BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة

ANNUAL REPORT
2013

بسم الله الرحمن الرحيم

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

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Custodian of The Two Holy Mosques
King Abdullah Bin Abdulaziz Al-Saud

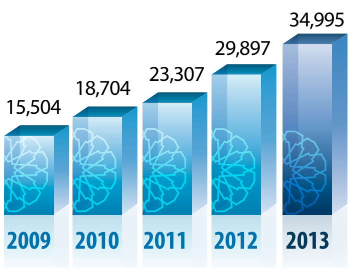
His Royal Highness Prince Salman bin Abdulaziz Al Saud
The Crown Prince, First Deputy Prime Minister
and Minister of Defense

His Royal Highness Prince Muqrin bin Abdulaziz Al Saud
Deputy Crown Prince &
Second Deputy Prime Minister

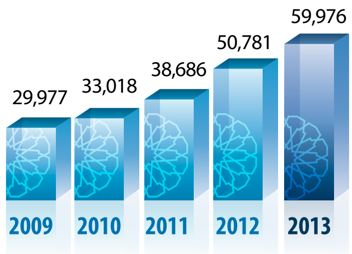
Contents

Financial Highlights

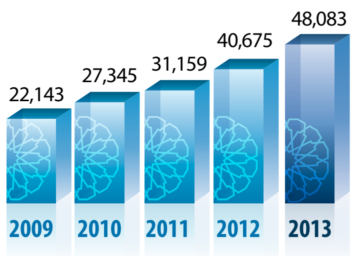
(In SAR millions, except where indicated)	2009	2010	2011	2012	2013
Loans and advances, net	15,504	18,704	23,307	29,897	34,995
Total assets	29,977	33,018	38,686	50,781	59,976
Customer deposits	22,143	27,345	31,159	40,675	48,083
Shareholders' equity	4,486	4,516	4,733	5,012	5,729
Net income	28	29	303	500	651
Net income growth (%)	87.06	5.0	945	65	30
Return on average equity (%)	0.60	0.64	6.55	10.27	12.12
Return on average assets (%)	0.10	0.09	0.85	1.12	1.17
Earnings per share (SAR)	0.09	0.10	1.01	1.67	2.17



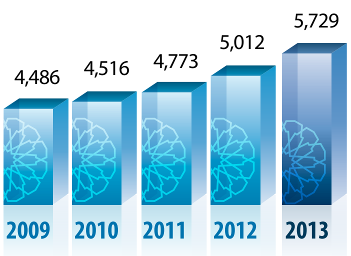
Net Loans and Advances
SR millions



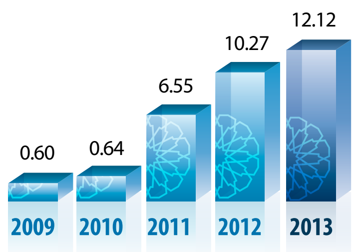
Total Assets
SR millions



Customer Deposits
SR millions



shareholders' Equity
SR millions



Return on Average Equity (%)

OUR MISSION

WE ARE A CLIENT-DRIVEN, SERVICE ORIENTED SAUDI FINANCIAL GROUP WHICH PROVIDES INDIVIDUALS, BUSINESSES AND INSTITUTIONS WITH INNOVATIVE SHARIA'H COMPLIANT FINANCIAL SERVICES THROUGH PROFESSIONAL AND DEDICATED STAFF.

Board of Directors

From Left to Right : **Mohammed A. Al-Hagbani** | **Nabil D. Al-Hoshan** | **Majed A. Al-Hogail** | **Khalifa A. Al-Mulhem** | **Tarek O. Al-Kasabi** | **Taha A. Al-Kuwaiz** *(Chairman of the Board)* | **Abdullah S. Kamel** | **Khalid O. Al-Baltan** | **Abdulmajeed I. Al-Sultan** |

Board of Directors

Taha A. Al-Kuwaiz
Chairman of the Board

Abdulmajeed I. Al-Sultan

Abdullah S. Kamel

Tarek O. Al-Kasabi

Khalid O. Al-Baltan

Majed A. Al-Hogail

Khalifa A. Al-Mulhem

Mohammed A. Al-Hagbani

Nabil D. Al-Hoshan

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,

It is my pleasure to present you with our 2013 Annual Report. A year that saw the bank face many hard challenges which with God's help and the dedication of our staff were turned into worthwhile opportunities. This dedication from the whole team was driven by our desire to respond to the aspirations of our shareholders and to ensure all shareholders were rewarded for their confidence in Bank Al Jazira

As a reward for its diligent efforts, BAJ obtained a very high rating by Capital Intelligence, a major global Credit Rating Agency, a rating which clearly reflects the efficiency and strength of its performance model. The Global Credit Rating Agency rated BAJ under BBB in terms of the strength of its financial position and stability, +BBB in terms of the adequacy of foreign currency reserves on the long term and A2 in terms of the foreign currency reserves on the near term. In its briefing on the implications of this rating, Capital Intelligence highlighted the Bank's liquidity abundance, growth in customer deposits and operational profits. It also highlighted the important benefits which the Bank would derive upon revival of the Equity market.

The International Islamic Rating Agency rated BAJ +A on the long term and A-1 on the short term, whilst it was globally rated at A-/A-2 in terms of foreign and local currency with stable outlook. The credit rating is calculated based on certain credit criteria which are adequate to perform the rating process, by reviewing three operational frameworks, namely: Corporate Governance, Governance of Shariah in transactions and the Quality of Asset Management. Independent bankers said the new credit rating reflects the bank's ability to develop its assets quality and profitability rates apart from financial efficiency and available liquidity and return on equity. As is the case with other banks, efficiency of management and control of liquidity remain an important factor in the success of the Bank's business. Diversification of investment portfolios and thorough study for selection of such investment options will normally contribute to mitigation of risks as well as to diversification of managed asset portfolio.

Market environment in 2013 was comparatively positive as we saw reduced interest rates which remained at record lows. GDP growth in 2013 was slightly lower than 2012, however it continued to maintain satisfactory growth rates exceeding 4% reflecting a strong performance compared to world economies. The Kingdom of Saudi Arabia continued to benefit from the strength of oil revenues. Investment in infrastructure increased impacting positively the macro economy and investment activities.

Bank Al Jazira has benefited from this environment and grew its balance sheet and profits through a well- planned strategy covering the development of its core operations in treasury, retail and corporate banking. Following this strategy, BAJ reported net income of SAR 651 million, an increase of 30% on 2012. This reflects a strong performance in loan book growth, backed by impressive increase in customer deposits lead by operational income. Among the objectives of this strategy was growing of loans and advances portfolio and diversification of customer base which results in the growth of profits and a greater stability to our deposit base; it also ensured a strong platform for growth in the medium to long term.

Furthermore, BAJ continued the introduction of more Sharia-compliant banking solutions in response to the growing and changing needs of its customers. Among these, were current accounts, deposits, personal finance and credit cards in addition to many other consumer and real-estate finance products. As part of its priorities, the Bank continued the expansion of its branch network which stood at 62 branches at the end of 2013 resulting in doubling our market share and growth in the customer base around the Kingdom.

In its endeavours to develop remote channels, the second phase of electronic teller channels was launched with more user friendly features. This is in addition to the launch of Al-Jazira Smart application as the first banking application on Microsoft platform for mobile phones, tabular systems and computers operating under Windows 8.

A good example of the success of the Bank's strategy is the achievement of a leading position within the real estate finance market in the last three years. As a result, our portfolio of home finance loans grew by 35.5% in 2013 which, we estimate, accounts for a market share of 11.1% compared to 9.7% in 2012.

The end of 2013 also saw the introduction of Fawri Remittance Banking Service Center and the launch of new outlets for this service. Fawri centres will tap into the Saudi Arabian migrants' remittance sector, the second largest market in the

world. This service was launched in cooperation with its strategic partner, Money Gram. This service is not restricted to money transfer, but also covers many other services and products such as foreign exchange and account-to-account international and local transfers.

BAJ sought specifically to enhance its operations in corporate and financial institutions market by targeting objective and concentrated investments in the banking products and services which relate to SMEs and has further developed its base of services targeted at global corporations and specialized finance services.

Bank Al Jazira also sought to innovate in other areas of Shari'ah compliant financial services. In 2013, Bank Al Jazira successfully launched the exclusive "Nadeek" credit card, in partnership with seven key Saudi football clubs. This card allows fans to support their favourite teams while enjoying a range of benefits and rewards.

In May 2013, Bank Al Jazira successfully completed the IPO of Al Jazira Takaful Ta'awuni (AJT). The company was listed on the Tadawul Stock Exchange at a price of [SAR 10.0]. Bank Al Jazira retains a 30% investment in the company alongside Al Jazira Capital which holds 5%. The IPO was very successful, well received by subscribers and completes another important strategic milestone for your bank.

BAJ investment was not restricted to the service infrastructures, but also heavily involved in the real capital of the bank, our loyal staff who have ever exerted sincere and dedicated efforts in the service of the Bank's higher strategic objectives. In this context, new business units were created in 2013 supported with extensive training. In addition, we have enhanced the management development programs and created, developed and enhanced the Bank's practices and policies as well as the role of governance.

BAJ continues at all levels to encourage the Saudization of jobs and to record high rates in this respect. This is being achieved by introducing intensive development and training programs for local staff including, but not limited to, "Branch Network Development Program" and "Banking Management Associate Program" in addition to job opportunities for Secondary School Certificate holders or Diploma and University Degree holders. During 2013, BAJ provided around 9000 training opportunities or 6.5 training days per staff.

Bank Al Jazira takes its social responsibilities very seriously. In 2013, the bank implemented several social initiatives based on its belief that such initiatives would contribute to the achievement of sustainable development of our beloved country. In addition to the training for those of special needs at different locations in the Kingdom, the Bank provided support and training to more than 4,000 young men and women in 2013.

The development efforts exerted by Bank Al Jazira team during the year resulted not only in business growth and profit achievement, but also in the winning of global awards by specialized agencies. In 2013, among many such accolades, Bank Al Jazira won Best Islamic Bank in the Kingdom of Saudi Arabia from World Finance Magazine, Best Mobile Banking Award in MENA from The European Magazine in addition to seven other awards at the International Call Centres Competition for the EMEA region. Finally, we were honoured to be recognised for being among the top 100 Saudi Brands by HRH Prince Bandar Bin Khalid Al-Faisal. These awards are a clear testament to the success and business excellence of the Bank.

The big challenge for the Bank today is to maintain this leading position and support its success. In this context, Bank Al Jazira, has developed a new five-year strategy focusing on continued and enhanced growth in our Corporate and Retail Banking Groups benefiting from its leading position and the success of its products in meeting the requirements of private and public corporations. In addition, we will focus on the expansion policy and introduce new branches of the same quality in new locations and cities.

I would like to conclude with my great thanks and appreciation to the Custodian of The Two Holy Mosques, His Royal Highness the Crown Prince and His Royal Highness Deputy Crown Prince and all concerned officials whose wise leadership and support lead to the introduction of a strategic national market with strong supports and ambitious strategies. I would also like to thank the Saudi Arabian Monetary Agency and Capital Market Authority for their continued support and guidance, to you our shareholders and customers for their confidence in the Bank which confidence reflects our real capital and first source of inspiration for us. I am also very much obliged to the management and staff at Bank Al Jazira whom we highly appreciate as they are our partners in achieving another year of progress and growth.

Taha Abdullah Al-Kuwaiz

Chairman

Chief Executive Officer's Foreword

On behalf of the management, I am pleased to present the financial results of Bank AL Jazira for the year ending 31st December 2013

I am very pleased to report that Bank Al Jazira has seen another successful year across its core operations. For 2013,, the bank reported net profits of SAR 650.6 million, an increase of SAR 150.2 million or 30 % compared to SAR 500.5 million for the same period in 2012. Earnings per share amounted to SAR 2.17 for the same period against SAR 1.67 in 2012. This excellent result was due to an increase in the operating income, continuing our mission of delivering profitable lending and excellence in servicing, whilst constantly driving efficiency.

The bank's financial position and operations remained robust over the year. As at December 31, 2013, total assets were SAR 60 billion, compared to SAR 50.78 billion at 31 December 2012, an increase of 18 % or SAR 9.2 billion. Customer deposits totaled SAR 48.08 billion at 31 December 2013, an increase of SAR 7.41 billion, or 18 %, compared to SAR 40.68 billion at 31 December 2012. During the year, the bank increased its loans and advances portfolio to customers by SAR 5.1 billion to SAR 35 billion, an increase of 17 %, from SAR 29.9 billion as at 31 December 2012. The investment portfolio grew by an impressive 40% to SAR 12.6 billion at 31 December 2013, an increase of SAR 3.6 billion compared to SAR 9 billion at 31 December 2012.

The Bank continued its expansion Kingdom-wide, and the total number of branches currently stands now at 62 branches, with more focus on giving these branches specific and recognizable brand image. Parallel to this, the Bank continues the process of improving the customer service experience at branches. The Bank is also continuing to expand the ATM network, located across all major sites around the Kingdom regions.

One of the key highlights of 2013 was the continued expansion of the brand network. Five years ago Bank Al Jazira adopted a key strategy to focus on the retail banking group, entitled "Retail Banking Differentiated". Alongside the investment in world-class talent and increased delivery channels, the bank sought to increase its market share of this segment through expanding its branch network. The result of such a strategy has been impressive. Since 2008, Bank Al Jazira doubled its market share to almost 4% by trebling its network. Our client base has also increased fivefold, a compound annual growth rate of over 40% in the period.

The significant growth in our retail platforms has facilitated similar substantial improvement in the Loan to Deposit Ratio (LDR), a key measure in the current banking environment. The Bank's customer loan portfolio grow from 18% in 2008 to 53% against a market, which, we estimate, has grown over the same period by 14%. Thus, at December 31 2013, the growth for this segment now stands at 70%. This very credible performance is due to our focus on new product launches and competitive value propositions, underpinned by our continued focus on multi-channel sales models.

Competition in retail banking market remains intense, particularly in the personal finance market. One feature of this competition was the drop of profit margin in early 2013. In order to balance our targeted expansion, we chose to maintain the profit margins with selective reductions for targeted sectors resulting in a consequential reduction in profit rates. Consequent to this, retail loans and advances have grown to SAR 12,404 million in 2013, as compared to SAR 10,605 million in 2012, a growth of 17%.

In a major step to expand our business and diversify our service packages, Bank AlJazira, , announced the launch of Fawri Centers for instant money transfers with the launch of the first center in Riyadh, which will enable residents and citizens of the Kingdom to make instant transfers to their relatives all over the world. The launch of Fawri centers is subsequent to the conclusion of a joint agreement with our partner which is specialized in instant financial remittance, in order to ensure provision of this service up to the highest global standards.

During 2013, we successfully launched Phase II of our online banking channels, including "Al Jazira SMART", the first ever banking application to be launched on the Microsoft platform. Additionally, we increased our ATM network by almost 30% to 370 representing an approximately market share of 2.7%. The bank's state-of-the-art EMV enabled Point Of Sale (POS) terminals market penetration is also expanding at a steady pace. Last year alone Bank Al Jazira installed 1,573 terminals, providing a portfolio of nearly 4,000 terminals.

BAJ, in a first of its kind initiative, launched an innovative product to support Saudi sport represented by football, the most popular sport at the local and global levels, by sponsoring some football clubs in the Kingdom of Saudi Arabia. This initiative was enhanced by the issue of "Nadeek" credit cards bearing the logos of such clubs. This card enables customers to support their favorable clubs in a friendly and innovative manner with benefits inuring to both the bank and customer. This idea is expressed by the logo "Support from your heart" to reflect people's eagerness to support their clubs.

Human capital and delivery channels represent a key focus for Bank Al Jazira. Since the beginning of 2011, the bank's management team has successfully shifted the group's approach from being sales-driven towards a 'total relationship management' approach for our HNW and affluent client base.

Furthermore, we have continued our focused efforts of Saudization, particularly at leading positions level, and we managed to increase the Saudization ratio at the Bank above 89%. These efforts are enhanced with specific training programs to Saudi employees, such as "Branch Network Development Program", "Recruitment and Development For Banking Business", in addition to providing job opportunities to holders of High Secondary School Certificate or University graduates and contributing to the sponsoring of scholarships for later recruitment, one of the most successful methods for attracting Saudi talents.

BAJ has also put tremendous efforts in the growing of education and development activity by establishing a new regional training center in line with the highest technical criteria in the city of Riyadh. This center will serve the Central and Eastern provinces. These training efforts resulted in the holding of more than 470 courses or workshops in 2013 resulting in 6.5 training day per staff.

Within the same context, subsequent to thorough review of the banking job market, the Bank adopted a number of steps to enhance job stability and competitiveness and ultimately to secure a creative work environment by introducing a new organizational structure and advanced salary scale for salaries and wages.

2013 was an important year for AlJazira Capital (AJC) given the tough operating environment. The company maintained its leading position in the local brokerage market with a commanding market share of 18.1% and, at the same time, strengthened its total business proposition through the development of its asset management and investment banking service businesses. AJC's contribution to BAJ Group shrank in 2013 compared to 2012, reflecting a tough operating environment with total net income of SAR 128.9 million for 2013 as compared to SAR 214.1 million in 2012.

In its endeavors to develop the Bank's products and services, AJC launched AlJazira Dawaween Fund as a private placement covering the full capital of SAR 410 Million with and investment size of up to SAR 730 Million approximately. The feasibility study of the fund presumes a return on investment of 63% within a year and a half based on the study assumptions

Another important accomplishment for the bank was the IPO of Al Jazira Takaful Ta'wuni Company (ATT). This was successfully completed in [May 2013]. BAJ has a 35% ownership interest in ATT represented by 30% investment by the bank itself and 5% investment by Aljazira Capital, which is the only 100% subsidiary of the bank.

Bank Al Jazira's Corporate and Institutional Banking Group (CIBG) achieved a growth of 13.3% in its asset portfolio in 2013, and reported total operating income of SAR 491.8 million. Fee income from banking activities grew by SAR 10.1 million, as compared to the previous year, while non-performing loans declined to 1.0% of the total loans, as compared to 5.3% at the end of 2012. CIBG, which offers a wide range of Shari'ah-compliant Islamic banking solutions to corporate entities, will continue to expand and innovate in the years to come.

The Treasury Group of the bank remains a key operating area and continues the success that started three years ago. The Treasury Group emphasized the strength of liquidity and assets and liabilities management, and optimized the capital structure and investment portfolio diversification, It has also successfully addressed the new capital requirements of Basel III. Specifically, it has diversified its investment portfolio, and switched investments from T-Wakalah (short-term) to Sukuk (long-term). The Sukuk portfolio grew from SAR 6.0 billion in 2012 to SAR 11.3 billion in 2013, an increase of 88.3%.

Strategically, the Bank has made exceptional achievements in the definition and control of challenges. Bank Al Jazira management has now completed its strategic plan for the next five years which focus on building the previous years success and on enhancing the ambitious process of Islamic banking to record further distinguished levels in the Kingdom. This work has been accomplished through collaboration between the Strategy Group, Business Transformation Group and McKinsey & Company.

In 2013, among many such accolades, Bank Al Jazira won Best Islamic Bank in the Kingdom of Saudi Arabia from World Finance Magazine, Best Mobile Banking Award in MENA from The European Magazine in addition to seven awards at the International Call Centers Competition for the EMEA region. Finally, we were honoured to be recognised for being among the top 100 Saudi brands in the Kingdom. These awards are a clear testament to the success of your bank and the staff who work within it

The Bank continued its commitment to its social responsibility through 'Khair Aljazira le Ahl Aljazira' program, which included a number of initiatives and activities in addition to activation of cooperation with charitable institutions to assist them in achieving their objectives through essential partnerships to help these societies in providing more services throughout the Kingdom. Total contributions of BAJ through 'Khair Aljazira le Ahl Aljazira' program amounted to SAR 8.9 m in 2013.

The Bank continues its efforts to support the Compliance and Anti-Money Laundering departments in order to have in place the highest standards of compliance under the instructions of the Saudi Arabian Monetary Agency and to achieve the required strategy for the continued support and development of the Bank.

I take this opportunity to thank our Board of Directors for their continual guidance, our customers for the faith in us and our shareholders for continuing their investment which constitutes a continuing support towards the achievement of the Bank's ambitions in the years to come.

Nabil D. Al Hoshan

Chief Executive Officer

Executive Management

Nabil Al Hoshan
CEO and Managing Director

Ziad Aba Al-Khail
CEO, Aljazira Capital

Sager Nedershah
CEO, Aljazira Takaful Ta'awuni

Tarek Al Shubaily
Senior Vice President
Head of Human Capital Group

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

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

Yasser Al Hedaithy
Senior Vice President & Group Treasurer

Abdullah Al-Shmassi
Senior Vice President & Head of Corporate and Institutional Banking Group

Robert Hadley
Senior Vice President & Chief Operating Officer

Charles Brodie
Senior Vice President & Chief Risk Officer

Shahid Amin
Senior Vice President & Chief Financial Officer

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

Dr. Fahid Al-Olyan
Executive Director, CSR Program

Dr. Mohammed Al Ghamdi
Senior Vice President & Head of Shariah Group

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 2013.

Introduction

Bank AlJazira (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). BAJ 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 main objectives of the Bank is to provide a complete range of integrated banking products and services to both retail, commercial and corporate sectors through its branches network across the Kingdom and other alternative channels. The Bank has currently no subsidiaries established or operating outside the Kingdom of Saudi Arabia.

In 1998, BAJ's Board of Directors took a strategic decision to convert the Bank from conventional banking into Shari'ah-compliant banking. To ensure compliance with Shari'ah principles, BAJ established a Shari'ah department within its organic structure and formed a Shari'ah Advisory Board (SAB) composed of a number of scholars specialized in Islamic Banking to screen, monitor and endorse Bank's operations and spread-wide the Shari'ah principles throughout the working environment. BAJ with its consistent endeavors succeeded in turning all its branches in 2002 to operate as per Shari'ah rules and principles. In 2007, BAJ witnessed its full conversion into a Shari'ah-compliant institution and simultaneously increased its paid up capital to SR 3 Billion which came entirely from the Bank's profits. The Bank's share capital is divided into 300 million shares of SAR 10 each.

The Bank provides to its customers islamic banking products which include current accounts, savings, Naqaa deposits, corporate credit facilities, trade finance, cash and payments management, treasury, consumer and mortgage loans and credit cards. The Bank also provides non-interest bearing products, which are approved and supervised by an independent Shariah Board.

Five-year financial highlights

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

Financial highlights

(In SAR millions, except where indicated)	2009	2010	2011	2012	2013
Loans and advances, net	15,504	18,704	23,307	29,897	**34,995**
Total assets	29,977	33,018	38,686	50,781	**59,976**
Customer deposits	22,143	27,345	31,159	40,675	**48,083**
Shareholders' equity	4,486	4,516	4,733	5,012	**5,729**
Net income	28	29	303	500	**651**
Net income growth (%)	(87.6)	5.0	945	65	**30**
Return on average equity (%)	0.60	0.64	6.55	10.27	**12.12**
Return on average assets (%)	0.10	0.09	0.85	1.12	**1.17**
Earnings per share (SAR)	0.09	0.10	1.01	1.67	**2.17**

Loans and Advances, net:

Totaled SAR 35 billion at the year-end, registering an impressive growth of 17% over SAR 29.9 billion in 2012. BAJ continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk concentration.

The consumer lending grew from SAR 10.6 billion at the end of 2012 to SAR 12.4 billion at year end 2013, a year-on-year growth of 17%. Corporate loan book also grew by a net SAR 3.2 billion during the year.

Placements with Other Banks and Other Financial Institutions:

Totaled SAR 3.07 billion, lower by 2% compared to SAR 3.14 billion in 2012, representing the net result of the liquidity and risk management.

Investments Book:

Closed at SAR 12.6 billion, representing a significant increase of 40% from the previous year. The investments mainly include the Murabaha with SAMA, corporate sukuk, and investment in mutual funds. Investments decisions are mainly governed by BAJ's risk diversification strategy, but some of the investments also serve the liquidity management of the Bank as well.

Total Assets:

Reached SAR 60 billion in 2013, as compared to SAR 50.78 billion in 2012, representing an increase of 18%.

Customer Deposits:

Increased by 18%, reaching SAR 48.1 billion in 2013, as compared to SAR 40.7 billion in 2012. A healthy trend was noted in the current accounts (demand deposits) which have grown by 14.7% during 2013 rising from SAR 16.7 billion in 2012 to SAR 19.2 billion at the end of 2013. Such impressive and sustainable growth results are mostly from the retail banking network expansion and addition of new products. BAJ expects further growth in current account deposits that will help the Bank in the competitive lending environment.

Geographical Analysis of Income

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

Regionwise balance - SAR 000	Central	Eastern	Western	Head Office	Total
Total Operating Income	655,093	249,927	544,586	389,702	1,839,307

Main Business Segments/Sectors

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

Personal Banking

Deposits, credit 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

Shares brokerage services to customers and management of various open and close-ended mutual funds (includes the activities of the AlJazira Capital Company which is a wholly owned subsidiary of the Bank).

Treasury

Money market, foreign exchange, trading and treasury services.

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

2013 (SR'000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Mgt	Takaful Ta'awuni	Others	Total
Total operating income	547,923	491,845	542,697	274,695	21,385	(39,238)	1,839,307
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

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 2013:

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 Taakafu 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.

Profits

The Bank has recorded a net profit of SAR 650.6 million for the year ended December 31, 2013. This represents an increase of SAR 150.2 million or 30 % compared to SAR 500.5 million for the same period in 2012. The increase is due mainly to an increase in operating income. Earnings per share were SAR 2.17 for the year ended 31 December 2013 against SAR 1.67 for the same period last year. Total assets were SAR 60 billion at 31 December 2013, compared with SAR 50.78 billion at 31 December 2012, an increase of 18 % or SAR 9.2 billion. Customer deposits totaled SAR 48.08 billion at 31 December 2013, an increase of SAR 7.41 billion, or 18 %, compared with SAR 40.68 billion at 31 December 2012. Loans and advances to customers amounted to SAR 35 billion at 31 December 2013, an increase of SAR 5.1 billion, or 17 %, from SAR 29.9 billion at 31 December 2012.The bank's investment portfolio totaled SAR 12.6 billion at 31 December 2013, an increase of SAR 3.6 billion or 40% compared with SAR 9 billion at 31 December 2012

Borrowings and debt securities in issue

	As at 31 December 2013 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 Sukukholders 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

Totaled SAR 4.36 billion, higher by 33% compared to SAR 3.29 billion in 2012, representing the net result of the liquidity and risk management having maturities within one year.

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 2013 amounted to SAR 129.4 million.

Key Risks faced by the Bank

The Bank's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are Credit risk (including counterparty and cross-border country risk), Market risk (including foreign exchange, interest rate and equity price risks), Operational risks in various forms, Liquidity risk, Reputational risk and Sustainability (environmental and social) risks.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board approves the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

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, 2013 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards (refer note 2 c of annual consolidated financial statements for the year ended December 31, 2013).

Appointment of External Auditors

The external auditors are responsible for the annual audit and quarterly review of Bank's financial statements. The Bank's Ordinary General Assembly meeting No. 49 held on April 6, 2013 (corresponding to 25/05/1434) approved the recommendation of the Board of Directors and the Audit Committee to re-appoint Ernst & Young and appoint KPMG Al Fozan and Al Sadhan in place of Deliotte & Touche Bakr AbulKhair &Co as the external auditors of the Bank for 2013.

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. 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 2014, 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

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

Type of Statutory Payments	SAR in million
Zakat paid during 2013 (against 2012)	12.2
Income tax and withholding tax	9
GOSI (including Bank and the employees)	47.5
Visa, Iqama and related services etc.,	0.8

The zakat liability due for 2013 has been estimated at SAR 17.5 million that is attributable to Saudi shareholders. BAJ has adequate provision in the books to settle the estimated zakat liability. An amount of SAR 5 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.

Penalties and Regulatory Restrictions

SAMA, GOSI, Municipalities and others have imposed fines on the Bank with a total of SAR 0.71 million during 2013 as specified below:

Name of the Authority	SAR in million
SAMA	0.64
GOSI	0.06
Municipalities and others	0.01
Total	**0.71**

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:

	2013 SR' 000	2012 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**514**	622
Due to banks and other financial institutions	**344**	1,511
Other receivables	-	726
Commitments and contingencies	**1,745**	1,247
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**893,652**	1,326,993
Customers' deposits	**3,678,321**	4,337,448
Other receivables	**13,118**	6,982
Commitments and contingencies	**8,888**	6,403

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:

	2013 SR' 000	2012 SR' 000
Special commission income	**38,009**	37,497
Special commission expense	**43,606**	42,878
Fees and commission income	**119**	158
Directors' remunerations	**4,715**	**4,263**

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

	2013 SR' 000	2012 SR' 000
Short-term employee benefits	**83,344**	67,005
Termination benefits	**16,116**	13,391

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 and Corporate Governance Regulation issued by Capital Market Authority of Saudi Arabia, and the provisions of the Companies Law and the Article of Association of BAJ.

The Bank shall pay the expenses and remuneration for attending the meetings of the Board of Directors and members of the subcommittees. The total of these payments during 2013 for members of the Board of Directors and five senior executives, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are 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	(SAR thousands) Payments to five Senior Executives, including CEO & CFO
Salaries and compensations	-	-	15,406
Allowances	-	4,715	1,815
Periodic and annual bonuses	-	-	14,125
Incentive plans	-	-	0
Any compensation or benefits payable on a monthly or annual basis	-	-	6,450
Total	-	4,715	37,796

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:

- The Bank's books of account were properly prepared;
- The Bank's internal control system is effective;

- It has no evidence that suggest the Bank's inability 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 various competent regulatory authorities, and its Articles of Association in the process of dividend distribution. In this regard, Article No. (45) of the Bank's Articles of Association details the following:

The company's annual net profits shall be distributed after deduction of general expenses and other costs, and after allocation of provision against doubtful debts, losses on investments and other contingent obligations which the Board of Directors consider necessary and the following provisions of the Banking Control Law:

(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 for the Saudi shareholders shall be deducted from their share in net profit.

(B) The minimum of 25% of net profits will be transferred to statutory reserve. The deductions will be continuously made until this reserve equals to the paid up capital of the bank.

(C) Out of the remainder of the profit after the deduction of the statutory Zakat & Tax reserve a sum not less than 5% of the paid-up capital shall be allocated for paying a dividend 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 approved by General Meeting. In case the remainder is not sufficient for paying such dividend to the shareholders concerned, shareholders shall not be entitled to claim the remainder in the following year or years. No longer dividend shall be declared by the General Meeting that is recommended by the Board of Directors.

(D) The remainder after the sums set forth in paragraph (1), (2), (3) herein 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 allocation of such reserves on a pro-rata basis of their shareholding and out of their respective share in the profit after paying Zakat and Tax

Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration

The Bank is not aware of any information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

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, option rights and subscription rights of major shareholders

Name of Person Who has Interest	Beginning of the year 2013		During the year 2013		End of the year 2013	
	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%	17,500,000	-	17,500,000	-
Sheikh/ Saleh Abdullah Mohammed Kamel	15,000,000	5.00%	15,000,000	-	15,000,000	-

2) Description of any interest, option rights and subscription rights of Directors of the Board and their wives and minor children

Name of Person Who has Interest	**Beginning of the year 2013**		**During the year 2013**		**End of the year 2013**	
	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%	174,333	-	174,333	-
Mr. Abdullah bin Saleh Kamel Al Tawfeeq Develop House Co.	10,005,000 2,692,578	3.34% 0.90%	10,005,000 602,578	- 78%	10,005,000 602,578	- -
Mr. Nabil bin Dawood Al-Hoshan (Chief Executive Officer)	2,000	0.00%	2,000	-	2,000	-
Eng. Tarek bin Othman Al-Kasabi	8,999	0.00%	8,999	-	8,999	-
Eng. Abdul Majeed bin Ibrahim Al-Sultan Etihad Brothers Develop. Co.	1,000 19,781,816	0. 00% 6.59%	1,000 19,781,816	- -	1,000 19,781,816	- -
Mr. Khaled bin Omar Al-Baltan	11,990,320	4%	11,990,320	-	11,990,320	-
Mr. Khalifa bin Abdul Latif Al-Mulhem	1,256,451	0.42%	1,401,872	12%	1,401,872	-
General Organization for Social Insurance - (represented in the Board of Directors by Mr. Mohammed bin Abdullah Hagbani)	12,275,138	4.09%	12,275,138	-	12,275,138	-
Mr. Majed bin Abdullah Al-Hogail	15,600	0.01%	146,248	837%	146,248	

3) Description of any interest, option rights and subscription rights of Senior Executives and their wives and minor children

Name of Person Who has Interest	Beginning of the year 2013		During the year 2013		End of the year 2013	
	No. of shares	Percentage of ownership	No. of shares	Percentage of change	No. of shares	Percentage of change
Mr. Shahid Amin (Group Chief Financial Officer)	-	-	-	-	-	-

Board of Directors and Subsidiary Committees Board Meetings

The Board held five meetings in 2013 (seven meetings in 2012), as detailed below:

Member's name	Capacity	1st mtg 13/01/2013	2nd mtg 03/03/2013	3rd mtg 24/05/2013	4th mtg 22/09/2013	5th mtg 22/12/2013	TOTAL
Mr. Taha bin Abdullah Al-Kuwaiz	independent	1	1	1	1	1	5
Mr. Abdullah bin Saleh Kamel	non-executive	1	1	-	1	-	3
Mr. Nabil bin Dawood Al-Hoshan Chief Executive Officer & Managing Director	Executive	1	1	1	1	1	5
Eng. Tarek bin Othman Al-Kasabi	non-executive	1	1	1	1	1	5
Mr. Khalifa bin Abdul Latif Al-Mulhem	independent	1	1	1	1	1	5
Mr. Khaled bin Omar Al-Baltan	independent	1	1	-	1	1	4
Eng. Abdul Majeed bin Ibrahim Al-Sultan	non-executive	1	1	1	1	1	5
Mr. Mohammed bin Abdullah Al-Hagbani	non-executive	1	1	1	1	1	5
Mr. Majed bin Abdullah Al-Hogail	non-executive	1	1	1	-	1	4

Board Committees

The Board of Directors consists of (9) members, who were elected by the Ordinary General Assembly "Forty-eight" in its meeting held on Saffar, 12 1434H corresponding to December 25, 2012 at the headquarters of the Bank in Jeddah, for the current session which began on January 01, 2013 for a period of three years effective up to December 31, 2015. The Board includes (3 independent and (5) non-executive and (1) executive).

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. 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 satisfactory 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.

Details regarding the member 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 December 31, 2013 are as follows:

Board member's name	Membership in other joint-stock companies' boards of directors
Mr. Taha bin Abdullah Al-Kuwaiz	• Saudi Stock Exchange (Tadawul) - Chairman of the Board. • Derayah Financial - Chairman of the Board. • Saudi Kayan Petrochemical Company - Member of the Board of Directors.
Mr. Abdullah bin Saleh Kamel	• Asir Company - Chairman of the Board. • Amlak International for Real Estate Development and Finance - Chairman of the Board • Emaar the Economic City - Member of the Board • Umm Al Qura Development & Construction - Member 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	
Eng. Tarek bin Othman Al-Kasabi	• Aseer Co. - Vice Chairman of the Board • Dallah Healthcare Holding Co – Chairman of the Board • Ataa Educational Company - Member of the Board • Sarb Real State investment - Member of the Board
Mr. Khalifa bin Abdul Latif Al-Mulhem	• Advanced Polypropylene Company - Chairman of the Board • Saudi White Cement Company - Member of the Board • Al Ittefaq Steel Products Company - Member of the Board
Mr. Mohammed bin Abdullah Al-Hagbani	• National Petrochemical Company - Member of the Board • Aljazira Capital - Member of the Board
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

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 jurisdiction 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 budget and plan of action submitted for the fiscal year, and ensure proper implementation of the policies of the Board of Directors. In addition, the Committee is responsible for monitoring the efficiency of internal control standards and policies' implementation.

The Executive Committee for the current session has been formed in the Board of Directors' meeting (180) held on Rabi Awal 01, 1434 H (corresponding to January 13, 2013). The Committee held twelve meetings during 2013 (twelve meetings in 2012), 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	12
Eng. Tarek bin Othman Al-Kasabi	Member of the Executive Committee	12
Mr. Nabil bin Dawood Al-Hoshan	Member of the Executive Committee	12
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Executive Committee	11
Mr. Majed bin Abdullah Al-Hogail	Member of the Executive Committee	12

Audit Committee

This committee plays a key role in helping the Board of Directors to deliver the statutory duties of overseeing financial accounting and review of audit risk limits in addition to the auditing tasks and coordination with external auditors of the Bank. The Committee reviews on quarterly basis the financial statements and assists the Board of Directors in carrying out the evaluation and annual review to ensure the effectiveness of internal controls, identify potential risks and develop strategic plans to mitigate them.

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

The Audit Committee consists of the chairperson to be chosen from the non-executive members of the Board of Directors and two 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 held four meetings during 2013, attended by the Chairperson and Members, as shown below table:

Name	Functional duties	No. of meetings attended
Mr. Mohammed bin Abdullah Al-Hagbani	Chairman of the Audit Committee	4
Mr. Fawaz bin Mohammed Al-Fawaz	Member of the Audit Committee	4
Mr. Taha Mohammed Azhari	Member of the Audit Committee	4

Nomination and Remuneration Committee

Following the issuance of BAJ's compliance charter, this committee was launched as a subcommittee reporting to the Board of Directors. Annex (G) of said charter specifies the bases of committee's structure, its mission and responsibilities, as per the rules and regulations with regard to corporate compliance issued by CMA.

The functions and responsibilities of this committee focus on recommending nominations and remunerations to the Board of Directors as per the approved policies and standards, performing an 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 interest of any member who is a member in any other company board of directors, linking the recommended appointment with the required skills, potentials and experiences and developing and reviewing policies for Board of Directors and senior executives' bonuses and compensations.

The Extraordinary General Assembly ratified; in its meeting No. 42 dated Rabi Thani10, 1429H corresponding to April 16, 2008, the selection rules of the Committee and its responsibilities in accordance with article No. 15 issued by the CMA and as per the Board of Directors' recommendation.

The Nomination and Remuneration Committee was formed for the current session in the Board's Meeting held on Safar 01,1431H (corresponding to January 16, 2010). The Committee held two meetings * during 2013 (Three meetings during 2012), 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

** The Ordinary General Assembly "Forty-Seven" in its meeting held on, (12/5/1433H corresponding to April 14, 2012) decided to change the number of the meeting of the Nomination and Remuneration Committee, to become two meetings at least and when needed (instead of four meetings at least).*

Risk Management Committee

This committee helps 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 classification system in the bank and risk policies for assets and liabilities management as recommended by 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 and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions. 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 session has been formed in the Board of Directors' meeting (180) held on Rabi Awal 01, 1434 H (corresponding to January 13, 2013). The Committee held four meetings during 2013, attended by 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	4
Mr. Nabil bin Dawood Al-Hoshan	Member of the Risk Management Committee	4
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Risk Management Committee	2
Mr. Charles Brodie (Head of Risk Management)	Member of the Risk Management Committee	4

Committee of the 'Khair Aljazira le Ahl Aljazira' program

This committee plays an important role in helping the Board of Directors in its social responsibilities related to the 'Khair Aljazira le Ahl Aljazira' program. It is responsible for: formulating 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 obstacles that might hinder the social responsibility programs and reviewing the objectives of the program through highlighting the bank's role to serve the community.

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 session has been formed in the Board of Directors' meeting (180) held on Rabi Awal 01, 1434 H (corresponding to January 13, 2013). The Committee held three meetings during 2013 (two meetings in 2012), attended by members of the Committee as described in the table 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	2

** The Bank filed a request with SAMA to appoint Mr.Abdul Aziz bin Ibrahim Al-Hadlaq – as a third Member of the 'Khair Aljazira le Ahl Aljazira' program Committee. The request was approved through letter no. 341000084250 on 06/07/1434H (corresponding to May 16, 2013).*

Corporate Governance

The Bank strictly abides by the rules of corporate governance and ensures strict implementation of the overall internal control systems, 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), 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 applies 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 voting.	B) The method of accumulative voting should be followed when voting to select the directors of the board in the general assembly.	The 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 compliance, monitoring and control. The effectiveness of the framework discontinuously assessed appropriate modifications are made 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 BAJ, effective internal control procedures are in place across the organization and their effectiveness is continuously monitored and tested by the control functions in the bank, and additionally tested by the independent external auditors and regulatory inspection 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

Summary

BAJ is a diversified Islamic financial services institution with a range of business activities and income streams. This has been achieved through continued investment in the core business infrastructure together with capital deployment into various strategic businesses. The Bank's principal lines of business are Retail Banking, Corporate Banking, Private Banking, Global Transaction Services, Treasury Services, Brokerage and Asset Management. All of the Banks products are Islamic (Sharia) compliant across all principal business lines. The Bank is continually evaluating new business opportunities to expand the range of banking and finance products and services which it offers to customers. These offerings are complimented by our associate companies who offer Takaful insurance, Investment Banking, Asset Management, Brokerage and Securities Services.

The Bank has a Strategy and Business Transformation Group which reports to the CEO, and business group/support Group Heads to help in the formulation of the business plans and strategies. During the year, the Bank engaged McKinsey & Company to develop the Banks medium and long term strategy for financial years 2014 – 2018.

Retail Banking

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

Five 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 world-class talent prior to investing in the development of innovate products, branch network expansion and world class delivery channels under the theme: 'Retail Banking Differentiated.'

A key component of the bank's strategy was to increase market share through branch network expansion. Since 2008, BAJ's network has increased from 24 branches with 1.7% market share to 62 branches with 3.657% 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 12,244 million this year (at a CAGR of 53% versus an estimated ~14% CAGR market growth), 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 wider industry facing challenges with individual Murabaha deposits resulting from low profit rates, BAJ managed to grow its total liabilities from SAR 9,447 million in 2008 to SAR 17,373 million by the end of the year at a 13% CAGR, outperforming the~10.3% CAGR of the total market deposit.

Through its smart relationship management service and compensation models, the Bank has been able to triple its Current Account balances in five years at a 27% CAGR, and once again outperformed the estimated ~20% CAGR of the "Business & Individuals" market in demand deposits.

Retail banking market competitiveness has reached its highest peak, especially within the personal financial 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 season with reduced profit rates. Following this, retail loans and advances have grown significantly to SAR 12,333 million in 2013, as compared to SAR 10,532 million in 2012, a y-o-y growth of 17%.

The bank's leadership position in real estate finance has been successfully maintained for past three years. Claiming one forth of the market's growth, the bank's real estate finance portfolio grew by 32% in 2013, estimating a market share of 10.5%, as compared to 9.7% in 2012.

In terms of liabilities, the bank has exceeded the average market growth of demand deposits recording a 16% growth (versus an estimate of 14% market growth of "Business & Individuals"). BAJ'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 suitable investment option for many individuals.

Overall, the group's liabilities book grew by 10%, closing the year at SAR 17,864 million from SAR 16,312 million in 2012 (versus an estimate of 11% market growth of Demand & Time Deposits), mainly driven by attracting more Demand Deposits.

In an effort to ensure its continued leadership position in the launch of innovative products, BAJ has proudly introduced the exclusive 'Nadeek' football club credit card, in alliance with seven key Saudi football clubs, a first of its kind collaboration in the region. 'Nadeek' football club cards allow Saudi fans to support their clubs simply by using their credit cards, which is also bundled with additional benefits and an annual cash back feature. For the bank, the product will be a great source of revenue and will help further diversify both special commission and fee income streams over the coming years.

Fawri فوري
خدمـــات تحـــويل الأمـــوال
Money Transfer Services

The end of 2013 also saw the introduction of a new business line, Fawri Banking Service Centres, with the opening of a first shop in the AlSulaimania District of Riyadh. Fawri Centers will tap into the Saudi Arabia migrant's remittance sector, the second largest market in the world. In addition to offering instant money transfer services with its strategic partner, MoneyGram, this initiative provides a range of other products and services such as foreign exchange and account-to-account international and local transfers.

We also made real 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 BAJ's customers can now enjoy the full function "AlJazira SMART" application, which already accounts for one quarter of total online transactions.

As more clients are migrating towards smart phone apps, BAJ has successfully launched "AlJazira SMART" on Microsoft Windows 8, making it the first ever banking app to be launched on Microsoft platform. The app is available for downloads on Windows 8 mobile phones, tablets and PCs, enabling customers to enjoy BAJ's banking services on the move.

2013 was an awarding winning year for BAJ as our Call Centre was awarded 'Best Call Centre in the world 2013' and also the 'Best Customer Service in the world 2013' at the Contact Centre World Awards.

The bank's ATM network expansion plan is making great progress and we increased our ATM network from 350 ATMs in December 2012 to 450 a year later, of which 60 are full function cash-acceptance machines. Additionally, a total of 36 low performing ATMs have been relocated to more profitable locations in order to fully optimize the potential of ATM fee income.

The bank's state-of-the-art EMV enabled POS terminals market penetration is also expanding at a steady pace. Last year alone BAJ installed 1480 terminals, enabling the bank to reach nearly43 801 terminals (increasing our market share from 2.51% to 52%).

Moving forward, the bank will continue to invest in developing human capital and delivery channels as it believes they are key growth drivers during this transformation period. Acquiring, training and retaining the most talented team members will remain 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 hybrid segmented mix of a 'total relationship management' approach for our HNW and affluent client base. This, along with uniquely designed products for all other segments, are served through an expanding branch network, and 21 ladies sections around the Kingdom, with the support of our best-in-class Alternative Delivery Channels.

In 2014, the bank is fully focused on maintaining its real estate finance leadership position aided by launch of 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. BAJ 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 banking lounges, along with dedicated relationship managers, is also a priority going forward.

Private Banking

BAJ's strategic direction for private banking includes: strengthening the resources of the Private Banking team; projecting a local private banking brand identity; and tightening internal alignment within Bank Aljazira and Aljazira Capital by introducing a clear framework to optimize cross-referral and marketing. Furthermore, the bank will provide closer functional support from Aljazira Capital to address key service gaps such as providing investment advisory, identifying investment appetite of clients, and establishing service level agreement, among others. The bank's strategy for private banking also includes enhancing the spectrum of investment products available to HNW clients.

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 13.3% in its assets portfolio in 2013, and has registered a total operating income of SAR 491.8 million. Fee income from banking activities grew by SAR 10.1 million, as compared to the previous year, while non-performing loans declined 1.0% of the total loans, as compared to 5.3% at the end of 2012. CIBG, which offers a wide range of Shari'ah-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 Scheme, which achieved a growth of 165% as at the end of 2013, making BAJ one of the most active partners in the growth of the scheme.

2013 saw significant development at CBS with the launch of new products designed to cater to specific SME needs, especially in the healthcare sector. CBS recently opened commercial banking centers in Abha and Al Hassa to address the demand for SME-related banking products and services. As part of its ongoing expansion strategy, it is the bank's ambition to open more centers across the Kingdom to ensure that SMEs' banking needs are fully met.

Total financing assets increased by 101.8% in 2013, which reflects the significant increase in the number of borrowing clients. Going forward, CBS will continue to provide enhanced services to play a pivotal role in delivering Shari'ah 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 digitizing and processing modernisation across all business sectors in Saudi Arabia. During 2013, GTS successfully launched an innovative trade product, 'LC Musharaka,' which is a letter of credit issued by BAJ in favor of an exporter (beneficiary) on behalf of the importer (applicant), based on a pre-agreed investment ratio with the intention of selling the imported goods in the local market.

In September 2013, GTS obtained Certificate of Conformity from the Ministry of Labour on the successful implementation of WPS (Wages Protection System), as mandated by the Ministry of Labor and the Saudi Arabian Monetary Agency (SAMA)..


المصرفية الخاصة
PRIVATE BANKING


المصرفية الخاصة
PRIVATE BANKING

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 ofdspecialized financing.

During 2013, SFD continued to be a leading player in the Project and Syndication finance arena by participating in major landmark deals. With its established track record, the Agency unit has increasingly become an agent of choice in the marketplace, and has successfully attracted three roles for mega deals

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 Shari'ah compliant tailor-made solutions (Murabaha, Musharaka,Tawaraq, Ijara, Naqa'a, etc.) to meet the growing needs of a wide range of public sector businesses such as corporate finance, real estate, 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

Treasury

Treasury continues its journey of success that started after the transformation, three years ago. It has ensured strong liquidity, asset and liability management, optimized capital structure, enriched and diversified investment portfolio and also successfully addressed the new capital requirements of Basel III. To achieve these targets, Treasury worked closely with all business groups. Moreover, Treasury systems are an integral tool to manage treasury activities and we strive to keep them at par with the latest available technology.

Besides asset, liability and investment management, Treasury remains focused on meeting the growing customer's demands, and providing them with high quality professional services and Shari'ah compliant products.

Furthermore, Treasury has also promoted a cross-sell culture in the bank whereby business groups and Treasury work as partners to cross-sell treasury products among other banking products. In order to increase the foreign exchange fee income, the bank's sales team has been coaching branch sales staff on treasury products. This initiative has generated a very positive result and customer foreign exchange income for 2013 increased by 47%.

Treasury has enhanced and diversified its investment portfolio, where we improved the investments maturity profile. The Sukuk portfolio increased from SAR 6.0 billion in 2012 to SAR 11.3 billion in 2013, an increase of 88.3%. In the process, the bank has ensured that any investment decision is based on diverse criteria and a regulated multi-stage evaluation process. Also, the market risk policies and practices have been followed to ensure that the bank maintains a diluted risk profile

Human Capital Group

Following through from last year's progress, the HCG continues its vital strategic role as a full partner to all business functions, while complying with all relevant regulatory guidelines, with 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 also 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 2013, 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 Relations 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.

The emphasis on Saudization via the regular deployment of the highly successful Branches Network Development Program (BNDP), and the Management Associate Program (MAP), continues to be a great talent attractor, along with numerous internship opportunities for both undergrads & post graduate candidates, and the resounding success of the Al-Beit Al-Hassan Staff Housing Program which marked the induction of its 150th subscriber in October 2013.

The Bank has accordingly improved its high success rate of effective Saudization of more than 89%. Furthermore, the HCG invested considerable efforts towards growing the learning and development function by establishing the new full scale regional Training Center in Riyadh serving both Central and Eastern regions. Our training man days average of 6.5 per employee, reflecting a steady rate equal to the 2012 training activity totals, with more than 470 annual training events taking place in 2013.

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.

Risk Management Group

Risk Management Group (RMG) is one of the bank's 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 has established a board and several Executive Management committees to review all aspects of risk management, approve overall risk 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 & Liability Management Committee
- The Market Risk Policy 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.

RMG, headed by the Chief Risk Officer, is empowered to identify, evaluate and mitigate risks in whatever form it may arise from any businesses and operating activities within the bank. RMG seeks to achieve an appropriate balance between risk and reward across the various business activities, 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 management policies and processes are designed to identify and analyse risk, and to set appropriate risk appetite, 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.

2013 was undoubtedly a challenging year for the Risk Management Group as it responded to the increasing regulatory requirements of Basel III and ensured that the risk management framework kept pace with the bank's rapid growth plans.

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 responsibilities are carried out by the bank Audit Committee. 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.

Support Groups

2013 was a busy year for the Support Group (SG) as it continued to deploy major technological and operational investments to support fast growing and new business areas. In addition, the year saw the implementation of major changes to meet regulatory requirements and important strategic and transformational goals. The Support Group includes functions such as: Operations; Technology (IT); Logistics, Business Continuity Management & Real Estate (BCM); Business Transformation Group (BTG); and Procurement.

Logistics

The Logistics division of SG, with the support of Technology, BTG and Procurement supported the fast growing Retail business with nine new branch locations completed in 2013, along with the renovation of over 40 branches. Logistics also delivered the first Remittance Centre locations with further locations currently under development. The bank's first Private Banking location was built in Riyadh last year, and also a Central Command Centre was delivered to monitor all branches and ATM's across KSA. Further investments will continue into 2014 with branch network expansion and remittance center developments, among others.

Business Transformation Group (BTG)

The Business Transformation Group (BTG) division continues to support bank-wide businesses, operations and technology change and transformation. The key focus areas for 2013 were the delivery of a retail initiation solution, improvements to 'Know Your Customer', the creation of a permanent archiving solution, the introduction of improved Anti Money Laundering monitoring technologies, and the delivery of a collection monitoring solution. BTG has also led key operational change activities in central and card operations areas with a particular focus on improvements in ATM, Nostro, credit card and other general ledger account reconciliation procedures. Key drivers for BTG in 2014 will include implementation of an ERP (Enterprise Resource Planning) to support finance and procurement, and ERM (Enterprise Risk Management) to support management of key risks areas across the bank.

Operations

Operations was in a period of transition in 2013 with several important change initiatives focused on improving processes and controls in the credit card, personal finance and central operations. The focus for Operations over the coming years is to establish a customer service oriented culture, and to ensure that technology, people and processes deliver superior customer service. The transformation and modernisation of Operations will continue in 2014 with the introduction of new technologies for Cheques clearing, ongoing re-engineering of processes and ultimately a move to a new payments gateway technology.

Information Technology

Technology investment remains an important element of the bank's strategy, and key change initiatives continued to be executed throughout 2013. The IT division successfully implemented new switch technology that supports the growth of the retail ATM network in the past year, and also completed a major upgrade of the core banking system. IT development continues its strategy to build professional and effective internal development capability, in addition to vendor supplied applications. Current development focus areas include applications to support the Remittance business, improvements to the online banking delivery channel and the future strategy for our payment gateway. Investing in improved systems monitoring tools and automated scheduling technologies will be a key focus area in 2014.

Community Service

In line with its commitment to Corporate Social Responsibility initiatives, BAJ continued to play an important role in supporting the development of individuals in 2013. The bank laid out strategies and programs to implement several charity initiatives to actively support sustainable development.

In the area of community service, the bank worked towards strengthening its partnership with different charities and social institutions to achieve sustainable development for individuals from different segments of the society. During 2013, Bank AlJazira contributed SAR 8.5 million through its community service programs.

The bank also launched several training programs for both men and women across the Kingdom in order to prepare them for promising careers, including special programs that target individuals with special needs. BAJ also launched a special program to enhance leadership among social workers and improve their skills, resulting in positive outcomes for the individuals and their organization.

On an academic level, community service management prepared several computer training centers and business incubators within numerous organizations and training facilities. It also supported orphans through entertainment activities in a number of cities. BAJ's community service program benefited 4,287 young men and women in 2013.

Awards and Certification

Bank AlJazira has received the following awards:

- World Finance Award- Best Sharia Compliant Bank (Best Islamic Bank), KSA - World Finance Magazine
- Best Mobile Banking Award - MENA region by The EUROPEAN Magazine
- Ideal Institution award for Supporting Social and Developmental Actions- Bahrain / GCC Council of Ministers of Social Affairs.
- Award for being among the top 100 Saudi brands in the presence of Prince Bandar bin Khalid Al-Faisal, Chairman of Aseer Publishing, and a large number of government and media representatives.
- Best Contact Center in the World ranked 2, Silver Medal - Contact Center World Co.
- 7 Awards in The International Call Centers Competition in EMEA region 2013, Vienna as follows:
  - Golden medal- Call Center of the Year Award
  - Golden medal - Call Center Services of the Year Award
  - Silver medal - Sales Incentives System of the Year Award
  - Golden medal - Administrative Leader of the Year award
  - Golden medal - Best Technical Support Award
  - Golden medal - Supervisor of the Year Award
  - Silver medal - Call Center Agent of the Year Award
- Best Contact Center in Europe, Middle East, and Africa ranked 1, Gold Medal
- Best Contact center Manager – Dubai - Insights Middle East
- Best leader in World Contact centers Competition- Rank 2 & Silver Medal - Contact Center World Co.

Aljazira Capital Company

2013 was an important milestone for AlJazira Capital (AJC). The company maintained its leading position in the local brokerage market with a commanding market share of 18.1% and, at the same time, strengthened its total business proposition through the development of its asset management and investment banking service businesses. AJC's contribution to BAJ Group is also reflected in a solid financial performance with total net income to SAR 129 million for 2013 (2012: SAR 214 million).

AJC maintained its No. 1 position during 2013 in the local brokerage business as a result of its relentless focus on the customer and understanding its customer needs. The company also continued to invest in the development of its regional and international brokerage capabilities, focusing in particular on strengthening its position in the international and institutional brokerage businesses. AJC's executed brokerage trades during 2013 amounted to SAR 494.6 billion. Total client assets under administration amounted to SAR 33 billion at the end of 2013 (2012: SAR 24 billion).

AJC's continued focus on the development of its asset management product offering was well rewarded during 2013: client assets under management grew by 73% during the year from SAR 1.1 billion to SAR 1.9 billion, outperforming the total market which increased by 14% during the same period. This business growth was possible due to growth in assets under management of its existing Funds as well as the successful development and launch of 2 real estate Funds, AlJazira Residential Projects Fund and AlJazira Dawawen Fund, during the year. AJC also maintained its on-going investment in its investment banking services business; this business continues to witness solid growth as a result of its business relationship development efforts.

AJC is particularly pleased to be recognised by Global Banking & Finance Review during the year as 'Best Brokerage Service Provider Saudi Arabia 2013'. AJC was also the proud recipient of the award 'Best Equity Research Company Saudi Arabia 2013' from International Finance Magazine in recognition of the quality of its research for clients.

AJC looks to 2014 with optimism. Management believes that the solid underlying economic fundamentals for the Saudi economy will continue to have a positive influence in the further development of KSA's financial services sector and, in particular, KSA's capital markets.

Aljazira Takaful Ta'awuni Company

AlJazira Takaful Ta'wuni Company (ATT) is a Saudi joint stock company. Its incorporation license was approved in accordance with the Council of Ministers Resolution No. (137), dated 27/4/1431H and Royal Decree No. (M/23) issued on 28/4/1431H. ATT capital is (SAR 350,000,000) three hundred and fifty million Saudi Riyal divided into (35,000,000) thirty five million ordinary shares with a nominal value of (10) ten Riyal per share ("Shares").

The company shall exercise insurance activities in the sector of protection and saving in accordance with the Cooperative Insurance Companies Control Law and its Implementing Regulations as amended. The company obtained license from SAMA on 20th Safer 1435 corresponding to 23rd December 2013 and started writing business from January 2014.

BAJ Group has a 35% ownership interest in ATT represented by 30% investment by the bank itself and 5% investment by Aljazira Capital, which is the 100% subsidiary company of the bank.

ATT adopts a strategy that depends on the following elements:

- Develop innovative and diversified insurance products that exceed the aspiration of the targeted segments that serve the needs of society, including individuals as well as public and private sectors establishments
- Provide a high quality service that fits the company aspirations and meets the requirements of the client
- High level risk management capabilities through investing in technology and applying best practices
- Attract, develop and motivate experienced employees
- Increase the effectiveness of the company operations to guarantee achieving the highest return on the resources used

Shari'ah 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 Shari'ah Board has reviewed and discussed the final annual report prepared by the Shari'ah Group of the Bank that includes but not limited to the examination of sample documentation, processes and procedures of each type of retail, corporate and treasury products and services offered by the bank.

The Shariah Board of Bank Al Jazira also reviewed the financial statements for the period ended in 31/12/2013, 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 Shari'ah Board. Whereas the Shari'ah Board's responsibility is restricted to providing an independent opinion based on it's monitoring of the operations of the Bank and presenting its report in the Annual General Assembly.

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

In the final opinion of the Sharia Board all contracts, operations and transactions done by the Bank during the period mentioned in the report are inline with the rules of Islamic Shari'ah. The observations related to non Shari'ah compliant instances reported in the Shari'ah Group's annual Shari'ah compliance report do not materially affect the overall Shari'ah compliant operations of the Bank. However, the Shari'ah Board directed the management of the Bank to rectify these observations and correct them in a timely manner. The management implemented the directives of the Shari'ah Board.

May Allah guide us to the right path.

Sheikh Abdulla Bin Suleiman Al-Mane'e
Chairman

Dr. Abdulla Bin Mohammed Al-Mutlaq
Vice Chairman

Dr. Mohammed Bin Said Al-Ghamdi
Rapporteur

Dr. Mohammed Ali Al-Guari
Member

Dr. Abdulsatter Abu-Ghudah
Member


BANK ALJAZIRA

WESTERN REGION

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

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

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

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

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

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

Khalid Bin Al-Waleed St. Branch
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Jeddah Main Branch (Al Nahda; formerly)
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Jeddah Main Branch (Ladies)
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Fax : (+966) 12 234 7227

Al Bsateen Branch (Alaya; formerly)
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Al Salama Branch
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Al Safa Branch
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Al Steen King Fahd St. Branch
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Al Samer Branch
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Al Rabwa Branch (Almkaronah ; formerly)
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Al Naeem Branch
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Al Musa'adia Branch
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Al Rehab Branch
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Al Rehab Branch (Ladies)
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Shehar Branch
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Tabouk Branch
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Yanbu
Yanbu Branch
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EASTERN REGION

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Jarir Branch
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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

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

Al Khobar Main Branch
Tel : (+966) 13 808 5477
Fax : (+966) 13 808 5477

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) 13 855 8437

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

CENTRAL REGION

Riyadh

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

Olaya Branch (Ladies)
Tel : (+966) 11 215 7074
Fax : (+966) 11 215 7052

King Fahd Road Branch
Tel : (+966) 11 225 6000
Fax : (+966) 11 225 6151

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

King Abdullah Road Branch
Tel : (+966) 11 264 2020
Fax : (+966) 11 279 3650

King Abdullah Road Branch (Ladies)
Tel : (+966)) 11 269 6228
Fax : (+966)) 11 207 1362

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
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) 11 208 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 7499
Fax : (+966) 11 293 6560

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 1086 Ext. 450

Al Kharj Branch
Tel : (+966) 11 547 6259
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 3289
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

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

SOUTHERN REGION

Khamis Mushait

Khamis Mushait Branch
Tel : (+966) 17 221 6465
Fax : (+966) 17 220 4230

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 0421
Fax : (+966) 17 523 8267

Jizan

Jizan Branch
Tel : (+966) 17 322 8594
Fax : (+966) 17 322 8601

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

WESTERN & SOUTHERN REGIONS

Jeddah

Al Musa'adia Investment Center
Tel: (+966) 12 660 6020

Al Musa'adia Investment Center (Ladies)
Tel: (+966) 12 668 3600

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

Makkah

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

Madinah

Madinah Center
Tel: (+966) 14 845 1111

Al Taif

Taif Center
Tel: (+966) 12 740 9692

Abha

King Saud Road. Center
Tel: (+966) 17 226 0851

Khamis Mushait

Khamis Mushait Center
Tel: (+966) 17 221 9580

Najran

Najran Service Center
Tel: (+966) 17 523 0421

CENTRAL REGION

Riyadh

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

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

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

Uqba Bin Nafe' St. Center (Ladies)
Tel: (+966) 11 278 14387

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

Al Riyan Center (Ladies)
Tel: (+966) 11 208 5306

King Abdullah Rd. Center (Ladies)
Tel: (+966) 11 225 6481

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

Headquarter
Mosaedia Center, 1st floor
P.O. Box 6277, Jeddah 21442
Tel : (+966) 12 668 8877
Fax : (+966) 12 667 7319

Madina Rd -South (Mosaedia Center 3)
Tel : (+966) 12 668 8877
Fax : (+966) 12 661 8474

Madinah

King Abdullah Rd., Sultana st. intersextion- Ghouth Towers, 2nd Tower, 7th 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.
Tel : (+966) 11 287 4214
Fax : (+966) 11 278 4214

(Ladies) Intersection of Khurais Rd. with Khalid Bin Alwalid- Opposite to AlSadhan Hypermarket
Tel : (+966) 11 418 7975

EASTERN REGION

Dammam

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

9th St- Opposite to Ministry of Finance branch - (Ladies),
Tel : (+966) 13 833 8330
Fax : (+966) 13 834 9966

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

Independent Auditors' Report

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 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, 2013, 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 other explanatory notes from 1 to 40. We have not audited note 41, 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 controls 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, 2013, and its financial performance and its 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.

Other matter paragraph

The comparative information shown in these consolidated financial statements was audited by Ernst & Young and another auditor, whose audit report contained an unqualified opinion.

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

19 February 2014
19 Rabi Thani 1435 H

Financial Statements

Contents

Consolidated Statement of Financial Position

As at December 31, 2013 and 2012

	Notes	2013 SR'000	2012 SR'000 (Restated)	As at January 1, 2012 SR'000 (Restated)
ASSETS				
Cash and balances with SAMA	3	**7,306,158**	7,082,421	4,365,341
Due from banks and other financial institutions	4	**3,073,795**	3,138,622	4,331,024
Investments	5	**12,597,125**	8,994,394	5,194,054
Loans and advances, net	6	**34,994,759**	29,896,782	23,307,451
Investment in an associate	7	**121,489**	-	-
Other real estate, net	6e	**672,485**	660,446	680,778
Property and equipment, net	8	**507,766**	466,103	446,829
Other assets	9	**702,831**	542,634	360,703
Total assets		**59,976,408**	50,781,402	38,686,180
LIABILITIES AND SHARE HOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions	11	**4,358,738**	3,286,044	1,305,778
Customers' deposits	12	**48,082,525**	40,675,290	31,158,531
Other liabilities	13	**806,600**	808,215	489,334
Subordinated Sukuk	14	**1,000,000**	1,000,000	1,000,000
Total liabilities		**54,247,863**	45,769,549	33,953,643
SHAREHOLDERS' EQUITY				
Share capital	15	**3,000,000**	3,000,000	3,000,000
Statutory reserve	16	**1,762,500**	1,599,500	1,474,000
General reserve	16	**68,000**	68,000	68,000
Other reserves	17	**1,649**	(37,644)	24,250
Retained earnings		**896,396**	381,997	6,287
Proposed dividend		-	-	160,000
Total shareholders' equity		**5,728,545**	5,011,853	4,732,537
Total liabilities and shareholders' equity		**59,976,408**	50,781,402	38,686,180

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended December 31, 2012 and 2013

	Notes	2013 SR'000	2012 SR'000 (Restated)
Special commission income	19	**1,645,129**	1,262,507
Special commission expense	19	**(422,182)**	(311,624)
Net special commission income		**1,222,947**	950,883
Fees and commission income, net	20	**468,090**	566,517
Foreign exchange income, net		**34,784**	23,740
Trading income, net	21	**55,738**	31,101
Dividend income	22	**6,407**	10,800
Gain on non-trading investments	23	**23,432**	-
Other operating income	24	**27,909**	14,535
Total operating income		**1,839,307**	1,597,576
Salaries and employee-related expenses	35	**629,982**	574,831
Rent and premises-related expenses		**86,537**	68,589
Depreciation	8	**71,417**	65,508
Other general and administrative expenses		**256,296**	203,595
Impairment charge for credit losses, net	6c	**136,343**	172,479
Other operating expenses		**7,085**	12,094
Total operating expenses		**1,187,660**	1,097,096
Income from operating activities		**651,647**	500,480
Share of loss of an associate	7	**(1,011)**	-
Net income for the year		**650,636**	500,480
Earnings per share (expressed in SR per share)			
Basic and diluted earnings per share	25	**2.17**	1.67

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2012 and 2013

	Notes	2013 SR'000	2012 SR'000 (Restated)
Net income for the year		**650,636**	500,480
Other comprehensive income to be reclassified to statement of income in subsequent periods:			
Cash flow hedges:			
Fair value gain/ (loss) on cash flow hedges	17	**29,111**	(49,999)
Net amount transferred to/ (from) consolidated statement of income	17	**13,302**	(686)
Other comprehensive income not being reclassified to statement of income in subsequent periods:			
Net changes in fair value of investments classified as at Fair Value through Other Comprehensive Income (FVTOCI)		**23,643**	(10,479)
Other comprehensive income/ (loss) for the year		**66,056**	(61,164)
Total comprehensive income for the year		**716,692**	439,316

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2012 and 2013

2013	**Notes**	**Share capital SR'000**	**Statutory reserve SR'000**	**General reserve SR'000**	**Other reserve SR'000**	**Retained earnings SR'000**	**Proposed dividend SR'000**	**Total SR'000**
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**
2012								
Balance at January 1, 2012 (Restated)		3,000,000	1,474,000	68,000	24,250	6,287	160,000	4,732,537
Net income for the year		-	-	-	-	500,480	-	500,480
Other comprehensive loss		-	-	-	(61,164)	-	-	(61,164)
Gain on sale of investments classified as at FVTOCI		-	-	-	(730)	730	-	-
Total comprehensive (loss)/ income		-	-	-	(61,894)	501,210	-	439,316
Transfer to statutory reserve	16	-	125,500	-	-	(125,500)	-	-
Gross dividend paid for 2011		-	-	-	-	-	(160,000)	(160,000)
Balance at December 31, 2012		3,000,000	1,599,500	68,000	(37,644)	381,997	-	5,011,853

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2012 and 2013

	Notes	2013 SR'000	2012 SR'000 (Restated)
OPERATING ACTIVITIES			
Net income for the year		**650,636**	500,480
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net		**(55,738)**	(31,101)
Gain on non-trading investments	23	**(23,432)**	-
Depreciation	8	**71,417**	65,508
Dividend income	22	**(6,407)**	(10,800)
Gain on disposal of property and equipment		**(7,723)**	(84)
Loss on sale/ write-off of property and equipment, net		**331**	3,685
Impairment charge for credit losses, net	6c	**136,343**	172,479
Share of loss of an associate	7	**1,011**	-
		766,438	700,167
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(531,685)**	(537,882)
Due from banks and other financial institutions maturing after three months from the date of acquisition		**374,500**	144,250
Investments held as at FVTIS		**685,438**	(278,771)
Loans and advances		**(5,234,320)**	(6,761,810)
Other real estate, net		**(12,039)**	20,332
Other assets		**(43,042)**	1,634,485
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,072,694**	1,980,266
Customers' deposits		**7,407,235**	9,516,759
Other liabilities		**(113,428)**	(1,548,096)
Net cash from operating activities		**4,371,791**	4,869,700
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		**4,733,497**	4,568,318
Acquisition of amortised cost investments		**(8,881,782)**	(8,069,265)
Investment in an associate	7	**(122,500)**	-
Acquisition of property and equipment	8	**(129,249)**	(88,467)
Proceeds from disposal of property and equipment		**23,561**	84
Dividends received	22	**6,407**	10,800
Net cash used in investing activities		**(4,370,066)**	(3,578,530)
FINANCING ACTIVITY			
Dividends paid		**-**	(160,124)
Net cash used in financing activity		**-**	(160,124)
Net increase in cash and cash equivalents		**1,725**	1,131,046
Cash and cash equivalents at the beginning of the year		**7,088,775**	5,957,729
Cash and cash equivalents at the end of the year	27	**7,090,500**	7,088,775
Special commission income received during the year		**1,573,072**	1,193,137
Special commission expense paid during the year		**400,579**	238,633

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

1. GENERAL

Bank AlJazira (the Bank) 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 and operates under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah, through its 62 branches (2012: 54 branches) in the Kingdom of Saudi Arabia and employed 1,779 staff (2012: 1,620 staff). The Bank's Head Office is located at the following address:

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

The objective of the Bank is to provide a full range of Shari'ah compliant (non-commission based) banking products and services comprising of Murabaha, Istisna'a, Ijarah and Tawaraq, which are approved and supervised by an independent Shari'ah Board established by the Bank.

The Bank's subsidiaries are as follows:

	Country of incorporation	Nature of business	**Ownership (direct and indirect) December 31, 2013**	Ownership (direct and indirect) December 31, 2012
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 presentation

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), and with International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's By-Laws.

ii. Basis of measurement

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 risk being hedged.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries namely, AlJazira Capital Company and Aman Real Estate (collectively the "Group") drawn up to December 31 each year. 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, including:

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.

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 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 associates

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 statements) 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 associate. 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 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

Except for the impact of the adoption of the following new standards IFRS 10: Consolidated Financial Statements (refer note 2(d)(iii)), IFRS 13: Fair Value Measurements (refer note 33) and amendments and revisions to existing standards mentioned below, the accounting policies adopted by the Group are consistent with those followed in the preparation of the Group's consolidated financial statement for the year ended December 31, 2012. The changes mentioned below do not have any material impact on the financial statements of the Group other than additional disclosures requirements.

i. New standards

- IFRS 12: Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 Fair Value Measurement: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

ii. Amendments and improvements to existing standards

- Amendments to IAS 1 Presentation of Financial Statements: Amends IAS 1 to revise the way other comprehensive income is presented.
- Amendments to IFRS 7 Financial Instruments: Disclosures: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also requires disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- IAS 27 Separate Financial Statements (2011): Now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.
- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.
- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standard with consequential amendments to other standards:
- IAS 1 – Presentation of Financial Statements: Comparative information beyond the minimum requirements and presentation of the opening statement of financial position and related notes.

iii. IFRS 10: Consolidated financial statements

IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The standard introduces a single consolidation model for all entities based on control; irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

As a result of the application of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities.

The control indicators set out note 2 (b) are subject to management's judgements that can have a significant effect in the case of the Group's interests in investments 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. For all funds managed by the Group, the investors have no power to remove fund manager without cause and the Group's aggregate economic interest in each case is either below the minimum threshold or insignificant to the Group as a whole. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of the funds managed by the Group.

In accordance with the transitional requirements of IFRS 10, the Group re-assessed the control conclusion for its investees as of January 1, 2013. As a consequence, the Group has changed its consolidation conclusions in respect of mutual funds managed by the Group i.e., Al-Thoraiya European Equities Fund and Al-Jazira Residential Projects Fund which were consolidated in the financial statements of the Group up to December 31, 2012. However, as a consequence of the re-assessment, the Group has concluded that it does not control those mutual funds. The opening balances as at January 1, 2012 and comparative information for the year ended December 31, 2012 have been restated in the consolidated financial statements. The quantitative impact on the financial statements is provided below:

Consolidated statement of financial position	January 1, 2012 (SR '000) As previously reported	Adjustments	As restated
Cash and balances with SAMA	4,379,043	(13,702)	4,365,341
Investments	5,396,915	(202,861)	5,194,054
Other assets	356,210	4,493	360,703
Overall impact on total assets	10,132,168	(212,070)	9,920,098
Other liabilities	(497,078)	7,744	(489,334)
Overall impact on total liabilities	(497,078)	7,744	(489,334)
Non-controlling interests	(204,326)	204,326	-
Overall impact on total equity	(204,326)	204,326	-

Consolidated statement of financial position	December 31, 2012 (SR '000) As previously reported	Adjustments	As restated
Cash and balances with SAMA	7,109,044	(26,623)	7,082,421
Investments	9,098,734	(104,340)	8,994,394
Other assets	586,791	(44,157)	542,634
Overall impact on total assets	16,794,569	(175,120)	16,619,449
Other liabilities	(809,590)	1,375	(808,215)
Overall impact on total liabilities	(809,590)	1,375	(808,215)
Non-controlling interests	(173,745)	173,745	-
Overall impact on total equity	(173,745)	173,745	-

Consolidated statement of income	For the year ended December 31, 2012 (SR '000) As previously reported	Adjustments	As restated
Fees and commission income, net	564,184	2,333	566,517
Trading income, net	35,915	(4,814)	31,101
Other operating income	15,433	(898)	14,535
Other general and administrative expenses	(206,817)	3,222	(203,595)
Non-controlling interests	(157)	157	-

Consolidated statement of comprehensive income	For the year ended December 31, 2012 (SR '000) As previously reported	Adjustments	As restated
Net income for the year	500,637	(157)	500,480
Non-controlling interests	(157)	157	-

Consolidated statement of cash flows	For the year ended December 31, 2012 (SR '000) As previously reported	Adjustments	As restated
Net cash from operating activities	4,877,265	(7,565)	4,869,700
Net cash used in financing activities	(154,768)	(5,356)	(160,124)

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. 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 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.

The Group writes off loans and advances and investment securities when they are determined to be uncollectible.

iv. Fair value of financial instruments

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

- In the 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. 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. Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an on-going basis.

In addition, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods.

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 interest 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 affected 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

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's functional currency. 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 Saudi Arabian Riyals (SR).

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 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 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 special commission 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 special commission rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission 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.

Foreign exchange income / loss is recognised when earned / incurred.

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 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 is recognised when the right to receive income is established.

Other fee expenses mainly relate to transactions and service fees, which are expensed as the related services are provided.

j) Net trading income / (loss)

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 special commission 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 special commission 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 (except for debt investments that are designated as at fair value through income statement on initial recognition):

- 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.

ii. 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 special commission rate.

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

n) 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.

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

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 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.

s) 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.

t) 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.

u) 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.

v) 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 initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

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) End of service benefits

The provision of end of service benefits is based on the rules stated under The Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements.

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

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

Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

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

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

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

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

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

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

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

3. CASH AND BALANCES WITH SAMA

	2013 SR'000	2012 SR'000 (Restated)
Cash in hand	**844,205**	736,512
Balances with SAMA:		
Statutory deposit	**2,416,953**	1,885,268
Cash lending	**4,045,000**	4,460,641
Total	**7,306,158**	7,082,421

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

	2013 SR'000	2012 SR'000
Current accounts	**536,295**	201,622
Money market placements	**2,537,500**	2,937,000
Total	**3,073,795**	3,138,622

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

5. INVESTMENTS

a) As of December 31, 2013, investments are 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**

b) As of December 31, 2012, investments were classified as follows:

i. Mandatory measured at FVTIS

	2012 SR'000 Domestic	International	Total
Mutual funds	800,710	-	800,710

ii. Designated as at FVTIS

	2012 SR'000 Domestic	International (Restated)	Total
Mutual funds	54,213	101,295	155,508
Equities	10,058	-	10,058
	64,271	101,295	165,566

iii. FVTOCI

	2012 SR'000 Domestic	International	Total
Equities	256,324	4,117	260,441

iv. Amortised cost

	2012 SR'000 Domestic	International	Total
Murabaha investments	1,745,808	-	1,745,808
Sukuk investments	4,882,125	1,139,744	6,021,869
Total investments	6,627,933	1,139,744	7,767,677
Grand Total	7,749,238	1,245,156	8,994,394

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

	2013			2012 (Restated)		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	-	**913,533**	**913,533**	-	1,745,808	1,745,808
Sukuk investments	**2,446,150**	**8,891,588**	**11,337,738**	2,574,869	3,447,000	6,021,869
Equities	**29,166**	**3,438**	**32,604**	267,061	3,438	270,499
Mutual funds	**313,250**	**-**	**313,250**	956,218	-	956,218
Total Investments	**2,788,566**	**9,808,559**	**12,597,125**	3,798,148	5,196,246	8,994,394

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

	2013				2012			
	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**	1,745,808	-	-	1,745,808
Sukuk investments	**11,337,738**	**17,338**	**(4,792)**	**11,350,284**	6,021,869	8,968	(4,849)	6,025,988
Total	**12,251,271**	**17,338**	**(4,792)**	**12,263,817**	7,767,677	8,968	(4,849)	7,771,796

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

	2013 SR'000	2012 SR'000 (Restated)
Government and quasi Government	**6,362,433**	2,760,183
Corporate	**2,906,817**	5,176,990
Banks and other financial institutions	**3,327,875**	1,057,221
Total	**12,597,125**	8,994,394

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 (2012: 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			
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**

2012	Consumer	Commercial	Others	Total
	SR'000			
Performing loans and advances	10,498,093	19,593,526	142,714	30,234,333
Non-performing loans and advances	107,205	933,014	-	1,040,219
Total loans and advances	10,605,298	20,526,540	142,714	31,274,552
Provision for credit losses				
Specific provision	(49,778)	(860,319)	-	(910,097)
Portfolio provision	(178,211)	(289,462)	-	(467,673)
Total provision for credit losses	(227,989)	(1,149,781)	-	(1,377,770)
Loans and advances, net	10,377,309	19,376,759	142,714	29,896,782

Loans and advances, net represents Shari'ah 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 7.75 billion (2012: SR 5.51 billion)

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

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

2012	Consumer	Commercial	Total
		SR'000	
Balance at the beginning of the year	129,612	1,080,832	1,210,444
Provided during the year, net	106,432	86,021	192,453
Bad debts written off	(852)	(4,461)	(5,313)
Recoveries of amounts previously provided	(7,203)	(12,611)	(19,814)
Balance at the end of the year	227,989	1,149,781	1,377,770

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

	2013 SR'000	2012 SR'000
Additions during the year, net	**186,372**	192,453
Recoveries of amounts previously provided	**(49,767)**	(19,814)
Recoveries of debts previously written off	**(262)**	(160)
Impairment charge for credit losses, net	**136,343**	172,479

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

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	**640,691**	**-**	**-**	**640,691**
Electricity, water, gas and health services	**1**	**-**	**-**	**1**
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**

2012	Performing SR'000	Non performing, net SR'000	Provision for credit losses SR'000	Loans and advances, net SR'000
Government and semi Government	562,059	-	-	562,059
Banks and other financial institutions	684,353	-	-	684,353
Agriculture and fishing	58,411	-	-	58,411
Manufacturing	5,308,205	56,974	(56,974)	5,308,205
Mining and quarrying	663,028	-	-	663,028
Electricity, water, gas and health services	-	16,744	(16,744)	-
Building and construction	952,184	82,802	(87,546)	947,440
Commerce	7,256,777	693,415	(655,932)	7,294,260
Transportation and communication	301,534	-	-	301,534
Services	387,226	62,617	(32,617)	417,226
Consumer loans and credit cards	10,498,093	107,205	(49,778)	10,555,520
Share trading	1,906,954	-	-	1,906,954
Others	1,655,509	20,462	(10,506)	1,665,465
	30,234,333	1,040,219	(910,097)	30,364,455
Portfolio provision	-	-	(467,673)	(467,673)
Total	30,234,333	1,040,219	(1,377,770)	29,896,782

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances. 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:

	2013 SR'000	2012 SR'000
Collateral against performing loans	**13,931,573**	12,324,433
Collaterals against non-performing loans	**86,740**	138,274
Total	**14,018,313**	12,462,707

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

	2013 SR'000	2012 SR'000
Balance at the beginning of the year	**660,446**	694,778
Additions	**-**	326
Disposals	**(1,961)**	(20,658)
	658,485	674,446
Reversal / (provision) for unrealised revaluation losses	**14,000**	(14,000)
Balance at the end of the year	**672,485**	660,446

During the year, the provision for unrealised revaluation losses has been reversed (2012: nil).

7. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'wuni Company ("ATT"). During the year, ATT has obtained its commercial registration certificate. The details related to ATT are more fully explained in note 28 and note 38 to these consolidated financial statements.

The following table summarises the latest available financial information of ATT as at December 31, 2013 and for the year then ended :

	2013 SR'000
Total assets	**350,965**
Total liabilities	**(3,852)**
Total net assets	**347,113**
Proportion of Group's ownership	**35%**
Carrying amount of the investment	**121,489**

	2013 SR'000
Total loss for the year	**(2,889)**
Group's share of loss for the year (35%)	**(1,011)**

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

	2013 SR'000
Cost acquired during the year	**122,500**
Share in losses for the year	**(1,011)**
Balance at the end of the year	**121,489**

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	Leasehold improvements SR'000	Furniture, equipment and vehicles SR'000	Capital work in progress SR'000	Total 2013 SR'000	Total 2012 SR'000
Cost						
Balance at the beginning of the year	175,759	294,245	493,852	49,476	**1,013,332**	929,637
Additions	1,440	9,266	29,640	88,903	**129,249**	88,467
Transfers	-	35,064	43,229	(78,293)	-	-
Disposals	(15,774)	-	(1,623)	(59)	**(17,456)**	(1,773)
Write off	-	-	-	-	**-**	(2,999)
Balance at the end of the year	**161,425**	**338,575**	**565,098**	**60,027**	**1,125,125**	1,013,332
Accumulated depreciation						
Balance at the beginning of the year	4,736	164,667	377,826	-	**547,229**	482,808
Charge for the year	152	26,937	44,328	-	**71,417**	65,508
Disposals	-	-	(1,287)	-	**(1,287)**	(118)
Write off	-	-	-	-	**-**	(969)
Balance at the end of the year	**4,888**	**191,604**	**420,867**	-	**617,359**	547,229
Net book value						
At December 31, 2013	**156,537**	**146,971**	**144,231**	**60,027**	**507,766**	
At December 31, 2012	171,023	129,578	116,026	49,476		466,103

9. OTHER ASSETS

	2013 SR'000	2012 SR'000 (Restated)
Accrued special commission receivable:		
Banks and other financial institutions	**3,611**	10,081
Investments	**70,009**	35,605
Loans and advances	**246,471**	201,450
Derivatives	**11,470**	12,368
Total accrued special commission receivable	**331,561**	259,504
Advances and prepayments	**138,825**	124,639
Positive fair value of derivatives	**122,456**	151,257
Margin deposit against derivatives	**84,300**	-
Others	**25,689**	7,234
Total	**702,831**	542,634

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

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

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

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 consolidated statement of income:

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**

2012 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	25,049	53,298	54,531	88,065
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	25,049	53,298	54,531	88,065

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

	2013 SR'000	2012 SR'000
Special commission income	**977**	958
Special commission expense	**(1,185)**	(272)
Net (loss) / gain on cash flow hedges reclassified to the consolidated statement of income	**(208)**	**686**

Movement in other reserves of cash flow hedges:

	2013 SR'000	2012 SR'000
Balance at the beginning of the year	**(45,474)**	5,211
Gains/ (losses) from change in fair value recognised directly in equity, net (effective portion)	**29,111**	(49,999)
Losses/ (gains) removed from equity and transferred to consolidated statement of income	**13,302**	(686)
Balance at the end of the year	**(3,061)**	(45,474)

The discontinuation of hedge accounting due to the disposal of both the hedging instruments and the hedged items, resulted in the reclassification of the associated cumulative losses of SR 13.094 million (2012: SR nil) 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.

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**

	2012- 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	4,330	4,330	2,246,546	491,872	1,589,674	165,000	-	2,277,857
Special commission rate swaps	136,857	136,857	3,833,313	-	-	-	3,833,313	3,292,967
Held as cashflow hedges:								
Special commission rate swaps	10,070	58,805	2,550,625	-	-	718,125	1,832,500	1,501,667
Total	151,257	199,992	8,630,484	491,872	1,589,674	883,125	5,665,813	7,072,491

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**
2013						
Floating commission rate investments	2,630,823	2,635,313	Cash flow	Commission rate swap	25,366	20,024
2012						
Floating commission rate investments	2,208,182	2,150,625	Cash flow	Commission rate swap	1,248	58,805
Floating commission rate loans and advances	391,178	400,000	Cash flow	Commission rate swap	8,822	-

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 SR'000	2012 SR'000
Current accounts	**27,225**	32,598
Money market deposits from banks and other financial institutions	**4,331,513**	3,253,446
Total	**4,358,738**	3,286,044

12. CUSTOMERS' DEPOSITS

	2013 SR'000	2012 SR'000
Demand	**19,158,001**	16,697,067
Time	**27,432,544**	23,135,130
Other	**1,491,980**	843,093
Total	**48,082,525**	40,675,290

Time deposits comprise deposits received on Shari'ah Compliant (non-interest based) Murabaha basis.

Other customers' deposits include SR 491 million (2012: SR 340 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2013 SR'000	2012 SR'000
Demand	**503,945**	249,457
Time	**4,384,545**	5,228,422
Other	**47,581**	18,745
Total	**4,936,071**	5,496,624

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

13. OTHER LIABILITIES

	2013 SR'000	2012 SR'000 (Restated)
Accrued special commission payable:		
Banks and other financial institutions	**28,339**	17,535
Customers' deposits	**77,984**	67,234
Subordinated Sukuk	**7,037**	6,988
Total accrued special commission payable	**113,360**	91,757
AlJazira Philanthropic Program (see note below)	**63,623**	68,701
Accounts payable	**255,807**	218,242
Dividend payable	**26,652**	25,038
Negative fair value of derivatives	**117,193**	199,992
Other	**229,965**	204,485
Total	**806,600**	808,215

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 Shari'ah Board of the Bank to overview and provide guidance for the activities of the program.

14. 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).

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (2012: 300 million shares of SR 10 each).

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

	2013	2012
Saudi shareholders	**94.17 %**	94.17 %
Non Saudi shareholder - National Bank of Pakistan	**5.83 %**	5.83 %

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 163 million has been transferred from net income for 2013 (2012: SR 125.5 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

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**

2012	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	5,211	19,039	24,250
Net change in fair value	(49,999)	(10,479)	(60,478)
Transfer to consolidated statement of income	(686)	-	(686)
Transfer to retained earnings	-	(730)	(730)
Net movement during the year	(50,685)	(11,209)	(61,894)
Balance at end of the year	(45,474)	7,830	(37,644)

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2013, 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, 2013, the Group had capital commitments of SR 40.375 million (2012: SR 43.250 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)				
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**

	(SR'000)				
2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	659,398	224,892	4,047	-	888,337
Letters of guarantee	848,459	1,085,477	443,893	74,509	2,452,338
Acceptances	329,948	-	-	-	329,948
Irrevocable commitments to extend credit	2	-	562,500	1,108,945	1,671,447
Total	1,837,807	1,310,369	1,010,440	1,183,454	5,342,070

The outstanding unused portion of commitments as at December 31, 2013, which can be revoked unilaterally at any time by the Group, amounts to SR 1.9 billion (2012: SR 3.5 billion).

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

	2013 SR'000	2012 SR'000
Corporate	**5,287,470**	5,207,495
Banks and other financial institutions	**116,422**	134,575
Total	**5,403,892**	5,342,070

d) **Operating lease commitments**

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

	2013 SR'000	2012 SR'000
Less than 1 year	**9,711**	5,613
1 to 5 years	**35,327**	22,100
Over 5 years	**37,590**	13,874
Total	**82,628**	41,587

19. NET SPECIAL COMMISSION INCOME

	2013 SR'000	2012 SR'000
Special commission income		
Investments held as at amortised cost	**193,799**	131,334
Due from banks and other financial institutions	**24,877**	25,304
Derivatives	**54,742**	38,698
Loans and advances	**1,371,711**	1,067,171
Total	**1,645,129**	1,262,507
Special commission expense		
Due to banks and other financial institutions	**26,201**	12,532
Customers' deposits	**281,621**	209,349
Subordinated Sukuk	**27,467**	26,257
Derivatives	**82,359**	42,496
Others	**4,534**	20,990
Total	**422,182**	311,624
Net special commission income	**1,222,947**	950,883

20. FEES AND COMMISSION INCOME, NET

	2013 SR'000	2012 SR'000 (Restated)
Fees and commission income		
Local share trading	**244,659**	394,850
Takaful Ta'wuni (insurance) wakala fees	**21,076**	26,687
Loan commitment and management fees	**165,180**	142,795
Trade finance	**40,931**	35,064
International share trading	**3,108**	2,897
Mutual funds fees	**20,660**	17,303
Fees from ATM transactions	**30,496**	36,988
Others	**31,155**	45,434
Total fees and commission income	**557,265**	702,018
Fees and commission expense		
Brokerage fees	**(89,050)**	(134,348)
Takaful Ta'wuni – sales commission	**(125)**	(1,153)
Total	**468,090**	566,517

21. TRADING INCOME

	2013 SR'000	2012 SR'000 (Restated)
Equities	**16,719**	11,481
Mutual funds	**29,291**	11,191
Derivatives	**9,728**	8,429
Total	**55,738**	31,101

22. DIVIDEND INCOME

	2013 SR'000	2012 SR'000
Investments held at FVTOCI	**6,407**	10,800

23. GAIN ON NON-TRADING INVESTMENTS

	2013 SR'000	2012 SR'000
Held as at amortised cost investments	**23,432**	-

24. OTHER OPERATING INCOME

	2013 SR'000	2012 SR'000 (Restated)
Rental income	**333**	46
Gain on sale of property and equipment and others	**27,576**	14,489
Total	**27,909**	14,535

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2013 and December 31, 2012 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 2013 was 300 million (2012: 300 million).

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

26. ZAKAT AND INCOME TAX

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax, respectively, as follows:

a) Saudi shareholders:

The Zakat attributable to Saudi shareholders for 2013 is estimated at SR 17.5 million (2012: SR 12 million).

b) Non-Saudi shareholder:

The income tax payable on the current year's share of income for the Non-Saudi shareholder is estimated at SR 5 million (2012: SR 6 million).

27. CASH AND CASH EQUIVALENTS

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

	2013 SR'000	2012 SR'000 (Restated)
Cash and balances with SAMA, excluding statutory deposit	**4,766,705**	5,074,653
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition (note 4)	**2,323,795**	2,014,122
Total	**7,090,500**	7,088,775

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 Shari'ah 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)

2013	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
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

2012	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
	(SR'000) (Restated)						
Total assets	13,062,987	18,140,294	18,778,640	790,158	9,323	-	50,781,402
Total liabilities	15,767,984	24,366,949	5,521,155	67,444	46,017	-	45,769,549
Total operating income	383,507	434,062	426,699	354,459	25,556	(26,707)	1,597,576
Net special commission	267,606	327,400	347,375	10,675	22	(2,195)	950,883
Trading, fee and commission income, net income, net	91,215	92,503	47,102	341,264	25,534	-	597,618
Operating expenses:							
- Impairment charge for credit losses, net	(74,032)	(98,447)	-	-	-	-	(172,479)
- Depreciation	(39,875)	(6,530)	(6,483)	(9,512)	(3,108)	-	(65,508)
Total operating expenses	(518,983)	(264,737)	(125,553)	(140,395)	(52,796)	5,368	(1,097,096)
Net (loss) / income	(135,476)	169,325	301,146	214,064	(27,240)	(21,339)	500,480

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

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**

2012	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	12,444,145	17,353,859	-	9,358,338	-	-	39,156,342
Commitments and contingencies	-	2,277,089	-	-	175,000	-	2,452,089
Derivatives	-	-	-	86,305	-	-	86,305

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 30).

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 Group, is managed in accordance with the Group's comprehensive risk management control framework. Three credit committees are responsible for the oversight of credit risk, The Board Risk Committee, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

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

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

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

The debt securities included in the investment portfolio are mainly sovereign and quasi sovereign risk. Analysis of investments by counterparty is provided in note 5e. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 18. Information on the Group's maximum credit exposure by operating segment is given in note 28.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory notes, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed.

Financial instruments such as loans and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair value of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (refer to notes 9 and 13). Collateral generally is not held in connection with balances due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreement.

The carrying amount and fair value of securities pledged, margin deposits against derivatives and contingencies and commitments are disclosed in notes 9 and 12. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2013 and December 31, 2012. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

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

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7.

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 Group's Internal Audit Division independently reviews the overall system on a regular basis.

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

a) **Credit quality of financial assets (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	Total
2013	Consumer	Commercial	Others	Subtotal		
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**

SR'000

2012	Loans and advances Consumer	Commercial	Others	Sub total	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	4,992,733	-	4,992,733	3,138,622	8,131,355
Standard – medium risk	-	10,412,948	-	10,412,948	-	10,412,948
Standard – unclassified	10,444,455	2,329,826	142,714	12,916,995	-	12,916,995
Sub total - standard	10,444,455	17,735,507	142,714	28,322,676	3,138,622	31,461,298
Special mention	-	1,376,263	-	1,376,263	-	1,376,263
Sub total	10,444,455	19,111,770	142,714	29,698,939	3,138,622	32,837,561
Past due but not impaired						
Less than 30 days	45,541	22,126	-	67,667	-	67,667
30-60 days	1,687	20,267	-	21,954	-	21,954
60-90 days	1,050	1,686	-	2,736	-	2,736
Over 90 days	5,360	437,677	-	443,037	-	443,037
Total performing	10,498,093	19,593,526	142,714	30,234,333	3,138,622	33,372,955
Less: portfolio provision	(178,211)	(289,462)	-	(467,673)	-	(467,673)
Net performing	10,319,882	19,304,064	142,714	29,766,660	3,138,622	32,905,282
Non-performing						
Total non-performing	107,205	933,014	-	1,040,219	-	1,040,219
Less: Specific provision	(49,778)	(860,319)	-	(910,097)	-	(910,097)
Net non-performing	57,427	72,695	-	130,122	-	130,122

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, 2013 include renegotiated loans restructured due to deterioration in the borrower's financial position) of SR 698.4 million (2012: SR 1,378.5 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.

	2013 SR'000	2012 SR'000
Performing		
Government murabaha investments	913,533	1,745,808
High grade (AAA – BBB)	11,179,371	4,132,980
Standard grade (BA1 – B2)	-	-
Sub-standard grade (BA3 – C)	-	-
Unrated	158,367	1,888,889
Total performing and overall investments	12,251,271	7,767,677

As at December 31, 2013 and December 31, 2012, 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		
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	630,806	157,323	788,129
Electricity, water, gas and health services	1	29	30
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

2012	Maximum exposure 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
Banks and other financial institutions	674,663	233,299	907,962
Agriculture and fishing	57,584	80,441	138,025
Manufacturing	5,713,206	1,142,925	6,856,131
Mining and quarrying	653,640	656,250	1,309,890
Electricity, water, gas and health services	-	2,075	2,075
Building and construction	4,910,929	1,386,502	6,297,431
Commerce	3,214,532	899,153	4,113,685
Transportation and communication	297,264	69,182	366,446
Services	485,679	164,326	650,005
Consumer loans and credit cards	10,367,310	-	10,367,310
Share trading	1,879,952	-	1,879,952
Other	1,642,023	707,917	2,349,940
Maximum exposure	29,896,782	5,342,070	35,238,852
Less: collateral for performing and non-performing	(12,462,707)	(1,438,546)	(13,901,253)
Net maximum exposure	17,434,075	3,903,524	21,337,599

d) Maximum credit exposure

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

	2013 SR'000	2012 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**3,073,795**	3,138,622
Investments (note 5)	**12,597,125**	8,994,394
Loans and advances, net (note 6)	**34,994,759**	29,896,782
Other assets - margin deposits against derivatives and accrued special commission receivable (note 9)	**415,861**	259,504
Total assets	**51,081,540**	42,289,302
Contingencies and commitments, net (notes 18)	**2,943,477**	3,903,524
Derivatives - positive fair value, net (note 10)	**122,456**	151,257
Total maximum exposure	**54,147,473**	46,344,083

30. GEOGRAPHICAL CONCENTRATION

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

(SR'000)

2013 Assets	**Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other Countries**	**Total**
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**
Total	**55,735,579**	**718,378**	**160,975**	**461,170**	**115,133**	**780,602**	**57,971,837**
Commitments and 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**

(SR'000)(Restated)

2012 Assets	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Cash and balances with SAMA	7,082,421	-	-	-	-	-	7,082,421
Due from banks and other financial institutions	2,866,228	109,723	61,057	96,273	3,953	1,388	3,138,622
Investments	7,749,238	67,686	68,370	61,800	297,300	750,000	8,994,394
Loans and advances, net	29,599,770	33,990	-	-	75,556	187,466	29,896,782
Total	47,297,657	211,399	129,427	158,073	376,809	938,854	49,112,219
Commitments and contingencies	5,153,605	64,039	103,770	-	-	20,656	5,342,070
Credit exposure (credit equivalent)							
Commitments and contingencies	2,353,126	30,801	52,733	-	2,602	12,827	2,452,089
Derivatives	30,399	29,201	26,705	-	-	-	86,305

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	
	2013 SR' 000	2012 SR' 000	**2013 SR' 000**	2012 SR' 000
Kingdom of Saudi Arabia	**429,372**	1,040,219	**661,427**	1,377,770

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 value of mutual fund.

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:

	2013 SR'000	2012 SR'000
USD	26,279	15,443
Euro	15,838	17,494
Pound Sterling	24,135	17,658
Japanese Yen	39,458	34,370

The table below indicates the extent to which the Group was exposed to currency risk at December 31, 2013 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	**2013**		2012	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	±0.070	± 18	± 0.400	± 62
Euro	±7.360	± 1,166	± 8.260	± 1,445
Pound Sterling	±7.530	± 1,817	± 6.300	± 1,112
Japanese Yen	±12.290	± 4,849	± 7.470	± 2,567

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of mutual funds decreases 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, 2013 and December 31, 2012 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2013		2012	
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	± 16.970	± 8,706	± 14.170	± 6,239
Al Khair	± 22.670	± 6,614	± 14.160	± 3,447
Al Mashareq	± 56.720	± 21,713	± 27.080	± 8,916
Al Qawafel	± 25.500	± 26,396	± 5.98	± 1,447
Global Emerging Market	± 22.670	± 7,703	-	-
Others	± 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, 2013, previously FVIS at 31 December 2012 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2013		2012	
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	25.5%	5,948	5%	503

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, 2013 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	2013		2012	
	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	3,352	+25	(802)
SR	-25	(3,352)	-25	802
USD	+25	(697)	+25	(2,123)
USD	-25	697	-25	2,123
AED	+25	3	+25	5
AED	-25	(3)	-25	(5)

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)						
2013	**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	**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%**
Other liabilities	**-**	**-**	**-**	**-**	**806,600**	**806,600**	**-**
Subordinated Sukuk	**-**	**1,000,000**	**-**	**-**	**-**	**1,000,000**	**-**
Equity	**-**	**-**	**-**	**-**	**5,728,545**	**5,728,545**	**-**
Total liabilities and 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**	**-**	**-**	**-**

2012	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	4,357,000	-	-	-	2,725,421	7,082,421	-
Due from banks and other financial institutions	2,937,000	-	-	-	201,622	3,138,622	0.60%
Investments	2,177,745	2,669,604	978,976	1,940,690	1,227,379	8,994,394	1.83%
Loans and advances, net	8,906,627	11,471,206	6,829,351	2,679,060	10,538	29,896,782	3.98%
Other real estate, net	-	-	-	-	660,446	660,446	-
Property and equipment, net	-	-	-	-	466,103	466,103	-
Other assets	-	-	-	-	542,634	542,634	-
Total assets	18,378,372	14,140,810	7,808,327	4,619,750	5,834,143	50,781,402	-

2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
	(SR' 000) (Restated)						
Liabilities and equity							
Due to banks and other financial institutions	3,253,375	-	-	-	32,669	3,286,044	1.11%
Customers' deposits	16,791,542	5,322,103	1,021,715	-	17,539,930	40,675,290	1.07%
Other liabilities	-	-	-	-	808,215	808,215	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Equity	-	-	-	-	5,011,853	5,011,853	-
Total liabilities and equity	20,044,917	6,322,103	1,021,715	-	23,392,667	50,781,402	
On-balance sheet gap	(1,666,545)	7,818,707	6,786,612	4,619,750	(17,558,524)	-	-
Commission rate sensitivity – off balance sheet	1,295,625	455,000	(718,125)	(1,032,500)	-	-	-
Total commission rate sensitivity gap	(370,920)	8,273,707	6,068,487	3,587,250	(17,558,524)	-	-
Cumulative commission rate sensitivity gap	(370,920)	7,902,787	13,971,274	17,558,524	-	-	-

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:

	2013 SR' 000 Long / (Short)	2012 SR'000 Long /(Short)
USD	**1,218,519**	(674,688)
AED	**14,406**	16,081

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2013. 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	**2013**		2012	
	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	609	± 0.05	± (337)
AED	± 0.05	7	± 0.05	± 8

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, 2013 and December 31, 2012 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2013**		2012	
	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	22.67%	1,324	± 14.16%	±556
Tadawul	-	-	± 5.98%	±15,134

All the non-trading securities listed on the Tadawul Stock Exchange were sold during December 31, 2013.

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:

	2013 %	2012 %
As at 31 December	**38**	40
Average during the period	**32**	32
Highest	**41**	40
Lowest	**25**	24

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, 2013 and December 31, 2012 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 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 31 December 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**
Financial liabilities						
As at 31 December 2012						
Due to banks and other financial institutions	32,598	3,210,884	222,026	-	-	3,465,508
Customers' deposits	15,810,298	18,200,818	5,344,025	1,479,606	-	40,834,747
Subordinated Sukuk	-	6,687	13,375	53,499	1,046,812	1,120,373
Derivatives	-	508,152	1,610,661	969,340	5,739,552	8,827,705
Total undiscounted financial liabilities 2012	15,842,896	21,926,541	7,190,087	2,502,445	6,786,364	54,248,333

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

	(SR' 000)							
2013	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	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**

2012	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) (Restated)							
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	7,082,421	7,082,421
Due from banks and other financial institutions	-	3,138,622	3,138,622	-	-	-	-	3,138,622
Investments	45,143	907,436	952,579	3,629,348	3,185,750	6,815,098	1,226,717	8,994,394
Loans and advances, net	6,373,069	8,540,490	14,913,559	8,184,065	6,799,158	14,983,223	-	29,896,782
Other real estate, net	-	-	-	-	-	-	660,446	660,446
Property and equipment, net	-	-	-	-	-	-	466,103	466,103
Other assets	110,171	205,201	315,372	-	-	-	227,262	542,634
Total assets	6,528,383	12,791,749	19,320,132	11,813,413	9,984,908	21,798,321	9,662,949	50,781,402
Liabilities and equity								
Due to banks and other financial institutions	-	3,253,446	3,253,446	-	-	-	32,598	3,286,044
Customers' deposits	4,832,101	12,864,032	17,696,133	5,154,737	-	5,154,737	17,824,420	40,675,290
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Other liabilities	62,869	17,201	80,070	4,698	-	4,698	723,447	808,215
Equity	-	-	-	-	-	-	5,011,853	5,011,853
Total liabilities and equity	4,894,970	16,134,679	21,029,649	6,159,435	-	6,159,435	23,592,318	50,781,402

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 (respectively). 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.

	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	**-**	**117,193**	**-**	**117,193**
Total	**-**	**117,193**	**-**	**117,193**

	2012 (SR'000) (Restated)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	966,276	-	-	966,276
FVTOCI	257,003	-	3,438	260,441
Derivatives	-	151,257	-	151,257
Total	1,223,279	151,257	3,438	1,377,974
Financial liabilities				
Derivatives	-	199,992	-	199,992
Total	-	199,992	-	199,992

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 (2012: 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:

	2013 (SR' 000)	2012 (SR' 000)
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**514**	622
Due to banks and other financial institutions	**344**	1,511
Other receivables	**-**	726
Commitments and contingencies	**1,745**	1,247
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**893,652**	1,326,993
Customers' deposits	**3,678,321**	4,337,448
Other receivables	**13,118**	6,982
Commitments and contingencies	**8,888**	6,403

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:

	2013 (SR' 000)	2012 (SR'000)
Special commission income	**38,009**	37,497
Special commission expense	**43,606**	42,878
Fees and commission income	**119**	158
Directors' remuneration	**4,715**	4,263

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

	2013 (SR' 000)	2012 (SR'000)
Short-term employee benefits	**83,344**	67,005
Termination benefits	**16,116**	13,391

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

	2013			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis)**	**Variable compensation (on cash basis)**	**Total**
		SR' 000	**SR' 000**	**SR' 000**
Senior executives that require SAMA no Objection	18	31,013	14,848	**45,861**
Employees involved in control function	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	1,057	47,727	1,765	**49,492**
Total	**3,033**	**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**		

	2012 (Restated)			
Categories of employees	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)	Total
		SR' 000	SR' 000	SR' 000
Senior executives that require SAMA no Objection	18	28,180	7,986	36,166
Employees involved in control function	107	37,722	4,853	42,575
Employees involved in risk taking activities	154	54,299	8,439	62,738
Other employees	1,664	311,965	36,321	348,286
Outsourced employees	835	44,821	1,701	46,522
Total	2,778	476,987	59,300	536,287
Variable compensation accrued in 2012 and other employee related benefits		80,150		
Other employee related benefits		17,694		
Total salaries and employee-related expenses		574,831		

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 Group'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 Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its 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 the implementation of the Basel III Framework effective January 1, 2013. Accordingly, the Group's consolidated risk weighted assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under Basel III framework. The following table summarizes the Group's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework. The comparative balances and ratios as at December 31, 2012 are calculated under Basel II and have not been restated.

The following table summarises the Group's Pillar I RWA, Tier 1 and Tier 2 capital and capital adequacy ratios:

	2013		2012	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**5,731,583**	**12.23%**	5,011,853	12.12%
Supplementary capital (Tier 2)	**1,304,155**		1,467,673	
Core and supplementary capital (Tier 1 + Tier 2)	**7,035,738**	**15.01%**	6,479,526	15.67%

Tier 1 capital of the Group at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated Sukuk issued by the Group and eligible 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 Group's risk management division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on a quarterly basis to SAMA showing the capital adequacy position.

The amounts and ratios disclosed above as at December 31, 2013 have been calculated based on Basel III, whereas, comparative information has been calculated based on Basel II.

	2013 (SR '000)	2012 (SR '000)
Credit risk	**42,099,176**	37,157,226
Operational risk	**2,842,575**	2,412,388
Market risk	**1,921,225**	1,779,882
Total pillar-1 – risk weighted assets	**46,862,976**	41,349,496

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 Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Eleven 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 GCC Income Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund and Al Jazira Global Emerging Markets Fund. All are open-ended mutual funds for Saudi and foreign nationals except for Al Jazira Residential Projects Fund which is a closed-ended fund. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund and 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 Markets Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

The Group also provides investment management and other services to the policyholders of its Takaful Ta'wuni program.

Total assets under administration held by the Group under the brokerage services amounted to SR 32.7 billion (2012: SR 24.3 billion).

Total assets held in a fiduciary capacity by the Group under the asset management services amounted to SR 1.9 billion (2012: SR 1.1 billion).

38. TAKAFUL TA'WUNI DIVISION

Takaful Ta'wuni provides protection and saving products services that are fully Shari'ah 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, 2013. 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.

Effective From periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2014	IAS 32 – Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32)	IAS 32 amendment 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 process receivables and payables in a single settlement process or cycle.

Effective From periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2014	IAS 39 – Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39)	The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.
1 January 2014	IFRS 10 - Consolidated Financial Statements (Investment Entities (Amendments))	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.
1 January 2014	IAS 36 – Impairment of Assets	IAS 36 amendment applicable from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.
The effective date has been deferred until the issue date of the completed version of IFRS 9 is known.	IFRS 9 – Financial Instruments	IFRS 9 for financial assets was first published in November 2009 and was updated in October 2010 to include financial liabilities. These pronouncements initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015. At its July 2013 meeting, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known. IFRS 9 is being developed in phases. The first phase addressed the classification and measurement of financial instruments (Phase 1). The Board's work on the other phases is ongoing, and includes impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. On 19 November 2013 the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (IFRS 9 (2013)), which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations.

40. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 13 February 2014.

41. 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.

1. SCOPE OF APPLICATION

1.1 SCOPE

Bank AlJazira Group (including its subsidiaries) prepares consolidated financial statements ("consolidated accounts") under International Financial Reporting Standards ("IFRS").

The disclosures contained in this report have been prepared as at 31 December 2013. These disclosures cover the Pillar 3 qualitative disclosure requirements. The Pillar III quantitative disclosures have been placed on the Banks website. The Pillar 3 disclosures have been prepared to explain the basis on which the Bank has prepared and disclosed capital requirements and information about the management of certain risks. The name of the top corporate entity in the Group to which these the regulations and the disclosures pertain, is Bank Al Jazira.

1.2 BASIS OF CONSOLIDATION

The basis of consolidation for accounting purposes is detailed in Note of the Group's annual financial statements for 2013.

The basis of consolidation for regulatory purposes differs from that used for the consolidation in that holdings in banking, insurance and other financial institutions outside the scope of regulatory consolidation are required to be deducted. The deduction is only required if the investment amounts exceed the limits prescribed in the SAMA Basel III Framework.

ENTITIES (WITHIN THE GROUP) FULLY CONSOLIDATED FOR REGULATORY PURPOSES

For regulatory purposes, the following entities have been fully consolidated:

Al Jazira Capital Company (AJC):

AJC is incorporated in Saudi Arabia as a capital market company to carry out the investment banking activities of the Bank including: brokerage, asset management, arranging, advisory and custody. The company commenced its operations during 2008. The Bank currently owns 100% of the share capital of AJC.

Aman Real Estate:

Aman is incorporated in Saudi Arabia to carry out the functions as custodian of title deeds for real estate pledged to the Bank as collateral against credit facilities or/and mortgage lending. The company commenced its operations during 2006. The Bank currently owns 100% of the share capital of Aman Real Estate.

ENTITIES WITHIN THE GROUP NEITHER CONSOLIDATED NOR DEDUCTED

The Group currently owned 35% of AlJazira Takaful Company. The company is engaged in providing protection and saving products services that are fully Shari'ah compliant. The amount of this investment is within the limits prescribed by SAMA Basel III Framework and has not been deducted from regulatory capital.

1.3 CAPITAL TRANSFERABILITY BETWEEN LEGAL ENTITIES

STATUTORY RESTRICTION

BAJ is required to transfer at least 25% of its net profit to statutory reserves before declaration of dividend until the amount of statutory reserves is equal to the paid up capital of the bank.

REGULATORY RESTRICTION

SAMA has imposed a restriction of at least 8% of capital adequacy ratio which is in line with Basel III requirements.

Apart from the above, there are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the Bank.

2. CAPITAL STRUCTURE

The components of the regulatory capital for Bank Al Jazira as of 31 December is as follows:

	SR"000
COMMON EQUITY TIER 1 CAPITAL (CET1)	
Paid up share capital	3,000,000
Retained Earnings	896,396
Statutory and Other reserves	1,832,149
Regulatory Adjustment from CET1:	
Cash-flow hedge reserve	3,060
Deduction of Investment in Financial entities (ownership less than 10%)	(22)
Total CET 1 Capital	**5,731,583**
Additional Tier 1 Capital	-
Total Tier 1 Capital	**5,731,583**
TIER 2 CAPITAL	
Subordinated Sukuk	900,000
Portfolio Provision	482,160
Regulatory Adjustment from Tier 2 Capital:	
Deduction of Investment in Financial entities (ownership less than 10%)	(78,005)
Total Tier 1 Capital	
Total Tier One and Tier Two Capital	**7,035,738**

The major components of Tier One & Tier Two Capital of the Bank are:

1. **Eligible Share Capital**

The issued and outstanding share capital of the Bank consists of 300 million ordinary shares at SR 10 each. These shares carry equal voting rights.

2. **Retained Earnings**

This represents the accumulated undistributed profits that are available for future dividend distributions as recommended by the Board and approved by the General Assembly or to be eventually capitalized.

3. **Statutory and Other reserves**

Statutory and other reserves include statutory reserves, general reserves and other reserves as disclosed in note 16 and 17 of the annual financial statements for 2013.

4. **Portfolio Provision**

This is the portfolio provision created to cover unidentified losses in the credit portfolio of the Bank.

5. **Subordinated Sukuk**

On 29 March 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 semi-annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on 29 March and 29 September each year until 29 March 2021, on which date the Sukuk will expire. The proceeds of the Sukuk will be used by the Bank for strengthening its capital base as it is intended that Sukuk will comprise Tier II capital for Saudi Arabian regulatory purposes. The Sukuk are due in 2021 with a step up margin of 550 basis points in 2016. The Bank has a call option which can be exercised after 29 March 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated 28 March 2011. The sukuk does not meet the qualifying criteria prescribed in the Basel III framework (effective from 1 January 2013) for inclusion in Tier 2 Capital. The new framework allows a transitional arrangement where instead of full de-recognition, the sukuk has to be amortized by 10% each year starting from 1 January 2013.

6. Regulatory Adjustments from Capital

Basel III framework specifies various regulatory adjustments to be made to each component of capital. The adjustments currently applicable and made by the Group are for cash flow hedge reserves arising on hedging of investments carried at amortized cost and deductions due to certain investments in capital instruments issued by banking, insurance and other financial institutions.

3. CAPITAL ADEQUACY

Capital adequacy indicates the ability of the Bank to meet any contingency without compromising the interest of its depositors or the provision of credit across business cycles. Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and the confidence of shareholders. When assessing the adequacy of its capital, BAJ takes the following objectives into consideration:

PRIMARY CAPITAL OBJECTIVES

CORE CAPITAL PURPOSE

i. The objective is to extend the BAJ proposition in Saudi Arabia with a future intention of expansion in the high growth region of the Gulf for Shari'ah compliant Financial Services.

ii. Capital is held with the purpose to generate the required expected shareholders' returns from the successful delivery of innovative Shari'ah compliant banking services to individuals, businesses, and institutions.

iii. Capital is held to safeguard the Bank's ability to continue as a going concern and to maintain an adequate capital base in order to preserve the rights of all stakeholders including; shareholders, depositors, the community and its employees.

iv. Capital is held with the objective to meet the assessed Capital Adequacy Requirements, for Pillar I and II, so that the actual Tier 1 and Tier 2 capital meets regulatory targets, by the greater of the:

   a. Minimum regulatory capital requirements (Bank's ICAAP); or

   b. Minimum Supervisory ICAAP Guidance (SAMA's ICAAP assessment)

EXTERNAL CREDIT RATING

BAJ's second objective is to achieve a longer term "steady" rating in the A+ to A- range for credit rating to:

i. Facilitate short term transactions in the inter-bank deposit market with tenors up to 2 years for funding and balance sheet management; and

ii. Support the issue of medium term, 3-7 year, Sukuk, Shari'ah compliant commercial paper or other instruments.

SPECIFIC CAPITAL OBJECTIVES

TRADING SERVICES

BAJ has a specific objective of holding capital to engage in trading through identifiable channels:

a. Tawaruq and Murabaha contracts. Products descriptions are Dinar, Naqa'a and Tamam;

b. Trade financing advances – Letters of Credit/Guarantees;

c. Istithna' a contracts; and

d. Ijara transactions.

e. Treasury trading;

f. Musharaka.

4 RISK EXPOSURE AND ASSESSMENT

CURRENT METHODOLOGY AND ASSUMPTIONS

The current methodology adopted by the Bank on the implementation of SAMA requirements for implementation of Basel III. The Pillar 1 risks (credit, market and operational) have been assessed under the following approaches:

i. Credit Risk – Standardized Approach,

ii. Market Risk – Standardized Approach, and

iii. Operational Risk – Basic Indicator Approach.

Capital requirement for Pillar II Risk is being assessed based on internally developed models.

FUTURE METHODOLOGY

The Bank's methodology for Phase II is to build and develop the risk management capabilities, processes, records and testing to support the implementation of:

- Credit Risk – IRB Foundation Approach over the medium term, and
- Market Risk – Internal Model Method
- Operational Risk – Standardized Approach.

The development and implementation of the infrastructure and resources will enhance the risk management capabilities and capacity.

5. RISK MANAGEMENT

RISK FRAMEWORK

The Bank assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could: damage the core earnings capacity of the Bank; increase earnings or cash-flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations.

The key elements of the Bank's Risk Management framework are:

i. Risk appetite;

ii. Risk governance and risk management organization;

iii. Risk identification and assessment process; and

iv. Stress and scenario testing.

RISK APPETITE

The Bank's risk appetite is defined as the maximum amount of risk that it is prepared to accept in order to deliver on its strategic and business objectives. The Bank's risk appetite framework seeks to encourage appropriate risk taking to ensure that risks are aligned with risk strategy and business objectives. The Bank's risk appetite is captured through a range of Board / Executive Committee approved limits and tolerances.

The Board is currently in the process of finalizing the Risk Appetite Framework.

The new Risk Framework considers not only the four basic risks which the Bank faces in the conduct of its day to day banking operations i.e. credit, market, liquidity and operational risk but in addition studies all of the other Pillar II risks.

For each category of risk, a set of quantitative limits has been established to set out the bank's appetite or tolerance for risk, which is used as a basis for periodic reporting of risk profile against risk appetite to the Board/Executive Committee.

RISK GOVERNANCE AND RISK MANAGEMENT ORGANISATION

The Board, the Executive Committee and senior management have ultimate responsibility for the governance of all risk taking activity in the Bank. Risk management is being embedded in the Bank as an intrinsic process and it is the intention that this should be a core competency of all its employees. The Risk Management and Human Capital Groups have established a training program specifically targeted at the Risk Management Group. This began in 2012 with intensive Basel III training and will be followed up in 2014 with further courses.

The Bank's internal audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a bank wide basis.

The Executive Committee is the highest forum for risk governance in the Bank. The Executive Committee performs oversight over various other risk sub-committees, namely:

- the Management Credit Committee,

- the Market Risk Policy Committee,
- the Risk Review Committee and
- The Asset and Liability Committee.

The Chief Risk Officer has oversight of the Bank's risk management activities across all risk types. The CRO's responsibilities include:

- providing assurance to Senior Management and the Board that material risks are identified across all risk types and managed by line management and that the Bank is in compliance with risk policies, processes and limits;
- developing and maintaining the Risk Management framework;
- providing reporting on all risk issues, including the risk appetite and risk profile of the Bank;

STRESS TESTING

The Bank uses stress testing to supplement its risk assessment processes and to meet regulatory requirements. The objective of stress testing is to assess the Bank's exposure to extreme, but plausible, events. The Bank undertakes regular stress tests across its material risks as part of meeting its requirements under Pillars 1 and 2 of the Capital Requirements Directive. The Bank will continue to develop its stress testing capabilities as a core risk management tool, and to meet additional regulatory requirements in this area.

6. CREDIT RISK

Credit risk is the risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet its commitment. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, financial investments and derivatives. Concentrations in particular portfolio sectors, such as real estate can impact the overall level of credit risk.

The Bank has adopted the standardized approach for Pillar 1 credit risk. The parameters used for risk weighted assets represent the rates approved by SAMA.

The Bank uses external ratings (where available) from Fitch and Moody's to supplement internal ratings during the process of determining the credit limits of counterparties. Unrated exposures are risk weighted as per SAMA guidelines for capital adequacy purposes. The Bank uses these guidelines to map the credit assessment ratings provided by eligible external credit assessment institutions (ECAL's) to determine risk weighted exposures.

CREDIT RISK ON LENDING ACTIVITIES TO CUSTOMERS AND BANKS

The Bank lends to retail customers, commercial and corporate entities (including SMEs) and banks. Credit risk arises on the drawn amount of loans and advances, but also as a result of loan commitments, such as undrawn loans and overdrafts, and other credit related commitments such as guarantees performance bonds and letters of credit. These credit related commitments are subject to the same credit assessment and management as loans and advances.

KEY FEATURES OF CORPORATE CREDIT RISK MANAGEMENT

- Credit facilities are granted based on detailed credit risk assessments which include prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry.
- In compliance with SAMA regulations, lending to connected parties is secured as per the requirements specified in Banking Control Law and supervisory authority rules and monitored by the Executive Committee. Such transactions are made on substantially the same terms, including commission rates and collateral, as those prevailing at the time for comparable transactions with other parties. All such facilities are approved by the Board of Directors through the Executive Committee. The Bank limits its exposure per connected party to 10% of the Bank's capital and reserves.
- The internationally accepted Moody's KMV Risk Analyst rating model has been successfully rolled out and is regularly back tested by the Bank's risk management function to enhance it in line with Basel II requirements and industry credit risk management "best practices". The Bank is working with SAMA and the other Saudi banks in finalizing and implementing a facility rating model for the Commercial Banking [SME] group and an internal rating model for financial institutions. Assessment of financial institution obligations are presently managed using external credit ratings of internationally recognized rating agencies.
- All new proposals and/or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:

1. Executive Committee
2. Management Credit Committee
3. Commercial Credit Committee

- The credit facility administration process is undertaken by a segregated Credit Administration and Control function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and legal covenants.
- Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available).
- Cross-border exposures are committed after obtaining supervisory authority prior approval and are monitored by credit risk management function.

KEY FEATURES OF CONSUMER CREDIT RISK MANAGEMENT

- Credit-scoring models are used to facilitate the underwriting and the monitoring of credit facilities to retail/consumer customers and certain small businesses.
- Applicant "scoring" is used for underwriting purposes. Scoring is used in tandem with the assessment of the applicant's "Ability to Repay" using debt-to-income ratio, minimum income and caps on advances by product type.
- The Bank applies its lending policy which incorporates supervisory authority guidelines and individual policies related to consumer credit products.

CREDIT RISK ON DERIVATIVES

The credit risk on derivative contracts is the risk that the Bank's counterparty in the contract defaults prior to maturity at a time when the Bank has a claim on the counterparty under the contract. The Bank would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by the Bank to meet customer needs, to reduce interest rate risk and currency risk.

COUNTRY RISK

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable to fulfill or are precluded from fulfilling their obligations to the Bank due to economic or political circumstances. Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall creditworthiness. These limits are established using independent credit information from international sources. Risks and limits are monitored on an ongoing basis.

RISK IDENTIFICATION AND ASSESSMENT

All customer requests for credit, ranging from large corporate cases through mid-sized commercial and down to smaller SME/consumer loans, are subject to a credit assessment process. The assessment process is assisted by standard application formats in order to assist the credit decision maker in making an informed credit decision. The credit approval authority is dependent on the size of the credit application and the rating of the borrower. Delegated authority is a key credit risk management tool. The Board determines the credit authority for the Executive Committee and the Management Credit Committee, together with the authorities of the Chief Executive Officer and Chief Risk Officer.

Another key tool used to assess credit risk is credit rating for each borrower or transaction both prior to approval of the credit exposure and subsequently. Quantitative models are used to provide an estimate of Probability of Default (PD) for the borrower.

In the retail consumer and small and medium sized enterprise (SME) book, which is characterized by a large number of customers with small individual exposures, risk assessment is largely informed through statistically-based scoring techniques. Both application scoring for new customers and behavioral scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios. In the commercial, corporate and interbank books, the rating system utilizes a combination of objective information, essentially financial data and qualitative assessments of non-financial risk factors such as management quality and competitive position within its sector/industry. Credit concentration risk is identified and assessed at single name counterparty level and at portfolio level. The Bank's Large Exposures Policy, which is in line with SAMA Regulations, sets the maximum limit for exposures to individual counterparties or group of connected entities.

RISK MITIGATION

Risk rating systems facilitates the early identification and management of any deterioration in loan quality. Changes in the objective information (i.e. financial and business variables as described above) are reflected in the credit grade of the borrower with the resultant rating influencing the management of individual loans. The credit risk management process is underpinned by a joint business and risk management system of credit review.

Credit policy and credit management standards are controlled and set centrally by the Risk Management Group. Material credit policies are approved by the Board or the Executive Committee. Levels of concentrations by geography, industry sector and product are set through the Risk Appetite Statement which will be approved by the Board and reviewed on an annual basis.

In relation to individual exposures, while the perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, the Bank uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral provided by the customer shall not be considered as a primary source for repayment but is taken by the Bank in order to protect its claims. Guidelines covering the acceptability of different forms of security and how it should be valued are outlined in policy. The type and quality of collateral depends on the type of transaction, the counterparty and risks involved. The Bank ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved.

The Bank also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy.

Concentration of credit risk arise from exposure to customers having similar characteristics in terms of the industry and business sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by change in political, economic or other conditions.

The Bank's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk which is implemented through customer and economic sector limit structures. This risk is managed by diversification of the portfolio which is implemented through client, industry, geographic and product.

Risk transfer in the form of syndicated loans or risk participation arrangements with other banks is a common practice to limit the banks' exposure.

The Bank uses pledge agreements as another mitigation technique which allows the Bank to net-off credit and debit balances in the event of default of the counter party.

As a Shari'ah compliant Bank, the nature of the Islamic Murabaha and Ijara products entitle the Bank to take ownership of the goods in a Murabaha contract and the possession of the leased assets in the Ijara product.

RISK MONITORING AND REPORTING

The Risk Management Group pro-actively manages the Bank's credit risk exposures at transaction and relationship levels. Credit risk at a portfolio level is monitored and reported regularly to senior management and the Board. A detailed risk review, including information on provisions, is prepared quarterly. Single name counterparty concentrations are monitored at transaction level. Large exposures and portfolio concentrations are reported regularly to senior management and the Board.

The risk management function also ensures that:

- The overall business strategy is consistent with the Bank's risk appetite.
- Risk policies, procedures and methodologies are consistent with the Bank's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.

Standing procedures, outlined in the Bank's credit policy manual, require that all credit proposals be subjected to detailed screening by the Risk Management Group pending submission to the Management Credit Committee and/or Executive Credit Committee. In addition, all credit facilities are continually monitored based on periodical review of the credit performance and obligor rating.

A comprehensive risk management framework enables the Bank to identify, assess, limit and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending and other asset exposures such as collateral coverage ratio, limit utilization, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (sensitivity analysis.)

- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Bank continuously assesses the adequacy and effectiveness of its reporting tools in light of the changing risk environment.

PROVISIONING FOR IMPAIRMENT

In managing its portfolio, the Bank utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligator's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on "Standard" quality is assessed to be higher than that for the exposures classified within the "High" quality range.

The Bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non-performing. Each borrower is rated on an internal risk rating model that evaluates risk based on quantitative financial factors as well as qualitative factors such as management strength, industry characteristics and account conduct. Assigned ratings are reviewed periodically and at the time of the annual review of granted facilities. Exposures falling below a certain classification threshold (8 to 10) are considered to be impaired and appropriate specific provisions are made against them. The amount of the specific impairment provision will reflect the financial position of the borrower and the net realizable value of any collateral held by the Bank. In practice, the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective profit rate and the carrying value of the loan(s) as prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for groups of similar credits that are not individually identified as impaired.

A credit facility is considered as "impaired" if the profit or principal installments are past due for more than 90 days, or the borrower exhibits an inability to meet his obligations to the Bank based on objective evidence of possible loss events. The types of loss events include;

- significant financial difficulty of the borrower;
- a breach of contract, such as being past due typically for ninety days in profit or principal payments;

The Bank provides for impairment in a prompt and consistent way across the credit portfolios.

As part of its impairment methodology, the Bank makes use of two types of impairment provision:

- Specific;
- General which represents a collective provision relating to the portfolio of performing loans.

SPECIFIC IMPAIRMENT PROVISIONS

Specific impairment provisions arise when the recovery of a specific loan or Bank of loans is in doubt based on specific impairment triggers as described above and an assessment that all the expected future cash flows either from the loan itself or the associated collateral will not be sufficient to repay the loan.

Past-due and impaired facilities are managed and monitored as "irregular facilities" and are classified into the following three categories which are then used to guide the provisioning process:

Category	Criteria	Grades	Provision
Substandard	Irregular for a period between 91 and 180 days	8	25%
Doubtful	Irregular for a period between 181 and 365 days	9	50%
Loss	Irregular for a period exceeding 365 days	10	100%

The Bank may also include a credit facility in one of the above categories based on management's judgment of a customer's financial and/or non-financial circumstances.

As real estate loans or loans secured by real estate represent a significant concentration within the bank's advances, some key principles have been applied in respect of real estate collateral held by the Bank The Bank's preference is to work with the obligor to progress the realization of the collateral although in some cases the Bank will foreclose its security to protect its position.

The Bank uses external professional valuators to assist in reaching appropriate valuations for the collateral held. These valuators are external to the Bank and are familiar with the location and asset for which the valuation is being requested.

STANDARDIZED APPROACH AND SUPERVISORY RISK WEIGHTS

The External Credit Assessment Institutions (ECAIs) that the Bank utilizes for the purpose of assessing the credit under the Standardized Approach are Fitch and Moody's.

MANAGEMENT OF CREDIT COLLATERAL AND VALUATION

The main types of collateral accepted by the Bank are:

- Real Estate
- Quoted Shares
- Naqa'a Deposits
- Cash
- Guarantees
- Acknowledged Assignment of Contract Proceeds

In accordance with the Bank's credit policies, banks, creditworthy companies and high net worth individuals are accepted as guarantor counterparties, subject to credit risk assessment. In accordance with the SAMA/Basel II framework, only cash collateral and guarantees are recognized for capital adequacy purposes.

The method and frequency of the revaluation depends on the nature of the collateral involved. The custody and revaluation of collateral is performed independent of the business units.

7. MARKET RISK

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors such as adverse movements in the level or volatility of market prices of items such as debt instruments, equities and currencies. Where the uncertainty is expressed as a potential loss in value, it represents a risk to the income and capital position of the Bank.

The market risk management framework governs the Bank's trading and non-trading related market risk appetite. Market risk stemming from trading activities is managed by the Market Risk Department. The management and oversight of market risk inherent within the Bank's non-trading activities is the primary responsibility of the Bank's Asset and Liability Committee. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

Market risk management in the Bank is administered on the basis of clearly delegated authorities that reflect the appropriate segregation of duty, fit for purpose trading environments with enabling technology and competent personnel with relevant skill and experience.

A comprehensive suite of policies and standards clarifies roles and responsibilities, and provides for effective risk assessment measurement, monitoring and review of trading positions.

Quantitative and qualitative information is used to identify, assess and respond to market risk. Various market risk management MIS reports are prepared for various authorities and at various frequencies.

All instruments and exposures that are subject to market risk are assessed using the standardized approach for Pillar I market risk. An independent market risk function within the Risk Management Group is tasked with capturing all material sources of market risk.

The Bank's core risk measurement methodology is based on risk factor sensitivities.

As historical data becomes available the Bank intends to move to the industry standard Value at Risk ("VaR") technique that incorporates the portfolio diversification effect within each standard risk factor (interest rate, foreign exchange, equity, as applicable). Although an important measure of risk, VaR has limitations as a result of its use of historical data, assumed distribution, holding periods and frequency of calculation. Furthermore, the use of confidence intervals does not convey any information about potential loss when the confidence level is exceeded. The Bank recognizes these limitations and will continue to supplement its use with a variety of other techniques.

Stress-testing is employed on an ongoing basis to gauge the Bank's vulnerability to loss under stressful market conditions. In managing and overseeing market risk, the Bank makes a distinction between its trading and non-trading activities.

MONITORING OF "MARKET" RISK FROM "TRADING" ACTIVITIES

All trading positions arise in a dealing room environment, are subject to the oversight of the Group's market risk management framework and are overseen by the Market Risk Policy Committee.

MONITORING OF NON-TRADING MARKET RISK IN THE "BANKING" ACTIVITIES

All other positions most of which are structural in nature are considered 'non-trading' and are subject to a governance framework that is overseen by the Asset and Liability Management Committee (ALCO). The Bank's key non-trading market risk is the sensitivity of its net commission income to movements in commission rates.

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

Currently, the Bank uses the following risk measures and limits to identify measure and monitor the market risk in the trading and banking book:

- Open Position limits;
- Commission rate sensitivity;
- Commission rate gaps;
- Maturity gaps; and
- Liquidity ratios limit.
- These limits and exposures are reviewed in the monthly ALCO and MRPC meetings.

8. EQUITIES IN THE BANKING BOOK

The Bank is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held as Fair Value through other Comprehensive Income.

Equity price risk is the risk that fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. The Bank conducts periodic scenario analysis in the banking book to gauge changes in economic value under extreme market conditions and provides timely inputs to senior management.

9. COMMISSION RATE RISK IN THE BANKING BOOK

The commission rate risk in the "banking" book is managed through a "gap" limit structure which is supplemented by periodic analysis of scenarios to capture the extreme indicative measure of exposure to commission rate changes

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

10. LIQUIDITY RISK

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times.

The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily by Treasury to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of the liabilities.

The Bank uses a mixed approach of cash flow match approach and liquid assets approach. Under the cash flow approach the Bank attempts to match the cash outflow against the contractual cash inflow leaving around one month cash requirements at all times to absorb unexpected cash movement. The excess liquidity for over one month is managed on the basis of liquid asset approach and as per SAMA guidelines.

The Bank has to maintain liquid assets of at least 20% of deposit liabilities in the form of cash or assets that can be converted into cash within a period not exceeding 30 days.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA. The Bank has the ability to raise additional funds through repo facilities with SAMA.

To address these risks, management seeks to diversify funding sources to match the growth of its assets with funding. The Bank conducts regular stress tests to assess liquidity under a mild and severe stress scenario.

The market risk department has implemented an advanced market recognized third party financial risk management system that enables the Bank to measure and monitor liquidity risk more effectively.

11. STRUCTURAL FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the MRPC on currency position exposures and in total for overnight positions which are monitored daily. Assets are typically funded in the same currency to minimize exchange exposures. Appropriate segregation of duties exists between the front and back office functions, while compliance with position limits is monitored on an ongoing basis.

12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The operational risk arises largely as a result of unauthorized activities such as fraud, human error, inefficiencies, system failure or other external factors. Currently, the bank is utilizing the basic indicator approach for measuring operational risk capital charge under Pillar I.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The bank has adopted a dynamic enterprise risk management approach to comply with sound practices of operational risk management as mandated by Basel Committee and SAMA. The risk management policies, methodologies and processes are aimed to comply with Basic Indicator Approach. Operational risk capital is assessed at 15% of average gross revenue for recent three years as per guidelines for BIA approach.

An independent operational risk management function has been established, reporting to the Chief Risk Officer, to manage operational risks. This department is responsible to assess and report on the status of operational risk. The Bank has acquired a technology system (Control and Risk Environment system) to build a database of all risks, mitigating controls and losses / errors. The risk assessment of major activities of the Bank was performed with collective participation of operational experts from the relevant department, Internal Audit and Risk Management. Any risk not adequately mitigated, is targeted for enhancement of procedures and systems. For every entity, a risk profile is prepared showing major weaknesses and recommended action for enhancement of controls.

Compliance self-assessment guidelines have been developed for all key controls to ensure that the controls are deployed as required. All key controls are tested by all Unit Heads and reports are sent to Risk Management to update CARE data base. Internal Audit is also required to independently verify during annual audits that all controls are working as desired.

Periodically, a risk summary report is generated that shows gaps in the control environment, critical risks not fully mitigated and recommendations pending for enhancement of systems and controls. This report is used by the management to evaluate operational risk governance and provide guidance on the strategy and approach.

The Bank's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Bank's services for laundering money or financing terrorism. The Bank's "anti-money laundering" and "combating terrorism financing" initiatives are regularly reviewed to ensure compliance with local regulatory requirements and international best practices.

The Bank has established a Fraud Investigation Committee to investigate any internal and external fraudulent activity, its causes and recommend preventive actions to the executive management.

BUSINESS CONTINUITY

The Bank has a business continuity management planning process under which critical activities of the bank are identified as well as the resources required to continue those activities in case of a disaster.

13. REGULATORY COMPLIANCE RISK

The Bank's Compliance function is specifically responsible for independently identifying and assessing current and forward looking 'conduct of business' compliance obligations, including antimony laundering and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, and prudential regulation to the Finance and Risk functions.

Compliance undertakes a periodic detailed assessment of the key "conduct of business" compliance risks and associated mitigants. These are collated and processed by Compliance into an overall bank-wide review of compliance risks. This is reviewed by the Executive Committee.

14. RISK MANAGEMENT AND MITIGATION

The Board, operating through the Audit Committee, has approved the Bank's compliance policy and the mandate for the Compliance function. The Audit Committee reviews the Group's key compliance risks on a regular basis to assess the extent to which they are being managed effectively.

Management is responsible for ensuring that the Bank complies with its regulatory responsibilities. The Executive Committee's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates thereby ensuring that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Bank's compliance risks. Compliance is also mandated to conduct investigations of possible breaches of compliance policy.

The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level.

RISK MONITORING AND REPORTING

Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring is undertaken both on a business unit and a process basis. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Compliance. Compliance reports to the Executive Committee, and independently to the Board of Directors (through the Audit Committee) on the effectiveness of the processes established to ensure compliance with laws and regulations.

15. CAPITAL AND CAPITAL MANAGEMENT

The objectives of the Bank's capital management policy are to, at all times, comply with regulatory capital requirements and to ensure that the Bank has sufficient capital to cover the current and future risks of its business and support its future development. The Bank does this through an Internal Capital Adequacy Assessment Plan ("ICAAP"), which is subject to supervisory review and evaluation. The capital adequacy requirements set by SAMA establish a floor of 8%. Actual capital adequacy ratios as of the end of 2013 and 2012 have been presented in Note 36 in the financial statements for the year ended December 31, 2013.

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