby parallel run exercise is currently under process together with various level of validation before going live on 1 January 2018.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

Based on the analysis performed to date, the Group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

Overall expected impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the revised version of IFRS 9 on January 1, 2018:

- According to transitional provisions for initial application of IFRS 9, the Group is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall effect is approximated to be SR 450 million on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against Incurred loss model;

- Furthermore and as a result, the Group's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions.

  Based on the balances as at December 31, 2017, the day 1 impact of IFRS 9 (applicable from January 1, 2018) would be an estimated reduction of approximately 0.84% which would be transitioned over five years in accordance with SAMA guidelines.

- The revised standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the revised standard.

Governance and controls

The Governance structure and controls is currently under implementation in line with the IFRS 9 Guidance document applicable to Saudi banks. These Guidelines require banks to establish a Board approved Governance framework with detailed policies and controls, including roles and responsibilities.

The Bank has a centrally managed IFRS 9 programme which includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Bank's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Group has performed a full end to end parallel run based on December 31, 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. The Bank is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

Caveat

The estimated decrease in shareholders' equity includes the impact of increase to credit impairment provisions compared to those applied at December 31, 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of IFRS 9 adoption on January 1, 2018. Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Bank's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.

42. COMPARATIVE FIGURES

During the current year, debit and credit cards related expenses (i.e. interchange expenses, loyalty expenses etc.) that are correlated with the fee income generated on cards transactions have been reclassified from Other general and administrative expenses to Fee and commission income, net for better presentation.

The impact of this reclassifications on the consolidated statement of income is disclosed below.

For the years ended 31 December 2016	As originally reported	Reclassification	Amounts reported after reclassification
Fee and commission income, net	632,481	(46,122)	586,359
Other general and administrative expenses	416,630	(46,122)	370,508

During the year, intangible assets included in the furniture, equipment and vehicles have been reclassified to Computer Softwares for better presentation.

The impact of this reclassification on the amount reported in note 8 as of 31 December 2016 is disclosed below. There was no impact on Consolidated Statement of Financial Position.

As at 31 December 2016	As originally reported	Reclassification	Amounts reported after reclassification
Cost			
Furniture equipment and vehicles	662,851	(43,270)	619,581
Computer Softwares	-	43,270	43,270
Accumulated depreciation / amortisation			
Furniture equipment and vehicles	524,501	(22,970)	501,531
Computer Softwares		22,970	22,970
Net Book Value			
Furniture equipment and vehicles	138,350	(20,300)	118,050
Computer Softwares		20,300	20,300

In addition, certain prior year amounts have been reclassified so as to align with the current year presentation.

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 19 Jumada Al-Awwal 1439H (corresponding to 5 February 2018).

BASEL III Pillar 3 Disclosures
for FY 2017

1. OVERVIEW

The Pillar 3 Disclosure for financial year ending 31st December 2017 for Bank AlJazira (the Bank) complies with the Saudi Arabian Monetary Authority (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

2. SCOPE OF APPLICATION

The report is prepared after full-consolidation of the Bank and the following fully-owned subsidiaries (the Bank):

Entity	Business	Capital [SAR]	BAJ Ownership%
Aman Development and Real Estate Investment Company	Collateral holder trustee Company	1 Million	100%
AlJazira Capital Company	Asset Management & Advisory	500 Million	100%
Aman Insurance Agency Company	Acting as an agent for bancassurance activities on behalf of the bank	SAR 500 Thousand	100%
AlJazira Securities Limited	Carry out Sharia'h Compliant derivative and Capital market transactions	Authorized Capital 50,000 USD paid up capital: 100 USD	100%

3. MEDIUM AND LOCATION OF DISCLOSURE

The bank's Pillar 3 disclosure will be made available under the Financial Reports (Basel III section) of the bank's website at www.baj.com.sa and as a separate report in the annual financial reports, after the notes to the financial statements.

4. BASIS AND FREQUENCY OF DISCLOSURE

This Pillar 3 disclosure document has been designed to be in compliance with SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ending 31st December 2017.

The Qualitative Disclosure Requirements are reported annually.

5. CAPITAL STRUCTURE

The authorized share capital of the Bank is SAR 5.2 billion. As at 31st December 2017, the shareholders' equity is SAR 8.8 billion. The total Tier 1 and Tier 2 capital of the Bank is SAR 11.339 billion including Sukuk issuance of SAR 2.0 billion as at 31st December 2017.

A. SUBSIDIARIES AND ASSOCIATES

AlJazira Capital Company:

Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, advisory and arranging services. The company has a paid up capital of SAR 500 million wholly subscribed by the Bank.

Aman Development and Real Estate Investment Company:

Based in Jeddah, formed as an SPV to facilitate mortgage financing and to only hold on behalf of the Bank, the title for real-estate transferred as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 1 million wholly subscribed by the Bank.

Aman Insurance Agency Company:

Based in Saudi Arabia, the company is acting as an agent for bancassurance activities on behalf Of the Bank. The Company has not yet commenced commercial operations. The issued share capital amounts to SAR 500 Thousand Comprising of 50 Thousand Shares of SAR 10 each

AJazira Securities Limited:

Based in Cayman Islands, company is formed to carry out Sharia'h compliant derivative and capital market Transactions, The authorized capital amounts to USD 50,000 and its paid up capital is USD 100 comprising of 100 Shares of USD 1 each.

AlJazira Takaful Ta'wuni (ATT):

Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The bank has acquired 35% stake in the company's capital of SAR 350 million. ATT commenced its commercial operations from January 2014.

B. CAPITAL TRANSFERABILITY

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

6. CAPITAL ADEQUACY

The table below illustrates the various approaches that are currently adopted at Bank AlJazira for capital requirements calculation under Basel III in relation to the various risk types under Pillar 1:

Credit Risk	Market Risk	Operational Risk
The Standardized Approach (TSA)	The Standardized Approach (TSA)	Basic Indicator Approach (BIA)

For Operational Risk, the Bank has plans of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

The pillar 1 Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2017 stood at 16.52% (of Tier 1) and 20.94% (of Tier 1 and Tier 2).

CAPITAL MANAGEMENT

A strong capital position is essential to the bank's business strategy and competitive position. The bank's capital strategy focuses on long-term stability, which aims to build and invest in core Banking activities.

The bank seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans and ICAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the bank to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP is also a reflection of the Bank's short to medium term strategy taking into consideration the prevailing macroeconomic scenarios and how the Bank fares against the same, whilst maintaining adequate capital buffers. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The Risk Appetite Framework and Policy, being an integral part of the ICAAP, serves as a feedback loop for the Bank to adjust its assumptions that have been used to formulate the ICAAP.

The ICAAP framework determines the level of capital required to support the group's current and projected activities for capital under normal and stressed conditions. The ICAAP report is updated on an annual basis and is approved by the Board Risk Committee (BRC) as well as the Board of Directors (BOD).

A. COMPREHENSIVE RISK ASSESSMENT UNDER ICAAP FRAMEWORK

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 of BASEL III (e.g. profit rate risk in the banking book, liquidity risk, business/strategic risk, reputational risk, macroeconomic risk and credit concentration risk);
- External factors including changes in economic environment and regulations.

B. ASSESSMENT OF PILLAR 1 AND PILLAR 2 RISKS UNDER BASEL III REGIME

The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's ICAAP then focuses on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

C. STRESS TESTING

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Framework and Policy. It is embedded in the risk and capital management process. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices. The stress testing exercise in Bank AlJazira is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank AlJazira's Stress Testing Policy and Framework, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled.

Specifically, the stress test program is designed with an objective to assess the resilience, solvency, liquidity and profitability of Bank AlJazira to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise, where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;

- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators.

The Enterprise Risk Management Group tables the stress testing reports with CEO and Board Risk Committee before seeking approval from Board and discusses the results with regulators during annual / scheduled bilateral meetings

D. INTERNATIONAL FINANCIAL REPORTING STANDARD NO.9 (IFRS-9)

One of top most priorities for the Bank is to ensure that it remains amongst the early adopters of IFRS-9. In this regards the bank had adopted a project centric approach to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank is now in advanced stages of implementing ECL calculation methodologies, appropriate scenarios and models to ensure impairments and Expected Credit Loss (ECL) calculations for the bank are in compliance with the IFRS-9 requirements within the timelines set forth by SAMA.

The Bank endeavors to ensure, through validation and calibration that the Bank's credit risk rating models and score cards maintain their predictive power / accuracy to assess the potential risk associated with the default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models. The enhanced and IFRS-9 compliant risk rating models have moved into production and Bank's portfolios are in the process of being re-rated based on the new models.

8. RISK MANAGEMENT

The risk environment in which the bank operates changes continuously, caused by a range of factors, from the transactional level to macroeconomic events. The risk environment therefore requires continuous monitoring and assessment of underlying risks and their assessment methodologies. Initiatives under the Bank's Enterprise Risk Management program have been a major catalyst and contributor to the enhancement of risk management practices within the bank.

THE BANK'S SIX BROAD PRINCIPLES OF RISK MANAGEMENT

The Six Broad Principles define the key principles on accountability, independence, structure and scope.

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assume the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC) and the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management and advisory to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the BASEL regime.
4. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. Also, ERMG is responsible for the development and implementation of various risk policies and related business decisions empowered by the board.
5. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.
6. BAJ's Board, through the ALCO, BRC and EXCOM, maintains overall responsibility for risk management within the Bank.

9. RISK APPETITE FRAMEWORK & POLICY

The Risk Appetite Framework & Policy is reviewed by BRC and the Board on a periodic basis and takes into consideration the bank's risk taking-capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the bank and periodically reports to BRC, EXCOM and to the board through specific reports.

A. CREDIT RISK MANAGEMENT

Risk appetite for credit risk is an expression of the amount of risk that the bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill his part of the agreement. In mitigating credit risk, the Bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The Bank uses internal rating tools to determine an Obligor Risk Rating (ORR) that reflects the Bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Chief Credit Officer and the Chief Risk Officer, the credit risk is controlled through continuous monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the Bank's interests. The Bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The Bank also mitigates its credit risk by requiring tangible collateral where necessary.

The Bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, risk rating etc. To mitigate these concentration risks the Bank seeks to diversify its portfolio through customer acquisition across economic sectors, diversification of type of financing in terms of short term working capital financing and longer term fixed capital financing and project financing through syndication arrangements to meet needs of its clients. Obligor and Sector Financing Concentrations are monitored by ERMG periodically or as per applicable regulatory guidelines through the CRO Dashboard and are regularly reviewed by the Chief Credit Officer, the Chief Risk Officer and the business heads. The concentration levels are also reported to the Board Risk Committee (BRC) on a periodic basis.

Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed.

The Bank continuously updates its credit polices to reflect economic, market and legal realities.

B. MARKET RISK MANAGEMENT

The bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The bank continuously monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits.

C. OPERATIONAL RISK MANAGEMENT

The bank's operational risk appetite has been defined in the Risk Appetite and Operational Risk policies and expressed through the following measures and limits as part of semi-annual stress testing exercise:

a. Impact and materiality in terms of limits;

b. Tolerance and thresholds that reflects bank's tolerance for acceptable risks and operational losses;

c. Profile for the purpose of identifying material operational risks and losses.

To support the Bank's risk tolerance, each business / support unit is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies and procedures.

10. CREDIT RISK

A. OVERVIEW

Credit risk is the potential that the bank's obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions.

The principal bank units responsible for taking credit risk are:

- Corporate and Institutional Banking Group (CIBG)
- Commercial Banking Services-SME (CBS)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Private Banking (PBG)

Each credit risk taking unit has developed certain policies and guidelines governing their credit risk taking functions which are contained in the Credit Risk Policy, Retail Risk Policy and Market / Liquidity Risk Policy documents.

B. PROVISIONS FOR LOANS/FINANCING

The bank makes provisions according to guidelines set by SAMA. It therefore creates specific provisions for impaired accounts based on an assessment of the likelihood that the specific obligor will not meet his obligations. The bank also makes collective provisions on the remaining assets of the portfolio based on the assessment of the probability of default and the loss in case of default. The provisioning strategies are reviewed and agreed by the Chief Credit Officer, the Chief Risk Officer, the Heads of the Business Units, the Chief Financial Officer and by the CEO.

The Bank is in the final stage of implementation of IFRS -9 Financial Instruments as per SAMA guidelines. The Bank has followed a detailed plan to ensure seamless implementation of IFRS-9 with the development of relevant models that will enable estimation of Expected Credit Loss (ECL) based on life time Point In Time (PIT) Probability of Default (PD).

The IFRS-9 standard has introduced revised rules for classification of assets of financial institutions, their accounting, rules for considering provision and reporting in accordance with new standards, with the objective of addressing the shortcomings with regard to recognition and provisioning for stressed assets. The three main modules of IFRS-9 principles are:

- Classification and measurement of financial instruments;
- Impairment of financial assets;
- Hedge accounting.

The IFRS-9 standards mandate compliance by January 1, 2018. The rules of the IFRS 9 standards aim for classification and measurement of all the financial instruments of the Bank across specified measurement categories of Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). This includes business model development for all the financial instruments at an aggregate level and assessment of cash flow characteristics test (SPPI test) at an individual instrument level.

The impairment computation is initiated with the stage assessment exercise, to identify the applicability of the assets to the three prescribed stages, based on the levels of Credit Risk.

The following summarizes the stage types and the assessment rules.

Stage	Definition	Description
Stage 1	Characterizes low Credit Risk assets	This stage includes performing assets with no signs of impairment
Stage 2	Assets where there has been a Significant Increase in Credit Risk (SICR)	The criteria for this stage is 'significant increase in credit risk', which is evaluated based on the credit monitoring framework, including internal and macroeconomic factors, or the Early Warning Signals (EWS) framework of the Bank
Stage 3	Asset category of impaired and non-performing assets	Categorization of assets in Stage 3 is based on objective evidence of impairment, based on the credit monitoring, overdue status of the accounts Stage 3 categorization can also be based on qualitative assessments, based on internal or external information available pertaining to accounts or obligors.

11. MARKET RISK

A. INTRODUCTION

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

B. MANAGEMENT OF MARKET RISK

Delegated by the Board, ALCO and MRPC (Market Risk Policy Committee) are responsible for the policies, limits and control used in managing market risk. The bank has an approved Market Risk Policy that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, BRC, ALCO, the Board of Directors and the national supervisor.

Foreign Exchange Risk

Foreign Exchange Risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The Market Risk Policy has set limits on net open positions by currency groups. There are limits for USD, other G10 currencies, GCC currencies, and all the other currencies. The bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a smaller extent in United States Dollars (USD) or in USD-pegged currencies.

Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of the bank's investments in equities. The bank's portfolio of listed securities is periodically marked to market. This trading portfolio mostly relates to strategic investments of seed capital by Al Jazira Capital in various funds under their management. All these funds are listed on the Tadawul exchange. BAJ also holds a small and immaterial, legacy equity portfolio in its banking book; most of these equities are unquoted. Investments in unquoted equity instruments are measured at fair value. Any changes are taken into the bank's equity and other comprehensive income.

C. CAPITAL TREATMENT FOR MARKET RISK

Bank AlJazira computes the minimum capital requirements against market risk using The Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the bank's activities.

D. STRESS TESTING

The bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are updated and may be redefined on an ongoing basis to reflect current market conditions. The bank carries out Stress Testing assessments based on both regulatory guidelines and also ad hoc basis based on purpose built scenarios to test the resilience of specific portfolios. The Stress Test results are reported to Senior Management, BRC, EXCOM and the Board to facilitate and manage risk with more transparency.

12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank. Operational risk excludes Credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The bank has an independent Operational Risk Team under Enterprise Risk Management Group (ERMG) which is tasked with monitoring, measuring and management of Operational risks within the Bank. Functions of this unit are guided by the Operational Risk Policy. In addition, the Bank has implemented Business Continuity and Disaster Recovery programs, tested at regular intervals with results of testing communicated to relevant risk forums.

A. MANAGEMENT AND MONITORING OF OPERATIONAL RISK

The ORM Framework is designed to establish an effective association between the risk management and the risk owners represented by various business groups within the Bank. Business groups are responsible to manage the business and the risks within their respective groups, however processes have been established to involve the operational risk management team to facilitate risk identification, measurement, assessment and control.

During the year, the operational risk management team conducted specialized data gathering through meetings with business and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions with the allocated operational risk appetite and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the Bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

Assessment of risks and categorizing them into levels of significance is conducted in consultation with business groups to draw their attention to risks that require management attention.

The tools used to manage and monitor operational risks are as follows:

Risk & Control Self-Assessment (RCSA).

Risk & Control Self-Assessment (RCSA) is a tool to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly as a part of this tool. The RCSA review cycle involves discussions with the business groups and periodic submissions to the Operational Risk Management Committee (ORMC) (currently under implementation) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment.

The Bank's comprehensive RCSA program involves facilitation of workshops by Operational Risk Management department to identify risks and control within each business and support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The Bank has also established a Policy and Product Review Committee to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

Key Risk Indicators (KRI)

Key Risk Indicators (KRI) is a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the Bank.

KRIs for business and support groups are defined through workshops and periodically monitored through Operational Risk Management department. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record loss incidents occurring in the Bank to enable analysis of control failures and ensure such incidents do not recur.

The Bank has established an internal loss data collection process through which incidents are reported to Operational Risk Management department for recording purpose. A comprehensive Loss Database from 2013 till date is maintained by ORM.

Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements with its scope encapsulating:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events whilst protecting key assets. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

Outsourcing

Complying with SAMA regulations on outsourcing, the Operational Risk Management team is involved in reviewing agreements related material outsourcing of banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

Anti-Fraud Management

The Bank has established an Enterprise Anti-Fraud program in coordination with several internal stakeholders, aiming to prevent and reduce the losses arising from internal and external frauds. The Bank wide anti-fraud awareness program is periodically conducted and the Bank is preparing for a Bank wide fraud risk assessment exercise which will be linked to the existing risk profile and control registers.

B. MEASUREMENT OF OPERATIONAL RISK (OR) CAPITAL CHARGE

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Bank. the Bank has the intent of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

13. SHARIA'H COMPLIANCE

Being an Islamic Bank, the Bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the bank established an independent Sharia'h Board and a Sharia'h Compliance Division under Sharia'h Group.

A. SHARIA'H GOVERNANCE

The Sharia'h Compliance Framework was formulated to enable Bank Al-Jazira to achieve its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Compliance Framework is the enterprise-wide Sharia'h Group plan consisting of Sharia'h

Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following Divisions:

- Sharia'h Board Secretary;
- Research and Development;
- Sharia'h Compliance;

B. SHARIA'H BOARD

The operation of the Islamic Bank is governed by Sharia'h Governance Standards of Islamic Financial Institutions which stipulates that any licensed Islamic Bank is required to provide for the establishment of Sharia'h Board, which is responsible for directing, supervising and monitoring the activities of the Bank to ensure compliance with Islamic Sharia'h rules and principles .

The Sharia'h Board is responsible to:

- Approve the Articles of Association, the regulations, the models and the policies of used in the Bank.
- Study the forms of contracts, documents and applications existing with the Bank, and determine the results of the Commission and correct the products subject to modification.
- Looking into all transactions and products executed by the Bank for the first time to indicate the extent of their compliance with Sharia'h rules and principles. And put the basic principles for drafting their contracts and documents.
- Provide Sharia'h alternatives to conventional products and develop the basic principles for the formulation of contracts and documents and contribute to the development to enrich the experience of the bank in this field.
- Periodic review by the Sharia'h Compliance Division in the Sharia'h Group to the Bank transactions to verify the validity of the application and ensure that it conforms to the rules of the Islamic Sharia'h and the Fatwas issued by the Sharia'h Board on the new transactions by examining the files and documents of transactions, contracts and agreements concluded thereon.
- Answer questions, inquiries and clarifications received from the senior management of the bank or from various other technical departments as well as from the customers of the bank.
- Provide an annual report to the general assembly showing the extent of compliance with the rules and principles of Sharia'h in the light of the views expressed and guidance and through the review of transactions, and the annual budget of the Bank.
- Ensure that the gains made from sources or in ways that are contrary to the rules and principles of Sharia'h are avoided and disbursed to Charity according to the reports prepared by the Sharia'h Compliance Division of the Sharia'h Group.
- Ensure that Zakat is calculated in accordance with the rules and principles of Islamic Sharia'h.

C. RECTIFICATION PROCESS OF SHARIA'H NON-COMPLIANCE INCOME

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia'h non-compliance has already been put in place.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control;
- Monitoring and reporting.

14. LIQUIDITY RISK

Liquidity risk is the risk that the bank 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. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

LIQUIDITY RISK MANAGEMENT APPROACH

In terms of day-to-day liquidity management, the Treasury Business Support unit ensures sufficient funding to meet the Bank's intraday payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short- and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR, are maintained at the required minimum.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

All liquidity policies and procedures are covered by the Market Risk Policy which is subject to review and approval by the Market Risk Policy Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the bank also maintains liquid reserves of no less than 20% of it's deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

As a new requirement for 2018, the Saudi Arabian Monetary Authority (SAMA) requires that Banks develop the Internal Liquidity Assessment Plan (ILAAP) to be submitted by end of Q1 2018. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant. ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank is in the development phase of ILAAP and on track to comply with regulatory guidelines in this regard.

15. PROFIT RATE RISK IN BANKING BOOK

Profit Rate Risk in Banking Book arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.

Yield sensitivity of assets, liabilities and off balance sheet items

The bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).

Profit rate risk is measured as per industry best practices and reported on a daily basis to senior management. The bank uses behavioral models for non-maturity deposits; these models employ statistical time series data. Respective assumptions are derived from the model results in conjunction with other qualitative factors. Essentially, a small percentage of the non-maturity deposits (based on business segment) are then placed in the short term gap bucket while the remainder goes to a longer term gap bucket.

Recently revised guidelines from the Basel Committee on Banking Supervision/ SAMA on Profit Rate Risk in the Banking Book have been implemented by the Bank and are applicable for the year-end 2017 regulatory reporting cycle. These guidelines update both the principles and methods expected to be used by Banks for measuring, managing, monitoring and controlling this risk.

16. MACROECONOMIC AND BUSINESS CYCLE RISK

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

17. STRATEGIC RISK

Strategic Risk of the bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the bank in the form of reduction in shareholder value, loss of earnings, etc.

The bank has assessed its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and implementation capabilities.

18. REPUTATIONAL RISK

Reputational Risk refers to the potential adverse effects, which can arise from the bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/ adverse publicity etc.

The bank has assessed the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score.

19. IMPLEMENTATION OF IFRS -9:

As part of strengthening BAJ's Risk Management Framework and to ensure it remains in compliance with applicable regulatory requirements, the bank has undertaken a strategic initiative to implement IFRS-9, Financial Instruments", as per SAMA stipulated timelines.

The Bank has followed a detailed road map with defined stakeholders and activities. To ensure timely execution and implementation of the road map, a governance structure has been put in place in terms of a "IFRS-9 Working Group" and a "Steering Committee". Key developments in the IFRS-9 project are regularly reported to the Steering Committee with updates provided to the Board Risk Management Committee on a periodic basis.

20. ENTERPRISE RISK MANAGEMENT GROUP – THE ROAD AHEAD

The Bank remains focused on fortifying its risk management practices and culture. In this regards the Bank has managed to reengineer its risk management organization enabling it to provide assurance to both internal and external stakeholders as regards to sound risk management practices being implemented in letter and spirit. Furthermore, a detailed review to all policies and procedures has also been undertaken to ensure these remain up to date and fit for purpose.

The bank has undertaken a detailed review, validation and re-development (where necessary) of its rating models to ensure that the models remain in sync with the broad strategic objectives and are predictive of the obligor and portfolio risk profile. In this regard the Bank has developed Obligor Risk Rating models vis-à-vis Corporate, Commercial, SME and Specialized Lending Models. A separate set of score cards is under development with respect to the Retail Portfolio of the Bank to ensure that obligor's risk assessment is carried out at both application (pre-approval) and behavioral (post approval) basis.

To further refine its data mining and risk reporting capabilities, the Bank has undertaken a specific project to assess its data capabilities as per the principles laid down by BCBS 239. The project will provide the impetus for eventual development and implementation of a Risk Data Warehouse.

In order to further streamline the Risk Management Capacity to keep abreast of new practices, the Bank has set up new Risk Governance Unit and enhanced Operational Risk Unit capacity with new experienced resources.

The bank has also successfully automated its capital calculation capabilities under Basel III requirements. The new capital calculation engine has been successfully commissioned and operationalized with SAMA's approval.

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