BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة

ANNUAL REPORT 2014

بسم الله الرحمن الرحيم

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

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

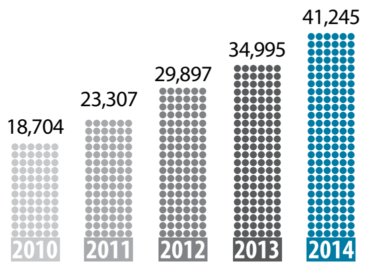
HRH Prince Muqrin Bin Abdulaziz Al Saud
The Crown Prince & First Deputy Prime Minister

HRH Prince Mohammed Bin Naif Bin Abdulaziz Al Saud
Deputy Crown Prince & Second Deputy Prime Minister

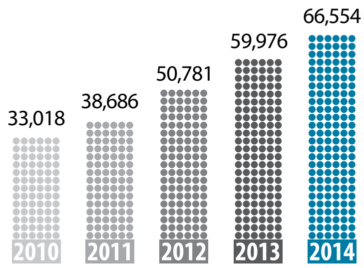
Contents

FINANCIAL HIGHLIGHTS

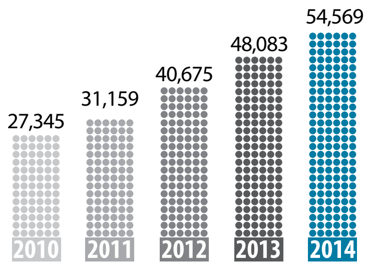
(In SAR millions, except where indicated)	2010	2011	2012	2013	2014
Loans and advances, net	18,704	23,307	29,897	34,995	**41,245**
Total assets	33,018	38,686	50,781	59,976	**66,554**
Customer deposits	27,345	31,159	40,675	48,083	**54,569**
Shareholders' equity	4,516	4,733	5,012	5,729	**6,158**
Net income	29	303	500	651	**572**
Total Operating income	1,155	1,208	1,601	1,839	**2,226**
Net income growth (%)	5.0	945	65	30	**(12.01)**
Net total Operating income (%)	(1.37)	4.59	32.5	14.87	**21.04**
Return on average equity (%)	0.64	6.55	10.27	12.12	**9.63**
Return on average assets (%)	0.09	0.85	1.12	1.17	**0.90**
Earnings per share (SAR)	0.07	0.76	1.25	1.63	**1.43**



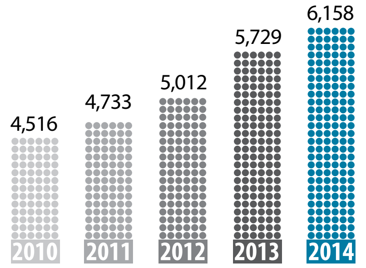
Net Loans and Advances
SR millions



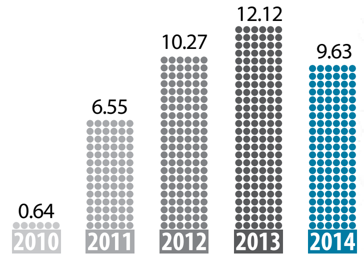
Total Assets
SR millions



Customer Deposits
SR millions



Shareholders' Equity
SR millions



Return on Average Equity (%)
SR 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

Mr. Taha A. Al-Kuwaiz
Chairman of the Board

Mr. Abdullah S. Kamel
Member

Eng. Tarek O. Al-Kasabi
Member

Mr. Khalifa A. Al-Mulhem
Member

Mr. Khalid O. Al-Baltan
Member

Mr. Nabil D. Al-Hoshan
Member

Eng. Abdulmajeed I. Al-Sultan
Member

Mr. Riyad M. Dughaither
Member

Mr. Majed A. Al-Hogail
Member

CHAIRMAN'S STATEMENT

Praises be to Allah, The Almighty, The Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendents and all his Followers.

Dear Shareholders,

On behalf of the Board of Directors of Bank of AlJazira, it is my pleasure to introduce our Annual Report for 2014.

I must firstly express our deep sense of loss at the passing of the late King Abdullah bin Abdulaziz, Custodian of the Two Holy Mosques. May Allah bless him and have his soul rest in peace. His legacy will continue through the vision, strength and compassion of King Salman bin Abdulaziz, Custodian of the Two Holy Mosques.

Bank AlJazira continued to benefit from the wise leadership of the Kingdom's rulers in 2014, while a pick-up in the global economy, particularly in the United States, created a catalyst for renewed growth and opportunity.

A significant change to the Bank took place with the highly successful listing of Aljazira Takaful Ta`awuni unit helping the bank maintain its strong position in this fast growing sector of the financial services industry.

Meanwhile, our focus on servicing mid-corporate clients and the continued expansion of our retail network and Fawri Money Transfer Services operations, helped to increase our market share in these strategically important areas. The bank's home finance division also benefited from strong demand for housing in the Kingdom during 2014.

Last year also saw a number of regulatory changes, with the new mortgage law in particular, these changes impacted several aspects of our industry. To fully tackle these changes we developed a new strategy to maintain our competitive advantage over the next five years across the bank main business lines.

The commitment of Bank AlJazira towards supporting the economic objectives of the Kingdom remained steadfast in 2014. We are proud to report that in 2014 the rate of Saudization at the bank reached 92 per cent.

The year saw the Bank continue on its path to growth with total assets rising to SAR 66.55 billion, an increase of 11 % on 2013. Customer deposits also increased to SAR 54.57 billion at 31 December 2014, up 13 % on the previous year. Loans and advances to customers were up by 18%.

A key element of our strategy supporting this growth has been to strengthen our position in the retail banking sector through branch network expansion. Today we have more than 70 branches across the region and a 3.8% market share, with more prime branches in the pipeline. In addition, the Bank's leadership position in real estate finance has continued in 2014, with the Bank's real estate finance portfolio growing by 25% over the year. We are committed to building on our leadership position in 2015 through the launch of new solutions and expanding product offerings to new market sectors.

We also made significant progress with our Alternative Delivery Channels, successfully launching phase III of our online banking channels, which offer enhanced features including a more user friendly interface. With this launch BAJ's customers can now enjoy the full function "AlJazira SMART" application, which already accounts for one quarter of total online transactions.

The Bank's Corporate and Institutional Banking Group (CIBG), which offers range of Shari'ah-compliant Islamic banking solutions to corporate entities achieved a growth of 14.14 % in its assets portfolio in 2014, and has registered a total operating income of SAR 558.51 million. Fee income from banking activities grew by SAR 28.13 million, as compared to the previous year, while non-performing loans declined 29.89% of the total loans for the year ended December 31, 2014.

I am pleased that our work is being recognised, both internally and outside of the Bank. The Islamic International Rating Agency reaffirmed its rating at A+/A- locally and A-/A-2 internationally. The agency marked the Bank's consistent growth in relation to the general economic situation and the current trends in the regional banking sector. It also noted the growth in our network of branches and significant growth in deposits which have exceeded the market average. International agencies Moody's and Fitch also reaffirmed their positive ratings and gave a stable outlook for the Bank.

We also take pride in being given several prestigious accolades over the year including Best Retail Bank 2014, World Finance and Best Real Estate Finance product by Banker middle east.

We have also invested time and resource to maintain our commitment to the environments we operate in. We have put in place effective plans and programs to help in the development of the individual which in turn contributes to the development of society as a whole. This comes as a reflection of the close relation of the Bank with the society and its commitment to social and humanitarian duties. Through 'Khair Aljazira le Ahl Aljazira' Program, BAJ disbursed SAR 14.7 million in 2014. BAJ has adopted and executed programs that achieve sustained development through training and qualifying an intensive segment of youths for the market place including the blind, the deaf and the disabled) and extending Quard Hassan loans to a number of youths within the productive families program kingdom-wide so as to establish their own business, improve their living, and counter poverty and unemployment. The Bank is now in a new phase of growth and as such, the Bank will be developing a strategy for the medium term outlook for the next 3 to 5 years.

Looking ahead, we know that 2015 will not be without its challenges. Uncertainty around oil prices, continued turbulence in the Eurozone, and instability in other parts of the Middle East could all negatively impact the economy.

However, whatever challenges we may face in the years ahead, I am confident that Bank AlJazira has the right strategy in place to overcome them.

The strategy we now have in place is built on four pillars. Firstly, we will aim to put our customers first and make sure their interests are at the centre of our operations. Secondly we will ensure we continue to deliver the highest quality, not only in the service we give our clients, but also in the products and solutions we offer. Thirdly we will continue to invest in our people and their personal development. Lastly we will strive to deliver value to all our stakeholders, from our clients through to our employees. In doing this we believe we can offer the best value to our shareholders.

I would like to close by offering my thanks to all of the management and staff at Bank Al Jazira. Our people are the strength of your bank and their continuous efforts in driving and developing our products and services are much appreciated. I am sure that you will join me in congratulating them on another year of progress and growth.

On behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the support extended by the Custodian of the Two Holly Mosques, King Salman Bin Abdulaziz Al-Saud; His Royal Highness, Prince Moqren Bin Abdulaziz Al-Saud, the Crown Prince, and Deputy Prime Minister, his Royal Highness Prince Muhammad bin Nayef Bin Abdulaziz Al Saud, Deputy Crown Prince and Second Deputy Prime Minister and the Minister of Interior and All Government Ministers.

We are also grateful for the continued support and guidance of the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, and the Capital Market Authority. The wise counsel and guidance of these regulators have proved of inestimable value in protecting the Kingdom's economy and particularly the banking sector from the turmoil that has so severely affected global finance. Finally, I would like to take this opportunity to extend our heartfelt thanks and appreciation to the bank's shareholders, customers, and associates for their continued trust and support, and also thank BAJ's management and staff for their dedication and distinguished achievements.

I deeply extend our sincerest gratitude to Allah Almighty and prayers upon our Messenger Prophet Mohammed – may peace be upon him, his descendants and all his followers.

Taha Abdullah Al-Kuwaiz

Chairman

CHIEF EXECUTIVE OFFICER'S FOREWORD

The Bank continues its development process which was commenced few years ago with the aim to achieve our vision to make Bank Aljazira the first choice for provision of Islamic Sharia- compliant solutions to our retail and corporate customers.

The year saw a number of regulatory changes, particularly with the introduction of the new mortgage law in particular. These changes impacted several aspects of our industry that includes real estate financing, leasing, consumer and SME financing. To fully tackle these changes we developed a new strategy to maintain our competitive advantage in the next five years across the bank's main business lines: retail banking, corporate banking, SME banking and treasury.

This vision is the essence of the Bank's new strategic plan which is based on a plan to enable the bank to build on its strengths and establish strong foundations to achieve future growth and increase the efficiency of its businesses across all sectors. This will increase the Bank's competitiveness and grow it's market share and consequently build a bank of high efficiency and performance to provide highest service levels for a leading and distinguished banking experience.

2014 was full of achievements for BAJ which we feel proud of and which enabled the Bank to move to new higher position. The new strategy " success is a journey to 2018" was launched to reflect the vision, mission and pillars upon which we plan to work and which focus on SME services and provision of suitable banking services and solutions for retail customers and building of long term banking relations with them. To ensure our vision was effectively communicated throughout the bank, we conducted a series of roadshows across the region under the banner "success is a journey to 2018". Led by the executive team, we undertook meetings with staff members at all levels so that our core values and beliefs would be engrained throughout the bank. These values are fundamental to our business proposition-delivering the best service, offering the best products and being a trusted advisor to all our clients.

2014 saw the successful completion of IPO of – Takaful. The Bank's capital was also increased from 3 to 4 Billion Saudi Riyals by issuance of one bonus share for each 3 shares held by registered shareholders

Customer deposits increased by 13% with the achievement of strong growth in the current accounts of 38%. Net loans recorded an impressive growth of 18%. This growth and increase are the direct consequences of the expansion of retail branches which grew to 80 branches for men and women across the Kingdom regions.

The Bank has also launched more Masi and Dhahabi products and private services which are hoped to contribute to further growth in the bank's VIP customer base. In addition, further focus has been placed on improving the services of card and loan customers in order to simplify such processes and make them more effective.

As part of plans to diversify our revenue streams, we introduced a strategic business line in 2013 in order to tap into one of the biggest international markets-remittance. In 2013 we launched FAWRI, a money transfer service with our strategic partner, Moneygram and IME. FAWRI now has twelve branches across the region offering remittance services at very competitive exchange rates and low service charges. More FAWRI branches are in the pipeline for 2015

For business sector, finance products, deposits and credit products were developed for SMEs in order to support this segment which we consider one of the pillars of our new strategy. Investment in the bank's core infrastructure continues with the addition of new disaster recovery sites in 2014. The year also witnessed significant investments in the bank's compliance, anti-money laundering (AML) and risk capabilities, which contributed to a strong provision coverage ratio of 173 per cent

International award giving bodies noticed our continuous efforts to give our clients best service. This was evident in the newly received awards, Best Bank in Credit Cards and Best Real Estate Financing Bank, both given by The Banker Middle East and the latest addition to these awards that we received from World Finance Magazine, namely the Best Retail Bank in the Kingdom in 2014.

We also continued our focus on Saudization of jobs, increasing the ratio at the Bank to above 92%. We have invested considerable efforts towards improving our internal training and staff development in line with our vision to be the best Sharia compliant bank in Saudi Arabia. Our training man day's average of 6.6 per employee for 2014, reflects a considerable growth to the 2013 training activity totals, with more than 544 annual training events taking place in 2014, in addition to required regulatory refreshers such as Anti Money Laundry and other regulatory compliance requirements. We value our people and feel proud of them and therefore take true interest in their personal and professional development.

BAJ succeeded in 2014 in the provision of Direct Payment service via SADAD. The bank was one of 4 banks selected by SAMA as leading banks to launch this service. BAJ was the first bank to launch this service in full as accountholder and collector at the same time through a real website. The bank also launched the new version of Jazira On-line system which represents a specific move into the enhancing of the efficiency and quality of the Bank's set of electronic services by adding more facilities to provide customers with wide horizons of flexibility and options in meeting their banking needs easily and safely. This step is a part of our continuous improvement of our services and enhancement of the quality of customer services in order to ensure and added value and exceptional advantages to them.

The Banking sector in the Kingdom of Saudi Arabia continues its strength mainly due to immense capitalization levels, high quality of assets and strong liquidity, and accordingly hot competition to attract customers is expected to continue in the years to come.

Hence, we need to invest in the new generation of technologies. To this effect, a number of projects have been implemented which we consider as strategic infrastructure investments and which will enable us to be in good position for future growth and help us to upgrade the level of our services and to excel in our performance of business and long term relationships with customers.

In closing, I would like to thank our customers for their confidence and support to BAJ, the Chairman, the Board of Directors and the Senior Management team for their continued support. I would also like to thank the Bank's professional and dedicated members of staff for their loyalty and commitment, which have been fundamental in the Bank's achievements during 2014 and will remain pivotal to our continued success in 2015.

Nabil D. Al Hoshan

Chief Executive Officer & Managing Director

EXECUTIVE MANAGEMENT

Mr. Nabil Al Hoshan
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 Corporate & Institutional Banking Group

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

Mr. Osama Al-Ibrahim
Acting Chief Risk Officer

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

Mr. Shahid Amin
Senior Vice President & Chief Financial Officer

Mr. Robert Hadley
Senior Vice President & Chief Operating Officer

Dr. Fahad Al-Elayan
Executive Director, CSR Program
& Acting Head Shariah Group

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

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 2014.

BOARD OF DIRECTORS' REPORT

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 Shariah compliant banking products and services comprising of Murabaha, Istisna'a, Ijarah and Tawaraq, which are approved and supervised by an independent Shariah Board.

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

The shareholders of the Bank in their meeting held on 20 May 2014 (corresponding to 21 Rajab 1435) approved the increase in the Bank's share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). Accordingly the authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 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)	2010	2011	2012	2013	2014
Loans and advances, net	18,704	23,307	29,897	34,995	**41,245**
Total assets	33,018	38,686	50,781	59,976	**66,554**
Customer deposits	27,345	31,159	40,675	48,083	**54,569**
Shareholders' equity	4,516	4,733	5,012	5,729	**6,158**
Net income	29	303	500	651	**572**
Total operating income	1,155	1,208	1,601	1,839	**2,226**
Net income growth (%)	5.0	945	65	30	**(12.01)**
Total operating income growth (%)	(1.37)	4.59	32.5	14.87	**21.04**
Return on average equity (%)	0.64	6.55	10.27	12.12	**9.63**
Return on average assets (%)	0.09	0.85	1.12	1.17	**0.90**
Earnings per share (SAR)	0.07	0.76	1.25	1.63	**1.43**

Loans and Advances, net: totaled SAR 41 billion at the year-end, registering a growth of 18% over SAR 35 billion in 2013. The Bank continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk concentration.

Consumer lending grew from SAR 12.4 billion at the end of 2013 to SAR 15 billion at year end 2014, a year-on-year growth of 20%. Commercial loan book also grew by a net SAR 3.4 billion during the year.

Placements with Other Banks and Other Financial Institutions: Total outstanding at the end of 2014 were SAR 4.9 billion versus SAR 3.1 billion in 2013, higher by 60%. This is a short term activity and represents the day to day liquidity / cash flow management.

Investments Book: The investment portfolio is comprises of Sukuk, T. Wakala, and investment in equities. Total portfolio at the year-end was SAR 11.4 billion versus SAR 12.6 billion in 2013, reduced by 10%. The reduction in portfolio mainly represents liquidation of T. Wakala investment (SAR 0.9 billion in 2013 versus zero in 2014). This is a short term investment (up to one year) and liquidated as per the liquidity management strategy.

Total Assets: reached SAR 66.6 billion in 2014, as compared to SAR 60 billion in 2013, representing an increase of 12%.

Customer Deposits: increased by 13%, reaching SAR 54.6 billion in 2014, as compared to SAR 48.1 billion in 2013. A healthy trend was noted in the current accounts (demand deposits) which have grown by 38% during 2014 rising from SAR 19.2 billion in 2013 to SAR 26.4 billion at the end of 2014. Such impressive and sustainable growth results are mostly from the retail banking network expansion and addition of new products.

Geographical Analysis of Income

The table below depicts region-wise analysis of the total operating income of the Bank.

Regions	Central	Eastern	Western	Head office	Total
			SAR in 000's		
Total Operating Income	833,839	309,097	618,633	464,676	2,226,245

Main Business Segments/Sectors

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

Personal Banking

Deposits, loans and investment products for individuals, remittance, real estate financing, credit card issuance and personal financing.

Corporate Banking

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

Brokerage and asset management

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

Treasury

Treasury is responsible for managing the assets and liabilities of the Bank. This includes profit rate risk mitigation and liquidity management to ensure that the Bank remains financially secure for customers. The other activities of Treasury include managing the Bank's investment portfolio, offering the Bank's customers Treasury products/ solutions to meet their business and risk requirements.

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

2014 (SR'000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Mgmt.	Takaful Ta'awuni	Others	Total
Total operating income	739,727	558,507	614,794	346,387	22,217	(55,387)	**2,226,245**
Total operating expenses	(761,183)	(601,277)	(124,745)	(150,235)	(24,854)	4,677	**(1,657,617)**
Share in profit of associates	-	-	-	-	-	3,839	**3,839**
Net (loss)/income	(21,456)	(42,770)	490,049	196,152	(2,637)	(46,871)	**572,467**

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 2014:

Subsidiaries / Associates	Country of operation and incorporation	Nature of business	Share Capital (millions)	Ownership
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	SAR 500	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collateral on behalf of the Bank	SAR 1	100%
Aljazira Takaful Taawuni Company	Saudi Arabia	Insurance activities in the sector of protection and saving	SAR 350	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 Aljazira Takaful Taawuni 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 572.47 million for the year ended December 31, 2014. This represents a decrease of SAR 78 million or 12 % compared to SAR 650.64 million for the same period in 2013. The decrease is due mainly to an increase in operating expense. Earnings per share were SAR 1.43 for the year ended 31 December 2014 against SAR 1.63 for the same period last year after taking the impact of bonus share which were issued in Quarter 2 of 2014. Total assets were SAR 66.55 billion at 31 December 2014, compared with SAR 59.98 billion at 31 December 2013, an increase of 11 % or SAR 6.67 billion. Customer deposits totaled SAR 54.57 billion at 31 December 2014, an increase of SAR 6.49 billion, or 13 %, compared with SAR 48.08 billion at 31 December 2013. Loans and advances to customers amounted to SAR 41.24 billion at 31 December 2014, an increase of SAR 6.24 billion, or 18 %, from SAR 35 billion at 31 December 2013. The Bank's investment portfolio totaled SAR 11.33 billion at 31 December 2014, a decrease of SAR 1.27 billion or 10% compared with SAR 12.6 billion at 31 December 2013.

Borrowings and debt securities in issue

	As at 31 December 2014 SAR'000
SAR 1,000 million 10 year subordinated sukuk	1,000,000
Total	**1,000,000**

SAR 1,000 million 10 year subordinated sukuk

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semiannually in advance, plus a margin of 170 basis points. The sukuk will mature on 29 March 2021. The obligation of the Bank to the Sukuk holders is not secured by any assets or security or guaranteed by third party and is subordinated. The Bank has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. These Sukuks are registered with Saudi stock exchange (Tadawul).

Borrowing from Banks

Total outstanding at the end of 2014 were SAR 3.7 billion versus SAR 4.4 billion in 2013, lower by 15%. 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 Group to keep abreast of the local and regional market conditions relating to Group's 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 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 Labour Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefit is due for payment at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2014 amounted to SAR 152.48 million.

Key Risks faced by the Bank

The nature of the Bank's business model involves being exposed to various risks of varying size, complexity and sensitivity. The established Enterprise Risk Management Framework and policy at the Bank involves proactive identification, measurement, evaluation, mitigation and acceptance (along with cost of ownership) of risks. Based on Basel regime, the most important categories of risks fall under Pillar 1 and Pillar 2 that the Bank is exposed. The Pillar 1 risks being Credit, Market, and Operational risks and Pillar 2 being Residual of Pillar 1 risks along with Liquidity, Profit Rate, Foreign Exchange, Strategic, Reputational, Shariah Non-compliance and Macroeconomic risks.

A well-established risk governance framework, review system and policies within the Enterprise Risk Strategy and Architecture help identify the ownership structure along with oversight of, and accountability for the effective management of those risks. The Board approves the Bank's risk appetite framework and policy, stress testing framework and policy, Internal Capital Adequacy Assessment process and performance targets, which include the appointment of senior officers, the delegation of authorities for credit approvals and the establishment of effective control procedures through Risk Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) for a robust and sustainable enterprise risk management

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 the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) and also comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2014 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards (refer note 2 c of annual consolidated financial statements for the year ended December 31, 2014).

Appointment of External Auditors

The external auditors are responsible for the annual audit and quarterly review of Bank's financial statements. The Bank's Extraordinary General Assembly meeting held on May 20, 2014 (corresponding to 21/07/1435) approved the recommendation of the Board of Directors and the Audit Committee to re-appoint Ernst & Young and KPMG Al Fozan & Al Sadhan as the external auditors of the Bank for the financial year ending 2014.

Capital Adequacy under Basel II and Basel III

Basel II is an international business standard and is intended to strengthen risk management practices and processes within financial institutions stipulating a minimum regulatory capital requirement given the risk profile of the institution. The standards have been adopted by SAMA.

The Basel II framework consists of three mutually reinforcing pillars which, acting together, are intended to contribute to enforcing soundness in the financial systems:

- **Pillar 1:** refers to Minimum Capital Requirements relating to Credit risk, Operational risk and Market risk
- **Pillar 2:** refers to SAMA's supervisory review of BAJ's Internal Capital Adequacy Assessment Process (ICAAP)
- **Pillar 3:** refers to Market discipline through public disclosures

SAMA has issued its final guidelines regarding implementation of Basel III Framework effective January 1, 2013. The new framework has brought significant amendments in the computation of regulatory capital and Pillar I risk weighted assets. Also significant enhancements have been introduced in the Pillar II and Pillar III framework.

The Bank monitors the adequacy of its capital using ratios established by Basel II and Basel III guidelines adopted 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.

ICAAP is designed to capture capital requirements under stressed scenarios as well as capital for Pillar 2 risks. Pillar 2 risks refer to risks not captured under Pillar 1, for example, Concentration risk. Bank's ICAAP is a comprehensive document designed to evaluate the Bank's risk profile, the processes for identifying, measuring and controlling risk, and its capital requirements and resources. It reflects a conservative and realistic approach to the assessment of BAJ's current and planned capital requirements on a fully consolidated basis, based on the Pillar II framework and the expected profile of the Bank. Further the Bank's ICAAP is in line with guidance issued by SAMA and is updated on an annual basis.

The capital adequacy disclosures have been prepared in accordance with the Basel II and Basel III rules issued by SAMA.

The Bank is well positioned to respond to the capital requirements imposed by Basel III. During 2015, The Bank will continue participating in SAMA working groups on the various aspects of Basel III to facilitate a smooth implementation of the rules within Saudi Arabia.

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 2014 (against 2013)	15.5
Withholding tax	6.28
Advance Tax (for the year 2014)	5.76
Income tax (for the year 2013)	3.15
GOSI (including Bank and the employees)	55.5
Visa, Iqama and related services etc.,	0.58

The zakat liability due for 2014 has been estimated at SAR 13.82 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 6.85 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 year's upto 2011 raising additional demand which is more fully explained in note 26 to the annual financial statements of the Bank.

Penalties and Regulatory Restrictions

SAMA, CMA, Municipalities and others have imposed fines on the Bank with a total of SAR 0.50 million during 2014 as specified below:

Name of the Authority	SAR in million
SAMA and CMA	0.27
Municipalities and others	0.23
Total	0.50

Related Party Transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted on arm's length basis. 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:

	2014 SR' 000	2013 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**492**	514
Due to banks and other financial institutions	**186**	344
Commitments and contingencies	**2,245**	1,745
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**798,446**	893,652
Customers' deposits	**4,491,008**	3,678,321
Other receivables	**13,118**	13,118
Commitments and contingencies	**34,148**	8,888

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

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

	2014 SR' 000	2013 SR' 000
Special commission income	**14,668**	38,009
Special commission expense	**44,852**	43,606
Fees and commission income	**74**	119
Directors' remunerations	**6,080**	4,715

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

	2014 SR' 000	2013 SR' 000
Short-term employee benefits	**74,890**	83,344
Termination benefits	**18,141**	16,116

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

Directors' and Senior Executives' Remuneration

The compensation paid to members of the Board of Directors of the Bank or members from outside the Board are determined in accordance with the frameworks set by the instructions issued by the supervisory authorities, and governed by prime principles to governance of banks operating in the Kingdom and compensation regulations issued by the Saudi Arabian Monetary Agency (SAMA) and Corporate Governance Regulation issued by Capital Market Authority (CMA) of Saudi Arabia, and the provisions of the Companies Law and the Article of Association of the Bank.

The Bank shall pay to directors the expenses and remuneration for attending the meetings of the Board of Directors and subcommittee meetings. Total expenses and remunerations paid to Board members and five senior executives, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in 2014 were as follows:

Remuneration and Allowances Paid to the Board of Directors and Five Senior Executives, including the CEO and CFO

(SAR thousands)

Statement	Executive Members of the Board	Non- Executive Members of the Board	Payments to five Senior Executives, including CEO & CFO
Salaries and compensations	-	-	13,910
Allowances and Remuneration	-	5,664	1,922
Periodic and annual bonuses	-	-	9,240
Incentive plans	-	-	-
Any compensation or benefits payable on a monthly or annual basis	-	-	1,500
Total	**-**	**5,664**	**26,572**

Board of Directors' Assurance

The Board of Directors controls 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 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 Shariah 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 issuer's 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 management's 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. (45) Of the Bank's Articles of Association which states 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 share in the net profit 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. The 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 the 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.

Banking Transactions with the Directors, CEO and CFO:

Notwithstanding the information reported in Note No. (34) "Transactions with Related Parties" which were conducted with third parties at arm's length, no essential interests exist for any Director, the Chief Executive Officer or the Chief Financial Officer.

Arrangements for Shareholders' waiver of rights to dividends

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any of their rights to dividends.

Notification Relating to Substantial Shareholdings:

During the year, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the Disclosure requirements of the Listing Rules issued by the Capital Market Authority (CMA). Below are schedules of share ownership of major shareholders, directors of the Board and senior executives or their spouses and minor children in shares or equity:

1) Description of any interest in the voting shares held by persons (other than Board directors, senior executives and their wives and minor children) who notified the Bank of such rights under Article 45 of Listing Rules and any change in such interests in the fiscal year in accordance with CMA Listing Rules para 10 Article 43 :

Name of Person Who has Interest	Beginning of the year 2014		During the year 2014		End of the year 2014	
	No. of shares	Percentage of ownership	No. of shares	Percentage of change	No. of shares	Percentage of change
National Bank of Pakistan	17,500,000	5.83%	23,333,333	-	23,333,333	-
Sheikh/ Saleh Abdullah Mohammed Kamel	15,000,000	5.00%	20,000,000	-	20,000,000	-

2) Description of any interest, option rights and subscription rights of Directors of the Board and senior executives and their wives and minor children in the shares or debt instruments of the Bank or any of its subsidiaries, or any change in such interest or rights in the last fiscal year in accordance with CMA Listing Rules para 11 Article 43 :

Directors of the Board:

Name of Person Who has Interest	Beginning of the year 2014		During the year 2014		End of the year 2014	
	No. of shares	Percentage of ownership	No. of shares	Percentage of change	No. of shares	Percentage of change
Mr. Taha bin Abdullah Al-Kuwaiz	174,333	0.06%	232,444	-	232,444	-
Mr. Abdullah bin Saleh Kamel Al Tawfeeq Develop House Co.	10,005,000 602,578	3.34% 0.20%	13,340,000 803,437	- -	13,340,000 803,437	- -
Mr. Nabil bin Dawood Al-Hoshan (Chief Executive Officer & Managing Director)	2,000	0.001%	2,666	-	2,666	-
Eng. Tarek bin Othman Al-Kasabi	10,181	0.004%	13,574	-	13,574	-
Eng. Abdul Majeed bin Ibrahim Al-Sultan Etihad Brothers Develop. Co.	1,000 19,781,816	0.001% 6.59%	1,333 26,375,754	- -	1,333 26,375,754	- -
Mr. Khaled bin Omar Al-Baltan	11,990,320	4%	15,987,093	-	14,103,230	11.8%
Mr. Khalifa bin Abdul Latif Al-Mulhem	2,304,404	0.58%	2,240,668	2.77%	2,220,668	0.9%
General Organization for Social Insurance - (represented in the Board of Directors by Mr. Riyad Mustafa Al-Dughaither)	12,275,138	4.09%	16,366,850	-	19,915,671	22%
Mr. Majed bin Abdullah Al-Hogail	43,277	0.01	66,552	54%	109,897	65%

The Board consists of 9 members representing corporate and natural persons represented in the Board in their personal capacity.

As a result of increase in share capital of the Bank through the issuance of Bonus share of one share for each three held shares was added to the shareholders registered at TADAWUL Depository as of the eligibility date which falls on the end of the day of 50th Extra-Ordinary General Meeting held on 20 May 2014.

Board of Directors and Subsidiary Committees Board Meetings

The Board held six meetings in 2014 (five meetings in 2013), as detailed below:

Director's name	Category	1st mtg 13/2/2014	2nd mtg 20/5/2014	3rd mtg 8/7/2014	4th mtg 24/9/2014	5th mtg 28/10/2014	6th mtg 27/12/2014	TOTAL
Mr. Taha bin Abdullah Al-Kuwaiz	independent	1	1	1	1	1	1	6
Mr. Abdullah bin Saleh Kamel	non-executive	1	1	1	1	1	1	6
Mr. Nabil bin Dawood Al- Hoshan Chief Executive Officer & Managing Director	Executive	1	1	1	1	1	1	6
Eng. Tarek bin Othman Al-Kasabi	non-executive	1	1	1	1	1	-	5
Mr. Khalifa bin Abdul Latif Al-Mulhem	Non-executive	-	1	1	1	1	1	5
Mr. Khaled bin Omar Al-Baltan	Non-executive	-	1	1	1	1	1	5
Eng. Abdul Majeed bin Ibrahim Al-Sultan	non-executive	1	1	1	1	1	1	6
Mr. Riyad Bin Mustafa Al-Dughaither	Independent	-	1	1	1	1	1	5
Mr. Majed bin Abdullah Al-Hogail	non-executive	1	1	1	1	1	1	6

Board of Directors and their Committees

The Board of Directors consists of 9 directors selected by the 48th Ordinary General Meeting held on Tuesday 12 Safar 1434H (25 Dec 2012) including (2) independent directors, (6) non-executive directors and (1) executive director.

In general, the Board of Directors controls the Bank's performance and operation through periodic meetings during the year, develops policies, and ensures proper implementation thereof. 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 satisfactorily 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 laws and regulations and accounting standards applicable in the Kingdom of Saudi Arabia.

The Board confirms its liability for the accuracy of the financial statements of the Bank and that such statements fairly reflect the Bank's financial status and results of its operations as well as the Bank's compliance, in all its activities, with the Sharia controls established by the Bank's Sharia Supervisory Committee.

The Bank received the letter of SAMA No. 351000062169 dated 15.05.1435H including their No-Objection to the appointment of Mr. Riyad Bin Mustafa Al-Dughaither, member of the Board of Directors representing GOSI in place of Mr. Mohammed Bin Abdullah Al-Hagbani who resigned from the Board directorship on 01 Jan 2014 which resignation was accepted by the Board and published on TADAWUL site on 02 Jan 2014. The Extra-Ordinary General Meeting endorsed in its 50th meeting held on 21/07/1435H (20 May 2014) the appointment of Mr. Riyad Bin Mustafa Al-Dughaither director of the Board to continue the term of the resigning director in the Board's present term which expires on 31 Dec 2015.

Details regarding the members of the Board of Directors of the Bank who are also board members in listed and non-listed Saudi joint stock companies as at the end of 31 December 2014 are as follows:

Board Director's name	Membership in other joint-stock companies' boards of directors
Mr. Taha bin Abdullah Al-Kuwaiz	• Saudi Kayan Petrochemical Company - Member of the Board of Directors. • Saudi Aviation Engineering Industries Company – Member of the Board • Derayah Financial - Chairman of the Board.
Mr. Abdullah bin Saleh Kamel	• Asir Company - Chairman of the Board. • Emaar the Economic City - Member of the Board • Umm Al Qura Development & Construction - Chairman of the Board • Amlak International for Real Estate Development and Finance - Chairman of the Board
Mr. Nabil bin Dawood Al-Hoshan - Chief Executive Officer and Managing Director	• Aljazira Capital - Member of the Board
Eng. Abdul Majeed bin Ibrahim Al-Sultan	• Qassim Cement Company - Member of the Board • Aljazira Takaful - Chairman of the Board. • Consolidated Brothers for Development Co - Member of the Board
Mr. Khaled bin Omar Al-Baltan	• The National Saudi Aviation Ground Support Company, Member of the Board
Eng. Tarek bin Othman Al-Kasabi	• Dallah Healthcare Holding Co – Chairman of the Board • Aseer Trading, Tourism and Industry Co. - Vice Chairman of the Board • Ataa Educational Company - Chairman of the Board • Sarb Real State investment - Chairman of the Board
Mr. Khalifa bin Abdul Latif Al-Mulhem	• Advanced Petrochemical Company - Member of the Board • Saudi White Cement Company - Member of the Board • Al Ittefaq Steel Products Company - Member of the Board
Mr. Riyad Bin Abdullah Al-Dughaither	----
Mr. Majed bin Abdullah Al-Hogail	• Saudi Indian Company for Co-operative Insurance - Member of the Board • Aljazira Capital - Chairman of the Board • NAS holding company - Member of the Board • RAFAL Real Estate - Managing Director

In line with the regulatory requirements and in order to achieve perfect performance and benefit from the expertise of the Board members, the Board formed the following main committees to assist it in its duties and assignments the details of which are as follows:

Board Executive Committee

The Executive Committee of the Board 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 session has been formed at the Board of Directors' meeting (180) held on Rabi Awal 01, 1434 H (13 January 2013). The Committee held eleven meetings during 2014 (twelve meetings in 2013), attended by members of the Committee as described in the table below:

Name	Functional duties	No. of meetings attended
Mr. Taha bin Abdullah Al-Kuwaiz	Chairman of the Executive Committee	11
Eng. Tarek bin Othman Al-Kasabi	Member of the Executive Committee	8
Mr. Nabil bin Dawood Al- Hoshan	Member of the Executive Committee	11
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Executive Committee	9
Mr. Majed bin Abdullah Al-Hogail	Member of the Executive Committee	11

Audit Committee

The Audit Committee plays a key role in assisting the Board in fulfilling its oversight responsibilities with respect to the integrity of the financial statements of the Bank, the external auditor's qualifications and independence, the performance of the Bank's disclosure controls and procedures, internal audit function and external auditor, the adequacy of the Bank's systems of internal accounting and financial controls, the Bank's compliance with ethics policies and legal and regulatory requirements as well as the risk management, compliance and control activities of the Bank.

The Committee reviews the financial statements on a quarterly basis 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 counter 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, the Bank adopts all policies and procedures required by the various statutory bodies and best of international practices.

The Audit Committee consists of the chairperson to be chosen from the non-executive members of the Board of Directors and three independent members from outside the Bank. The meetings of Audit Committee are attended by the Chief Audit Executive 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 for the current session has been formed at the Board of Directors meeting #(180) held on Rabi Awal 01, 1434 H (13 January 2013). The Audit Committee held five meetings during 2014, attended by the Chairperson and Members, as shown below table.

Name	Functional duties	No. of meetings attended
Mr. Majed Bin Abdullah Al-Hugail	Chairman of the Audit Committee	5
Mohammed bin Abdullah Al-Hagbani	Member of the Audit Committee	5
Mr. Fawaz bin Mohammed Al-Fawaz	Member of the Audit Committee	5
Mr. Taha Mohammed Azhari	Member of the Audit Committee	5

Nomination and Remuneration Committee

Following the issuance of The Bank's Corporate Governance, this committee was launched as a subcommittee reporting to the Board of Directors. Annex (G) of said charter specifies the basis of committee's structure, its mission and responsibilities, as per the rules and regulations with regard to Corporate Governance 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 Assembly ratified; in its meeting held on 10 Rabi Althani 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 reformed for the current session at the Board's Meeting held on 01 Rabie Al Awal 1434H (corresponding to January 13, 2013). The Committee held two meetings during 2014 (2 meetings during 2013), attended by the Chairman and Members of the Committee as described in the table below:

Name	Functional duties	No. of meetings attended
Mr. Abdullah bin Saleh Kamel	Chairman of the Nomination and Remuneration Committee	2
Mr. Nabil bin Dawood Al- Hoshan	Member of the Nomination and Remuneration Committee	2
Mr. Khaled bin Omar Al-Baltan	Member of the Nomination and Remuneration Committee	2

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 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 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 reformed at the Board of Directors' meeting (180) held on 01 Rabia Awal 1434 H (corresponding to January 13, 2013). The Committee held 3 meetings during 2014 (4 meetings in 2013), attended by the chairman and members of the Committee as described in the table below:

Name	Functional duties	Meetings attended
Eng. Tarek bin Othman Al-Kasabi	Chairman of the Risk Management Committee	3
Mr. Nabil bin Dawood Al-Hoshan	Member of the Risk Management Committee	3
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Risk Management Committee	2
* Mr. Charles Brodie (Ex - Head of Risk Management)	Member of the Risk Management Committee	2
* Mr. Riyad Bin Mustafa Al-Dughaither	Member of the Risk Management Committee	1

* *The Bank received the letter of SAMA No. 351000117068 dated 10.09.1435H including their No-Objection to the appointment of Mr. Riyad Bin Mustafa Al-Dughaither, 5th member of Risk Management Committee.*

* *The Bank received the letter of SAMA No. 351000021804 dated 11.02.1436H including their No-Objection to the appointment of Mr. Osama Khedher Al Ibrahim, as Designate Acting Head of Risk Department in succession to Mr. Charles Brodie.*

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, adoption 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 reformed at the Board of Directors' meeting (180) held on 01 Rabi Awal 1434 H (corresponding to 13 January 2013). The Committee held three meetings during 2014 (3 meetings in 2013), as below:

Name	Functional duties	No. of meetings attended
Mr. Khaled bin Omar Al-Baltan	Chairman of the 'Khair Aljazira le Ahl Aljazira' program Committee	3
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	3

Corporate Governance

Bank Aljazira strictly abides by the rules of corporate governance and ensures strict implementation of the overall internal control systems and transparency policies and is committed to the implementation of the principles of risk management. The Bank also strives to ensure the overall business is in compliance with laws and regulations of the Kingdom and to continuously adapt to the latest development in global governance frameworks, including the directives of Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), MOCI and all requirements and recommendations issued by the Basel Committee.

On the basis of paragraphs (c) of Article I and Para (a) of Article IX of the Rules of Corporate Governance in the Kingdom of Saudi Arabia issued by the CMA, the Bank applied all the provisions contained in the Regulations with the exception of the following Article:

Article No.	Article Content	Paragraph	Reasons for Non-Application
Article 6: Voting Rights	Voting is considered a substantial right for the shareholder, which cannot be ignored by any means, and the company is to avoid any measure that may lead to hindering the use of voting right, and all efforts should be exercised to facilitate shareholders voting.	B) The method of accumulative voting should be followed when voting to select the directors of the board in the general assembly.	The Bank's Articles of Association did not provide for the accumulative voting because accumulative voting is not effective yet as a mandatory practice.

All principles of Corporate Governance issued by the CMA are included in the corporate governance framework of the Bank in a detailed manner to ensure continuous control of its effectiveness as well as to improve and amend the same as appropriate when needed.

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 Banks, and additionally tested by the independent external auditors and regulatory inspection teams.

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.

Future Plans

Bank AlJazira is recognized as one of the leading (Shariah) compliant financial services institution in the Kingdom of Saudi Arabia. Over the past 6 years Bank Al Jazira has transformed into a full-fledged bank with full suite 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 our associate companies who offer Takaful insurance, Investment Banking, Asset Management, Brokerage and Securities Services.

Since 2010, The Bank has posted strong asset growth with loans and advances growing by 17% year on year. This has been driven by building a strong customer franchise with retail and corporate customers ranging from large corporate customers to SME/Kafalah customers.

Given this success in building a franchise, it was imperative for Bank Al Jazira to think ahead and develop a strategic plan. By the end of 2013 the Bank completed its medium to long-term strategy with a clear focus so that the Bank improve its returns by targeting the right customer segments and identify specific market opportunities and strategic plays whilst growing its market share within the Saudi banking space and look internally and identify key strengths and improvement areas to be addressed in order to execute these strategies.

Retail Banking

The Retail Banking Group (RBG) continues to play a significant role in the local banking market, offering unique Shariah compliant banking solutions that cater to changing client needs. Our product portfolio is comprised of Current Accounts, Murabaha Deposits, Personal Finance and Credit Cards, along with a range of specialized real estate products such as "Baiti" Ijarah Home Finance, Real-Estate Investment Finance and Secured Finance solutions that have placed Bank Aljazira amongst the top players in terms of year-on-year of market share growth.

Six years ago Bank Aljazira's Board of Directors took a strategic decision to focus on the development of the retail banking group. Firstly, the Bank worked to attract high-class talent prior to investing in the development of innovative products, branch network expansion and high-class delivery channels under the theme: 'Retail Banking Differentiated.'

A key component of the Bank's strategy was to increase market share through expanding its branch network. Since 2008, the Bank's network has increased from 24 branches with 1.7% market share to 70 branches and 21 Ladies sections with 3.8% market share, with more prime branches in the pipeline, resulting in a fivefold increase of our client base, and 41% CAGR.

As a result of this expansion, major shifts took place with regard to financials, especially in the area of loans and advances. Starting at a LDR of 18% in 2008, the Bank has successfully managed to grow its consumer loans from SAR 1,655 million in 2008, to SAR 15,021 million this year (at a CAGR of 47% versus an estimated ~12% CAGR market growth during the same period), resulting in a healthy 70% LDR through the launch of new products and competitive value propositions, with the support of multichannel sales models.

Despite the industry wide challenges with individual Murabaha deposits due to low profit rates, the Bank's managed to grow its total liabilities from SAR 9,447 million in 2008 to SAR 20,094 million by the end of 2014 at a 15% CAGR, outperforming the "Business & Individuals" market (estimated ~10% CAGR of total deposits).

Board of Directors' Report continued

Through its smart relationship management and compensation models, the Bank was able to triple its Current Account balances in six years at a 27% CAGR, and once again outperformed the "Business & Individuals" market in demand deposits (estimated ~20% CAGR)

Retail banking market competitiveness has reached its highest peak, especially within the personal finance market, which led to pricing wars in early in 2013. In order to balance our targeted spreads, we chose to maintain profit rates with selective reductions for targeted sectors during peak seasons when competition is at its highest. Following this, retail loans and advances have grown significantly to SAR 15,021 million in 2014, as compared to SAR 12,334 million in 2013, a y-o-y growth of 22%.

The Bank's leadership position in real estate finance has been successfully maintained over the past four years. The Bank's real estate finance portfolio grew by 25% in 2014, with an estimated market share of 6.6%.

In terms of liabilities, the Bank has exceeded the average market growth of demand deposits recording a 41% growth in 2014 (versus an estimate of 12% market growth of "Business & Individuals"). The Bank's "Naqaa" Islamic Murabaha Deposits faced ongoing challenges due to a market drop since December 2012 (to a figure lower than 2007 levels) as it continued to be viewed as a niche investment option for many individuals.

Overall, the group's liabilities book grew by 37%, closing 2014 at SAR 26,116 million from SAR 19,038 million in 2013 (versus an estimate of 7.6% market growth of "Business & Individuals" Demand & Time Deposits), mainly driven by attracting more Demand Deposits.

We also made strong progress with our Alternative Delivery Channels, successfully launching phase II of our online banking channels, which offer enhanced features including a more user friendly interface. With this launch the Bank's customers can now enjoy the full function of "AlJazira SMART" application, which already accounts for one quarter of total online transactions.

The Bank's ATM network expansion plan is making great progress as we increased our ATM network from 370 ATMs in December 2013 to 511 a year later, of which 55 are full function cash-acceptance machines. During 2014, the Bank's market share increased from 2.7% to 3.3%.

The Bank's state-of-the-art EMV enabled POS terminals market penetration is also expanding at a steady pace. Last year alone the Bank's installed 1,378 terminals, enabling the Bank to reach nearly 5,231 terminals (increasing our market share from 3.5% to 3.8%).

Moving forward, the Bank will continue to invest in developing its human capital and delivery channels as it believes they are key growth drivers during this transformation period. Acquiring, developing and retaining the most talented team members will remain the major focus area for the Bank. Since the beginning of 2011, the Bank's management team has successfully shifted the group's market approach from being sales-driven towards a 'total relationship management' approach for our High Net Worth and Affluent client base. Our uniquely designed products are offered to all our customer segments through an expanding branch network, and 21 ladies sections around the Kingdom, with the support of our award winning Alternative Delivery Channels.

In 2015, the Bank is fully focused on maintaining its real estate finance leadership position aided by launching new solutions and expanding its product offerings to new market sectors. The Bank has ambitious plans to expand its banking services products suite and will continue to develop the Alternative Delivery Channels over the coming years. The Bank will also focus on building its credit card product range and value propositions to offer a wider range of credit card loyalty programs. As for the branch network, the Bank will continue to expand its reach into targeted zones across the majority of the Kingdom's geographic areas. The development of Affluent banking lounges, along with dedicated relationship managers, is also a priority moving forward.

Private Banking

Since the inception in 2013, Private Banking Group thrives to become the bank of choice for HNW individuals and their families by introducing a wide range of wealth management solutions in a structured manner in line with each individual's needs and investment preferences.

BAJ Private Banking Group managed to achieve a record growth, which exceeded the 2014 - planned targets and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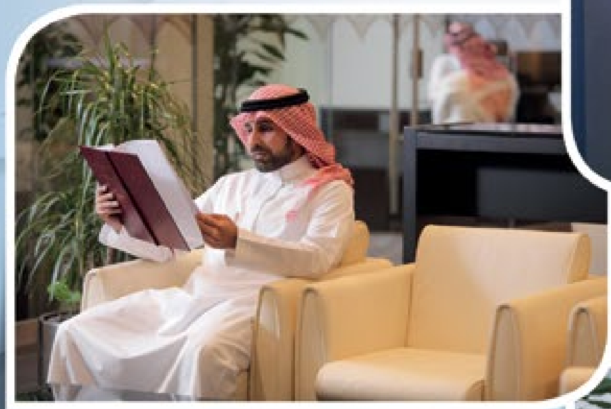
BANK ALJAZIRA


objectives. Customer deposits grew by 163% in 2014 with a total of SAR 7,039 Million as at the end of 2014. In addition, the Group has effectively contributed to the increase of Bank's Lending/Assets portfolio by SAR 531 Million, though it has only commenced to offer credit facilities to its major customers in 2014.

In continuation to strengthen its capabilities in managing & growing customer's funds, supported by close cooperation between BAJ & Al Jazira Capital for providing advisory services & latest solutions for HNW individuals, the Group achieved a good growth in customer investment portfolios which amounted to 134% in 2014 with a total value of SAR 3,462 Million as at the end of 2014.

The in charge team force of Private Banking is well qualified with strong experience and certifications in Wealth management services, which enable to offer a unique and sophisticated wealth management service, which is precisely catered for our customer needs and requirements.

The Group has redesigned its center at the Head office at King Road in Jeddah to match its new image, while another center has been opened in the Area Management office at King Faisal road in Al Khobar featuring the highest standards of interior design. These centers has been established to perform all banking transactions and services related to HNW individuals in a timely and efficient manner, through qualified Saudi talents.

Going forward, Private Banking Group is working to enhance its position among top local banks & to increase its market share in order to contribute efficiently to the Bank's overall profitability. Therefore, we will continue to enhance our front line capabilities, through providing our existing team with specialized & advance training courses and by attracting additional experienced Saudi talents. The Group is also in the process of introducing an up to date CRM system and it is actively engaging with all bank departments to raise their awareness on the nature of PB business to further enhance our overall customer experience. We aim from all the above to become the bank of choice for HNW individuals in the local market.

Fawri Money Transfer Services Group (FMTSG)

Since its inception a year ago, Fawri Money Transfer Services Group under the brand name "Fawri Money Transfer Services" has not only exceeded its expectations but indeed; has established its own identity escalating remittance standards to a new level through the induction of state-of-the-art technology and by providing friendly customer service.

Relatively, being newest in the remittance industry, Fawri remains steadfast and is advancing aggressively to make the Bank one of the key player in the remittance business of Saudi Arabia. In line with the Bank strategy 2014-18, Fawri has been separated as a group, in consideration to its full fledge business model and assertive foothold.

On contrary to the remittance standards in Saudi Arabia, Fawri has adopted a unique strategy by establishing its remittance centers at key locations close to the heart of its valuable customers thus; create a win-win situation for both the Bank and its customers. Worth mention, within such a short span, Fawri is currently operating 12 remittance centers across the Kingdom with 1 more center to be launched shortly and another 12 centers in the pipeline.

Alongside to spacious remittance centers, Fawri created a vivacious atmosphere in its centers by providing Queuing system, Service Quality survey and Free Wi-Fi access, the first of its kind in the market thereby; providing a stress free remittance experience. Customer can benefit from all types of remittance services including Real Time Cash over the counter and Credit to Account at very competitive exchange rate and lowest service charge. Further, buying and selling of leading FCY has also been added to its product line.

On an optimistic note, Fawri is committed to customer acquisition, revenues accomplishment and expansion of its network. Concluding, Fawri is on a roll towards its ambitious target of establishing the Bank among top 3 players in the remittance business of Saudi Arabia.

Corporate & Institutional Banking

Underpinned by expanding products and services, combined with customer acquisition and financing deals, the Bank's Corporate and Institutional Banking Group (CIBG) has achieved a growth of 14.14 % in its assets portfolio in 2014, and has registered a total operating income of SAR 558.51 million. Fee income from banking activities grew by SAR 28.13 million, as compared to the previous year, while non-performing loans declined 29.89% of the total loans for the year ended December 31, 2014. CIBG, which offers a wide range of Shariah-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 in each of the three regional offices to handle the Banking needs of the customers in each region.

CIBG comprises the following business units:

Commercial Banking Services (CBS)

In 2012, CIBG launched Commercial Banking Services (CBS), a dedicated SME division that provides a wide range of commercial banking services and products. CBS also serves to expand the base of beneficiaries through the establishment of regional offices that tie-up all commercial banking clients around the Kingdom via its various channels. This trend reflects the Bank's strategic direction to increase its customer base, benefit from credit demand, increase lending volume, and also increase and diversify the finance portfolio. As a result, CBS offered support and finance through many financing programs designed for SMEs and the Kafalah program.

2014 saw significant development at CBS with the launch of new products designed to cater to specific SME needs. CBS will continue to provide enhanced services to play a pivotal role in delivering Shariah compliant offerings with an objective of meeting specific customer requirements. CBS is working closely with other sectors through its unique offerings to achieve the highest levels of efficiency, productivity and service to SMEs.

Global Transaction Services (GTS)

Global Transaction Services (GTS) has emerged as a critical component of Islamic cash management and trade finance over the years, proving to be an efficient and reliable partner to many enterprises in the Kingdom; encompassing SMEs, commercial businesses, large corporate entities, government, quasi-government (Public Sector), and financial institutions. GTS payment solutions cover a complete spectrum of domestic and international transactions offered via conventional and online/mobile channels, and have culminated in Global Transaction Services writing substantial new business in payroll management and cash collection.

The growth strategy of GTS is aligned with the fundamental trends that are driving change in terms of digitization and processing modernization across all business sectors in Saudi Arabia.

Specialized Finance Division (SFD)

Specialized Finance Division (SFD) is comprised of three units: Project & Structured Finance, Syndication and Agency. This proven operating model with defined objectives and roles has strengthened the Bank's capability in the whole spectrum of specialized financing.

Financial Institutions Unit (FIU)

Financial Institutions Unit (FIU) continues to build a substantial network of correspondent banking relationships around the world by enhancing BAJ's capacity to service the needs of its customers, and facilitating and financing their transfers and trade transactions. FIU maintains strong relationships with banks, financial institutions, government and quasi-government entities, investment and brokerage firms, insurance companies, and export credit insurance corporations.

Public Sector Unit (PSU)

Public Sector Unit (PSU) is dedicated to providing Shariah compliant tailor-made solutions (Murabaha, Musharaka, Tawaruq, Ijara, Naqa'a, etc.) to meet the growing needs of a wide range of public sector businesses such as corporate finance, real estate finance, investment banking, contracting finance, cash management and e-banking solutions. The PSI also offers trade finance, capital and debt market products, treasury products and international banking services to our Public Sector clients.

Board of Directors' Report continued

Treasury

Treasury has accomplished another year of success. Besides achieving its financial goals for the year it has also successfully addressed the technology issues and implemented the first phase of the new Treasury system. The new Treasury system is imperative to manage Treasury activities, new products offering and catered to comply with the Basel III requirements. All these successes brought BAJ Treasury at par or above most of the Banks operating in the Kingdom.

Liquidity management which is a basic function of a Treasury in bank whereby Treasury manages the risk of profit rate mismatch & liquidity was managed effectively. Treasury also offered competitive pricing of assets and liabilities for business lines through Transfer pricing. Effective Investment portfolio management and Liquidity management resulted in a significant growth of Treasury Accrual Income i.e. 40% higher over prior year.

Customer business remains the main focus of Treasury business and our efforts to provide our customers with the Sharia compliant solutions and promoting Cross-Sell culture within the Bank have resulted in a significant growth in customer revenues. FX income has increased by 52% and Treasury hedging solutions income increased by 84% over prior year. Total growth in customer revenues is of 61% over prior year.

Our efforts continue to increase our investment portfolio in order to achieve sustainable growth in accrual income. Despite the minimum opportunities available in the market in Shariah compliant instruments we were successful to make additional investment of SAR 1.5 billion in high quality Sukuk. The incremental investment increased our investment portfolio to SAR 11.0 billion.

In carrying out Treasury activities we have also ensured that the market risk policies & practices have been strictly followed. This is evident from the high audit rating we have been maintaining as no significant issue was highlighted in Treasury audits.

Human Capital Group (HCG)

Following through from the progress made in 2013, the HCG continues its vital strategic role in 2014 as a full partner to all business functions, while complying with all relevant regulatory guidelines, with continued focus on recruitment, development, motivation and reward, leading to long term top talent retention and a sustained performance excellence curve for all bank staff.

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 consultative and advisory input to all business units on all aspects of their HC management issues, 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 2014, the HCG continued to partner with all business groups to increase collective and individual proficiency and effectiveness of all available manpower resources by focusing on the reorganization of bank functions to achieve maximum efficiency. Additionally, the Human Capital Relationship Management role was instrumental in conveying all strategic and critically important business line staff initiatives and programs to all business areas, coupled with full-on organizational and administrative support for the initiation of new functions complete with personnel certification and re-certification programs, the establishment of high level feedback and succession planning initiatives for top management to ensure organizational continuity and sustainability, and the assurance of as close to 100% as possible full compliance and "Zero Findings" record in all HCG financial and regulatory audits, through the development of new policy and practices enhancements and governance initiatives.

Recruitment for the new "Fawri" remittance centers and the Branch Network Expansion programs took center stage in 2014. With both recruitment drives focusing on Saudization. The highly successful Branches Network Development Program (BNDP), with 3 new batches for 2014 totaling 67 graduating candidates, and the Management Associate Program (MAP), with 17 graduate candidates for 2014, continue to be great talent attractors, along with numerous internship opportunities for high school and trade school diploma holders, undergrads & post graduate candidates, as well as the continued success of the Al-Beit Al-Hassan Program, with almost 15% of the Bank staff population enjoying its unrivaled staff housing finance benefits.

The Bank has accordingly improved its high success rate of effective Saudization of more than 92%. Furthermore, the HCG invested considerable efforts towards growing the learning and development function, and by upgrading and enhancing the functions and capabilities of the HRMS self-services system in general. Our training man day's average of 6.6 per employee for 2014, reflects a considerable growth to the 2013 training activity totals, with more than 544 annual training events taking place in 2014, in addition to required regulatory refreshers such as Anti Money Laundry and other regulatory compliance requirements.

As a cumulative result, impressive significant improvement across all categories and overall ratings and have confirmed the strategic partnership ties between the HCG and all other BAJ banking units in continuing this forward trend and dynamic, attractive and satisfying yet challenging work environment.

Enterprise Risk Management Group (ERMG)

Enterprise Risk management Group (ERMG) is one of the Banks' fundamental competencies and it plays an important role in aiding the board and senior management to operate effectively in a highly competitive Saudi Banking market. The Bank's Board of Directors has established several executive management committees to review all aspects of risk management, approve overall risk appetite framework and policies, and resolve any significant risk issues that may arise. These committees include:

- The Executive Committee
- The Board Risk Committee
- The Management Credit Committee
- The Asset and Liability management committee
- Operational Risk Committee

The Bank maintains a prudent approach to risk taking and considers risk management to be an integral part of the Bank's decision making process.

ERMG headed by the Chief Risk Officer (CRO) is empowered to identify evaluate and mitigate risks in a proactive manner that may arise from any businesses, support units and operating activities within the Bank. On a continual basis, ERMG seeks to achieve an appropriate balance between risk and reward across the various business, by working in partnership with the business and support units

Loans and advances to customers remain the principal source of credit risk to BAJ. The Bank's Risk Appetite Framework and Policy along with risk management policies and procedures are designed to identify and analyze risk and set appropriate limits and controls. Asset and liability concentration continues to be a key risk within the portfolios of the Saudi banks. BAJ constantly monitors this risk and seeks to reduce this over time by gradually broadening our corporate customer base.

2014 was undoubtedly a challenging year for the enterprise risk management group as it responded to the increasing regulatory requirements of Basel III and ensured that the enterprise risk management framework kept pace with the Banks' rapid growth plans and dynamic business model.

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 systems, 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 recommendations and information concerning the activities reviewed.

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

Shariah Group

Our excellence in the Sharia compliant banking business is the result of the Bank's commitment, in respect of all its deals, with the rules and controls of Islamic Shariah and building on the vision of the Sharia Committee members and their Honor the Ulamas who are specialized in the jurisprudence of financial and economic deals.

The Group continued through the Sharia Verification Department to focus on the quality of the Bank services and products and to establish the Bank's image as a leading Islamic bank by intensifying the review and audit activities of bank operations, restructuring of Naqaa product as an alternative solution for the traditional Term Deposits service, Dinar Product for personal finance and Visa product in collaboration with Retail Banking Department. The Group also endeavored, as far as possible, to abandon the Banking operations and products which attract conflicting Fikh opinions.

The Group's research center issued a special report on the Bank's investments and the necessity for such investments to be Sharia-compliant. A survey was also conducted to identify the extent of satisfaction by the Bank customers of the Bank's products and Bank's compliance with the Sharia controls in its operations. The Center has also issued a vision for new products in addition to a review of some of the existing products. In the endeavor to increase efficiency of work and fast completion of operations, the Group is working on introducing an advanced computer system for the finalization of Sharia approvals.

These procedures had a deep effect on how the society and customers look at the Bank and enhanced as well the level of confidence in the Bank as an Islamic bank; they have also contributed to the Bank's winning of a number of awards in the Islamic Financial Services field.

Support Groups

During 2014 the Support Group (SG) delivered a record level of change on behalf all business and functional areas. Major progress was made in building customer focused operations teams with efficient and effective processes. Technology delivery was improved with changes in governance, people and process. Logistics supported the challenging growth aspirations in the Retail and Fawri business and the BCM division transformed our bank wide disaster resilience and recovery capability.

Logistics

The Logistics division of SG, with the support of Technology, BTG and Procurement supported the fast growing Retail business with 6 new Retail branches and 2 Private Banking locations. Logistics also partnered the Fawri business in the construction of 11 new locations across the Kingdom with further developments planned for 2015.

Business Transformation Group (BTG)

The BTG division supported bank wide business, regulatory, operations and finance change. Key achievements included the project management and delivery of important credit card projects, improvements to online banking, project management of major operations and reconciliation change, the delivery of regulatory requirements and support of finance reporting improvements.

Operations

The modernization of the Operation division continued into 2014 with important improvements in retail personal loan turnaround times, significant improvements in day to day reconciliation processes and a renewed focus in serving internal and external customers.

Information Technology

The Technology division made successful improvements in project governance, software development and delivery, application monitoring and end of day processing automation throughout 2014. The division supported the successful delivery of more than 80 key projects and over 100 changes and improvements to user applications. Significant improvements were also made to infrastructure and the technology operations of the Bank.

Business Continuity Management (BCM)

The BCM division in partnership with Logistics and Technology transformed the disaster recovery resilience of the Bank with the build and testing of a new Jeddah recovery location, the creation of a resilient call center technology to ensure customer service continuity, technical recovery testing and improved awareness of the ongoing importance of business continuity across the Bank.

Aljazira Capital Company

2014 was a very successful year for AlJazira Capital (AJC) in terms of both business development and the maintenance of its leading position in the local brokerage market. AJC's contribution, in financial terms, to BAJ Group witnessed significant growth over the previous year with net income for 2014 increasing by over 50% to SAR 196 million (2013: SAR 129 million).

The continued success of AJC's business is underpinned by its adherence to its strategy of diversification of its revenue streams whilst ensuring its local and international brokerage business offerings are continually enhanced so that customers are on the receiving end of a great trading experience. During 2014, AJC's local brokerage business executed trades worth SAR 742 billion (2013: SAR 495 billion).

AJC's strategic investments in the development of its asset management and investment banking businesses were maintained during 2014; both businesses remain critical offerings in its total business expansion proposition. AJC's commitment to its asset management business is reflected in the fact that its public fund assets under management grew by over 20% during 2014 to SAR 2.3 billion, outperforming the overall market which grew by just 12% during the same period. Growth in assets under management reflects, in part, the continued focus of AJC on the development of its real estate fund offerings. During 2014, AJC successfully launched its third real estate Fund: AlJazira Residential Projects Fund 2. We are proud, in particular, to report that AJC's Taiyebat Fund (Shariah compliant local equity fund) continued to deliver superior performance for investors during the year.

AJC was pleased to receive recognition for its services to the investment community during 2014: Thomson Reuters awarded AJC ''Best Brokerage House" and ''Best Shariah Compliant Brokerage House" in the Kingdom of Saudi Arabia; in addition, AJC was the proud recipient of ''Best Brokerage Company in the Kingdom" for 2014 from Banker Middle East.

Notwithstanding the current global economic uncertainties, AJC remains optimistic regarding the further development of capital market activities in KSA; an optimism supported by the positive underlying economic fundamentals of the Saudi economy.

Community Service

Bank Al Jazira continues, through 'Khair Aljazira le Ahl Aljazira' program, the introduction and implementation of high quality programs which contribute to sustained development and helps in shifting a segment of the society from a stage of need to a stage of giving and production.

In continuation of its role and contribution to the social responsibility, the Bank endeavored to have in place and adopt effective plans and programs to help in the development of the individual which in turn contributes to the development of society as a whole. This comes as a reflection of the close relation of the Bank with the society and its commitment to social and humanitarian duties which help to support the people of our beloved country. The Bank's contribution through 'Khair Aljazira le Ahl Aljazira' program amounted to SAR 14.767.860 in 2014.

During the year the Bank implemented various and high quality programs which are capable of achieving the sustained development to individuals through the offering of interest-free loans for a number of needy families in different areas and cities in the Kingdom. Such loans are intended to enable those individuals to establish their own projects which would help them meeting the requirements of their daily life and ensure good level of living for them and their families. The Bank also participated in the promotion of the products of the producing families to help them secure opportunities to improve their income. This is in addition to the training and qualifying programs introduced to prepare the youth, male and female for the work market as well as other programs targeting those with special needs (blind, deaf and handicapped person).

The Bank also contributed to the procurement of many computer labs and business incubators in a number of societies and training centers, provision of voice labs in a number of Koran Reciting Societies in the different regions of the Kingdom; this is in addition to concentration on the orphan and unknown parentage segment by providing entertainment programs for this segment in many cities and areas. On the other side, the Bank continued the qualifying process of social business leaders which aim at developing, training and rehabilitation of social business leaders at social and charitable institutions thereby inuring to the benefit of individuals and institutions.

The number of male and female youth who benefited from the various activities and functions of ('Khair Aljazira le Ahl Aljazira') program amounted to 6.153 persons in different cities and areas of the Kingdom of Saudi Arabia.

Awards and Certification

Bank AlJazira has received the following awards:

- 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.
- Top 100 Saudi Brands – Al Watan Newspaper.
- 7 Awards in The Contact Center World Awards - EMEA region 2013, Vienna as follows:
  - Gold Medal - Best Call Center Award
  - 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 and 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 Abdulaziz, HRH Prince Muqrin Bin Abdulaziz Al Saud, Crown prince and Deputy Prime Minister, HRH Prince Mohammed Bin Naif Bin Abdulaziz Al Saud, Deputy Crown Prince and Second deputy Prime Minister, the Minister of Interior 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 Agency 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.

Shariah Advisory 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 Shariah Board has reviewed and discussed the final annual report prepared by the Shariah Group of the Bank that includes but not limited to the examination and auditing of procedures based on samples of each type of products and services offered by the bank.

The Shariah Board of Bank Al Jazira also reviewed the financial statements for the period ended in 31/12/2014, as well as the principles observed related to the contracts, transactions and products launched by the Bank during this period. The Sharia 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 and the guidance provided by the Bank's Shariah Board. Whereas the Shariah Board's responsibility is restricted to providing an independent opinion based on its monitoring of the operations of the Bank and presenting its report in the Annual General Assembly.

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

In the final opinion of the Sharia Board all contracts, operations and transactions executed by the Bank during the period mentioned in the report are in line with the rules of Islamic Shariah. The observations related to some non-Shariah compliant instances reported in the Shariah Group's annual Shariah compliance report do not materially affect the overall Shariah compliant 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

Sheikh Abdulla Bin Suleiman Al-Mane'e
Chairman

Dr. Abdulla Bin Mohammed Al-Mutlaq
Vice Chairman

Dr. Fahad Ali Al-Elayan
Rapporteur

Dr. Mohammed Ali Al-Guari
Member

Dr. Abdulsatter Abu-Ghudah
Member

Branch Network

BANK ALJAZIRA بنك الجزيرة
مصرفية إسلامية حديثة

Western Region

Makkah

Aziziah Branch
Tel : (+966) 12 557 1010
Fax : (+966) 12 553 1655

Al Shawqiya Branch
Tel : (+966) 12 539 1826
Fax : (+966) 12 538 2493

Madinah

Madinah Branch
Tel : (+966) 14 845 1111
Fax : (+966) 14 845 1953

Madinah Branch (Ladies)
Tel : (+966) 14 845 1956
Fax : (+966) 14 845 1952

Khalidiyah Branch
Tel : (+966) 14 849 1328
Fax : (+966) 14 869 2579

Khalidiyah Branch (Ladies)
Tel : (+966) 14 869 3381
Fax : (+966) 14 869 2579

Jeddah

Prince Sultan St. Branch
Tel : (+966) 12 607 5450
Fax : (+966) 12 607 5450 Ext. 208

Prince Sultan St. Branch (Ladies)
Tel : (+966) 12 607 0828
Fax : (+966) 12 607 0125

Tahlia St. Branch
Tel : (+966) 12 261 0725
Fax : (+966) 12 261 0485

Tahlia St. Branch (Ladies)
Tel : (+966) 12 261 0730
Fax : (+966) 12 261 0731

Al Balad Branch
Tel : (+966) 12 648 5533
Fax : (+966) 12 648 4599

Khalid Bin Al-Waleed St. Branch
Tel : (+966) 12 651 8070
Fax : (+966) 12 651 8070 Ext. 1012

Jeddah Main Branch (Al Nahda; formerly)
Tel : (+966) 12 609 8500
Fax : (+966) 12 234 6838

Jeddah Main Branch (Ladies)
Tel : (+966) 12 609 8520
Fax : (+966) 12 234 7227

Al Bsateen Branch (Alaya; formerly)
Tel : (+966) 12 694 9224
Fax : (+966) 12 694 9117

Al Salama Branch
Tel : (+966) 12 691 9719
Fax : (+966) 12 691 9717

Al Safa Branch
Tel : (+966) 12 673 6712
Fax : (+966) 12 673 6874

Al Steen King Fahd St. Branch
Tel : (+966) 12 659 7749
Fax : (+966) 12 659 7251

Al Samer Branch
Tel : (+966) 12 271 6058
Fax : (+966) 12 272 1870

Al Rabwa Branch (Almkaronah ; formerly)
Tel : (+966) 12 682 7683
Fax : (+966) 12 683 6578

Al Naeem Branch
Tel : (+966) 12 613 4333
Fax : (+966) 12 613 0401

Al Rehab Branch
Tel : (+966) 12 674 8585
Fax : (+966) 12 675 6460

Al Rehab Branch (Ladies)
Tel : (+966) 12 675 0190
Fax : (+966) 12 673 1846

Makkah Road Branch
Tel : (+966) 12 689 6600
Fax : (+966) 12 687 4729

Al Musa'adia Branch
Tel : (+966) 12 661 0112
Fax : (+966) 12 661 0108

Al Musa'adia Branch (Ladies)
Tel : (+966) 12 667 3700
Fax : (+966) 12 667 3700 Ext. 8357

Al Taif

Shehar Branch
Tel : (+966) 12 742 6678
Fax : (+966) 12 740 1737

Rabigh

Rabigh Branch
Tel : (+966) 14 423 3311
Fax : (+966) 14 423 3366

Tabouk

Tabouk Branch
Tel : (+966) 14 443 2676
Fax : (+966) 14 421 8320

Yanbu

Yanbu Branch
Tel : (+966) 14 357 2953
Fax : (+966) 14 357 2953

Eastern Region

Dammam

Dammam Main Branch
Tel : (+966) 13 832 1272
Fax : (+966) 13 834 3314

Jarir Branch
Tel : (+966) 13 842 1961
Fax : (+966) 13 841 7226

Al Jalawea Branch
Tel : (+966) 13 815 3394
Fax : (+966) 13 815 3379

Al Faisaliah Branch
Tel : (+966) 13 811 6653
Fax : (+966) 13 811 6702

Al Khaleej Branch
Tel : (+966) 13 834 6928
Fax : (+966) 13 834 8156

Al Khobar

Al-Hada District Branch
Tel : (+966) 13 882 0040
Fax : (+966) 13 887 8653

Al-Hada District Branch (Ladies)
Tel : (+966) 13 882 8848
Fax : (+966) 13 882 8722

Al Shatee Branch
Tel : (+966) 13 808 7758
Fax : (+966) 13 808 4458

Al Shatee Branch (Ladies)
Tel : (+966) 13 808 9986
Fax : (+966) 13 808 2283

King khaled St. Branch
Tel : (+966) 13 894 2512
Fax : (+966) 13 898 5330

Al Khobar Main Branch
Tel : (+966) 13 866 8012
Fax : (+966) 13 834 8156

Dhahran

Al Doha Branch
Tel : (+966) 13 891 6148
Fax : (+966) 13 891 2059

Al Doha Branch (Ladies)
Tel : (+966) 13 891 6149
Fax : (+966) 13 891 2869

Al-Ahsa

Al Hofuf Main Branch
Tel : (+966) 13 586 3555
Fax : (+966) 13 584 3111

Al Shahabiya Branch
Tel : (+966) 13 589 3952
Fax : (+966) 13 588 9078

Al Shahabiya Branch (Ladies)
Tel : (+966) 13 599 5560
Fax : (+966) 13 599 5560

Al Salmaniyah Branch
(Al Nakheel; formerly)
Tel : (+966) 13 575 4310
Fax : (+966) 13 536 4987

Jubail

Jubail Industrial City Branch
Tel : (+966) 13 347 1386
Fax : (+966) 13 347 1426

Qateef

Qateef Branch
Tel : (+966) 13 854 5463
Fax : (+966) 13 854 5367

Qateef Branch (Ladies)
Tel : (+966) 13 852 9900
Fax : (+966) 13 855 8437

Branch Network

Central Region

Riyadh

Olaya Branch
Tel : (+966) 11 215 7000
Fax : (+966) 11 215 7016

King Fahad Road Branch
Tel : (+966) 11 205 1870
Fax : (+966) 11 205 1870 Ext. 6151

King Fahad Road Branch (Ladies)
Tel : (+966) 11 225 6161
Fax : (+966) 11 225 6166

King Abdullah Road Branch
Tel : (+966) 11 207 1460
Fax : (+966) 11 207 1362

King Abdullah Road Branch (Ladies)
Tel : (+966)) 11 269 6228
Fax : (+966)) 11 269 3650

Al Qods Branch (Uqba Bin Nafe'a; formerly)
Tel : (+966) 11 278 1416
Fax : (+966) 11 278 4616

Al Qods Branch (Ladies)
Tel : (+966) 11 278 4387
Fax : (+966) 11 278 4359

Khurais Road Branch
Tel : (+966) 11 225 6399
Fax : (+966) 11 235 0380

Khurais Road Branch (Ladies)
Tel : (+966) 11 235 1999
Fax : (+966) 11 233 7490

Al Naseem Branch
Tel : (+966) 11 235 7813
Fax : (+966) 11 235 6876

Al Rayyan Branch
Tel : (+966) 11 235 7813
Fax : (+966) 11 235 6876

Al Rayyan Branch
Tel : (+966) 11 208 0166
Fax : (+966) 11 208 0166 Ext. 210

Al Rayyan Branch (Ladies)
Tel : (+966) 11 208 5366
Fax : (+966) 11 208 0166 Ext. 258

West Ring Road Branch
(Dahrat Al-Badiah; formerly)
Tel : (+966) 11 433 8441
Fax : (+966) 11 430 3682

Al Takhasusi Branch
Tel : (+966) 11 293 6599
Fax : (+966) 11 293 6560

Al Takhasusi Branch (Ladies)
Tel : (+966) 11 293 7449
Fax : (+966) 11 293 7451

Al-Suwaidi Branch
Tel : (+966) 11 428 9476
Fax : (+966) 11 449 3064

Al-Suwaidi Branch (Ladies)
Tel : (+966) 11 428 7523
Fax : (+966) 11 428 8735

Al-Nafl Branch
Tel : (+966) 11 275 1086
Fax : (+966) 11 274 1507

Al-Nafl Branch (Ladies)
Tel : (+966) 11 275 1086
Fax : (+966) 11 275 5681

Al Kharj Branch
Tel : (+966) 11 547 6254
Fax : (+966) 11 547 6273

Al Rawdah Branch
Tel : (+966) 11 254 3847
Fax : (+966) 11 254 3843

Al Shefa Branch
Tel : (+966) 11 271 5589
Fax : (+966) 11 271 5590

Sultana Branch
Tel : (+966) 11 428 5096
Fax : (+966) 11 428 3873

Ishbilia Branch
Tel : (+966) 11 812 3689
Fax : (+966) 11 812 8543

Al Sahafa Branch
Tel : (+966) 11 810 2590
Fax : (+966) 11 293 6560

Al Mrouj Branch
Tel : (+966) 11 415 4893
Fax : (+966) 11 415 4893

Al Malaz Branch
Tel : (+966) 11 291 3948
Fax : (+966) 11 291 3948

Huteen Branch
Tel : (+966) 11 214 5324
Fax : (+966) 11 214 5324

Qurtobah Branch
Tel : (+966) 11 293 6599
Fax : (+966) 11 293 6560

Qasim

Buraidah Branch
Tel : (+966) 16 383 5310
Fax : (+966) 16 383 5306

Onaizah Branch
Tel : (+966) 16 361 7547
Fax : (+966) 16 361 8412

Hail

Hail Branch
Tel : (+966) 16 571 2157
Fax : (+966) 16 571 2157

Southern Region

Khamis Mushait

Khamis Mushait Branch
Tel : (+966) 17 221 6465
Fax : (+966) 17 226 0798

Khamis Mushait Branch (Ladies)
Tel : (+966) 17 221 6465
Fax : (+966) 17 235 1022

Abha

Abha Branch
Tel : (+966) 17 226 0798
Fax : (+966) 17 229 6243

Najran

Najran Branch
Tel : (+966) 17 523 6291
Fax : (+966) 17 523 8267

Jazan

Jazan Branch
Tel : (+966) 17 322 3589
Fax : (+966) 17 322 8601

Abu Areesh Branch
Tel : (+966) 17 322 3589
Fax : (+966) 17 322 8601

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Western & Southern Regions

Jeddah

Mosaadia Center
Tel: (+966) 12 660 6020 Ext. 8889

Mosaadia Center (Ladies)
Tel: (+966) 12 668 3600

Al Nahda Center
Tel: (+966) 12 609 8888 Ext. 8552

Makkah

Makka (Aziziah) Center
Tel: (+966) 12 557 2020

Madinah

Madinah Center
Tel: (+966) 14 845 7255

Al Taif

Taif Center
Tel: (+966) 12 740 9662 Ext.4241

Abha

King Saud Road. Center
Tel: (+966) 17 226 0798

Khamees Mushait

Khamees Mushait Center
Tel: (+966) 17 221 9580 Ext.300

Najran

Najran Center
Tel: (+966) 17 523 0421 Ext.4063

Central Region

Riyadh

King Fahd Road Center
Tel: (+966) 11 225 6000

King Fahd Road Center (Ladies)
Tel: (+966) 11 225 6481

Ocbah Bin Nafe' St. Center
Tel: (+966) 11 278 1416

Al Nafal Center
Tel: (+966) 11 275 1086

Al Badiah Center (Al Suwadi)
Tel: (+966) 11 428 8749

Olaya Center
Tel: (+966) 11 215 7111

Al Riyan Center
Tel: (+966) 11 208 3316

King Abdullah Rd. Center
Tel: (+966) 11 264 2027

King Abdullah Rd. Center (Ladies)
Tel: (+966) 11 207 1460

Hail

Hail Center
Tel: (+966) 16 571 2157

Eastern Region

Al Khobar

Al Hada Center
Tel: (+966) 13 882 0040

Dammam

Dammam Center
Tel: (+966) 13 832 1272

Jubail

Jubail Center
Tel: (+966) 13 347 1422

Qatif

Qatif Center
Tel: (+966) 13 854 5370

Hafouf

Hafouf Center
Tel: (+966) 13 586 1590

Qassem Region

Onaizah

Onaizah Center
Tel: (+966) 16 361 7547

Buraidah

Buraidah Center
Tel: (+966) 16 383 5230

الجزيرة تكافل
Aljazira Takaful

Western Region

Jeddah

Madina Rd -South
(Mosaedia Center 3)
& Ladies
Tel : (+966) 12 668 8877
Fax : (+966) 12 667 7319

Madinah

King Abdullah Rd., Sultana st. intersextion- Ghouth Towers, 2nd Tower, 6th Floor
Tel : (+966) 14 822 1574
Fax : (+966) 14 828 3925

King Abdullah Rd., Sultana st. intersextion- Ghouth Towers, 2nd Tower, 7th Floor (Laides)
Tel : (+966) 14 822 1572
Fax : (+966) 14 821 2147

Makkah

Al Rajhi Center (Ladies), Main Azizia Rd- Management Bldg, 3rd floor
Tel : (+966) 12 561 3980
Fax : (+966) 12 561 3988

Central Region

Riyadh

King Abdullah Rd., Al Qods Dist. Uqba Bin Nafe'a Branch
& Ladies
Tel : (+966) 11 278 4214
Fax : (+966) 11 278 4214

Eastern Region

Dammam

9th St- Opposite to Ministry of Finance branch
& Ladies
Tel : (+966) 13 831 1717
Fax : (+966) 13 831 1776

Hofuf

Al Thorayat St.- Al Mousa Center, Next to Panda
Tel : (+966) 13 585 4747
Fax : (+966) 13 585 4419

Takaful Ta'awuni Toll free Number 8002440959

Branch Network

Fawri فوري
خدمـــات تحـــويل الأمـــوال
Money Transfer Services

Central Region

Riyadh

AL Batha/ Gaghazali BR. 6101
Tel : (+966) 11 406 8467
406 8524

AL-Balad (Manila) Br. 6102
Tel : (+966) 11 810 8056
810 8058

AL-Askary Br. 6105
Tel : (+966) 11 477 4889
477 6472

AL-Morooj Br. 6106
Tel : (+966) 11 203 1861
203 3058

Qasim

Buraidah Br. Qasim 6501
Tel : (+966) 16 369 4869
327 1294

Hail

Haiel Br. 6510
Tel : (+966) 16 369 4869

Eastern Region

Jubail

Jubail – 6705
Tel : (+966) 500672249

Western Regions

Jeddah

Al- Balad Br. – 6301
Tel : (+966) 12 289 9757
2894596

Al- Heraa Br. – 6302
Tel : (+966) 12 682 6902
683 4007

Al- Bawadi Br. – 6303
Tel : (+966) 12 655 8167
655 8592

Financial Statements

Contents

Independent Auditors' Report

EY Building a better working world

Ernst & Young & Co. (Public Accountants)
13th Floor, King's Road Tower
P.O. Box 1994
King Abdul Aziz Road (Malek Road)
Jeddah 21441
Saudi Arabia

KPMG

KPMG Fowzan and Sadhan
Zahran Business Center, Tower A, 9th floor
Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Saudi Arabia

We have audited the accompanying consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from 1 to 42. We have not audited note 42, nor the information related to "Basel III Pillar 3 Disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
Licence Number 393

For KPMG Al Fozan & Al Sadhan

Ebrhaim Oboud Baeshen
Certified Public Accountant
Licence Number 382

17 February 2015
28 Rabi Thani 1436H

Consolidated Statement of Financial Positions

As at December 31, 2014

	Notes	2014 SR'000	2013 SR'000
ASSETS			
Cash and balances with SAMA	3	**6,552,141**	7,306,158
Due from banks and other financial institutions	4	**4,908,991**	3,073,795
Investments	5	**11,334,970**	12,597,125
Loans and advances, net	6	**41,244,551**	34,994,759
Investment in an associate	7	**125,588**	121,489
Other real estate	6 e	**660,097**	672,485
Property and equipment, net	8	**598,920**	507,766
Other assets	9	**1,128,671**	702,831
Total assets		**66,553,929**	59,976,408
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**3,736,476**	4,358,738
Customers' deposits	12	**54,569,273**	48,082,525
Subordinated Sukuk	13	**1,000,000**	1,000,000
Other liabilities	14	**1,090,134**	806,600
Total liabilities		**60,395,883**	54,247,863
SHAREHOLDERS' EQUITY			
Share capital	15	**4,000,000**	3,000,000
Statutory reserve	16	**1,405,500**	1,762,500
General reserve	16	**68,000**	68,000
Other reserves	17	**(141,317)**	1,649
Retained earnings		**825,863**	896,396
Total shareholders' equity		**6,158,046**	5,728,545
Total liabilities and shareholders' equity		**66,553,929**	59,976,408

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Income
For the year ended December 31, 2014

	Notes	2014 SR'000	2013 SR'000
Special commission income	19	**1,954,869**	1,645,129
Special commission expense	19	**(509,787)**	(422,182)
Net special commission income		**1,445,082**	1,222,947
Fees and commission income, net	20	**648,052**	468,090
Exchange income, net		**56,822**	34,784
Trading income, net	21	**30,444**	55,738
Dividend income	22	**2,670**	6,407
Gain on non-trading investments	23	**3,684**	23,432
Other income	24	**39,491**	27,909
Total operating income		**2,226,245**	1,839,307
Salaries and employee-related expenses	35	**721,872**	629,982
Rent and premises-related expenses		**112,514**	86,537
Depreciation	8	**79,394**	71,417
Other general and administrative expenses		**356,399**	256,296
Impairment charge for credit losses, net	6c	**383,107**	136,343
Other operating expenses		**4,331**	7,085
Total operating expenses		**1,657,617**	1,187,660
Operating income		**568,628**	651,647
Share of profit / (loss) of an associate	7	**3,839**	(1,011)
Net income for the year		**572,467**	650,636
Basic and diluted earnings per share (expressed in SR per share)	25	**1.43**	1.63

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2014

	Notes	2014 SR'000	2013 SR'000
Net income for the year		**572,467**	650,636
Other comprehensive income:			
Items that are or may be reclassified to statement of income:			
Cash flow hedges:			
Fair value (loss) / gain on cash flow hedges	17	**(146,939)**	29,111
Net amount transferred to consolidated statement of income	17	**2,819**	13,302
Items not to be reclassified to statement of income:			
Net changes in fair value of investments classified as at Fair Value Through Other Comprehensive Income (FVTOCI)		**1,154**	23,643
Total other comprehensive (loss) / income for the year		**(142,966)**	66,056
Total comprehensive income for the year		**429,501**	716,692

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended December 31, 2014

2014	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, 2014		**3,000,000**	**1,762,500**	**68,000**	**1,649**	**896,396**	**5,728,545**
Net income for the year		**-**	**-**	**-**	**-**	**572,467**	**572,467**
Other comprehensive loss		**-**	**-**	**-**	**(142,966)**	**-**	**(142,966)**
Total comprehensive (loss) / income for the year		**-**	**-**	**-**	**(142,966)**	**572,467**	**429,501**
Transfer to statutory reserve	16	**-**	**143,000**	**-**	**-**	**(143,000)**	**-**
Issuance of bonus share	15	**1,000,000**	**(500,000)**	**-**	**-**	**(500,000)**	**-**
Balance at December 31, 2014		**4,000,000**	**1,405,500**	**68,000**	**(141,317)**	**825,863**	**6,158,046**
2013							
Balance at January 1, 2013 (Restated)		3,000,000	1,599,500	68,000	(37,644)	381,997	5,011,853
Net income for the year		-	-	-	-	650,636	650,636
Other comprehensive income		-	-	-	66,056	-	66,056
Gain on sale of investments classified as at FVTOCI		-	-	-	(26,763)	26,763	-
Total comprehensive income		-	-	-	39,293	677,399	716,692
Transfer to statutory reserve	16	-	163,000	-	-	(163,000)	-
Balance at December 31, 2013		3,000,000	1,762,500	68,000	1,649	896,396	5,728,545

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended December 31, 2014

	Notes	2014 SR'000	2013 SR'000
OPERATING ACTIVITIES			
Net income for the year		**572,467**	650,636
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net		**(30,444)**	(55,738)
Gain on non-trading investments	23	**(3,684)**	(23,432)
Depreciation	8	**79,394**	71,417
Dividend income	22	**(2,670)**	(6,407)
Gain on disposal of property and equipment		**-**	(7,723)
Loss on sale / write-off of property and equipment, net		**884**	331
Impairment charge for credit losses, net	6 c	**383,107**	136,343
Share of (profit) / loss of an associate	7	**(3,839)**	1,011
		995,215	766,438
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(446,525)**	(531,685)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(918,750)**	374,500
Investments held as at FVTIS		**(31,185)**	685,438
Loans and advances		**(6,632,899)**	(5,234,320)
Other real estate, net		**12,388**	(12,039)
Other assets		**(337,483)**	(43,042)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(622,262)**	1,072,694
Customers' deposits		**6,486,748**	7,407,235
Other liabilities		**55,556**	(113,428)
Net cash (used in) / from operating activities		**(1,439,197)**	4,371,791
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		**3,408,244**	4,733,497
Acquisition of amortised cost investments		**(2,084,381)**	(8,881,782)
Investment in an associate	7	**-**	(122,500)
Acquisition of property and equipment	8	**(171,487)**	(129,249)
Proceeds from disposal of property and equipment		**55**	23,561
Dividends received	22	**2,670**	6,407
Net cash from / (used in) investing activities		**1,155,101**	(4,370,066)
Net (decrease) / increase in cash and cash equivalents		**(284,096)**	1,725
Cash and cash equivalents at the beginning of the year		**7,090,500**	7,088,775
Cash and cash equivalents at the end of the year	27	**6,806,404**	7,090,500
Special commission income received during the year		**1,670,308**	1,573,072
Special commission expense paid during the year		**330,892**	400,579
Supplemental non-cash information			
Net changes in fair value and tranfers to the consolidated statement of income		**(144,120)**	42,413

The accompanying notes 1 to 42 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 70 branches (2013: 62 branches) in the Kingdom of Saudi Arabia and employed 2,015 staff (2013: 1,779 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 Shariah 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 Shariah Board established by the Bank.

The Bank's subsidiaries are as follows:

	Country of incorporation	**Nature of business**	**Ownership (direct and indirect) December 31, 2014**	Ownership (direct and indirect) December 31, 2013
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collaterals on behalf of the Bank	100%	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

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 at Fair Value Through Income Statement (FVTIS) and Fair Value Through Other Comprehensive Income Statement (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.

iii. Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in SAR 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 AlJazira Capital Company and Aman Development and Real Estate Investment Company is also the Saudi Arabian Riyal (SR).

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank AlJazira 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.

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:

i. the Group has power over an entity;

ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and

iii. 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 if facts and circumstances indicate that there are changes to one or morecriteria 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 enterprises 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 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 of 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 provision 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 annual consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013 except for the amendments to existing standards, as mentioned below, which had an insignificant financial impact on the annual consolidated financial statements of the Group for the current year or prior year and are expected to have an insignificant effect in future periods:

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investment funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

- IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendment. The recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets has been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.
- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.
- IASB issued Interpretation 21 Levies that is effective from 1 January 2014. This Interpretation defines levy a payment to a government for which an entity receive no specific goods or services and provides guidance on accounting for levies in accordance with the requirement of IAS 37.

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS 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. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

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 Bank on terms that the Bank 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 through the unwinding of the discount.

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 provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. 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.

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.

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at Fair Value Through Income Statement (FVTIS) and Fair Value Through Other Comprehensive Income (FVTOCI), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (d).

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 other 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 33)

For assets and liabilities that are recognised in the 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 the 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.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

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.

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 has the resources to continue in business for the foreseeable future. Furthermore, the 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 financial statements continue to be prepared on a going concern basis.

e) Settlement date accounting

All regular way purchases and sales of financial assets are 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 are accounted for in the same way as acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations 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 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 net trading income. Derivatives held for trading also includes those derivatives, which do not qualify for hedge accounting as described below.

ii. Embedded derivative

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

iii. Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

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

a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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 Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in fair value of a recognized asset or liability, or an unrecognized 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.

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 hedge

Cash flow hedges are used to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or highly probable forecast transaction and could affect the reported gain or loss.

For designated and qualifying cash flow hedges, 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 affects the consolidated statement of income.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to 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 year end.

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 provisions. 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 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. See 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. 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 at 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 at 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 "due to SAMA" or "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 at 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 at Fair Value Through Income Statement (FVTIS)

Investments in equity instruments are classified as at FVTIS, unless the Group designates an investment that is not held for trading as at 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 at FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTIS are measured at Fair Value Through Income Statement.

A debt instrument may be designated as at 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 at 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 remeasurement recognised in the consolidated statement of income.

Commission income on debt instruments as at FVTIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments at 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 at 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 at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at 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 at 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 portfolio (collective) provisions for impairment.

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

For presentation purposes, provision 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 amount written-off and specific provision for impairment, if any, and a portfolio (collective) provision 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 the in consolidated statement of income.

q) Property and equipment

Property and equipment are measured at cost less accumulated depreciation 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 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

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 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.

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 Bank is the lessee

Leases entered into by the Bank 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 Bank 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". 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

Under Saudi Arabian Zakat and Income Tax laws, Zakat and income tax are the liabilities of the Saudi and foreign shareholders, respectively. 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 taxes, relating to the shareholders of the Bank, are not charged to the Group's consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is distributed, the amount is accounted for as a receivable from the shareholders and will be deducted from future dividends and a corresponding liability is accounted for as payable to the Department of Zakat and Income Tax (DZIT).

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.

y) Employees' benefits

Defined unfunded benefit plan

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

The Group's net obligations in respect of defined unfunded benefit plans ("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.

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 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) Shariah compliant (non-interest based) banking products

The Bank offers its customers Shariah compliant (non-interest based) banking products, which are approved by its Shariah 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 Shariah 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

	2014 SR'000	2013 SR'000
Cash in hand	**728,663**	844,205
Balances with SAMA:		
Statutory deposit	**2,863,478**	2,416,953
Cash lending	**2,960,000**	4,045,000
Total	**6,552,141**	7,306,158

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 32). 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

	2014 SR'000	2013 SR'000
Current accounts	**808,991**	536,295
Money market placements	**4,100,000**	2,537,500
Total	**4,908,991**	3,073,795

The money market placements represent funds placed on a Shariah compliant (non-interest based) Murabaha basis.

5. INVESTMENTS

a). As of December 31, 2014 investments are classified as follows:

i) Designated as at FVTIS

	2014 SR'000		
	Domestic	**International**	**Total**
Mutual funds	**174,582**	**154,948**	**329,530**
Equities	**68,674**	**-**	**68,674**
	243,256	**154,948**	**398,204**

ii) FVTOCI

	2014 SR'000		
	Domestic	**International**	**Total**
Equities	**3,250**	**7,182**	**10,432**

iii) Amortised cost

	2014 SR'000		
	Domestic	**International**	**Total**
Sukuk investments	**10,926,334**	**-**	**10,926,334**
Grand Total	**11,172,840**	**162,130**	**11,334,970**

b) As of December 31, 2013 investments were classified as follows:

i) Designated as at FVTIS

	2013 SR'000		
	Domestic	International	Total
Mutual funds	160,514	152,736	313,250
Equities	23,326	-	23,326
	183,840	152,736	336,576

ii) FVTOCI

	2013 SR'000		
	Domestic	International	Total
Equities	3,250	6,028	9,278

iii) Amortised cost

	2013 SR'000		
	Domestic	International	Total
Murabaha investments	913,533	-	913,533
Sukuk investments	9,899,868	1,437,870	11,337,738
Total	10,813,401	1,437,870	12,251,271
Grand Total	11,000,491	1,596,634	12,597,125

c). The analysis of the composition of investments is as follows:

	2014			2013		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	-	-	-	-	913,533	913,533
Sukuk investments	**2,683,473**	**8,242,861**	**10,926,334**	2,446,150	8,891,588	11,337,738
Equities	**75,668**	**3,438**	**79,106**	29,166	3,438	32,604
Mutual funds	**329,530**	-	**329,530**	313,250	-	313,250
Total Investments	**3,088,671**	**8,246,299**	**11,334,970**	2,788,566	9,808,559	12,597,125

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

	2014				2013			
	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
Murabaha investments	-	-	-	-	913,533	-	-	913,533
Sukuk investments	**10,926,334**	**29,063**	**(4,260)**	**10,951,137**	11,337,738	17,338	(4,792)	11,350,284
Total	**10,926,334**	**29,063**	**(4,260)**	**10,951,137**	12,251,271	17,338	(4,792)	12,263,817

e) The analysis of investments by counterparty is as follows:

	2014 SR'000	2013 SR'000
Government and quasi Government	**5,445,786**	6,362,433
Corporate	**2,318,655**	2,906,817
Banks and other financial institutions	**3,570,529**	3,327,875
Total	**11,334,970**	12,597,125

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

Equities reported under FVTOCI includes unquoted shares of SR 3.4 million (2013: SR 3.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia 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 comprise the following:

	SR'000			
2014	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**14,868,491**	**26,360,158**	**284,539**	**41,513,188**
Non-performing loans and advances	**223,416**	**146,444**	**-**	**369,860**
Total loans and advances	**15,091,907**	**26,506,602**	**284,539**	**41,883,048**
Provision for credit losses				
Specific provision	**(172,674)**	**(50,442)**	**-**	**(223,116)**
Portfolio provision	**(182,828)**	**(232,553)**	**-**	**(415,381)**
Total provision for credit losses	**(355,502)**	**(282,995)**	**-**	**(638,497)**
Loans and advances, net	**14,736,405**	**26,223,607**	**284,539**	**41,244,551**

	SR'000			
2013	Consumer	Commercial	Others	Total
Performing loans and advances	12,184,052	22,822,891	219,871	35,226,814
Non-performing loans and advances	220,486	208,886	-	429,372
Total loans and advances	12,404,538	23,031,777	219,871	35,656,186
Provision for credit losses				
Specific provision	(90,333)	(88,934)	-	(179,267)
Portfolio provision	(126,628)	(355,532)	-	(482,160)
Total provision for credit losses	(216,961)	(444,466)	-	(661,427)
Loans and advances, net	12,187,577	22,587,311	219,871	34,994,759

Loans and advances, net represents Shariah Compliant (non-interest based) products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 9.05 billion (2013: SR 7.75 billion)

b) *Movements in provision for credit losses are as follows:*

	SR'000		
2014	**Consumer**	**Commercial**	**Total**
Balance at the beginning of the year	**216,961**	**444,466**	**661,427**
Provided during the year	**155,241**	**301,450**	**456,691**
Bad debts written off	**(1,255)**	**(429,917)**	**(431,172)**
Recoveries / reversals of amounts previously provided	**(15,445)**	**(33,004)**	**(48,449)**
Balance at the end of the year	**355,502**	**282,995**	**638,497**

	SR'000		
2013	Consumer	Commercial	Total
Balance at the beginning of the year	227,989	1,149,781	1,377,770
Provided during the year	98,831	87,541	186,372
Bad debts written off	(83,023)	(769,925)	(852,948)
Recoveries / reversals of amounts previously provided	(26,836)	(22,931)	(49,767)
Balance at the end of the year	216,961	444,466	661,427

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

	2014 SR'000	2013 SR'000
Additions during the year, net	**456,691**	186,372
Recoveries of amounts previously provided	**(48,449)**	(49,767)
Recoveries of debts previously written off	**(25,135)**	(262)
Impairment charge for credit losses, net	**383,107**	136,343

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

2014	**Performing SR'000**	**Non performing, net SR'000**	**Provision for credit losses SR'000**	**Loans and advances, net SR'000**
Government and quasi Government	**1,126,077**	**-**	**-**	**1,126,077**
Banks and other financial institutions	**630,365**	**-**	**-**	**630,365**
Manufacturing	**6,170,870**	**-**	**-**	**6,170,870**
Mining and quarrying	**80,684**	**-**	**-**	**80,684**
Building and construction	**1,358,151**	**221**	**-**	**1,358,372**
Commerce	**9,124,416**	**72,919**	**(49,517)**	**9,147,818**
Transportation and communication	**218,190**	**-**	**-**	**218,190**
Services	**446,061**	**60,575**	**-**	**506,636**
Consumer loans and credit cards	**14,868,491**	**223,417**	**(172,674)**	**14,919,234**
Share trading	**3,403,162**	**3,269**	**-**	**3,406,431**
Others	**4,086,721**	**9,459**	**(925)**	**4,095,255**
	41,513,188	369,860	(223,116)	41,659,932
Portfolio provision	-	-	(415,381)	(415,381)
Total	**41,513,188**	**369,860**	**(638,497)**	**41,244,551**

2013	Performing SR'000	Non performing, net SR'000	Provision for credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	515,777	-	-	515,777
Banks and other financial institutions	1,036,051	-	-	1,036,051
Agriculture and fishing	27,104	-	-	27,104
Manufacturing	5,930,793	90,343	(22,586)	5,998,550
Mining and quarrying	640,692	-	-	640,692
Building and construction	716,424	-	-	716,424
Commerce	8,367,742	51,319	(34,379)	8,384,682
Transportation and communication	280,425	-	-	280,425
Services	393,670	55,118	(30,575)	418,213
Consumer loans and credit cards	12,184,052	220,486	(90,333)	12,314,205
Share trading	2,806,397	3,269	-	2,809,666
Others	2,327,687	8,837	(1,394)	2,335,130
	35,226,814	429,372	(179,267)	35,476,919
Portfolio provision	-	-	(482,160)	(482,160)
Total	35,226,814	429,372	(661,427)	34,994,759

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 Group against loans and advances by each category are as follows:

	2014 SR'000	2013 SR'000
Collateral against performing loans	**17,955,136**	13,931,573
Collaterals against non-performing loans	**84,434**	86,740
Total	**18,039,570**	14,018,313

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

e) *Other real estate, net*

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**672,485**	660,446
Disposals	**(12,388)**	(1,961)
	660,097	658,485
Reversal of provision made for unrealised revaluation losses	**-**	14,000
Balance at the end of the year	**660,097**	672,485

7. INVESTMENT IN AN ASSOCIATE

The Group holds a 35% shareholding in AlJazira Takaful Ta'wuni Company ("ATT"). The details related to ATT are more fully explained in note 28 and note 38 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2014 is SR 794.29 million (2013: 655.38 million).

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

	2014 SR'000	2013 SR'000
Total assets	**358,619**	350,965
Total liabilities	**(4,310)**	(3,852)
Proportion of Group's ownership	**35%**	35%
Carrying amount of the investment	**125,588**	121,489

	2014 SR'000	2013 SR'000
Total profit / (loss) for the year	**10,970**	(2,889)
Group's share of profit / (loss) for the year (35%)	**3,839**	(1,011)

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

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**121,489**	-
Investment during the year	-	122,500
Share in profit / (loss) for the year	**3,839**	(1,011)
Other adjustment	**260**	-
Balance at the end of the year	**125,588**	121,489

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	Leasehold improvements SR'000	Furniture, equipment & vehicles SR'000	Capital work in progress SR'000	Total 2014 SR'000	Total 2013 SR'000
Cost						
Balance at the beginning of the year	**161,425**	**338,575**	**565,098**	**60,027**	**1,125,125**	1,013,332
Additions	**-**	**6,676**	**21,362**	**143,449**	**171,487**	129,249
Transfers	**-**	**44,028**	**20,262**	**(64,290)**	**-**	-
Disposals	**-**	**-**	**(44,239)**	**-**	**(44,239)**	(17,456)
Balance at the end of the year	**161,425**	**389,279**	**562,483**	**139,186**	**1,252,373**	1,125,125
Accumulated depreciation						
Balance at the beginning of the year	**4,888**	**191,604**	**420,867**	**-**	**617,359**	547,229
Charge for the year	**152**	**28,989**	**50,253**	**-**	**79,394**	71,417
Disposals	**-**	**-**	**(43,300)**	**-**	**(43,300)**	(1,287)
Balance at the end of the year	**5,040**	**220,593**	**427,820**	**-**	**653,453**	617,359
Net book value						
At December 31, 2014	**156,385**	**168,686**	**134,663**	**139,186**	**598,920**	
At December 31, 2013	156,537	146,971	144,231	60,027		507,766

9. OTHER ASSETS

	2014 SR'000	2013 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**7,108**	3,611
Investments	**71,007**	70,009
Loans and advances	**306,791**	246,471
Derivatives	**16,918**	11,470
Total accrued special commission receivable	**401,824**	331,561
Advances, prepayments and other receivables	**166,026**	138,825
Positive fair value of derivatives	**239,279**	122,456
Margin deposits against derivatives	**248,925**	84,300
Others	**72,617**	25,689
Total	**1,128,671**	702,831

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 an 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 Shariah 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.

The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain special commission rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

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:

2014 **SR'000**	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	18,930	30,677	26,155	64,046
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	18,930	30,677	26,155	64,046

2013 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	19,389	33,910	28,954	67,850
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	19,389	33,910	28,954	67,850

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

	2014 **SR'000**	2013 SR'000
Special commission income	**899**	977
Special commission expense	**(1,742)**	(1,185)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(843)**	(208)

Movement in other reserves of cash flow hedges:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**(3,061)**	(45,474)
(Losses) /gains from change in fair value recognised directly in equity, net (effective portion)	**(146,939)**	29,111
Losses removed from equity and transferred to consolidated statement of income	**2,819**	13,302
Balance at the end of the year	**(147,181)**	(3,061)

The discontinuation of hedge accounting due to the disposal of both the hedging instruments and the hedged items, resulted in the reclassification of the related cumulative losses of SR 1.976 million (2013: SR 13.094 million) from equity to the consolidated statement of income. This amount is included in the losses above.

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.

2014
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	59,133	59,133	5,187,560	983,866	2,283,694	1,920,000	-	4,158,876
Forwards	-	-	-					129,464
FX swaps	-	-	599,344	599,344	55,336	-	-	394,034
Special commission rate swaps	179,802	179,802	5,939,438	-	-	3,333,122	2,606,316	5,201,026
Held as cash flow hedges:								
Special commission rate swaps	344	139,704	3,186,562	-	-	304,688	2,881,875	2,214,651
Total	**239,279**	**378,639**	**14,912,904**	**1,583,210**	**2,339,030**	**5,557,810**	**5,488,191**	**12,098,051**

2013
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	4,746	4,746	1,901,150	635,690	852,960	412,500	-	4,424,433
Forwards	555	564	40,726	40,726	-	-	-	40,726
FX swaps	-	71	562,500	562,500	-	-	-	562,500
Special commission rate swaps	91,789	91,789	4,154,006	-	-	2,110,236	2,043,770	3,957,102
Held as cash flow hedges:								
Special commission rate swaps	25,366	20,024	2,635,313	-	-	503,438	2,131,875	2,131,797
Total	122,456	117,194	9,293,695	1,238,916	852,960	3,026,174	4,175,645	11,116,558

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

	SR'000					
Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2014						
Floating commission rate investments	**3,199,249**	**3,186,562**	**Cash flow**	**Commission rate swap**	**344**	**139,705**
2013						
Floating commission rate investments	2,630,823	2,635,313	Cash flow	Commission rate swap	25,366	20,024

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 SR'000	2013 SR'000
Current accounts	**63,239**	27,225
Money market deposits from banks and other financial institutions	**3,673,237**	4,331,513
Total	**3,736,476**	4,358,738

12. CUSTOMERS' DEPOSITS

	2014 SR'000	2013 SR'000
Demand	**26,436,759**	19,158,001
Time	**27,129,743**	27,432,544
Other	**1,002,771**	1,491,980
Total	**54,569,273**	48,082,525

Time deposits comprise deposits received on Shariah Compliant (non-interest based) Murabaha basis.

Other customers' deposits include SR 445 million (2013: SR 491 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2014 SR'000	2013 SR'000
Demand	**605,906**	503,945
Time	**2,877,273**	4,384,545
Other	**47,518**	47,581
Total	**3,530,697**	4,936,071

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

13. SUBORDINATED SUKUK

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on March 29 and September 29 each year until March 29, 2021, on which date the

Sukuk will expire or mature. The proceeds of the Sukuk were used by the Bank for strengthening its capital base as the Sukuk comprises Tier II capital for Saudi Arabian regulatory purposes. The obligation of the issuer to the Sukukholders is not secured by any assets or security or guaranteed by third party and is subordinated. The Sukuk is due in 2021 with a step up in margin to 550 basis points in 2016. The Group has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. The intention of the Bank is to exercise the call option in 2016. The Sukuk is registered with Saudi Stock Exchange (Tadawul).

14. OTHER LIABILITIES

	2014 **SR'000**	2013 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**36,937**	28,339
Customers' deposits	**90,835**	77,984
Subordinated Sukuk	**7,037**	7,037
Total accrued special commission payable	**134,809**	113,360
AlJazira Philanthropic Program (see note below)	**49,433**	63,623
Accounts payable	**215,403**	255,807
Dividend payable	**26,604**	26,652
Negative fair value of derivatives	**378,639**	117,193
Other	**285,246**	229,965
Total	**1,090,134**	806,600

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Bank'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 Bank 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 Directors to seek assistance of other independent members from the business community and the Shariah Board of the Bank to overview and provide guidance for the activities of the program.

15. SHARE CAPITAL

The shareholders of the Bank in their meeting held on May 20, 2014 (corresponding to 21 Rajab 1435) approved the increase in the Bank's share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). The legal formalities relating to the increase in share capital have been completed. Accordingly the authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (2013: 300 million shares of SR 10 each).

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

	2014	2013
Saudi shareholders	**92.23 %**	94.17 %
Non Saudi shareholder - National Bank of Pakistan	**5.83 %**	5.83 %
Non Saudi shareholder - others	**1.94 %**	- %

16. STATUTORY AND GENERAL RESERVES

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 143 million has been transferred from net income (2013: SR 163 million). The statutory reserve is currently not available for distribution.

In addition, when considered appropriate, the Bank makes an appropriation to a general reserve for general banking risks.

17. OTHER RESERVES

2014	**Cash flow hedges SR' 000**	**Fair value reserve SR' 000**	**Total SR' 000**
Balance at beginning of the year	(3,061)	4,710	**1,649**
Net change in fair value	(146,939)	1,154	**(145,785)**
Transfer to consolidated statement of income	2,819	-	**2,819**
Net movement during the year	(144,120)	1,154	**(142,966)**
Balance at end of the year	**(147,181)**	**5,864**	**(141,317)**

2013	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	(45,474)	7,830	(37,644)
Net change in fair value	29,111	23,643	52,754
Transfer to consolidated statement of income	13,302	-	13,302
Transfer to retained earnings	-	(26,763)	(26,763)
Net movement during the year	42,413	(3,120)	39,293
Balance at end of the year	(3,061)	4,710	1,649

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2014, there were legal proceedings of a routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2014, the Group had capital commitments of SR 105.278 million (2013: SR 40.375 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 does 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 is as follows:

	(SR'000)				
2014	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**823,316**	**231,128**	**-**	**-**	**1,054,444**
Letters of guarantee	**740,846**	**1,922,450**	**959,060**	**62,649**	**3,685,005**
Acceptances	**330,387**	**-**	**-**	**-**	**330,387**
Irrevocable commitments to extend credit	**-**	**-**	**76,167**	**110,007**	**186,174**
Total	**1,894,549**	**2,153,578**	**1,035,227**	**172,656**	**5,256,010**

	(SR'000)				
2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	834,197	234,472	19,312	-	1,087,981
Letters of guarantee	965,271	1,393,150	882,266	25,981	3,266,668
Acceptances	448,563	-	-	-	448,563
Irrevocable commitments to extend credit	-	83,282	151,459	365,939	600,680
Total	2,248,031	1,710,904	1,053,037	391,920	5,403,892

The outstanding unused portion of commitments as at December 31, 2014, which can be revoked unilaterally at any time by the Group, amounts to SR 3.58 billion (2013: SR 1.9 billion).

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

	2014 SR'000	2013 SR'000
Corporate	**5,174,893**	5,287,470
Banks and other financial institutions	**81,117**	116,422
Total	**5,256,010**	5,403,892

d) Operating lease commitments

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

	2014 SR'000	2013 SR'000
Less than 1 year	**9,711**	9,711
1 to 5 years	**30,611**	35,327
Over 5 years	**16,184**	37,590
Total	**56,506**	82,628

19. NET SPECIAL COMMISSION INCOME

	2014 SR'000	2013 SR'000
Special commission income		
Investments held as at amortised cost	**314,886**	193,799
Due from banks and other financial institutions	**33,419**	24,877
Derivatives	**118,626**	54,742
Loans and advances	**1,487,938**	1,371,711
Total	**1,954,869**	1,645,129
Special commission expense		
Due to banks and other financial institutions	**22,544**	26,201
Customers' deposits	**284,759**	281,621
Subordinated Sukuk	**27,357**	27,467
Derivatives	**172,043**	82,359
Others	**3,084**	4,534
Total	**509,787**	422,182
Net special commission income	**1,445,082**	1,222,947

20. FEES AND COMMISSION INCOME, NET

	2014 SR'000	2013 SR'000
Fees and commission income		
Local share trading	**364,476**	244,659
Takaful Ta'wuni (insurance) wakala fees	**21,976**	21,076
Loan commitment and management fees	**205,532**	165,180
Trade finance	**48,989**	40,931
International share trading	**5,566**	3,108
Mutual funds fees	**32,962**	20,660
Fees from ATM transactions	**31,099**	30,496
Others	**71,195**	31,155
Total fees and commission income	**781,795**	557,265
Fees and commission expense		
Brokerage fees	**(133,689)**	(89,050)
Takaful Ta'wuni – sales commission	**(54)**	(125)
Total	**648,052**	468,090

21. TRADING INCOME, NET

	2014 SR'000	2013 SR'000
Equities	**9,261**	16,719
Mutual funds	**11,472**	29,291
Derivatives	**9,711**	9,728
Total	**30,444**	55,738

Trading income contains unrealized income of SR 17.387 million (2013: 44.286 million).

22. DIVIDEND INCOME

	2014 SR'000	2013 SR'000
Dividend income on investments made in equity securities	**2,670**	6,407

23. GAIN ON NON-TRADING INVESTMENTS

	2014 SR'000	2013 SR'000
Held as at amortised cost investments	**3,684**	23,432

24. OTHER OPERATING INCOME

	2014 SR'000	2013 SR'000
Rental income	**-**	333
Gain on sale of property and equipment and others	**30,191**	9,671
Other	**9,300**	17,905
Total	**39,491**	27,909

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2014 and December 31, 2013 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 in issue during the year. The weighted average number of ordinary shares outstanding during the year ended December 31, 2014 and December 31, 2013 was 400 million to give a retroactive effect to the increase in the number of shares as a result of the bonus share issue. (note 15).

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

26. ZAKAT AND INCOME TAX

The Bank has filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (DZIT). The Bank has received Zakat assessments for the year(s) up to 2009 raising additional demands aggregating to SR 286.7 million. The above additional exposure is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat assessment for the years 2010 to 2013 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessements.

27. CASH AND CASH EQUIVALENTS

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

	2014 SR'000	2013 SR'000
Cash and balances with SAMA, excluding statutory deposit	**3,566,163**	4,766,705
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition (note 4)	**3,240,241**	2,323,795
Total	**6,806,404**	7,090,500

28. 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 business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and operating 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 and medium sized business and institutional customers.

Brokerage and asset management

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

Treasury

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

Takaful Ta'wuni

Takaful Ta'wuni provides protection and saving products services and is fully Shariah compliant and is a substitute for conventional life insurance products.

The current Takaful segment represents the insurance portfolio which will be transferred to AlJazira Takaful Ta'wuni (ATT) at an agreed value and date duly approved by SAMA. The details related to ATT are more fully explained in note 7 and note 38 to these consolidated financial statements.

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)						
2014	**Personal banking**	**Corporate banking**	**Treasury**	**Brokerage and asset management**	**Takaful Ta'wuni**	**Others**	**Total**
Total assets	**18,939,307**	**23,577,234**	**23,138,752**	**766,188**	**6,860**	**125,588**	**66,553,929**
Total liabilities	**26,094,025**	**24,601,413**	**9,563,292**	**92,322**	**44,831**	**-**	**60,395,883**
Total operating income	**739,724**	**558,507**	**614,794**	**346,388**	**22,217**	**(55,385)**	**2,226,245**
Net special commission	**510,214**	**411,911**	**514,781**	**9,733**	**295**	**(1,852)**	**1,445,082**
Trading, fee and commission income, net	**177,280**	**124,759**	**20,954**	**333,129**	**21,922**	**452**	**678,496**
Share of profit of an associate	**-**	**-**	**-**	**-**	**-**	**3,839**	**3,839**
Operating expenses:							
- Impairment charge for credit losses, net	**(117,527)**	**(265,580)**	-	-	-	-	**(383,107)**
- Depreciation	**(42,586)**	**(18,830)**	**(8,211)**	**(7,813)**	**(1,954)**	**-**	**(79,394)**
Total operating expenses	**(761,182)**	**(601,277)**	**(124,745)**	**(150,235)**	**(24,854)**	**4,676**	**(1,657,617)**
Net (loss) / income	**(21,458)**	**(42,770)**	**490,049**	**196,153**	**(2,637)**	**(46,870)**	**572,467**

2013	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
	(SR'000)						
Total assets	17,379,558	20,558,555	21,230,439	675,775	10,592	121,489	59,976,408
Total liabilities	19,038,108	27,287,895	7,815,633	58,854	47,373	-	54,247,863
Total operating income	547,923	491,845	542,697	274,695	21,385	(39,238)	1,839,307
Net special commission	394,643	374,645	445,395	7,949	433	(118)	1,222,947
Trading, fee and commission income, net	111,335	102,565	23,429	265,548	20,951	-	523,828
Share in loss of an associate	-	-	-	-	-	(1,011)	(1,011)
Operating expenses:							
- Impairment charge for credit losses, net	(62,961)	(73,382)	-	-	-	-	(136,343)
- Depreciation	(42,744)	(10,272)	(7,532)	(8,549)	(2,320)	-	(71,417)
Total operating expenses	(648,279)	(256,955)	(110,064)	(145,782)	(31,946)	5,366	(1,187,660)
Net (loss) / income	(100,356)	234,890	432,633	128,913	(10,561)	(34,883)	650,636

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

2014	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'wuni**	**Others**	**Total**
	(SR'000)						
Assets	**18,565,313**	**22,903,405**	**-**	**16,421,616**	**-**	**-**	**57,890,334**
Commitments and contingencies	**-**	**3,517,319**	**-**	**-**	**-**	**-**	**3,517,319**
Derivatives	**-**	**-**	**-**	**149,129**	**-**	**-**	**149,129**

2013	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
	(SR'000)						
Assets	15,250,085	19,798,787	-	15,430,119	-	-	50,478,991
Commitments and contingencies	-	3,131,470	-	-	-	-	3,131,470
Derivatives	-	-	-	92,937	-	-	92,937

Credit exposure comprises the carrying value of the consolidated statement of financial position 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 (refer note 29).

29. CREDIT RISK

Credit risk, which is the result of a delay or failure by a counterparty to meet its financial and/or contractual obligations to the Bank, is managed in accordance with the Bank'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 Bank assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by major rating agencies.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Bank'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 Bank 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 Bank's performance to developments affecting a particular industry or geographical location. The Bank 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.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. 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 Bank's maximum credit exposure by operating segment is given in note 28.

The Bank 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 Bank 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, 2014 and December 31, 2013. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

The Bank 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 provisions 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. Portfolio provisions 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 Bank's Internal Audit Division independently reviews the overall system on a regular basis.

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

a) Credit quality of financial assets (loans and advances and due from banks and other financial institutions)

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

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2014	Consumer	Commercial	Others	Subtotal		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,390,105	-	5,390,105	4,908,991	10,299,096
Standard – medium risk	-	12,235,464	-	12,235,464	-	12,235,464
Standard – unclassified	14,740,324	7,091,648	284,539	22,116,511	-	22,116,511
Sub total - standard	14,740,324	24,717,217	284,539	39,742,080	4,908,991	44,651,071
Special mention	-	1,505,997	-	1,505,997	-	1,505,997
Sub total	14,740,324	26,223,214	284,539	41,248,077	4,908,991	46,157,068
Past due but not impaired						
Less than 30 days	78,734	129,543	-	208,277	-	208,277
30-60 days	12,741	1,404	-	14,145	-	14,145
60-90 days	8,645	4,166	-	12,811	-	12,811
Over 90 days	28,047	1,831	-	29,878	-	29,878
Total performing	14,868,491	26,360,158	284,539	41,513,188	4,908,991	46,422,179
Less: portfolio provision	(182,828)	(232,553)	-	(415,381)	-	(415,381)
Net performing	14,685,663	26,127,605	284,539	41,097,807	4,908,991	46,006,798
Non-performing						
Total non-performing	223,416	146,444	-	369,860	-	369,860
Less: Specific provision	(172,674)	(50,442)	-	(223,116)	-	(223,116)
Net-non performing	50,742	96,002	-	146,744	-	146,744

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2013	Consumer	Commercial	Others	Subtotal		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	4,934,289	-	4,934,289	3,073,795	8,008,084
Standard – medium risk	-	10,905,630	-	10,905,630	-	10,905,630
Standard – unclassified	12,129,984	4,491,107	219,871	16,840,962	-	16,840,962
Sub total - standard	12,129,984	20,331,026	219,871	32,680,881	3,073,795	35,754,676
Special mention	-	2,261,796	-	2,261,796	-	2,261,796
Sub total	12,129,984	22,592,822	219,871	34,942,677	3,073,795	38,016,472
Past due but not impaired						
Less than 30 days	26,461	125,853	-	152,314	-	152,314
30-60 days	2,035	1,211	-	3,246	-	3,246
60-90 days	2,351	74,552	-	76,903	-	76,903
Over 90 days	23,221	28,453	-	51,674	-	51,674
Total performing	12,184,052	22,822,891	219,871	35,226,814	3,073,795	38,300,609
Less: portfolio provision	(126,628)	(355,532)	-	(482,160)	-	(482,160)
Net performing	12,057,424	22,467,359	219,871	34,744,654	3,073,795	37,818,449
Non-performing						
Total non-performing	220,486	208,886	-	429,372	-	429,372
Less: Specific provision	(90,333)	(88,934)	-	(179,267)	-	(179,267)
Net-non performing	130,153	119,952	-	250,105	-	250,105

Standard unclassified mainly comprise of loans given to individuals for personal needs, credit cards, small business, employee and share trading loans.

Others mainly comprise employee loans.

Performing loans as at December 31, 2014 include renegotiated loans restructured due to deterioration in the borrower's financial position) of SR 1.52 billion (2013: SR 698.4 million).

The special mention / watchlist 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 / watchlist loans and advances do not expose the Bank 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 at amortised cost (all debt instruments are under amortised cost category) is managed using reputable external rating agencies.

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.

	2014	2013
	SR'000	SR'000
Performing		
Government Murabaha investments	**-**	913,533
High grade (AAA – BBB)	**8,513,548**	11,179,371
Standard grade (BA1 – B2)	**-**	-
Sub-standard grade (BA3 – C)	**-**	-
Unrated	**2,412,786**	158,367
Total performing and overall investments	**10,926,334**	12,251,271

As at December 31, 2014 and December 31, 2013, no provision was required for the impairment in the value of investments held as at 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 portfolio provisions; 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		
2014	**On-balance sheet position, net of provisions SR'000**	**Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000**	**Total SR'000**
Government and quasi government	**1,126,076**	**24,351**	**1,150,427**
Banks and other financial institutions	**630,365**	**616,820**	**1,247,185**
Agriculture and fishing	**-**	**2,490**	**2,490**
Manufacturing	**6,170,870**	**616,265**	**6,787,135**
Mining and quarrying	**80,684**	**76,537**	**157,221**
Electricity, water, gas and health services	**-**	**1,477**	**1,477**
Building and construction	**1,358,372**	**2,208,114**	**3,566,486**
Commerce	**9,147,818**	**692,053**	**9,839,871**
Transportation and communication	**218,190**	**64,562**	**282,752**
Services	**506,636**	**153,710**	**660,346**
Consumer loans and credit cards	**14,736,405**	**-**	**14,736,405**
Share trading	**3,406,431**	**-**	**3,406,431**
Other	**3,862,704**	**799,631**	**4,662,335**
Maximum exposure	**41,244,551**	**5,256,010**	**46,500,561**
Less: collateral for performing and non-performing	**(18,039,570)**	**(2,298,877)**	**(20,338,447)**
Net maximum exposure	**23,204,981**	**2,957,133**	**26,162,114**

	Maximum exposure		
2013	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Government and quasi government	507,819	83,282	591,101
Banks and other financial institutions	1,020,066	447,222	1,467,288
Agriculture and fishing	26,686	106,701	133,387
Manufacturing	5,907,042	828,826	6,735,868
Mining and quarrying	630,807	157,323	788,130
Electricity, water, gas and health services	-	29	29
Building and construction	705,370	1,757,879	2,463,249
Commerce	8,255,574	1,004,230	9,259,804
Transportation and communication	276,098	53,520	329,618
Services	412,139	112,383	524,522
Consumer loans and credit cards	12,187,577	-	12,187,577
Share trading	2,766,365	-	2,766,365
Other	2,299,216	852,497	3,151,713
Maximum exposure	34,994,759	5,403,892	40,398,651
Less: collateral for performing and non-performing	(14,018,313)	(2,460,415)	(16,478,728)
Net maximum exposure	20,976,446	2,943,477	23,919,923

d) *Maximum credit exposure*

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2014 SR'000	2013 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**4,908,991**	3,073,795
Investments (note 5)	**11,334,970**	12,597,125
Loans and advances, net (note 6)	**41,244,551**	34,994,759
Other assets - margin deposits against derivatives and accrued special commission receivable (note 9)	**650,749**	415,861
Total assets	**58,139,261**	51,081,540
Contingencies and commitments, net (note 18)	**2,957,133**	2,943,477
Derivatives - positive fair value, net (note 10)	**239,279**	122,456
Total maximum exposure	**61,335,673**	54,147,473

30. GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of assets, commitments and contingencies, and credit exposure are as follows:

2014 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SR'000)						
Cash and balances with SAMA	6,552,141	-	-	-	-	-	**6,552,141**
Due from banks and other financial institutions	3,729,887	569,273	84,292	523,776	387	1,376	**4,908,991**
Investments	11,327,788	188	-	6,994	-	-	**11,334,970**
Loans and advances, net	41,236,791	7,594	-	-	-	166	**41,244,551**
Investment in an associate	125,588	-	-	-	-	-	**125,588**
Total	**62,972,195**	**577,055**	**84,292**	**530,770**	**387**	**1,542**	**64,166,241**
Commitments & contingencies	**4,957,586**	**253,376**	**29,108**	**3,385**	**12,155**	**400**	**5,256,010**
Credit exposure (credit equivalent)							
Commitments and contingencies	**3,229,954**	**135,590**	**59,649**	**85,177**	**6,749**	**200**	**3,517,319**
Derivatives	**81,976**	**3,050**	**22,547**	**41,556**	**-**	**-**	**149,129**

2013 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SR'000)						
Cash and balances with SAMA	7,306,158	-	-	-	-	-	7,306,158
Due from banks and other financial institutions	2,556,258	70,878	46,519	397,460	1,296	1,384	3,073,795
Investments	11,000,490	630,188	114,456	63,710	38,281	750,000	12,597,125
Loans and advances, net	34,872,673	17,312	-	-	75,556	29,218	34,994,759
Investment in an associate	121,489	-	-	-	-	-	121,489
Total	55,857,068	718,378	160,975	461,170	115,133	780,602	58,093,326
Commitments & contingencies	4,955,856	286,825	61,123	600	5,436	94,052	5,403,892
Credit exposure (credit equivalent)							
Commitments and contingencies	2,942,584	148,289	31,357	300	2,718	6,222	3,131,470
Derivatives	36,308	3,050	22,446	31,133	-	-	92,937

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 provision for credit losses are as follows:

	Non performing loans, net		Impairment for credit losses	
	2014 SR' 000	2013 SR' 000	**2014 SR' 000**	2013 SR' 000
Kingdom of Saudi Arabia	**369,860**	429,372	**638,497**	661,427

31. 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:

	2014 SR'000	2013 SR'000
US Dollar	**11,265**	26,279
Euro	**14,646**	15,838
Pound Sterling	**27,864**	24,135
Japanese Yen	**40,827**	39,458

The table below indicates the extent to which the Group was exposed to currency risk at December 31, 2014 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	**2014**		2013	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
US Dollar	**± 0.17**	**± 19**	± 0.070	± 18
Euro	**± 6.27**	**± 918**	± 7.360	± 1,166
Pound Sterling	**± 5.71**	± 1,591	± 7.530	± 1,817
Japanese Yen	**± 7.98**	**± 3,258**	±12.290	± 4,849

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, 2014 and December 31, 2013 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2014		2013	
Portfolio	**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
Al Thoraiya	± 4.17	± 2,118	**± 16.970**	**± 8,706**
Al Khair	± 5.12	± 1,612	**± 22.670**	± 6,614
Al Mashareq	± 7.12	± 2,809	**± 56.720**	± 21,713
Al Qawafel	± 2.37	± 2,534	**± 25.500**	± 26,396
Global Emerging Market	± 5.12	± 1,701	**± 22.670**	± 7,703
Others	± 2.37	± **1,605**	**± 25.500**	± 14,535

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, 2014 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2014		2013	
Market index	**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	**2.37**	**1,628**	25.5	5,948

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, 2014 including the effect of hedging instruments. All the non-trading book exposures are monitored and analyzed 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	2014		2013	
	Increase / decrease in basis points	**Sensitivity of special commission income SR'000**	Increase / decrease in basis points	Sensitivity of special commission income SR'000
SR	**+25**	**5,726**	+25	3,352
SR	**-25**	**(5,726)**	-25	(3,352)
USD	**+25**	**1,652**	+25	(697)
USD	**-25**	**(1,652)**	-25	697
AED	**+25**	**3**	+25	3
AED	**-25**	**(3)**	-25	(3)

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)						
2014	**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	**2,960,000**	**-**	**-**	**-**	**3,592,142**	**6,552,142**	**-**
Due from banks and other financial institutions	**3,443,750**	**656,250**	**-**	**-**	**808,991**	**4,908,991**	**0.42%**
Investments	**3,845,840**	**587,939**	**304,846**	**6,187,709**	**408,636**	**11,334,970**	**2.64%**
Loans and advances, net	**13,366,928**	**17,896,589**	**9,464,707**	**231,787**	**284,539**	**41,244,550**	**3.82%**
Investment in associate					**125,588**	**125,588**	**-**
Other real estate, net	**-**	**-**	**-**	**-**	**660,097**	**660,097**	**-**
Property and equipment, net	**-**	**-**	**-**	**-**	**598,920**	**598,920**	**-**
Other assets	**-**	**-**	**-**	**-**	**1,128,671**	**1,128,671**	**-**
Total assets	**23,616,518**	**19,140,778**	**9,769,553**	**6,419,496**	**7,607,584**	**66,553,929**	

2014	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	**3,673,166**	**-**	**-**	**-**	**63,310**	**3,736,476**	**0.39%**
Customers' deposits	**16,739,991**	**10,269,442**	**120,310**	**-**	**27,439,530**	**54,569,273**	**0.93%**
Subordinated Sukuk	**-**	**1,000,000**	**-**	**-**	**-**	**1,000,000**	**2.69%**
Other liabilities	**-**	**-**	**-**	**-**	**1,090,134**	**1,090,134**	**-**
Equity	**-**	**-**	**-**	**-**	**6,158,046**	**6,158,046**	**-**
Total liabilities & Equity	**20,413,157**	**11,269,442**	**120,310**	**-**	**34,751,020**	**66,553,929**	
On-balance sheet Gap	**3,203,361**	**7,871,336**	**9,649,243**	**6,419,496**	**(27,143,436)**	**-**	
Commission rate sensitivity – off balance sheet	**1,500,000**	**1,686,563**	**(304,688)**	**(2,881,875)**	**-**	**-**	
Total commission rate sensitivity gap	**4,703,361**	**9,557,899**	**9,344,555**	**3,537,621**	**(27,143,436)**	**-**	
Cumulative commission rate sensitivity gap	**4,703,361**	**14,261,260**	**23,605,815**	**27,143,436**	**-**	**-**	

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
	(SR'000)						
Assets							
Cash and balances with SAMA	4,045,000	-	-	-	3,261,158	7,306,158	-
Due from banks and other financial institutions	1,787,500	750,000	-	-	536,295	3,073,795	0.61%
Investments	3,501,533	1,868,104	881,823	5,999,811	345,854	12,597,125	2.10%
Loans and advances, net	10,831,342	14,304,443	9,398,724	254,482	205,768	34,994,759	4.05%
Investment in associate	-	-	-	-	121,489	121,489	-
Other real estate, net	-	-	-	-	672,485	672,485	-
Property and equipment, net	-	-	-	-	507,766	507,766	-
Other assets	-	-	-	-	702,831	702,831	-
Total assets	20,165,375	16,922,547	10,280,547	6,254,293	6,353,646	59,976,408	

2013	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	4,331,513	-	-	-	27,225	4,358,738	0.66%
Customers' deposits	13,606,805	13,403,359	823,863	-	20,248,498	48,082,525	1.13%
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Other liabilities	-	-	-	-	806,600	806,600	-
Equity	-	-	-	-	5,728,545	5,728,545	-
Total liabilities & Equity	17,938,318	14,403,359	823,863	-	26,810,868	59,976,408	
On-balance sheet gap	2,227,057	2,519,188	9,456,684	6,254,293	(20,457,222)	-	
Commission rate sensitivity – off balance sheet	1,698,750	936,563	(503,438)	(2,131,875)	-	-	
Total commission rate sensitivity gap	3,925,807	3,455,751	8,953,246	4,122,418	(20,457,222)	-	
Cumulative commission rate sensitivity gap	3,925,807	7,381,558	16,334,804	20,457,222	-	-	

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:

	2014 SR' 000 Long / (Short)	2013 SR'000 Long /(Short)
USD	**912,003**	1,218,519
AED	**15,520**	14,406

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2014. 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	**2014**		2013	
	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**	**456**	± 0.05	609
AED	**+0.05**	**8**	± 0.05	7

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 at FVTOCI at December 31, 2014 and December 31, 2013 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2014**		2013	
	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	**5.12%**	**358**	22.67%	1,324

32. 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 75% of the value of Murabaha placements with SAMA.

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:

	2014 %	2013 %
As at December 31	**29**	38
Average during the period	**28**	32
Highest	**34**	41
Lowest	**22**	25

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2014 and December 31, 2013 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)					
	On demand	**Less than 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
As at December 31, 2014						
Due to banks and other financial institutions	**63,240**	**3,684,774**	**-**	**-**		**3,748,014**
Customers' deposits	**26,457,926**	**18,332,229**	**10,390,020**	**117,612**	**-**	**55,297,787**
Subordinated Sukuk		**6,587**	**13,176**	**1,006,588**	**-**	**1,026,351**
Derivatives	**-**	**1,619,717**	**2,304,007**	**5,621,670**	**5,566,802**	**15,112,196**
Total undiscounted financial liabilities 2014	**26,521,166**	**23,643,307**	**12,707,203**	**6,745,870**	**5,566,802**	**75,184,348**
Financial liabilities						
As at December 31, 2013						
Due to banks and other financial institutions	27,225	4,521,443	-	-	-	4,548,668
Customers' deposits	18,916,694	15,394,008	13,529,441	430,393	-	48,270,536
Subordinated Sukuk	-	6,588	13,176	1,052,702	-	1,072,466
Derivatives	-	1,265,364	869,428	3,075,251	4,229,974	9,440,017
Total undiscounted financial liabilities 2013	18,943,919	21,187,403	14,412,045	4,558,346	4,229,974	63,331,687

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.

2014	**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	-	-	-	-	-	-	6,552,141	**6,552,141**
Due from banks and other financial institutions	-	3,443,750	3,443,750	656,250	-	656,250	808,991	**4,908,991**
Investments	-	-	-	1,925,474	9,000,860	10,926,334	408,636	**11,334,970**
Loans and advances, net	8,712,061	12,718,570	21,430,631	10,971,540	8,842,380	19,813,920	-	**41,244,551**
Investment in associate	-	-	-	-	-	-	125,588	**125,588**
Other real estate, net	-	-	-	-	-	-	660,097	**660,097**
Property and equipment, net	-	-	-	-	-	-	598,920	**598,920**
Other assets	149,467	306,002	455,469	-	-	-	673,202	**1,128,671**
Total assets	**8,861,528**	**16,468,322**	**25,329,850**	**13,553,264**	**17,843,240**	**31,396,504**	**9,827,575**	**66,553,929**
Liabilities and equity								
Due to banks and other financial institutions	-	3,673,237	3,673,237	-	-	-	63,239	**3,736,476**
Customers' deposits	5,313,808	15,367,747	20,681,555	7,040,256	-	7,040,256	26,847,462	**54,569,273**
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	**1,000,000**
Other liabilities	91,830	42,494	134,324	442	43	485	955,325	**1,090,134**
Equity	-	-	-	-	-	-	6,158,046	**6,158,046**
Total liabilities and equity	**5,405,638**	**19,083,478**	**24,489,116**	**8,040,698**	**43**	**8,040,741**	**34,024,072**	**66,553,929**

2013	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	-	-	-	-	-	-	7,306,158	7,306,158
Due from banks and other financial institutions	-	1,787,499	1,787,499	750,000	-	750,000	536,296	3,073,795
Investments	30,677	646,912	677,589	2,990,502	8,583,180	11,573,682	345,854	12,597,125
Loans and advances, net	8,362,959	8,783,544	17,146,503	9,668,351	8,179,905	17,848,256	-	34,994,759
Investment in associate	-	-	-	-	-	-	121,489	121,489
Other real estate, net	-	-	-	-	-	-	672,485	672,485
Property and equipment, net	-	-	-	-	-	-	507,766	507,766
Other assets	138,139	239,360	377,499	-	-	-	325,332	702,831
Total assets	8,531,775	11,457,315	19,989,090	13,408,853	16,763,085	30,171,938	9,815,380	59,976,408
Liabilities and equity								
Due to banks and other financial institutions	-	4,331,513	4,331,513	-	-	-	27,225	4,358,738
Customers' deposits	4,204,527	13,831,180	18,035,707	9,396,836	-	9,396,836	20,649,982	48,082,525
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Other liabilities	65,475	47,829	113,304	55	-	55	693,241	806,600
Equity	-	-	-	-	-	-	5,728,545	5,728,545
Total liabilities and equity	4,270,002	18,210,522	22,480,524	10,396,891	-	10,396,891	27,098,993	59,976,408

33. 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.

The fair values of on balance sheet financial instruments, except for investments as at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements (refer note 5(d)). The fair values of loans and advances, commission bearing customer deposits, subordinated Sukuk, due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the duration of due from and due to banks. The estimated fair values of other investments held at amortised cost are based on quoted market prices, when available or pricing models when used in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique.

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.

	2014 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS	**398,204**	**-**	**-**	**398,204**
FVTOCI	**6,994**	**-**	**3,438**	**10,432**
Derivatives	**-**	**239,279**	**-**	**239,279**
Total	**405,198**	**239,279**	**3,438**	**647,915**
Financial liabilities				
Derivatives	**-**	**378,639**	**-**	**378,639**
Total	**-**	**378,639**	**-**	**378,639**

	2013 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	336,576	-	-	336,576
FVTOCI	5,840	-	3,438	9,278
Derivatives	-	122,456	-	122,456
Total	342,416	122,456	3,438	468,310
Financial liabilities				
Derivatives	-	117,194	-	117,194
Total	-	117,194	-	117,194

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

During the year there were no transfers between levels (2013: same). New investments acquired during the year are classified under the relevant levels.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted on an arms-length basis. 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:

	2014 SR' 000	2013 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**492**	514
Due to banks and other financial institutions	**186**	344
Commitments and contingencies	**2,245**	1,745
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**798,446**	893,652
Customers' deposits	**4,491,008**	3,678,321
Other receivables	**13,118**	13,118
Commitments and contingencies	**34,148**	8,888

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

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

	2014 SR' 000	2013 SR'000
Special commission income	**14,668**	38,009
Special commission expense	**44,852**	43,606
Fees and commission income	**74**	119
Directors' remuneration	**6,080**	4,715

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

	2014 SR' 000	2013 SR'000
Short-term employee benefits	**74,890**	83,344
Termination benefits	**18,141**	16,116

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.

35. COMPENSATION

	2014			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis)** **SR' 000**	**Variable compensation (on cash basis)** **SR' 000**	**Total** **SR' 000**
Senior executives that require SAMA no objection	17	34,396	12,700	**47,096**
Employees involved in control functions	131	49,056	4,954	**54,010**
Employees involved in risk taking activities	186	59,580	11,628	**71,208**
Other employees	1,950	388,633	47,690	**436,323**
Outsourced employees	496	60,348	2,025	**62,373**
Total	**2,780**	**592,013**	**78,997**	**671,010**
Variable compensation (accrual basis) other employee related benefits		**97,683**		
Other employee related benefits		**32,176**		
Total salaries and employee-related expenses		**721,872**		

	2013			
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR' 000	Variable compensation (on cash basis) SR' 000	Total SR' 000
Senior executives that require SAMA no objection	18	31,013	14,848	45,861
Employees involved in control functions	125	42,980	5,757	48,737
Employees involved in risk taking activities	164	55,004	13,234	68,238
Other employees	1,669	340,180	49,929	390,109
Outsourced employees	349	47,727	1,765	49,492
Total	2,325	516,904	85,533	602,437
Variable compensation (accrual basis) other employee related benefits		87,252		
Other employee related benefits		25,826		
Total salaries and employee-related expenses		629,982		

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.

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.

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.

36. 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.

SAMA has issued its final guidelines regarding implementation of Basel III Framework effective January 1, 2013. The new framework has brought significant amendments in the computation of regulatory capital and Pillar I risk weighted assets. The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework:

	2014		2013	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**6,299,361**	**11.79%**	5,731,583	12.23%
Supplementary capital (Tier 2)	**1,209,132**		1,304,155	
Core and supplementary capital (Tier 1 + Tier 2)	**7,508,493**	**14.05%**	7,035,738	15.01%

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 Bank and eligible portfolio provisions.

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 Bank's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meets the minimum requirement specified by SAMA. The Banks is required to submit a Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2014 **SR '000**	2013 SR '000
Credit risk	**48,209,708**	42,099,176
Operational risk	**3,481,813**	2,842,575
Market risk	**1,750,988**	1,921,225
Total pillar-1 – risk weighted assets	**53,442,509**	46,862,976

37. 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 Shariah (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. Twelve 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 and AlJazira Global Emerging market Fund. All of the above are opend ended funds except for AlJazira Residential Projects Fund and Aljazira Residential Projects Fund 2 which are closed-ended funds. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invest 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 Shariah 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 policyholders of its Takaful Ta'wuni program.

Total assets under administration held by the Group under brokerage services amounted to SR 34.1 billion (2013: SR 32.7 billion).

Total assets held in a fiduciary capacity by the Group under the asset management services amounted to SR 2.3 billion (2013: SR 1.9 billion).

38. TAKAFUL TA'WUNI DIVISION

Takaful Ta'wuni provides protection and saving products services that are fully Shariah compliant.

As required by the Insurance Law of Saudi Arabia, the Group decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'wuni 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, 2014. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2015.

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2018	IFRS 9	Financial instruments
January 1, 2017	IFRS 15	Revenue from contracts with customers
January 1, 2016	Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations
January 1, 2016	Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization
January 1, 2016	Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
July 1, 2014	Amendments to IAS 19	Defined benefit plans: employee contributions
July 1, 2014	Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle
July 1, 2014	Amendments of IFRSs	Annual improvements to IFRSs 2011-2013 cycle

40. COMPARATIVE FIGURES

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

41. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 27 Rabi Al Thani 1436H (corresponding to 16 February 2015).

42. BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.baj.com.sa and in its annual report, as required by SAMA.


بنك الجزيرة
النجاح رحلة
2018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النجاح رحلة
2018
نواصل
مسيرة
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Acquire new customers
More cross selling
Operational Efficiencies
More Profit
New Branches
Mid Size
Commercial
SME
Automation
Faster turn around time
Training
Credit Cards
SME & Kafalah program
Trade & GTC


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Basel III - Pillar 3 Qualitative Disclosures

For the year ended December 31, 2014

1. Overview

The Pillar 3 Disclosure for financial year ending 31st December 2014 for BANK ALJAZIRA (the Bank) complies with the Saudi Arabian Monetary Agency (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

2. 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. As part of ICAAP Framework the organization has identified material risks and assessed the capital levels consistent with the risks identified.

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 produced on an annual basis and is approved by the Board Risk Committee (BRC) as well as the Board.

2.1 Comprehensive Risk Assessment under ICAAP Framework

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 (e.g. profit rate risk in banking book, liquidity risk, business/strategic risk, reputational risk and credit concentration risk); and
- External factors, including changes in economic environment and regulations.

2.2 Assessment of Pillar 1 and Pillar 2 Risks

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, and Board
- Adequate systems, procedures and internal controls along with effective risk mitigation strategies; and
- Regular monitoring and reporting through various committees and management forums.

2.3 Stress Testing

The Bank's stress testing program 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 economic, strategic, political and business environmental factors.

Under the BANK ALJAZIRA Stress Testing Framework and Policy, which is going to be placed for approval by the Board as part of ICAAP FY 2015, 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 to:

- Highlight the dynamics of stressed events and the potential implication on the Bank's exposures, liquidity position and reputation;
- Identify key strategies to mitigate the effects of stress events and scenarios; and
- Produce stress results as inputs into the Bank's ICAAP for determination of capital adequacy and capital buffers.

The Stress Test Working Group comprising various risk management teams tables the stress testing reports at the Senior Management, BRC, and Board and discusses the results with regulators during annual bilateral meetings.

3. 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. Initiatives under the Bank's Enterprise Risk Management (ERM), Enterprise Risk Strategy and architecture division have been a major catalyst and contributor to the enhancement of risk management practices within the Bank. The risk management framework is being institutionalized during FY 2015 and is designed to meet these challenges as part of BASEL program.

The Bank's Six Broad Principles of Enterprise Risk Management

The Six Broad Principles define the key principles on accountability, independence, structure and scope.

1. The enterprise 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 Bank AlJazira, the Enterprise Risk Management through the Credit Risk Managers, the Chief Risk Officer assume the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee, of all major credit proposals of the bank which are prepared, sponsored and recommended by the Business Units. In addition, Risk Management provides risk supervision and consultancy 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. Risk management ensures that the core risk policies of the Bank are consistent, current, and sets the risk tolerance level through the approved Risk Appetite Framework and Policy. Also, Risk management is responsible for the execution of various risk policies and related business decisions empowered by the Board.
5. Risk management is functionally and organizationally independent of the business units and other risk taking units within Bank AlJazira.
6. Bank AlJazira's Board, through the ALCO, and BRC maintains overall responsibility for risk supervision within the Bank.

4. Risk Appetite Framework & Policy

The Risk Appetite Framework and Policy approved by BRC and Board, 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, ALCO and to the Board through a revised Risk Appetite Dashboard for review and action.

4.1 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 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. During the FY 2015, the Bank is validating and calibrating the Moody's rating model to the BAJ Credit Portfolio.

Through the Credit Risk Officers, 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 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 and by diversifying the type of financing in terms of the short term working capital financing and the typically longer term fixed capital expenditure and project financing needs of its clients. Obligor and Sector Financing Concentrations are monitored by Risk Management at least quarterly through the Risk Dashboard and are regularly reviewed by the Chief Risk Officer and the Head of Corporate Banking. These are reviewed annually by the Board Risk Committee. 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 following financing portfolio concentrations are monitored on an ongoing basis:

- Business Segments;
- Economic Sectors;
- Single Customer Groups/ Obligor /Counterparty;
- Banks & Non-Bank Financial Institutions;
- Risk Rating;
- Types of Collaterals (specifically those secured by real estate)

The bank periodically updates its credit polices to reflect economic, market and legal realities.

4.2 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 Division operates within "Treasury Investment Limits." Risk appetite covering Market Risk is subject to the following drivers:

- Capital Adequacy Ratio (CAR)
- SAMA Liquidity Ratio
- Net Stable Funding Ratio (NSFR)
- Financing-to- Deposits Ratio
- Corporate Financing Concentration
- Concentration of Funding Sources

4.3 Operational Risk Management

The Bank's operational risk appetite is defined in the Risk Appetite policy and expressed through the following measures and limits as part of semiannual 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; and

c. Profile for the purpose of identifying material operational risks and losses.

To support the Bank's risk tolerance, each business / support sector is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies, and procedures.

5. Credit Risk

5.1 Overview

Credit risk is the potential that a bank 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 & Institutional Banking Group (CIBG)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Commercial Business Services (CBS)

Each credit risk taking unit has developed certain policies and guidelines governing their credit risk taking functions which are contained in various Risk Policy documents.

5.2 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 assessment of the probability of default and the loss in case of default. The periodic specific and collective provisioning strategies are reviewed and agreed by the Chief Risk Officer, the Heads of the Business Units, the Chief Finance Officer and the CEO.

6. Market Risk

6.1 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.

6.2 Management of Market Risk

Delegated by the Board, ALCO is responsible for the policies, limits and controls used in managing market risk. The Bank has an approved 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 regulator, SAMA.

6.2.1 Currency Risk

Currency 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.

6.2.2 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 securities available for sale is regularly marked to market and changes (- or +) are taken into the Bank's equity, and the comprehensive income.

6.3 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 risks are the primary risk factors experienced in the Bank's activities.

6.4 Stress Testing

The Bank performs Stress Testing semiannually 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 Stress Test results are reported to Senior Management, BRC and Board to facilitate and manage risk with more transparency.

7. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the bank and from almost any activity. 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 division which is tasked with monitoring and controlling the Operational Risks of the Bank. Functions of this unit are guided by the Operational Risk Framework and Policy. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established.

7.1 Management and Monitoring of Operational Risk

The established Operational Risk Management (ORM) Framework is designed to maintain dependency between the risk management and the risk owners represented by the various business groups within the bank. While keeping the responsibility of managing the business within the business groups, common grounds were established to involve the operational risk management team in facilitating the risk identification, measurement and assessing of risks and relevant controls, including documenting and tracking the risk mitigation plans, or risk acceptance.

During the year, the operational risk management team conducted specialized data gathering through meetings with business heads 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.

Covering all business and support units within the bank specific risk profiles containing key and significant risks presented at their residual values was arrived at after detailed assessment and testing of the respective controls. A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that requires management attention and action on a priority basis.

The key methods used to manage and monitor operational risks are as follows:

7.1.1 Risk & Control Self-Assessment (RCSA)

The risk register and corresponding action plans are maintained and updated regularly. The review cycle involves discussions with the top management to seek directions on risk acceptance and treatment including decision for taking actions to review and to improve the control environment.

The progress on risk mitigation action plans and the movement of risk measurement across the risk heat-map is also monitored and discussed with the respective management.

7.1.2 Key Risk Indicators (KRIs)

A special series of workshops are planned during FY 2015 to produce the first list of KRIs. Based on their nature these are defined and assessed in coordination with the respective business and risk owners addressing mainly critical processes. The process includes setting means of collecting required data, analysis and management expectations for certain indicators set as acceptable threshold to create means of leading or lagging warning signals. It also involves consolidating certain common KRIs that requires actions at the bank wide level. The bank aims to improve on the KRI list to create meaningful and business relevant risk indicators.

7.1.3 Loss Data Management (LDM)

The Operational Risk team monitors and maintains a detailed register of all operational risk losses and near-miss incidents. These are linked to the respective risk profiling and key risk register, guiding the business management to direct their efforts to improve their controls and the respective services or products. Those are classified and reported based on the Basel II loss events type.

7.1.4 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 and its scope extends to include:

- 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, protect key assets, and continue critical processes. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

7.1.5 Outsourcing

Complying with SAMA regulations on outsourcing, the Operational Risk Management team is involved in reviewing the risk assessment related to outsourcing of material banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

7.1.6 Anti-Fraud Management

The bank has established an Enterprise Anti-Fraud program under the ORM in coordination with several internal stakeholders, aiming to prevent and reduce to the minimum losses arising from internal and external frauds. The bank wide anti-fraud awareness program has already been 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.

7.2 Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL II 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 aims to move towards the Standardized Approach (SA) for Operational Risk Capital Charge Calculation in due course.

8. Shariah Non-compliance Risk

Being an Islamic bank, the Bank is exposed to Shariah non-compliance risk. In order to monitor such risks the Bank has established an independent Shariah Board and a Shariah Compliance Audit Unit under Shariah Group.

8.1 Shariah Governance

The Shariah Compliance Framework was formulated to enable Bank AlJazira to communicate its strategies towards the effective and efficient Shariah compliance risk management throughout the organization in line with the Shariah principles. The Shariah Compliance Framework is the enterprise-wide Shariah management plan consisting of Shariah Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Shariah governance is effected through the following functions:

- Shariah Review;
- Shariah Advisory & Research;
- Shariah Audit;

8.2 Shariah Board

The operation of the Islamic Bank is governed by Shariah law of Islamic Banking which stipulates that any licensed Islamic bank is required to provide for the establishment of Shariah advisory body to advise the bank on the operations of its business in order to ensure that it does not involve any element which is Shariah non-compliant.

The Shariah Board is responsible to:

- advise the Board on Shariah matters in its business operations;
- endorse Shariah Compliance Manual and Framework;
- endorse and validate relevant documentations;
- advise the Bank on the computation and distribution of Zakat;
- assist related parties on Shariah matters and
- provide written Shariah opinion.

8.3 Rectification Process of Shariah Non-Compliance Income

The control structure for handling and reporting Shariah non-compliance and Potential Shariah Non-compliance transactions has already been put in place.

Key measures undertaken by the bank for managing Shariah Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control; and
- Monitoring and reporting.

9. 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; 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).

9.1 Liquidity Risk Management Approach

In terms of day-to-day liquidity management, the Treasury Business Support unit ensures sufficient funding to meet its 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 flow 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 semiannually 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 Board Risk Committee (BRC) and the Board.

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 its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise overnight funds through special investment arrangement facilities with SAMA (i.e. Murabaha with SAMA).

10. Profit Rate Risk in Banking Book

Profit rate risk 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.

10.1 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).

11. Risk Based Compensation – Road Ahead

In line with SAMA Rules on Compensation practices, a review was conducted with an external consultant during mid of Year 2013 and 2014 which resulted in the following :-

- Bank's compensation policy has been drafted, updated, approved, and ratified by the Board Level Remuneration and Nomination & Compensation Committee (REMCO)
- Changes to Remuneration and Nomination & Compensation Committee (REMCO) have been identified to the regulator (SAMA)
- Charter of the Bank's Remuneration and Nomination & Compensation Committee (REMCO) drafted, approved and ratified since April 2012
- Remuneration governance & changes to pay practices in the Banking sector as part of an annual independent Compensation Practices Audit (An update to REMCO to provide guidance on latest Financial Stability Board (FSB) principles & Basel disclosures)
- A possible road-map for any further changes has been planned, and is under discussion with Senior Management.
- It is expected for the changes, if any, to mirror fully compliant best market practices, and to be implemented within 2-3 years' time-frame.
- The Independent Annual Comp Practices Audit by the HAY group found a better than 89% fully compliant rate, 11% partially compliant, and 0% non-compliant rate.

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