BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة

2012

ANNUAL REPORT

بسم الله الرحمن الرحيم

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

Crown Prince Deputy Prime Minister
and Minister of Defense
HRH Prince Salman Bin Abdulaziz Al-Saud

Second Deputy
Prime Minister
HRH Prince Mogrin Bin Abdulaziz Al-Saud

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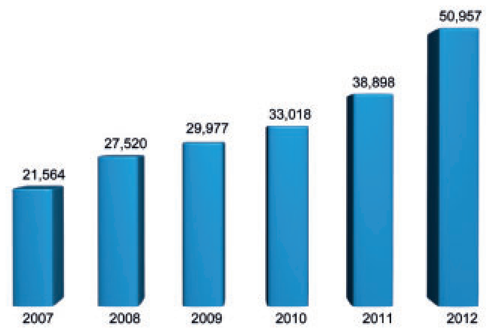
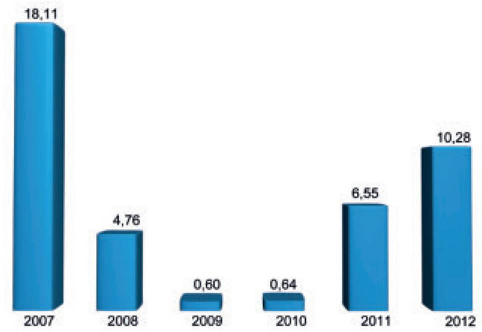
Financial highlights

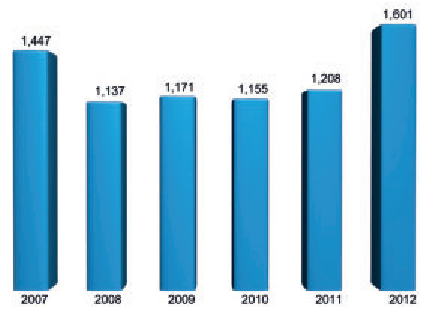
(In SR millions, except where indicated)	2007	2008	2009	2010	2011	2012
Loans and advances, net	9,879	15,133	15,504	18,704	23,307	29,897
Total assets	21,564	27,520	29,977	33,018	38,898	50,957
Customer deposits	15,647	20,900	22,143	27,345	31,159	40,675
Shareholders' equity	4,698	4,637	4,486	4,516	4,733	5,012
Net special commission income	595	631	668	717	781	951
Fee income	698	538	376	265	356	564
Gain on investments, exchange and other	154	(32)	127	173	71	86
Total operating income	1,447	1,137	1,171	1,155	1,208	1,601
Net income	805	222	28	29	303	501
Net income growth (%)	(59,2)	(72,4)	(87,6)	5,0	945	65
Return on average equity (%)	18,11	4,76	0,60	0,64	6,55	10,28
Return on average assets (%)	4,32	0,91	0,10	0,09	0,84	1,12
Earnings per share (SR)	2,68	0,74	0,09	0,10	1,01	1,67



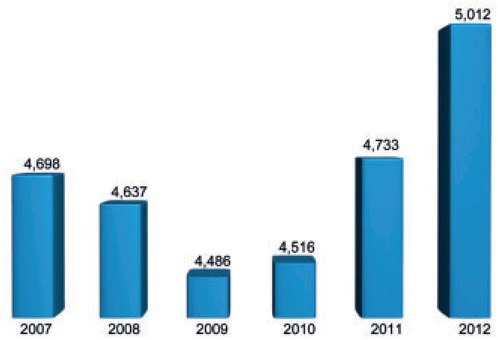
Total Assets
SR millions



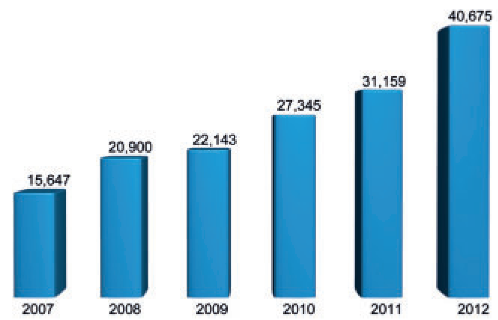
Return on Average Equity
SR millions



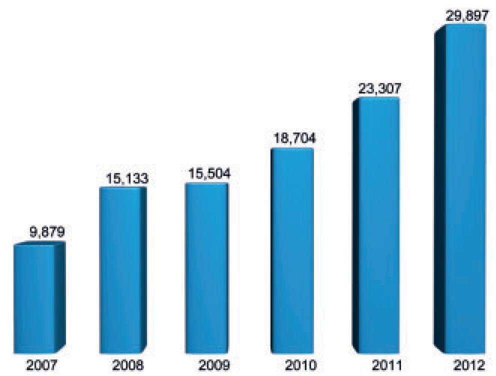
Operating Income
SR millions



Shareholders' Equity
SR millions



Customer Deposits
SR millions



Net Loans and Advances
SR millions

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

The Board of Directors is pleased to present
the Bank's annual report and financial statements
for the financial year ended December 31st, 2012

Board Of Directors


Taha A. Al-Kuwaiz
Chairman


Abdullah S. Kamel


Eng. Tarek O. Al-Kasabi


Mohammed A. Al Angari


Eng. Abdulmajeed
I. Al-Sultan


Khalid O. Al-Baltan


Khalifa A. Al Mulhem


Mohammed A. Al-Hagbani

Chairman's Statement

Praises be to Allah, The Almighty, Lord of the worlds, and prayers and peace be upon his Messenger Prophet Mohammed, and his descendents and all his followers.

On behalf of the Board of Directors of Bank Al Jazira, it is my pleasure to present to you the Financial Results for the year ending 31st December 2012. 2012 continued to be a challenging year for the world economy with subdued growth rates in many of the major economies. In contrast, the economy of the Kingdom of Saudi Arabia remained buoyant and expanded throughout 2012 and consequently Bank Al Jazira enhanced its financial performance and reinforced its position as a leading Islamic Bank.

Bank Al Jazira has significantly transformed itself in 2012. The Bank has made significant investment in changing its culture towards dynamic delivery and the fruits of this investment are now being seen in our results. The Bank's corporate governance structures have been strengthened in tandem to the embedding of risk management in all of its core activities. This will ensure that the Bank has a strong foundation of prudent financing for the future. To support the change in the culture, the Bank has strengthened its infrastructure and will continue to invest in technology.

The Bank continues to improve the customer experience, whilst reducing processing time of transactions and enhancing management information. Bank Al Jazira has maintained its income diversification programme from the previous years, an important part of the rejuvenation of the Brand with significantly greater income now being derived from banking activity.

We are also pleased to remain the broker of choice for share trading under our subsidiary Al Jazira Capital Bank Al Jazira has continued transforming the servicing of its customers and clients and providing them with innovative Islamic solutions for their banking requirements. The Bank has grown its Branch network to 54 branches. The Bank has also begun a redesign of the Branches with a new modern and comfortable environment for the benefit of our customers and staff.

The changes to the Bank have resulted in Bank Al Jazira growing its net income by 65% to SAR 501 million in 2012 through core banking activity, a solid foundation for future growth. The Bank has grown its assets to SAR 50.9 billion, primarily through financing and investment activity. The growth witnessed is testament to the continuing increase in customer penetration and greater share of wallet. A key focus of the bank is to increase the retail business.

The retail business grew its assets by 41% to SAR 13.1 billion, its liabilities by 25% to SAR 15.8 billion. Overall, the bank-wide customer deposits grew by 30% to SAR 40.7 billion. Our customer current accounts grew by an impressive 65% to SAR 17.7 billion. Our retail client base grew by 35%, a testament to the confidence our customers have in the Bank and its ability to service their needs. Our corporate portfolio increased in diversification in the different economic sectors of the economy through a wider product offering to support our corporate client requirements.

Bank Al Jazira Treasury has again registered strong growth, building on its previous years' momentum rapidly becoming the Islamic Treasury of choice for our clients. The improvements in banking activity has generated significant benefits to our shareholders with earnings per share now at SAR 1.67 and return on equity at 10.1%, the Bank continues to uphold its responsibilities to Corporate Social Responsibility through the Khair AlJazira le Ahl AlJazira (The bounty of the peninsula for the people of the peninsula) programme. Bank Aljazira adopted a promising strategy to serve the community through its program 'Khair Aljazira le Ahl Aljazira' in order to strengthen its collaboration with the charitable societies Kingdom-wide.

Through 'Khair Aljazira le Ahl Aljazira' Program, BAJ disbursed SAR 8,967,081 million in 2012. BAJ has adopted and executed programs that achieve sustained development through training and qualifying an intensive segment of youths for the market place (including blind, deaf, disabled) and extending Quard Hassan loans to a number of youths within the productive families program kingdom-wide so as to establish their own business, improve their living, and counter poverty and unemployment. The Bank is now in a new phase of growth and as such, the Bank will be developing a strategy for the medium term outlook in 2013 for the next 3 to 5 years. This will build on the excellent results from the AFAQ strategy set 5 years ago.

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

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

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

Taha Abdullah Al-Kuwaiz
Chairman

2012 continued the growth we have witnessed in 2011 in both the balance sheet as well as the profits of the Group. The Group continued to invest in its infrastructure and Human Capital in order to maintain the momentum that has been built over the last two years.

Chief Executive Officer's Foreword

On behalf of the management, I am pleased to present the financial results of the year ending 31st December 2012 for Bank Al Jazira.

2012 continued the growth we have witnessed in 2011 in both the balance sheet as well as the profits of the Group. The Group continued to invest in its infrastructure and human capital in order to maintain the momentum that has been built over the last two years.

The Group has delivered a profit of SAR 501 million, a 65% increase over 2011. Operating Income for the Group was SAR 1.6 billion, a 32% increase year on year. These significant growth rates were primarily achieved through the growth in our financing portfolio that grew by 28% from SAR 23.3 billion to SAR 29.9 billion. Overall, assets grew 31% from SAR 38.9 billion to 50.9 billion.

We have also witnessed a significant growth in our customer deposits by 30%, from SAR 31.2 billion to SAR 40.6 billion. This is a testament to the confidence our customers have in the Group and its future prospects. Overall, liabilities grew by 35% from SAR 34 billion to SAR 45.8 billion.

Whilst growing the Groups' profitability, we have remained vigilant on cost management and improving the Groups efficiency. Overall cost growth was 11% and our cost efficiency improved from 69% to 58%. We will continue to focus on improving our efficiency, a key performance indicator of the Group.

The Group remains alert against loan losses and to that end, the Non-Performing Loans coverage ratio has been increased to 132% from 118% in 2011, despite nominal increases in Non-Performing Loans. This is a key performance indicator for the Group and one we remain focused on as the Group increases its banking activities.

The Group has continued to increase its reach in the Kingdom. Our Branch network now includes a total of 54 branches. We have also enhanced the presence of the branches with more prominent branding and signage. Aligned with this direction, the Branch network is undergoing an upgrade program to improve the customer experience. We have increased our ATM coverage from 316 ATMs to a total of 350 ATMs located in strategically important locations throughout the Kingdom, a healthy increase of 13% vs. 2011. Our efforts to improve customer service was Internationally recognised with our customer call centre winning a Gold Medal and ranked as number 1 Contact Centre in Europe, Middle East & Africa in 2012 and winning the Silver Medal; ranked number 2 best Contact Centre in the World in 2012.

The Retail Banking Group continued building on its 2011 growth and increased its assets by 41% in 2012 to SAR 13.1 billion. The investment in the retail branch network continued to provide a strong foundation for long term profitable growth. The retail banking group has also started to develop the infrastructure to launch and support the remittance product and capture the opportunity to acquire new customers profitably in this growing sector.

The Corporate Banking Group business grew by 17% and have participated in financing a number of key projects during 2012. The group also launched new products to preserve and support the Bank's client base including an Islamic Overdraft and Letter of Credit that was issued based on Musharaka agreements. The Corporate Banking Group also increased its focus on financing activities with commercial businesses that are defined as SMEs. We believe that this is an area of significant future growth.

The Treasury Group delivered a strong performance with an increase in profitability of 81%, to SAR 301 million. The growth has been attributable to increases in net special commission income primarily rising from the increase in the investment portfolios. Our investment in the Treasury Group will continue via both new technologies and human capital.

We witnessed a significant increase in market volume of Tadawul in the first quarter of 2012. Al Jazira Capital, in line with the improving stock market activity, maintained its position at the top of the brokerage market in the Kingdom and significantly contributed to the Group's results.

Takaful Ta'awuni is preparing for an initial public offering, in line with the regulators requirements. The process has almost reached its completion and we are looking forward to completing it and floating the stock to both the investors and the general public.

In addition, the Group employed, throughout 2012, massive efforts to sustain electronic channels and armed them up with the best security features and a package comprising a wide array of services and technologies for its corporate website, and the banking phone service (Al Jazira Phone) as the Group remained in a leading position among its peers by providing " Al Jazira Smart " for electronic services effected via mobile phones.

Chief Executive Officer's Foreword (Continued)

As for the infrastructure, the Bank effected a group - wide restructuring plan which tackled all sectors to sustain its hierarchy and organizational structure relevant to the new market conditions. The restructuring process primarily focused on HR, operations, risk management, internal audit, and IT. The restructuring would not have been successful had it not been for the significant investment in technology, fast execution methods, reliable procedures and paper-effective workflows that all fall with the policy adopted by the Group to optimize cost and workflows.

Further, the Group keeps its commitment to improve efficiency in terms of operational and functional support to all business sectors in a manner consistent with the overall objective of the Group. Therefore, the Group invested heavily in technology, the best organizational practices and other state-of –the-art applications, and brought them in IT, Operations, and Support services Departments.

Additionally, the Group kept focused on IT solutions as a resolution to the challenges posed to operations and workflows, and took it as the best way to optimize cost on the long run and launch new outlets for its services and products.

The emphasis on hi-tech coincided with the completion of transfer of the Group systems to the headquarter in Riyadh where safety and security measures are more adequate. Further, this move combined with increased investment since 2011; we created a Backup Data Center (BADEEL) in Riyadh to fulfill both the regulatory requirements and the ultimate objective of the Group on the long run, that is creating a facility that ensures continued workflow and operation in all parts of the bank under normal and emergency conditions,

Pacing with modern technological advances, the Group never stopped since 2012 from improving the outlets earmarked for its products and services, developing the smooth flow of operations, passing the rigorous audit procedures conducted by Mody International Certification Inc., a global ISO certification outfit, raising the volume of works, reducing discrepancies, and revitalizing the risk management practices to a considerable degree.

The Bank has accordingly retained its high success rate of effective Saudization of more than 88%. Furthermore, the Human Capital Group 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 center conducted more than 483 annual training events.

We have also launched several programs aiming to develop competitive banking personnel empowerment such as the Branches Network Development Program (BNDP) and the Management Associate Program (MAP), both of which are learning tools designed to improve the proficiency and service delivery of newly hired talents. Moreover, the Human Capita Group continued to provide internship opportunities for both undergraduates & post graduate candidates.

In terms of contributing back to our community, we have adopted and executed several programs that achieved and sustained development through training and qualifying an important segment of youth within the Saudi market including blind, deaf, mute & the disabled by extending Al Qard Al-Hassan loans to 931 male and female youths within the Kingdom, giving them the chance to establish their own businesses, improve their living and counter poverty and unemployment. Bank Al Jazira also set up fully equipped computer labs in a number of communities and training centers.

As a results of 'Khair Aljazira Le Ahl Aljazira' initiatives to diversified community sectors in different regions and cities of the Kingdom; 2,372 young people's lives have been positively affected and we will continue to introduce new initiatives with the objective of benefiting the Saudi Nation.

Finally, I would like to take this opportunity to extend my thanks and appreciation to the Board of Directors, shareholders and customers for the vote of confidence and to all employees of Bank Al Jazira Group for their efforts in achieving our goals, implementing our strategies and striving for better future growth.

Nabil D. Al Hoshan
Chief Executive Officer

Executive Management

Executive Management

Mr. Nabil Al Hoshan
Chief Executive Officer

Ziad Aba Al-Khail
Chief Executive Officer,
Al Jazira Capital

Sager Nedershah
Chief Executive Officer,
AL Jazira Takaful Taáwuni

Tarek Al Shubaily
Senior Vice President, Head of
Human Capital Group & Acting COO

Yasser Al Hedaithy
Senior Vice President
& Group Treasurer

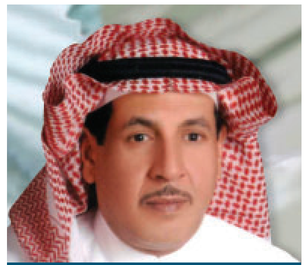
Shahid Amin
Senior Vice President
& Chief Financial Officer

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

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

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

Charles Brodie
Senior Vice President
& Chief Risk Officer



Hamad Al Ajaji
Senior Vice President &
Head of Private Banking

Ibrahim Al Hurabi
Senior Vice President
& Head of Internal Audit

Khalid Al Mogrin
Senior Vice President & Head of
Legal & Board Secretary

Fahad Al Akeel
Senior Vice President
& Head of Strategy and
Business Transformation Group

Dr. Fahid Al Olayan
Executive Director,
CSR Program

Ibrahim Binaquil
Vice President
& Head of Marketing
& Communications Group

Financial Performance

The Saudi Arabian banking sector continues to be well capitalized and well above those in most other markets as banks in the Kingdom have upgraded their risk management culture in recent years aided by Basel II and now Basel III requirements. The Saudi banks' stability is further supported by strict regulations, close monitoring and systemic support by the Saudi Arabian Monetary Agency (SAMA).

Bank Aljazira (BAJ) embarked on a constructive & aggressive plan in 2012 to restructure and align its People, Products, Systems, Processes and Infrastructure to enhance the value of its offerings and inculcate a culture of sustainable profitability. Although the Financial World embraces a period of tumultuous changes, BAJ maintains a cautious optimistic view of its business and targeted market sectors.

Noticeable decline was achieved in the levels of non-performing loans with provisioning coverage increasing to 132%. BAJ maintained a safe Loan to Deposit Ratio of between 75-80% as an average during most of 2012.

BAJ's net income had been adversely impacted in 2009 and 2010 by several factors including higher provisions, continuously decreasing local share brokerage fee income, relatively weak performance in core banking business and BAJ's restructuring. However, BAJ has made significant improvements in 2012 which are summarized in the following paragraphs:

Table (1) below depicts the core banking achievements.

Table 1 Financial Performance - Core Banking Performance

SR'000	2007	2008	2009	2010	2011	2012
Special commission income	908,968	1,114,431	961,241	868,346	968,116	**1,220,011**
Special commission expenses	(313,847)	(483,010)	(293,460)	(151,093)	(186,653)	**(269,128)**
Net special commission income	595,121	631,421	667,781	717,253	781,463	**950,883**
Fees from banking services:						
Local share trading, net of brokerage	554,467	328,815	211,148	105,641	143,677	**260,502**
Loan commitment and management and processing fee	48,897	51,617	32,884	47,356	96,515	**136,763**
Trade finance	15,528	21,072	24,930	21,791	30,943	**35,064**
Takaful Ta'awuni (insurance) wakala fee, net	54,365	88,257	43,308	34,474	36,679	**25,534**
Fee from ATM transaction	19,015	27,583	35,202	37,312	34,874	**36,988**
Others	6,207	20,171	28,869	18,897	13,520	**69,333**
Total fees	698,479	537,515	376,341	265,471	356,208	**564,184**
Exchange income	17,232	21,708	15,837	18,184	19,927	**23,740**
Trading income / (loss), net	15,399	(33,940)	36,552	27,804	11,381	**35,915**
Income from FVIS financial instruments	-	-	41,839	67,506	-	**-**
Dividend income	12,385	11,532	5,122	10,394	9,719	**10,800**
Other operating income	5,673	2,806	6,835	48,454	35,841	**15,433**
Gain / (Loss) on non-trading investments	102,503	(34,498)	20,729	-	(6,441)	**-**
Total operating income	1,446,792	1,136,544	1,171,036	1,155,066	1,208,098	**1,600,955**
Growth over previous year (%)	28.6%	-21.4%	3.0%	-1.4%	4.6%	**32.5%**

Net Special Commission Income: increased from SAR 781 million in 2011 to SAR 951 million in 2012, a growth of 22% due to the increased lending combined with the growth in current account balance.

Fee from Banking Services: grew by SAR 208 million, from SAR 356 million in 2011 to SAR 564 million in 2012. The growth was achieved in various core banking activities including loan management and processing fee with year on year increase of 42%, trade services 13%, and brokerage 81%, in addition to the increase in SPAN income.

Exchange Income: improved by 19%, from SAR 20 million in 2011 to SAR 24 million in 2012.

Trading Income: Improved by 216%, from SAR 11 million in 2011 to SAR 36 million in 2012 due to improved market conditions.

Other Operating Income: totaled SAR 15 million in 2012 as compared to SAR 36 million in 2011. This income caption mainly represents the gains realized from sale of real estates, in both years under review.

Total Operating Income: as an overall result of the above, the total operating income improved by SAR 393 million, or 33% during 2012, as compared to the previous year.

Operating Expenses: in order to support the Bank's expansion under its strategic plan, the total operating expenses excluding the provision for credit losses and the non-recurring items, increased by 15% only.

Provision for Credit Losses and NPL Coverage: in line with its conservative approach to mitigate and manage credit risks, BAJ charged a net provision for credit losses of SAR 172 million, compared to SAR 70 million during 2011. The coverage against non-performing loans (NPLs) has reached 132% during 2012, as compared to 117% in 2011.

Net Income: registered an increase of 65%, reaching SAR 501 million, as compared to SAR 303 million in the corresponding year, while earnings per share jumped from SR 1.01 in 2011 to SR 1.67 in 2012.

Financial Position

Table 2 below depicts the financial highlights of the year:

(In SAR millions, except where indicated)	2007	2008	2009	2010	2011	2012
Loans and advances, net	9,879	15,133	15,504	18,704	23,307	**29,897**
Total assets	21,564	27,520	29,977	33,018	38,898	**50,957**
Customer deposits	15,647	20,900	22,143	27,345	31,159	**40,675**
Shareholders' equity	4,698	4,637	4,486	4,516	4,733	**5,012**
Net special commission income	595	631	668	717	781	**951**
Fee income	698	538	376	265	356	**564**
Gain on investments, exchange and other	154	(32)	127	173	71	**86**
Total operating income	1,447	1,137	1,171	1,155	1,208	**1,601**
Net income	805	222	28	29	303	**501**
Net income growth (%)	(59.2)	(72.4)	(87.6)	5,0	945	**65**
Return on average equity (%)	18,11	4,76	0,60	0,64	6,55	**10,28**
Return on average assets (%)	4,32	0,91	0,10	0,09	0,84	**1,12**
Earnings per share (SAR)	2,68	0,74	0,09	0,10	1,01	**1,67**

Loans and Advances, net: totaled SAR 29.9 billion at the year-end, registering an impressive growth of 28% over SAR 23.3 billion in 2011. BAJ continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the concentration of risk.

The consumer lending grew from SAR 7.2 billion at the end of 2011 to SAR 10.6 billion at year end 2012, a year-on-year growth of 46%. Corporate loan book also grew by a net SAR 3.4 billion during the year.

Table 2 highlights the growth achieved in the loan portfolio over the last six years. It also reflects the Bank's prudent approach in managing the credit risks inherent in the portfolio through the conservative credit monitoring and provisioning policy; whereby the non-performing loans to gross loans have decreased from 4.2% in 2011 to 3.3% in 2012, whereas the coverage for Non- Performing Loans has reached to 132% in 2012 from 117% in 2011. Considering the collaterals held by the Bank against its non-performing portfolio, the coverage ratio stands at 146%. The NPLs at year-end 2012 totaled SAR 1.04 billion as compared to SAR 1.03 billion at the end of 2011.

Placements with Other Banks and Other Financial Institutions: totaled SAR 3.14 billion, lower by 28% compared to SAR 4.33 billion in 2011, representing the net result of liquidity and risk management.

Investments Book: closed at SAR 9.1 billion, shown a dramatic increase by 69% from the previous year. The investments mainly include the Murabaha with SAMA, corporate sukuk, and commodity based funds of other local banks. 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, since these are treated as liquid.

Total Assets: BAJ's total assets reached SAR 51 billion in 2012, as compared to SAR 39 billion in 2011, representing an increase of 31%.

Funding

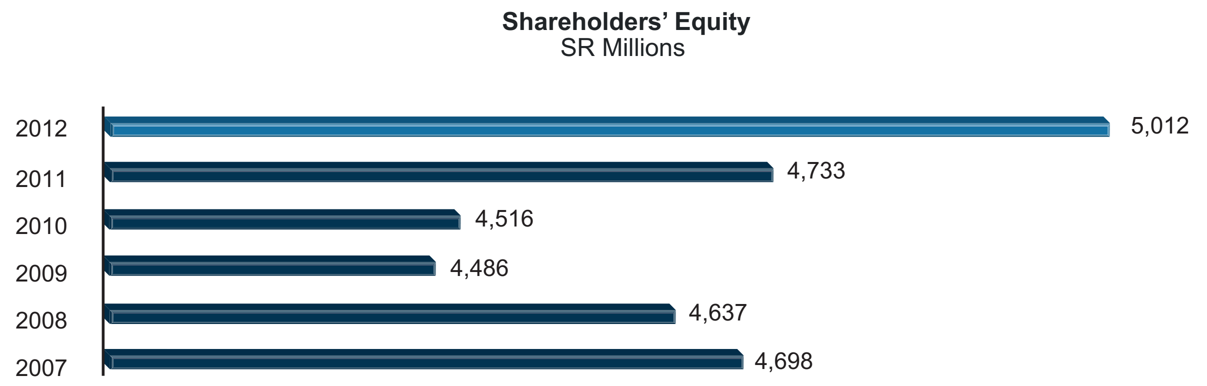
Customer Deposits: increased by 31%, reaching SAR 40.7 billion in 2012, as compared to SAR 31.1 billion in 2011. A healthy trend was noted in the current accounts (demand deposits) which have grown by 66% during 2012 rising from SAR 10 billion in 2011 to SAR 16.7 billion at the end of 2012. Such impressive 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. Table (3) depicts the various types of customer deposits and growth rates.

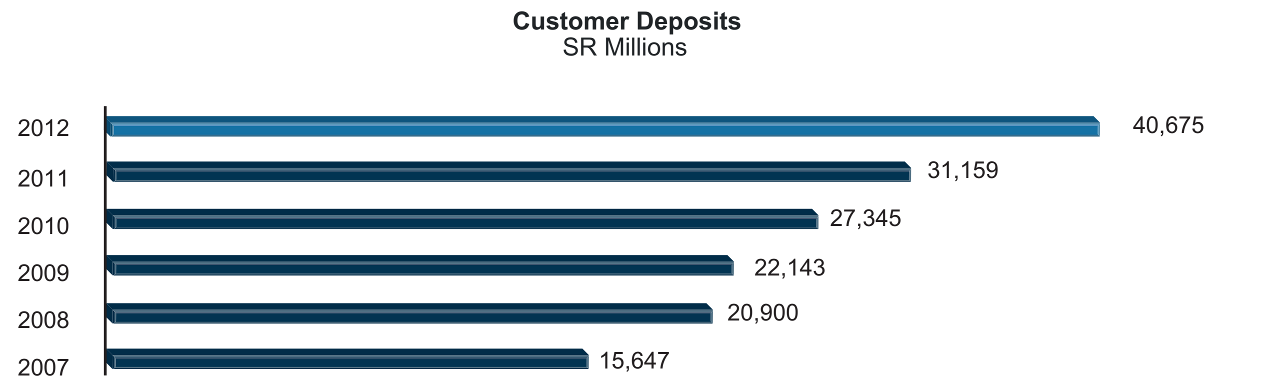
Table 3 Customer Deposits

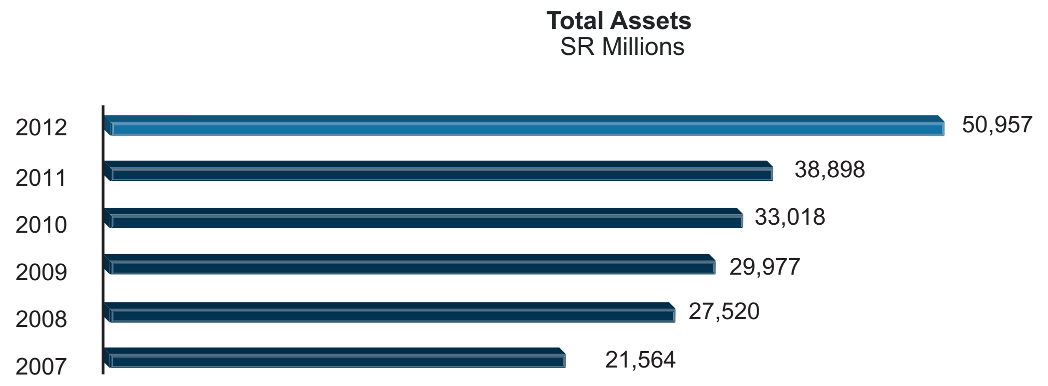
SR millions	2007	2008	2009	2010	2011	2012
Demand Deposit	5,544	5,322	6,053	7,522	10,053	**16,697**
Time Deposits						
Time Deposits (Corporate)	6,372	10,701	11,026	14,363	17,054	**20,806**
Time Deposits (Retail)	3,126	4,701	4,507	4,870	3,586	**2,329**
Total Time Deposits	9,489	15,402	15,533	19,233	20,640	**23,135**
Others	605	176	557	590	466	**843**
Total Customer Deposits	15,647	20,900	22,143	27,345	31,159	**40,675**
Total growth of customer's deposits	43.3%	33.6%	5.9%	23.5%	13.9%	**30.5%**

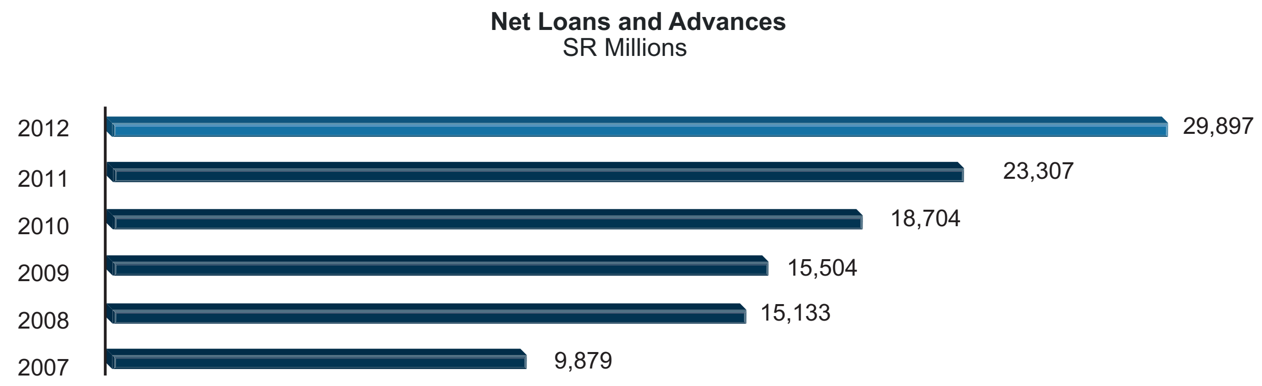
Borrowing from Banks: the bank's borrowings from other banks amounted to SAR 3.3 billion in 2012 as compared to SAR 1.3 billion, as at the year-end of 2011.

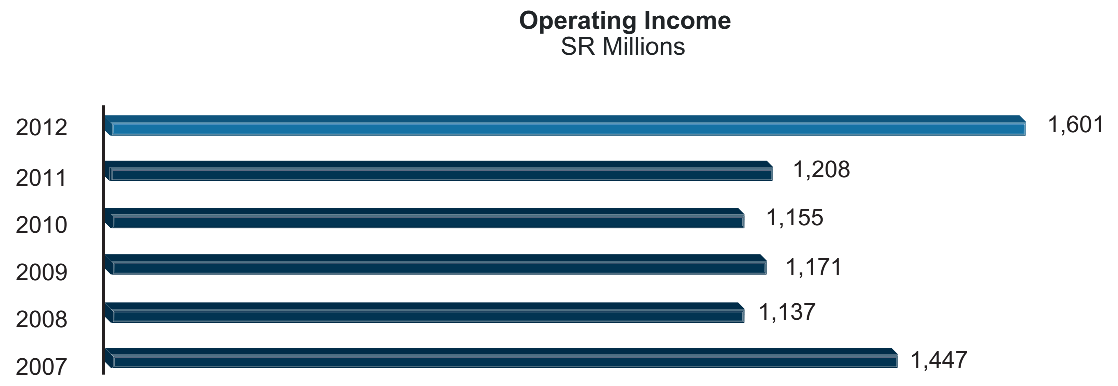
Board of Directors Report 2012 (Continued)

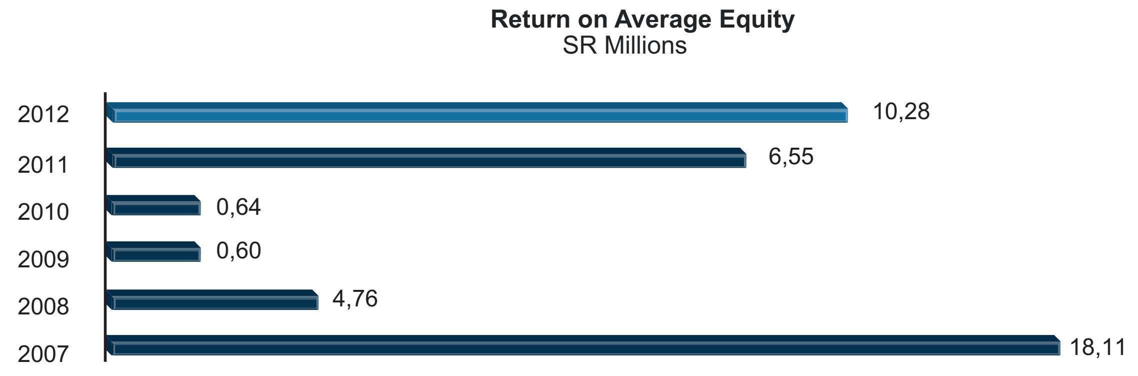










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BAJ's Subsidiaries and Related Profits:

The Bank's consolidated and unconsolidated subsidiaries include; Al-Thoriya (European) Equities Fund, Al-Jazira Residential Projects Fund, Al Qawafel Commodities Trading Fund, Al-Khair (global) Equities Fund, and Al-Mashariq (Japanese) Equities Fund (the mutual funds), Aljazira Capital, and Aman Real Estate Development Company. All these subsidiaries are locally registered.

The profit/(loss) of Aljazira Capital and the Mutual Funds including Al-Thoriya (European) Equities Fund and Al-Jazira Residential Projects Fund, have been consolidated in the Bank's financial statements. Since the Al Khair Mutual Fund, Al Qawafel Commodities Trading Fund and Al-Mashariq (Japanese) Equities Fund falls below the minimum threshold of stake holding therefore, these are not required to be consolidated in line with the IFRS reporting guidelines. The Aman Real Estate and Development Company has been consolidated, however since the Company doesn't generate any revenues, there was no profit from this subsidiary.

Mutual Fund Subsidiaries

Al-Thoraiya European Equities Fund, Al-Khair International Equities Fund, Al-Mashareq Japanese Equities Fund, Al Qawafel Commodities Trading Fund, Al Taiyebat Saudi Equities Fund and Al-Jazira Residential Projects Fund (the Mutual Funds) are locally registered. These funds operate under the terms and conditions contained in their respective prospectus documents with a primary objective of providing investment opportunities to the investors. These are managed by our subsidiary - AlJazira Capital Company as per directives of the Capital Markets Authority (CMA). The Bank had invested USD 10 million in Al-Thoraiya European Equities Fund, Al-Khair International Equities Fund, and Al-Mashariq Japanese Equities Fund respectively as seed capital and still holds such investments which are reported on a mark-to-market basis.

AlJazira Capital Company, which is a consolidated subsidiary of the bank, has invested SAR 24 million in Al Qawafel Commodities Trading Fund and SAR 30 million in Al-Jazira Residential Projects Fund as of 31 December 2012, which are reported on a mark-to-market basis.

Aljazira Capital Company

Aljazira Capital Company is a Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated Safar 20, 1429H corresponding to February 27, 2008. It is locally registered under Registration No. 4030177603 dated Rabi-al-awwal 17, 1429H, corresponding to March 25, 2008, as per the CMA license No. 37/07076. It has a paid up share capital of SAR 500 million. The Company is engaged in the following activities: dealing, arranging, managing, advising, custodian services and investing activities.

Aman Development and Real Estate Investment Company

Aman Development and Real Estate Investment Company is a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 1010221387 dated Jumad Thani 20, 1427H, corresponding to July16, 2006, owned by Bank Aljazira, with a paid up share capital of SAR 1.0 million, incorporated in the Kingdom of Saudi Arabia, the country of its operations and activities base. The Company is engaged in holding and managing the assets assigned to the Bank and others as collaterals including holding these assets for finance purposes as per the objective of the company.

Major Developments during 2012

BAJ retail banking continued its expansion journey in respect to branch network and having state-of-the-art e-banking channels through using the best of breed technology and best practices to maintain our growth through launching new innovative solutions, and expanding our different product offerings to meet our customers' needs and market requirements.

In the area of corporate banking BAJ continued to expand its services by providing its customers with innovative and tailored pure Shari'ah compliant financing solutions and programs designed for the SMEs and Kafalah Scheme. In addition BAJ continued to build a substantial network of correspondent banking relationships around the world, enhancing BAJ's capacity to service the needs of its customers internationally by facilitating and financing their transfers and trade transactions.

BAJ Treasury achieved new heights placing Bank Aljazira Treasury among the major players in the local market and the GCC area. Furthermore, the Treasury Group has also been successful in expanding its product base, where BAJ offered Shari'ah compliant products and sophisticated solutions to BAJ customers.

As required by the Insurance Law of Saudi Arabia, BAJ continued the spinning off its insurance business into a separate entity. The separate entity is under formation. BAJ and its Subsidiary Aljazira Capital Company will have 35% shareholding in the new insurance company and the remaining will be held by other founding shareholders and offered to the public through an Initial Public Offering (IPO).

Statutory Books of Accounts and Basis of Preparation of the Financial Statements

The consolidated financial statements are prepared following the International Financial Reporting Standards, Accounting Standards for Commercial Banks promulgated by SAMA, Provisions of Banking Control Law, Regulations for Companies, and Bank's Articles of Association. The Bank's books of accounts have been maintained properly.

Zakat, Tax, and Other Governmental Payments

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

Zakat paid during 2012 (against 2011)	SAR 9.96 million
Income tax and withholding tax	SAR 7.71 million
GOSI (including Bank and the employees)	SAR 53.07 million
Visa, Iqama and related services etc.,	SAR 0.58 million

The zakat liability due for 2012 has been estimated at SAR 12 million that is attributable to Saudi Shareholders. BAJ has adequate provision in the books to settle the estimated zakat liability. An amount of SAR 6 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.

Strong Shareholder's Equity base

Shareholder's equity at the year-end totaled SAR 5.01 billion and earnings per share was S_AR 1.67. During 2011, BAJ issued long term Shari'ah compliant sukuk worth SAR 1 billion. These sukuk form part of Bank's tier two capital for the purpose of credit ratings and capital adequacy ratio. The capital adequacy ratio for the Risk Weighted Assets for Pillar One under the Basel II regime was 12.12% for its Tier I, and 15.67 % for its Tier I & Tier II capital base, respectively as at December 31, 2012.

Future Operational and Financial Planning

BAJ's vision about its future direction is clear and strong. There have been significant positive developments during 2011 and 2012 in terms of strengthening the Bank's organizational structure, and as well as focus on core banking business growth. BAJ has resolved to continue to reinforce its current activities with its focus on retail, Small and Medium Enterprises (SMEs), corporate and treasury. The Bank will also capture new opportunities in the market to further diversify its revenue stream and consolidate its market share.

On the network horizon, BAJ will continue to add new branches in 2013. Another important facet of the Bank's future expansion strategy is to enhance electronic delivery channels to facilitate offering its products and services to our customers. BAJ intends to maintain a healthy pattern of growth in terms of gaining a substantial share of the market within the given constraints and to this end has a firm commitment to ensure the Equity Base of the Bank is adequate for its requirements.

Future Risks and Challenges

The year 2013 has begun with the international financial markets in a state of confusion as they attempt to come to terms with the fragility of the world economy. The main causes of concern are the deepening crisis within the Euro zone, the levels of outstanding sovereign debts in some of the world's largest economies, and the increasing prospect of a return to economic recession in the developed economies. A recent survey of more than 700 bankers, regulators and observers of the banking industry has indicated that anxiety levels in the global financial sector are at their highest for over 10 years. Fortunately with its very limited exposure to the international markets, BAJ is largely sheltered from these economic uncertainties.

Turning to the key challenges facing BAJ in 2013 and beyond can be summarized as follows:

- There is an increasing international focus on bank regulation with Basel II and the future introduction of Basel III. In order to manage the growing complexity of the new regulations, all banks will have to pay attention to their corporate governance and risk management functions. Risk management has a core strategic role within the Bank's activities and will require more long-term investment in both technology and resources going forward.
- The Saudi banking sector is very competitive and the pricing of products and other services continue to be driven down. In addition, higher capital requirements, greater regulatory / compliance costs and higher stable funding costs will adversely impact future profitability.
- The need to improve / update systems, data management and internal controls as part of the demands of new regulation that will require significant capital investment as the Bank continues to grow.
- The recruitment and retention of high quality staff and the development of the young talent within the BAJ is a systemic issue amongst the Saudi banks but should be an ongoing challenge for the Bank's human capital group.

2013 will undoubtedly be another challenging year for BAJ on a number of fronts; however, the Board is confident that further growth will be achieved and looks forward to reporting another set of impressive results at the end of the year.

Business continuity

BAJ has complete ability and a well defined plan with clear direction to continue and further strengthen its operations, based on its well-capacitated financial, organizational and business resources.

The geographic distribution of income within the Kingdom is shown in Table 4 below:

Regionwise balance -- SAR 000	Central	Eastern	Western	Head Office	Total
Total Operating Income	548,543	224,786	387,602	440,024	**1,600,955**
Operating Expenses	(106,470)	(44,163)	(97,780)	(679,583)	**(927,996)**
Specific and portfolio provisioin for credit losses, net	(29,153)	(20,928)	(32,749)	(89,649)	**(172,479)**
Net Income attributable to equity holders of the bank	412,920	159,695	257,073	(329,208)	**500,480**

Major Business Lines

BAJ's activities comprise five main business lines including: Retail, Corporate, Brokerage, Treasury, and Takaful. The Bank's services are conducted through a network of 54 branches spread in all main cities of the Kingdom of Saudi Arabia. Table (5) below depicts information on assets, liabilities, total operating expenses, and net profit for each sector:

2012	Personal Banking	Corporate Banking	(SR'000) Brokerage and Asset Mgt	Treasury	Takaful Ta'awuni	Others	Total
Total assets	13,062,987	18,140,294	790,158	18,780,211	9,323	173,549	50,956,522
Total liabilities	15,767,984	24,366,949	67,444	5,521,156	46,017	1,374	45,770,924
Total operating income	383,507	434,062	354,459	426,699	25,556	(23,328)	1,600,955
Net special commission	267,606	327,400	10,675	347,375	22	(2,195)	950,883
Fee and commission income, net	87,032	89,170	339,194	25,588	25,534	(2,334)	564,184
Trading income	4,183	3,333	2,072	21,514	-	4,813	35,915
Operating expense: - Impairment charge for credit losses, net	74,032	98,447	-	-	-	-	172,479
- Depreciation	39,875	6,530	9,512	6,483	3,108	-	65,508
Total operating expenses including non-controlling interest	518,983	264,737	140,395	125,553	52,796	(1,989)	1,100,475
Net (loss)/income attributable to equity holders of the Bank	(135,476)	169,325	214,064	301,146	(27,240)	(21,339)	500,480

Retail Banking Group

The RBG continues to play a significant role in the local banking market while following the overall Bank's strategy to aggressively penetrate the retail banking sector. The RBG offers innovative Islamic banking solutions with unique value propositions that cater to our valued clients' changing needs. Our products range from Current Accounts, Islamic Time 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 has placed BAJ among the top players in terms of market share and year-on-year growth.

Investing in our human capital and delivery channels remains as our key drivers of growth. Acquiring, training, and retaining the most talented team members continue to be a main pillar for us, and since the beginning of 2011, our management team has successfully shifted the groups' market approach from being sales driven, towards a hybrid segmented mix of a "total relationship management" approach for our HNW and Affluent client base, and uniquely designed products sales packages to other segments; all being served through our expanding branch network of 54 branches, and 18 ladies sections around the Kingdom, and our best in class Alternative Delivery Channels.

Our Consumer & Credit Cards lending has recorded a strong 45% growth reaching SAR 10.6 billion, up from SAR 7.3 billion in 2011, with 1% of non-performing loans compared to 0.79% in 2011. Our branch network continues to be the most efficient branches in the Saudi market in terms of loans generation for the second year in a row with an average of SAR 59 million per branch. This achievement has grown our asset book by 40% to be SAR 13.1 billion from SAR 9.3 billion in 2011.

On the Liabilities side, we have exceeded the average market growth, by recording a 51% growth in Demand Deposits. Yet, due to the market conditions and SIBOR rates, Time Deposits are still not the preferred investment choice for many individuals. Thus, our liabilities book recorded growth of 25% in 2012 closing the year at SAR 15.77 billion (from SAR 12.6 billion in 2011). We proudly hold a diversified deposits portfolio by serving six individual and business market segments.

In terms of Electronic Banking Services, as we have successfully migrated and launched our new "AlJazira Phone" Call Center back in Oct 2011, equipped with the latest state-of-the-art technology and infrastructure, the center has been awarded with three international awards; 1) Best New Contact Center in the Middle East 2012, 2) Best Contact Center in the Europe, Middle East & Africa 2012 - Gold Medal & 1st Rank, and 3) Best Contact Center in the World 2012 – Silver Medal & 2nd Rank by the Global Association for Contact Center Best Practices "Contact Center World". Furthermore, as we proudly hold the title for being "The First Saudi Bank to Launch a Mobile Banking Application in the Android Market" in October 2011, "AlJazira SMART" recorded a total of 179,000 financial transactions for the year 2012 (up from 15,500 in 2011), and that represents a shift of 17% share of the total online banking transactions.

In addition, following to the launch of our POS services early 2011, we have managed to hold the fastest growing POS network by installing 2,321 state of the art EMV enabled POS terminals in the market (up from 802 in 2011) a 190% growth. On the other hand, we have increased our ATM network by 11% to reach 350 machines around the Kingdom from a base of 316 in 2011. Also, our Online Banking platform has been heavily utilized as the number of financial transactions has almost tripled from 294 thousand in 2010 to 580 thousand in 2011, and 853 thousand transactions in 2012.

We plan to maintain our Real-Estate finance leadership position through launching new and innovative solutions, and expanding our different product offerings to new market sectors. We will have special focus on our Credit Cards products range and value propositions since no major developments took place previously. We are also planning to further expand our branch network to cover most of the Kingdom's geographic areas in order to extend our offerings to untapped markets. The deployment of banking lounges, along with dedicated Relationship Managers, is also a priority in order for us to cater to our various clients' needs. Finally, we will continue investing in developing our state-of-the-art e-banking channels that will far more exceed our valued client's expectations.

Corporate Banking Group

The Corporate and Institutional Banking Group (CIBG) achieved a growth of 17% in its assets portfolio, and posted a total operating income of SAR 434 million, underpinned by expanding products and services, with significant new customer acquisition and landmark financing deals. Fee income from banking activities grew by SAR 7.3 million in comparison to the previous year. The non-performing loans decreased to 5% of the total loans as compared to 6% at the end of year 2011. CIBG offers a wide range of Shari'ah-compliant Islamic banking solutions to corporate entities. CIBG, as a vital part of the Bank's strategy, will continue striving to expand and innovate by providing tailored pure Islamic banking solutions to our clients.

CIBG's activities are concentrated in the 3 major metropolitan areas of the Kingdom - Riyadh, Jeddah and Dammam - with the required expertise and resources in each of the 3 regional offices to handle the banking needs of the customers in each region. CIBG compromises the following business units:

Commercial Banking Services (CBS)

In 2011, CIBG incorporated a specialized division committed to serve small and medium sized enterprises (SMEs) through a wide range of commercial banking services and products, and 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 translates the Bank's strategic direction to increase its customer base, benefit from the credit demand, increase lending volume, and increase and diversify the finance portfolio in order to accommodate the requirements of this critical segment, which is considered the fastest growing segment in the Kingdom of Saudi Arabia.

As a result of this clear strategy, CBS offered support and finance through many financing programs designed for the SMEs and Kafalah Scheme, which achieved a growth of 89% as at the end of 2012. CBS will continue to provide more services so as to play a pivotal role in delivering Shari'ah compliant offerings with intensive focus on our customers' requirements and in providing support to all other Bank's business sectors. CBS is closely working with other Bank's sectors through its different offerings to achieve the highest levels of efficiency, productivity and best service to the SME segment.

Global Transaction Services (GTS)
During 2011, Trade Finance and Cash Management were combined under one department called "Global Transaction Services (GTS)". GTS is increasingly in the forefront of developments in Islamic Cash Management and Trade Finance. GTS has proven 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.

Our payment solutions cover the 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 GTS business' growth strategy is well aligned with the fundamental trends that are shaping change in terms of digitization and processing modernization across all business sectors in Saudi Arabia.

Specialized Finance Division (SFD)
In order to position itself in the path of Bank's functional expansion, the Syndication Division was restructured and renamed as 'Specialized Finance Division' (SFD) to comprise three units namely Project & Structured Finance, Syndication and Agency. Re-structuring the Division with properly defined objectives and roles was a natural adaptation to accommodate asset growth in portfolio and achieve the objective of asset diversification and total relationship concept. This business model has proven to strengthen our capability in the whole spectrum of specialized financing and now solidified our visibility in the market.

SFD has continued to play its active role in the project and syndication finance arena by assuming Mandated Lead Arranger roles with other leading banks and ensuring constructive participation in major mega-deals. SFD has signed on two landmark project finance transactions and one syndicated facility for large business corporate clients. In addition, Agency Unit has distinctively positioned itself among the Islamic Banks as it is increasingly becoming the choice of the market for various agency roles for Sharia'ah compliant syndication transactions. During the year, Agency Unit has attracted two Agency Roles, thus enhancing the market visibility of BAJ in the project finance arena and improving the fee-based income.

Financial Institutions Unit (FIU)
FIU continues to build a substantial network of correspondent banking relationships around the world, enhancing BAJ's capacity to service the needs of its customers internationally by facilitating and financing their transfers and trade transactions. Our relationships include Banks, Financial Institutions, Government & Quasi-government Entities, Investment and Brokerage Firms, Insurance Companies and Export Credit Insurance Corporations.

Public Sector Unit (PSU)
PSU is dedicated to provide Shari'ah compliant tailor-made solutions (Murabaha, Musharaka, Tawaruq, Ijara, Naqa'a, etc.) to meet the growing needs of a wide range of public sector businesses (i.e. 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 Group

Even-though it underwent phases of infrastructure building that took place in 2011, Treasury Group achieved new heights that contributed in placing Bank Al-Jazira Treasury among the major competitors in the local markets and the MENA area. Furthermore, Treasury Group has also been successful in expanding its product base, through offering Shari'ah compliant products and sophisticated solutions to BAJ customers. Treasury will remain focused and continue to strive to meet our clients' needs as part of a long-term strategic partnership with them. The building of the sales offices in the three regions to facilitate and maintain close relationship with our clients, new products offering have generated fruitful results as the customer volumes have more than doubled in a year time.

The Trading & Structuring desk as evident from increasing products demand, has also been expanded to cater for more customer focused products, also to provide support to customer business and is playing a crucial role in not only new product offerings but also on the in managing the associated risks successfully.

Treasury Group is active in Shari'ah compliant Money Market and Foreign Exchange activities with a diverse range of counterparties that includes regional and global financial institutions, corporations, pension funds and agencies. In addition, we prudently and efficiently manage liquidity by raising funds from Money Markets, Capital Markets and core funding sources i.e. customer deposits. Our customer deposits increased from SAR 31.2 BLN in 2011 to SAR 40.94 BLN in 2012, by 31%.

Treasury also manages its investment portfolio to ensure a diversified and sustainable income stream. The portfolio combines a mixture of high quality Shari'ah compliant fixed income securities. Treasury investment portfolio grew from SAR 4.8 billion in 2011 to SAR 8.5 billion in 2012, by SAR 3.7 billion or 77%. To ensure a well-rounded portfolio, any investment decision is based on diverse criteria and a calibrated multi-stage evaluation process.

All the above activities are managed through conservative market risk policies and practices to ensure that the Bank maintains a low profit rate and foreign exchange risk profile in line with its risk appetite.

Aljazira Capital (AJC)

2012 was a successful year for Al-Jazira Capital. The company reaffirmed its leading position in the local brokerage market with an increase in its market share to 19% for 2012 (2011: 15%) and, as part of its income diversification strategy, increased its footprint in both its asset management and investment banking businesses. Al-Jazira Capital's business growth is reflected in a strong financial performance with a substantial increase in total net income to SAR 214 million for 2012 (2011: SAR 70 million).

Al-Jazira Capital focused its efforts during the year on a continued successful delivery of its local, regional and international brokerage capabilities together with on-going strategic investment in the growth of its other businesses. The company's local brokerage business executed trades with a total value over SAR 740 billion during 2012, a growth of 124% over 2011. Client assets under administration amounted to over SAR 24 billion at the end of 2012 (2011: SAR 17 billion).

Client assets under management grew by 46% during 2012 to SAR 1.2 billion, outperforming the total market which grew by 7% during the same period. This growth in asset management business reflects a solid performance by the company in the management of its local Al Qawafel and Al Taiyebat Funds and the successful introduction of a discretionary portfolio management offering during 2012. Product development was also a priority during 2012: a substantial pipeline of new funds was approved by CMA for development and launch during 2013. Al-Jazira Capital's investment banking business included the lead and co-underwriting of Al Tayyar Group and ACIG during 2012. A significant increase in the size and quality of advisory deals was also witnessed during the year.

Al-Jazira Capital's business performance was recognised by World Finance when this organisation awarded the company the "Best Investment Company in the Kingdom of Saudi Arabia" for 2012. This award recognizes Al-Jazira Capital's leading position in the Saudi brokerage business and the quality of independent research for its clients.

Management believe that the sound macro-economic fundamentals of the Saudi economy will continue to act as a positive catalyst in the further development of capital market activities in KSA and Al-Jazira Capital's business during 2013 and beyond.

Aljazira Takaful Taáwuni

Year 2012 is considered as a transitional period in the history of Aljazira Takaful division (TTD). During the year, TTD completed the prospectus and filed to Capital Monetary authority (CMA) to go public and be a separate entity (Al Jazira Takaful) in the kingdom. The major accomplishment accounted was the development of the new products and channels, operational readiness, etc. The developed products are filed to Saudi Arabia Monetary Agency (SAMA) for their approval.

Also during the year, TTD completed the corporate governance, code of conduct, business processes by resources supported by the best in class methodologies with full compliance to the regulatory requirements.

At the strategic level, TTD has developed segmentation model and high level business strategy with the business direction explained below.

As a business direction, TTD's future business shall include engaging in and providing Sharia'h compliant products to retail and corporate clients in the areas of Protection and Savings and Protection.

TTD strives to establish a leading position in the local market, enhance its positioning, and expedite the growth of Protection & Saving transactions in the Middle East region for the long run. The short term strategy targets effective management of resources and effective risk management process implementation resulting in strong international credit rating that reflects TTD's robust financial conditions in line with the aspirations of its shareholders, clients, employees and partners.

TTD initially plans to sell protection and saving insurance products through direct sales team and to sell group products through relationship managers and external channels (licensed brokers & agents).
TTD plans to develop wide range of both Individual and group products for to meet different segments' requirements which cover:

•HNW (High Net Worth) - Exceed my expectation by offering tailor-made, high quality services & personalized solutions complimenting my lifestyle.
•LADIES - Offers innovative & effective solutions that protect me and my children.
•GOVERNMENT & CORPORATE - Help me grow my business, attract & retain high value employees.
•AFFLUENT - Trusted Insurance provider that protects my family with an effective saving plans with high quality standards.
•MASS - Reliable affordable simple solutions that cater for me and my family needs.
•SME (Small Medium Enterprises) - Help me grow my business by offering innovative & reliable cost effective solutions.

Finance Group - Control, Policy and Planning

The financial management and control function of the Bank has been restructured to align process and functions to support the business strategies of the Bank. The Group has increased emphasis on the control and efficiency of financial processes within the wider Bank. The Group's functions continues to be focused on strategizing capital planning and financial performance of the Group in line with the management's and Board's key priorities, whilst maintaining effective control and reconciliation of the bank's transactions. Conformity with International Accounting Standards, fulfilling the requirements of regulatory bodies, actively planning and ensuring compliance of critical regulatory ratios, establishing a system of internal control, are the key responsibilities of the Group along with maintenance of accurate financial records, periodic reporting to regulators, the Board and Shareholders form a core activity and responsibility of the Group.

The Saudi Arabian Monetary Agency (SAMA), Department of Zakat and Taxation, and Saudi Capital Market Authority (SCMA) are the main regulatory bodies that the Group remains continuously engaged with, in addition to, managing Internal and External Audits.

The Group is continuously developing and enhancing the capabilities of financial and management information systems to generate accurate and timely information to manage the Bank's activity, exercise appropriate financial control and regulate the business. As a result of the Group's efforts, MIS System's have been further enhanced during 2012 providing up to date information to the senior management team and the businesses at all performance levels. The Group is also assisting in automating the Budgeting, Planning and Fund Transfer Pricing processes. Further the Group is engaged on the implementation of an Enterprise Resource Planning (ERP) system on a bank wide basis to replace its existing General Ledger and Financial Operations systems facilitating enhanced integration with HR, Treasury, Procurement and Retail Banking Systems.

Human Capital Group (HCG)

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, motivations 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.

Additionally, the HCG continues to partner with all business groups to focus on Saudization via the development of competitive banking personnel empowerment programs such as the Branches Network Development Program (BNDP), and the Management Associate Program (MAP), both of which are learning tools designed to improve the proficiency and service delivery of newly attracted talents. Moreover HCG continues to provide internship opportunities for both undergrads & post graduate candidates.

The Bank has accordingly retained its high success rate of effective Saudization of more than 88%. 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 day's average of 6.7 reflects a 67% higher percentage rate in comparison to 2011 with more than 483 annual training events.

These forward leaps were captured in the results of the 2012 "People Pulse Employee Engagement Survey", which showed 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 (RMG)

Introduction
Risk Management is one of the Bank's core competencies and plays an important role in enabling the Board and senior management to operate effectively in a highly competitive Saudi banking market. The Bank has a number of established key Board and executive management committees to review credit risk management, approve overall credit policies and resolve all significant credit policy issues. These comprise:

- The Executive Committee,
- The Board Risk Committee,
- The Management Credit.

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.

Today much emphasis is placed on the use of sophisticated techniques to identify measure and mitigate risk, but in addition it is through a robust corporate governance structure, and the leveraging of the collective experience of a disciplined management, that a Bank can expect to minimize risk at its source.

The RMG is empowered to identify, evaluate and mitigate risk however, and wherever, it may arise from the business and operating activities of the Bank, and through regular reporting to the executive management is able to ensure that credit policy is always aligned with the risk appetite of the Board.

RMG seeks to achieve an appropriate balance between risk and reward across the various business activities, working in partnership with the business units to assist in delivering challenging growth targets within a controlled risk environment. The following charts illustrate the concentrations of the Bank's loans and advances as at 2012 and 2011 year ends.

Loans and Advances

Loans and advances to customers account for the principal source of credit risk to the Bank. The Bank's risk management policies and processes are designed to identify and analyze risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. An area of particular review is concentration risk and this is constantly monitored in terms of industry sector, maturity and risk rating.

The following charts illustrate the concentrations of the Bank's loans and advances as at 2012 and 2011 year ends:

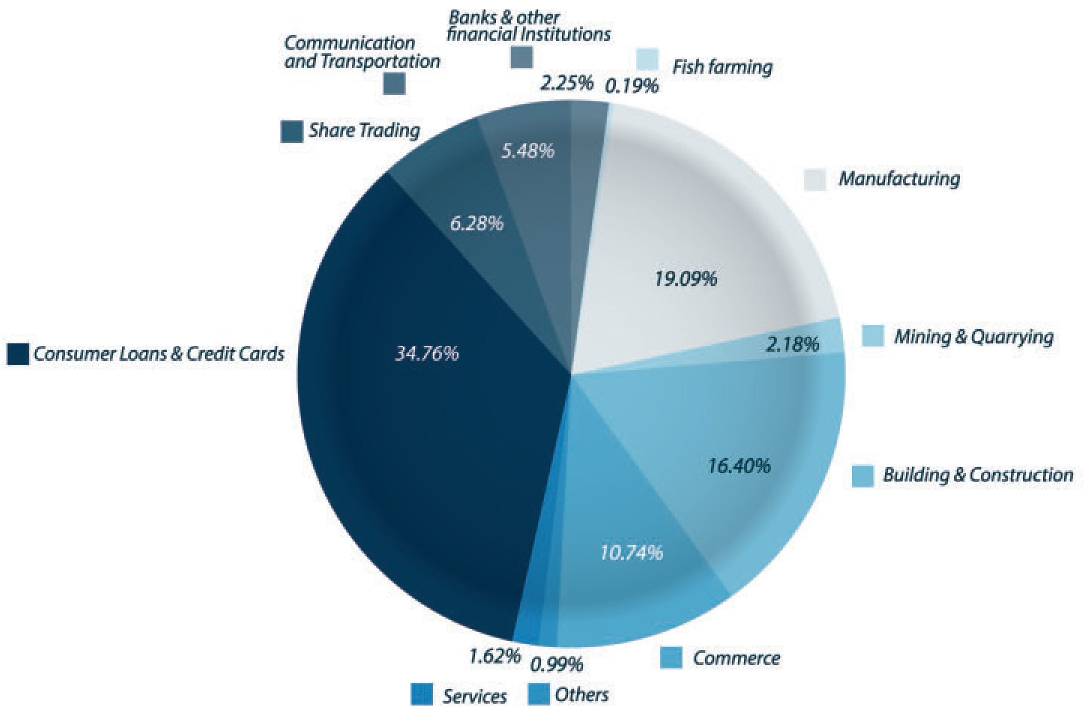
Outstanding Loans and Advances as at 31st December 2011	SAR 23,307 million
Outstanding Loans and Advances as at 31st December 2012	SAR 29,897 million

Maturity Analysis of Loans and Advances to Customers

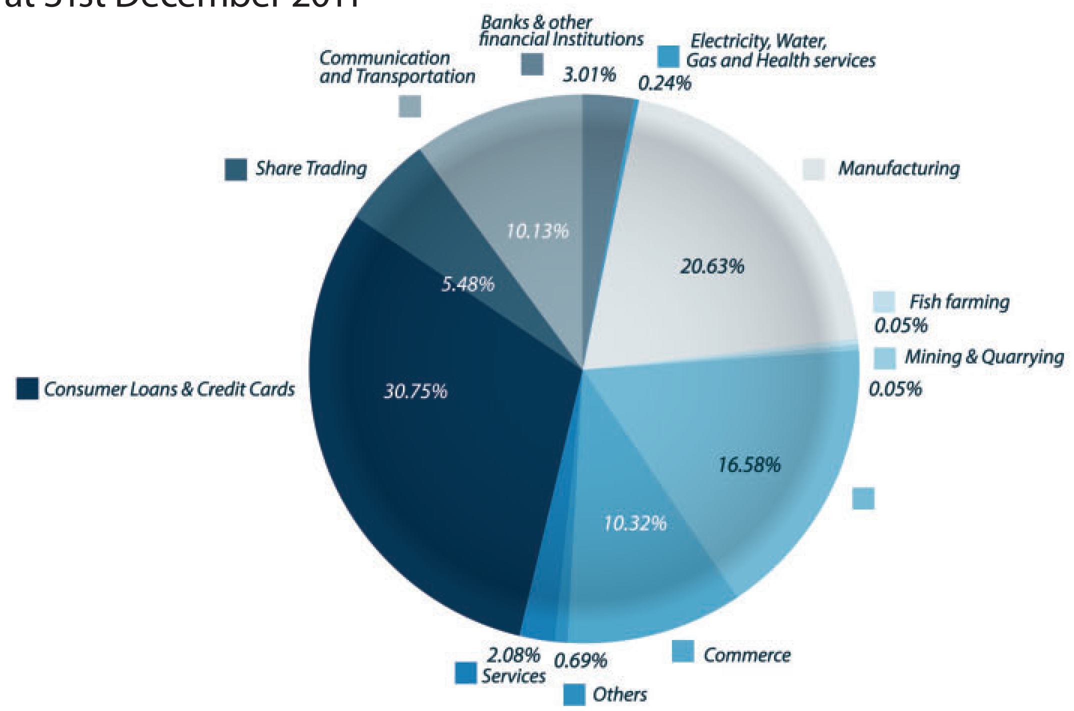
	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	No fixed maturity	Total
31st Dec 2011	3,091,910	8,367,908	7,076,316	4,645,209	126,108	23,307,451
31st Dec 2012	6,373,069	8,540,490	8,184,065	6,799,158	-	29,896,782

Loans and Advances by Industry

As at 31st December 2012



As at 31st December 2011



Risk Management Framework

Various committees enable executive management and the Board to evaluate the risks faced by the Bank, as well as the effectiveness of the Bank's management of these risks. These committees are integral to the Bank's risk governance structure.

2013 will be another challenging year for our Risk Management Group as it responds to the increasing regulatory requirements of Basel III, as well as ensuring that the Risk Management Framework keeps pace with the further planned growth of the Bank in the coming year.

Shari'ah Group

The Sharia Group continued its strategy to focus on the banks process and procedures that yielded positive results in the form of bank wide awareness about Sharia issues in the bank's key products and services that need attention. The year 2012 can be considered as a landmark for rejuvenating the spirit of Sharia Governance best practices in the bank as the group relentlessly pursued the implementation of the revised Sharia Board Charter. The Sharia Group offered full support to all groups to fill the identified gaps related to the implementation of the bank's Sharia Board's decisions. Follow up on 2011 findings for rectification of process and procedure gaps related to retail dinar was also vigorously followed up by the Sharia Group.

During 2012 Sharia Group received a total of 64 references compared to 97 received in 2011 showing a decrease of 34 %. A total of 126 replies, instructions and guidelines were issued to all related internal and external stakeholders compared with 163 replies, instructions and guidelines provided during 2011 showing a decrease of 23%. The overall decrease in references clearly shows that the Sharia Group strategy to focus on fixing process and procedures has been successful in creating awareness about Sharia issues and requirements across the bank.

Four Sharia Board Meetings were arranged and conducted during the outgoing year, 11 issues were presented to the Sharia Board and 9 decisions obtained. A consolidated 2012 Sharia audit report was prepared that will be presented to the Sharia Board in its next meeting along with the bank's final 2012 annual financial report for its consideration and approval.

The Research and Development Centre (RDC) conducted the Sharia review of five products. In terms of evaluating Sharia Governance of the banks systems processes the RDC conducted process & procedure gap analysis of another four products and found some processes to be deviant from the actual Sharia Board approvals for which rectification solution was proposed to save the profit from going to charity. RDC also provided Sharia due diligence services in reviewing eleven contracts. Four new product structures were also proposed during the year 2012.

The RDC conducted an in-depth study regarding the facilitation of Islamic Financial transactions through the London based commodity supplier. The RDC capitalized on its one year correspondence with the commodity supplier and the available material on the internet to present a comprehensive research paper titled "A Practitioners View of Issues in Implementing Sharia Board Guidelines in Islamic Banks". The paper was highly appreciated in academic circles especially by the Islamic Economics Research Centre, King Abdulaziz University and an advisor of IDB. The bank actively participated in the question answer sessions of the AAOIFI - World Bank Annual Conference on Islamic Banking and Finance conducted under the auspices of the Central Bank of Bahrain in December 2012.

Internal Audit Group

IAG performs the internal independent audit and control review function for the bank, covering all businesses, functions, and geographies.

The Group uses standardized audit methodologies in executing a rigorous assessment of the Bank's risk and control environment, through evaluation of financial, operational, and administrative controls.

The Chief Audit Executive manages the Group, and the audit responsibilities are carried out under the oversight of the Bank's Audit Committee.

The IAG pursues a risk-based approach in planning and executing audit evaluation engagements, reports and concerns and submits recommendations to senior management and audit committee.

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 to achieve the Bank's stated goals and objectives.

The IAG 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.

Compliance

A professional compliance consultant was hired by the bank's management to completely revamp the Group. A new structure was formed with a) Compliance Monitoring, Compliance Reviews and Compliance MIS; b) Compliance Development, c) Compliance Risk Assessment.

In order to remain effective in constantly evolving economic, strategic and regulatory environments, Compliance requires a continuous cycle of review and refinement. Over the last twelve months, the following key refinements were made: developed a refreshed Enhanced Due Diligence (EDD) policy and procedure for High Risk customers, enhanced the Compliance Policy, updated the Compliance Manual, developed day-to-day Compliance Policies and Procedures, developed the Compliance Review and Monitoring Sheets, undertook various compliance reviews and monitoring, continued to review Bank's policies and procedures, new or updates including systems, products, forms, contracts, completed annual reviews of Compliance Governance documents, monitored and responded to regulatory changes.

Strategic Management & Business Transformation Group

The strategic and operational teams that were put in place in 2011 to affect the transformation of the Bank into a recognized cutting edge standard of operational and financial excellence continued their mission in 2012, redefining and adjusting their ambitious transformation plan, with all of its diverse strategic initiatives to meet its individual initiative and collective completion target dates.

The five Business Transformation Group (BTG) teams of Change Delivery (CD), Straight through Processing (STP; a.k.a Process Reengineering), Enterprise Project Management (EPMO), Quality Assurance & Standards (QS), and Procurement have each contributed significantly to actualization of the bank's underlying vision and mission of a highly customer centric organization in which consistent quality delivery, within full compliance of all regulatory and risk limitations, is the purpose and key objective of all operations.

The CD team continues its identification and analysis of business proposals and cost cutting best practices without compromising quality, and in full compliance with regulatory directives, in areas such as ATM and E-banking, Call Center, Business Process and Risk Management.

Throughout 2012, the STP team continued its focus on improved efficiency and the correct execution of approved initiatives and projects, including the relay and correct accomplishment of the recommendations put forth by the SAMA/KPMG bank-wide audit, as well as the timely and cost effective implementation of a myriad of internal strategically critical operational systems and business control protocols.

The EPMO team was focused on the execution and delivery of business projects and initiatives covering all the business centers of Retail, Corporate, and Treasury. This included the Branch Network Expansion program, the Call Centre program, the movement of the Data Centre, the roll out of the Loan Management System (LMS), and the KIRL Kondor rate and liquidity module and reconciliation system.

All of the above efforts were supported by the QS team, who continue to assure that the desired quality standards are observed and maintained for all ongoing and new initiatives and for established business practices, with the twin goals of zero errors and zero complaints from all of the businesses and internal customers, our vendors, business partners and the regulators.

And finally, the Procurement team was instrumental in 2012, as in the previous year, in assuring value for money for all the above detailed projects and initiatives, while assuring that all Compliance, Risk, Audit, and Legal requirements and limitations are considered and met, and while continuing to strengthen and consolidate vendor and provider relationships, and maintaining an effective level of purchasing cost control.

Support Group (SG)

The SG continues to bolster its commitment of excellence through operational and functional support improvement to the business centers of the Bank, in line with the overriding business aims and objectives of the organization. The investment in Technology and best organizational practices research and adoption continues in every area of the SG, which is streamlined into the Operations, Corporate Security, Information Technology, and Logistics functions and divisions.

At the core of the SG is its continued emphasis on technology, and technological solutions as the preferred answer to operational and functional challenges, and as the most practical long term cost saving and product and service delivery method. To that end, the IT Division has succeeded in initiating the migration of the entirety of the BAJ core banking system into a new upgrade designed to usher in a full transition to a much more powerful next generation platform with markedly enhanced core growth capabilities, in line with the vision of the Bank and its market capture and share goals. Highlighting this emphasis on advanced and enhanced technology is also the completion of the physical migration of Bank's systems to the much more secure and dynamic and accessible head office, and the ongoing investment and progress made since 2011 in the establishment of a permanent Disaster Recovery Centre in Riyadh, which fulfills not only our regulatory mandate, but realizes a long term goal of a state of the art Business Continuity Planning and Management facility for the Bank, to assure our valued customers of the stability of the bank and the prudence of its business plans. Furthermore, and in support of improved productivity through improved technological communications, the IT Division successfully migrated the entire email communications platform to the world standard MS Outlook® system during the 2012 year, as it continues work on upgrading and updating its pioneering smart phone, tablet and other mobile applications accessibility and alternative delivery channels convenience.

Supporting this large cap investment in and emphasis on Technology are the other Divisions in SG. The Corporate Security function is the custodian and protector of all Banking Information Assets. A new Corp Security policy and operational charter has been approved that will allow the function to better monitor and check systemic security as the technological capability of the bank grows, utilizing accepted world class standards of proactive threat detection and mitigation. The adoption and ratification of the SAMA E-Banking rules policy will also serve to align the anticipated jumps in technological ability with regulatory and conventional controls such as the Payment Card Industry annual re-certification, Security Incident Response Training, email filtering policy, anti-intrusion, and enhanced anti-Phishing services.

In tandem with the technological push forward, the Operations Division continued its achievements in 2012 by working with the other groups and divisions to improve delivery, process flows, training, allocation of staff, clearing of unused zero balance accounts, passing the MOODY International ISO Surveillance Audit, increasing transactional volume, reducing errors, and greatly improving its Operational Risk rating.

The logistics Division of SG was also highly instrumental in realizing the bank's expansive vision with the opening of 8 new Retail Branches across major KSA metropolitan centers, and the imminent readiness of 2 more for a total of 10. The Logistics Division also delivered on the conversion of the top floor of the Nafl Riyadh branch into a regional training centre for the Central and Eastern Provinces. Additionally, Logistics carried out a large number of individual initiatives and mandates to satisfy business and regulatory requirements, including 40 new ATM sites, of which 37 are now operational, plus support to the retail mortgage business and branch classification initiative, and the ongoing real estate and fixed asset sales resulting in substantial fiscal gains.

These contributions by Operations and Logistics cannot be understated as it sets the stage for the coming transformation of the Operations division and its efficacy and contribution to the totality of the BAJ customer centric as envisioned by executive management.

Credit Ratings

Credit Ratings	Capital intelligence Jul-12	Moodys 17-Sep-12	Fitch Rating 17-Aug-12
Foreign Currency Risk -- Short term	A 2		F2
Foreign Currency Risk -- long term	BBB+		A-
Financial Strength Rating	BBB	D+	
Support Rating	2		1
Outlook Rating	Stable	Stable	Stable
Bank Deposits		A3/P--2	
Soverign Risk -- short term	A1+		
Soverign Risk -- long term	AA-		AA-
Viability Rating			bb+

Statutory Appropriations

The statutory appropriation of SAR 125.5 million has been made from 2012 Net income to the Statutory Reverse, in accordance with Article 13 of the Banking Control Law.

Corporate Governance

Dividend Policy

The Bank complies with the Rules and Regulations issued by the Competent Regulatory Authorities, and its Articles of Association in the process of dividend distribution. In this regard, the Bank shall distribute dividends for its shareholders in accordance with the provisions of Article No. (45) of the Bank's Articles of Association as follows:

The company's annual net profits will be distributed after deduction of general expenses and other costs, and allotting of reserves for doubtful debts and losses on investments and contingent obligations which the Board of Directors shall consider necessary in accordance with the provisions of the Banking Control Law, as follows:

(A) The due amounts of Zakat required from Saudi shareholders, and the tax imposed on non-Saudis shall be calculated in accordance with the effective regulations of the Kingdom of Saudi Arabia. The company shall pay these amounts to the competent authorities and the deduction of Zakat paid for the Saudis from their share in net profit. Likewise, the paid tax on non-Saudis shall be deducted from their share in net profit.

(B) At least 25% of the net profit balance will be transferred after deduction of Zakat and tax, as stated in the above paragraph (A) to the legal reserve until the said reserve becomes at least equal to the paid-up capital.

(C) After deducting the legal reserve, Zakat and tax, an amount of the remaining profits; not less than (5%) of the paid-up capital, shall be allotted for distribution to shareholders of both Saudis and non-Saudis, provided that the distribution should be made on the basis of the paid-up value of shares of Saudis and non-Saudis as proposed by the Board of Directors and determined by the General Assembly. If the remaining percentage of profits due to any of the concerned shareholders is insufficient, the shareholders then shall not claim to be paid in the following year or the years after, and the General Assembly shall not decide to distribute a percentage of profits more than what was proposed by the Board of Directors.

(D) The remaining amount shall be used after the allocation of the amounts mentioned in paragraphs (A, B, C) above as proposed by the Board of Directors and as determined by the General Assembly.

(E) The percentage of shares owned by both Saudis and non-Saudis shall be maintained when calculating the necessary provisions from net profits against the legal reserve and other reserves after deduction of Zakat and taxes. Each of the two shareholder groups, whose contribution to the reserves is made according to their shares in the capital, and their contribution, shall then be deducted from the net profit.

Bank Dealings with Board of Directors, Chief Executive Officer, and Chief Financial Officer

Notwithstanding the information included in note (34) in the Audited Financial Statements "Related Party Transactions" that have been conducted according to the same terms and conditions as transactions with independent third parties, there are no substantial interests for the Board of Directors, the Chief Executive Officer or the Chief Financial Officer.

Governance

BAJ strictly abides by the rules of corporate governance that realize the strict implementation of the overall internal control systems, policies of transparency and commitment to the principles of risk management. BAJ also strives to ensure the overall business is in compliance with regulations and laws of the Kingdom and to continuously bring in the latest performance criteria for the global banking in terms of overseeing the banking performance, including the directives of Saudi Arabian Monetary Agency (SAMA), the Saudi Capital Market Authority (SCMA), 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 SCMA, BAJ 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, who 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 SCMA are also included in the corporate governance regulations of BAJ in a detailed manner to ensure monitoring and controlling their effectiveness and developing and modifying them as needed by the Board of Directors.

SAMA, GOSI, Municipalities and others have imposed fines on the Bank with a total of SAR 7.88 million during 2012 as specified below:

S. No.	Name of the Authority	SAR in million
	SAMA	0.51
	GOSI	5.54
	Municipalities and others	1.83
	Total	7.88

A. Board of Directors

The Board of Directors consists of (9) members, (8) at present, including (5) independent and (3) non-executive. The Board held Seven meetings in 2012 (Five meetings in 2011), as detailed in the following table:

Member's name	Capacity	1st mtg 07/02/2012	2nd mtg 04/04/2012	3rd mtg 03/05/2012	4th mtg 04/08/2012	5th mtg 02/10/2012	6th mtg 06/11/2012	7th mtg 08/12/2012	Total
Mr. Taha bin Abdullah Al-Kuwaiz	independent	1	1	1	1	1	1	1	7
Mr. Abdullah bin Saleh Kamel	independent	1	1	-	1	-	-	1	4
Mr. Mohammed bin Abdullah Al-Angari	independent	1	1	1	1	1	-	1	6
Eng. Tarek bin Othman Al-Kasabi	non-executive	1	1	1	1	1	1	1	7
Mr. Khalifa bin Abdullatif Al Mulhem	independent	1	1	1	1	1	1	1	7
Mr. Khaled bin Omar Al-Baltan	independent	1	1	-	1	1	1	1	6
Eng. Abdul Majeed bin Ibrahim Al-Sultan	non-executive	1	1	1	1	1	1	1	7
Mr. Mohammed bin Abdullah Al-Hagbani	non-executive	1	1	1	1	1	1	1	7

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.

As regarding the members of the Board of Directors of BAJ; who are also board members in Saudi joint stock companies listed/unlisted in the Trading System (Tadawul) as at the end of December 31, 2012, are as follows:

Board member's name	Membership in other joint-stock companies boards of directors
Mr. Taha bin Abdullah Al-Kuwaiz	Saudi Kayan Petrochemical Company - Member of the Board of Directors
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
Eng. Abdul Majeed bin Ibrahim Al-Sultan	Qassim Cement Company - Member of the Board
Mr. Mohammed bin Abdullah Al-Hagbani	National Petrochemical Company - Member of the Board Representative of the General Organization for Social Insurance (GOSI)
Eng. Tarek bin Othman Al-Kasabi	Aseer Co. - Member of the Board Dallah Healthcare Holding Co. - Chairman of the Board
Mr. Khalifa bin Abdul Latif Al-Mulhem	Advanced Polypropylene Company - Chairman of the Board Nama Chemicals Company - Member of the Board Saudi White Cement Company - Member of the Board
Mr. Khaled bin Omar Al-Baltan	
Mr. Mohammed bin Abdullah Al-Angari	Jeddah Holding Company for Development - Member of the Board

It should be noted that the members of the Board had been elected by the Ordinary General Assembly "Forty-fourth" in its meeting held on Muharram, 04 1431H corresponding to December 21, 2009 at the headquarters of the Bank in Jeddah, for the current session which began on January 01, 2010 for a period of three years effective up to December 31, 2012.

Description of any interest in the shares bearing voting rights belonging to persons (except the Board of Directors, Senior Executives, their spouses and under-aged) who reported such equities to the Bank as per Article 30 of the Registration and Listing rules, and changes to such equities during the fiscal year, is as follows:

Name of Person Who has Interest	Beginning of the year 2012		During the year 2012		End of the year 2012	
	No. of shares	Percentage of ownership	No. of shares	Percentage of change	No. of shares	Percentage of change
Rashed Al- Abad al Rahman Al-Rashed & Sons	66,791,880	22.26%	66,791,880	-	11,791,880	82.3%
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	-

Description of any interest, option or prescription rights belonging to Bank's Board of Directors, Senior Executives, their spouses and under-aged in the Bank's shares, debit instruments or any of its subsidiaries, and any change to such interest or rights during the last fiscal year, is as follows:

Name of Person Who has Interest	Beginning of the year 2012		During the year 2012		End of the year 2012	
	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	10,005,000	3.34%	10,005,000	-	10,005,000	-
• Al Tawfeeq Development House Co.	2,692,578	0.90%	2,692,578	-	2,692,578	-
Mr. Mohammed bin Abdullah Al-Angari	530,000	0.18%	491,000	7.4%	491,000	-
Eng. Tarek bin Othman Al-Kasabi	8,999	0.00%	8,999	-	8,999	-
• Eng. Abdul Majeed bin Ibrahim Al-Sultan	1,000	0.003%	1,000	-	1,000	-
• Etihad Brothers Develop. Co.	19,781,816	6.59%	19,781,816	-	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	929,701	0.31%	1,256,451	35%	1,256,451	-
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	-

The Board of Directors consists of (9) members representing the legal persons, natural persons and representatives of the Board in their personal capacity.

Senior Executives:

Name of Person Who has Interest	Beginning of the year 2012		During the year 2012		End of the year 2012	
	No. of shares	Percentage of ownership	No. of shares	Percentage of change	No. of shares	Percentage of change
Mr. Nabil bin Dawood Al-Hoshan (Chief Executive Officer)	25,000	0.01%	2,000	92%	2,000	-

B. The Main Committees of the Board of Directors

To meet the statutory requirements, achieve optimal performance and benefit from the diverse expertise of the members of the Board, the following key committees have been set up to support its operations:

1. Executive Committee

The Executive Committee of BAJ consists of members chosen by the Board of Directors and chaired by the chairperson 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 held on Safar 01, 1431 H (corresponding to January 16, 2010), where the Committee held twelve meetings during 2012 (ten meetings in 2011), 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	11
Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member of the Executive Committee	12
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Executive Committee	11
Mr. Khaled bin Omar Al-Baltan	Member of the Executive Committee	7

2. Audit Committee

This committee plays a key role in helping the Board of Directors to deliver the statutory duties of financial, accounting and audit risk limits in addition to 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 counter them.

The results of the annual efficiency audit of the internal control procedures of the Bank have reflected excellent levels. In this regard, BAJ adopts all policies and procedures required by various statutory bodies in addition to international practices.

The Audit Committee consists of the chairperson to be chosen from the non-executive members of the Board of Directors and three independent members from outside the Bank. The meetings of the Audit Committee are attended by the Chief of Internal Audit Department and the Chief Financial Officer on constant basis. The meetings are also attended by the CEO and senior executives as required. The Audit Committee was formed for the current session of the Board on July 04, 2010, where the Committee held four meetings during 2012 (five meetings in 2011), attended by the Chairperson and Members, as shown in the table below:

Name	Functional duties	No. of meetings attended
Mr. Mohammed bin Abdullah Al-Hagbani	Chairman of the Audit Committee	4
Mr. Majid bin Abdallah Al-Haqeel	Member 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	1

*Mr. Taha Mohammed Azhari has joined Audit Committee Membership effective 22/07/2012 based on SAMA no-objection letter No. 769 dated 03/09/1334 corresponding to 22/07/2012 to complete the term of his predecessor Mr. Farraj Mansour Abo Thenain, who resigned from Audit Committee Membership on 31st December 2011 for personal reasons.

3. Nominations 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 CMA's issued rules and regulations with regard to corporate compliance.

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, ensuring the independency of independent members and non-existence of any interest of any member who is a member in any other company board of directors, consolidating the recommended assignments with the required skills, potentials and experiences, and developing and reviewing policies attributive to the 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), where the Committee held 5 meetings during 2012 (3 meetings during 2011), attended by the Chairman and 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 Nomination and Remuneration Committee	5
Eng. Tarek bin Othman Al-Kasabi	Member of the Nomination and Remuneration Committee	5
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Nomination and Remuneration Committee	5

C. Payments to the Board Members and Senior Executives:

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 2012 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

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	-	-	14,483
Allowances	-	4,263	1,760
Periodic and annual bonuses	-	-	8,605
Incentive plans	-	-	3,000
Any compensation or benefits payable on a monthly or annual basis	-	-	-
Total	**-**	**4,263**	**27,848**

D. Shareholders' Meetings during 2012:

During 2012, the General Assembly held two meetings which were the Ordinary Shareholders General Assembly No. 47 dated Jamad Awal 12, 1433H corresponding to April 04, 2012. The General Assembly endorsed the financial statements of 2011 and all other related items on the agenda.

The second meeting was the Ordinary Shareholders General Assembly No. 48 dated Safar 12, 1434H corresponding to December 25, 2012. The General Assembly voted on the only one item in the Agenda which was the election of Board Members for the new term commences on 01/01/2013 for three years.

Internal Controls

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.

Anti-money Laundering

A team of well trained and educated Saudis has been formed to carry out the development of SAMA's Anti-Money Laundering Rules and Regulations and implementation of its 3rd update of policy and procedures throughout the Bank. AML Division has ensured educating and training all BAJ employees on an annual base to fully understand the AML functionality and importance.

AML Division has taken the required actions and countermeasures in addition to acquiring the latest AML systems to monitor all bank transactions and protect BAJ from existing Money Laundering & Terrorist Financing activities.

External Auditors

The external auditors are responsible for the annual audit and quarterly review of Bank AlJazira's financial statements. The Bank's Ordinary General Assembly meeting No. 47 held on April 4, 2012 (corresponding to 12/05/1433) approved the recommendation of the Board of Directors and the Audit Committee to re-appoint Ernst & Young and Deliotte & Touche Bakr AbulKhair &Co as the external auditors of the Bank for 2012.

Internal Controls

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.

Social Responsibility

Bank Aljazira stems its concept about social responsibility from its close relation with the community and its consistent commitment towards its social and human responsibilities so as to have an integrated society. Thus, the productivity and homage of the community members towards the homeland will increase. Based on the above, Bank Aljazira adopted a promising strategy to serve the community through its program 'Khair Aljazira le Ahl Aljazira' in order to strengthen its collaboration with the charitable societies Kingdom-wide to achieve their mission and objectives. Through 'Khair Aljazira le Ahl Aljazira' Program, BAJ disbursed SAR 8,967,081 in 2012.

Moreover, BAJ has adopted and executed programs that achieve sustained development through training and qualifying an intensive segment of youths for the market place (including blinds, deaf, disabled) and extending Quard Hassan loans to a number of youths within the productive families program kingdom-wide so as to establish their own business, improve their living, and counter poverty and unemployment. Furthermore, BAJ set up computer labs in a number of societies and training centers besides taking care of orphans through entertainment programs. Also, BAJ launched two initiatives to qualify social leaderships for both men and women.

In general, 'Khair Aljazira Le Ahl Aljazira' offered a number of activities to community members in different regions and cities of the Kingdom. Such activities benefited approximately 2,372 young people. Also, BAJ participated in the national and Islamic campaign, in response to the directives of the Custodian of the Two Holly Mosques, to support our brothers in Syria by contributing SAR 500,000.

Gratitude

The Board of Directors would like to take this opportunity to express their heartiest gratitude for the path-showing wise vision of the government under the leadership of the Custodian Of The Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud, and to his Royal Highness, Prince Salman Bin Abdulaziz Al-Saud, the Crown Prince, the Deputy Prime Minister, and the Minister of Defense.

We also offer our thanks to the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency and the Saudi Arabian Capital Market Authority for their constructive directives and continued support in the Bank's progress.

Finally, we would like to take this opportunity to extend our heartfelt thanks and appreciation to our shareholders, customers and associates for their confidence and support. We also like to reiterate our appreciation of our management and staff for their devotion and dedication, without which we would not have been able to achieve such excellent milestones and financial performance.


لأهل الجزيرة
مصرفية إسلامية حديثة


BANK ALJAZIRA
BANK ALJAZIRA


لأهل الجزيرة


ورود الجزيرة


لأهل الجزيرة
ALJAZIRA
NK ALJAZIRA
مصرفية إسلامية حديثة

Branch Network

Western Region

Makkah Makkah-Azizah Br.
Tel : (+966) 25571010
Fax : (+966) 25531655
Shawkeiah Br.
Tel : (+966) 25391826
Fax : (+966) 25382493

Madinah Al Madinah Br.
Tel : (+966) 48451111
Fax : (+966) 48451943
Al Madinah Br. Ladies
Tel : (+966) 48451956
Fax : (+966) 48451952
Khaldia
Tel : (+966) 48692579
Fax : (+966) 48692579
Khaldia ladies
Tel : (+966) 48693381
Fax : (+966) 48693381

Jeddah Prince Sultan Street Br.
Tel : (+966) 26075450
Fax : (+966) 26075450
Prince Sultan Street Br. Ladies
Tel : (+966) 26070828
Fax : (+966) 26070825
Tahlia St. Br.
Tel : (+966) 22610725
Fax : (+966) 22610485
Tahlia St. Br. Ladies
Tel : (+966) 22610730
Fax : (+966) 22610731

Al Musa'adia Br.
Tel : (+966) 26610120
Fax : (+966) 26610108
Al Musa'adia Br. Ladies Section
Tel : (+966) 26673700
Fax : (+966) 26673700 Ext. 8357
Al Balad Br.
Tel : (+966) 26485533
Fax : (+966) 26484599
Khalid Bin Al Walid St. Br.
Tel : (+966) 26518070
Fax : (+966) 26518070 Ext. 1012
Al Nahdah Street Br.
Tel : (+966) 26098500
Fax : (+966) 22346838
Al Nahdah Street Br.Ladies
Tel : (+966) 26098520
Fax : (+966) 22347227
Al Ayah street Br.
Tel : (+966) 26949224
Fax : (+966) 26949117
Al Salamah Br.
Tel : (+966) 26919719
Fax : (+966) 26919701
Al Safa Br.
Tel : (+966) 26736712
Fax : (+966) 26736874
Al Steen street Br.
Tel : (+966) 26597749
Fax : (+966) 26597251

Al Samer Br.
Tel : (+966) 22716058
Fax : (+966) 22721870
Al Rabwah Br.
Tel : (+966) 26827683
Fax : (+966) 26836578
alnaeem Br.
Tel : (+966) 26134333
Fax : (+966) 26130401
AL-REHAB
Tel : (+966) 26748585
Fax : (+966) 26756460
AL-REHAB ladies
Tel : (+966) 26750190
Fax : (+966) 26731846
MAKKAH ROAD
Tel : (+966) 26870869
Fax : (+966) 26874729
Rabigh Br.
Tel : (+966) 44233311
Fax : (+966) 44233366
Taif - Shahar Street Br.
Tel : (+966) 27426678
Fax : (+966) 27401737
Tabuk - Tabuk Branch
Tel : (+966) 44432676
Fax : (+966) 44218320

Eastern Region

Dammam - Al Dammam
Tel : (+966) 38321272
Fax : (+966) 38343314
Jareer Br.
Tel : (+966) 38421961
Fax : (+966) 38417226
Jalaweih Br.
Tel : (+966) 38153394
Fax : (+966) 38153379
Faisaleih Br.
Tel : (+966) 38116653
Fax : (+966) 38116702
Al khaleej Br.
Tel : (+966) 38346928
Fax : (+966) 38348156
Al Khobar - Al Hada Br.
Tel : (+966) 38820040
Fax : (+966) 38878653

Al Hada Br., Ladies
Tel : (+966) 38828848
Fax : (+966) 38828722
King Khaled Road Br.
Tel : (+966) 38942512
Fax : (+966) 38985330
Al Khobar Main Branch
Tel : (+966) 38085477
Fax : (+966) 38085477
Dhahran Al Doha Br.
Tel : (+966) 38916148
Fax : (+966) 38912059
Al Doha Br-Ladies
Tel : (+966) 38916149
Fax : (+966) 38912869
Hofuf Hofuf Br.
Tel : (+966) 35863555
Fax : (+966) 35843111

Shahabeih Br.
Tel : (+966) 35893952
Fax : (+966) 35889078
Nakheel Br.
Tel : (+966) 35754310
Fax : (+966) 35364987
Jubail Jubail Ind. City Br.
Tel : (+966) 33471386
Fax : (+966) 33471426
Qatif Qatif - Ohud Br.
Tel : (+966) 38545463
Fax : (+966) 38545367
Ohud Br., Ladies
Tel : (+966) 38529900
Fax : (+966) 38558437

Central Region

Riyadh Al Olaya Br.
Tel : (+966) 12157000
Fax : (+966) 12157016
Al Olaya Br. Ladies
Tel : (+966) 12157045
Fax : (+966) 12157051
King Fahd Road Br.
Tel : (+966) 12256000
Fax : (+966) 12256151
King Fahd Road Br., Ladies Section
Tel : (+966) 12256161
Fax : (+966) 12256166
King Abdullah Road Br.
Tel : (+966) 12071460
Fax : (+966) 12071360
King Abdullah Road Br., Ladies
Tel : (+966) 12696228
Fax : (+966) 12693650
Uqba Bin Nafe'a Br.
Tel : (+966) 12781416
Fax : (+966) 12784331
Uqba Bin Nafe'a Br., Ladies
Tel : (+966) 12784387
Fax : (+966) 12784359
Khreis Br.
Tel : (+966) 12351999
Fax : (+966) 12350380

Rayyan Road Br.
Tel : (+966) 12080166
Fax : (+966) 12080166 Ext. 210
Rayyan Road Br., Ladies
Tel : (+966) 12085366
Fax : (+966) 12080166 Ext. 258
Dahrat Al Bade'aa Br.
Tel : (+966) 14338441
Fax : (+966) 14303682
Takhasusi Branch
Tel : (+966) 12936599
Fax : (+966) 12936560
Takhasusi Ladies
Tel : (+966) 12937450
Fax : (+966) 12937451
Al-Suawedi Br.
Tel : (+966) 14289476
Fax : (+966) 14493064
Al-Suawedi Br. Ladies
Tel : (+966) 14287523
Fax : (+966) 14288735
Al Nafel Br.
Tel : (+966) 12751086
Fax : (+966) 12741507
Al Nafel Br. Ladies
Tel : (+966) 12751086
Fax : (+966) 12751086

Al Naseem Br.
Tel : (+966) 12357813
Fax : (+966) 12356876
Rawda Branch
Tel : (+966) 12543845
Fax : (+966) 12543843
Shafa Branch
Tel : (+966) 12715589
Fax : (+966) 12715590
Sultanah Br.
Tel : (+966) 14285096
Fax : (+966) 14283873
Hassan Bin Thabet Street Br.
Tel : (+966) 12357813
Fax : (+966) 12356876
Al Eshbllyah
Tel : (+966) 18123689
Fax : (+966) 68128543
Kharj Al Saudiah Br.
Tel : (+966) 15476259
Fax : (+966) 15476273
Buraidah - Hamrah Br.
Tel : (+966) 63835310
Fax : (+966) 63835306
Onaiza - Thalatheen Br.
Tel : (+966) 63617547
Fax : (+966) 63618412

Southern Region

Khamis Mushait
King Khaled Street Br.
Tel : (+966) 72216465
Fax : (+966) 72204230
King Khaled Street Br. Ladies
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Fax : (+966) 72351022

Abha King Saud Street Br.
Tel : (+966) 72260798
Fax : (+966) 72296243
Najran Manjam Br.
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Fax : (+966) 70238267

Gizan Matar Street Br.
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Fax : (+966) 73228601

BANK ALJAZIRA بنك الجزيرة
مصرفية إسلامية حديثة

Central Region

Riyadh
King Fahd Road
Tel: (+966) 1 2256000
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Ocbah Bin Nafee
Tel: (+966) 1 2781416
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Al-Nafel
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Fax: (+966) 1 2742590
Al-Suwaidi
Tel: (+966) 1 4288749
Fax: (+966) 1 4493064
AlOlaya
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Fax: (+966) 1 2157117

Al-Riyan
Tel: (+966) 1 2083316
Fax: (+966) 1 2080166 - ex 306
King Abdullah
Tel: (+966) 1 2071460
Fax: (+966) 1 2071362
Ocbah Bin Nafee - Ladies
Tel: (+966) 1 2784387
Fax: (+966) 1 2784359
King Abdullah - Ladies
Tel: (+966) 1 2071460
Fax: (+966) 1 2071362
Alrayan - Ladies
Tel: (+966) 1 2085366
Fax: (+966) 1 2085366 - ex 258

King Fahd Road-Ladies
Tel: (+966) 1 2256023
Fax: (+966) 1 2256481
Oniza
Tel: (+966) 6 3617547
Fax: (+966) 6 3618412
Buraida
Tel: (+966) 6 3835230
Fax: (+966) 6 3835204

Western & South Region

Jeddah
Mosaadia
Tel: (+966) 2 6606020
Fax: (+966) 2 6606020 - ex 8887
Mosaadia - Ladies
Tel: (+966) 2 6683600
Fax: (+966) 2 6692019
Al-Nahda
Tel: (+966) 2 6098888
Fax: (+966) 2 6098560
Al-Suwaidi
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Fax: (+966) 2 4493064
Makkah
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Fax: (+966) 2 5531855

Madina Monawara
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Fax: (+966) 4 8451959
Taif
Tel: (+966) 2 7409692
Fax: (+966) 2 7431253
Najran
Tel: (+966) 7 5230421
Fax: (+966) 7 5238267

Abha
Tel: (+966) 7 2260851
Fax: (+966) 7 2260851
Khamees Mushait
Tel: (+966) 7 2219580
Fax: (+966) 7 2358385
Buraida
Tel: (+966) 6 3835230
Fax: (+966) 6 3835204

Eastern Region

Dammam
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Fax: (+966) 3 8321272- ex 603
Al-Khubar Alhada
Tel: (+966) 3 8820040
Fax: (+966) 3 8820040

Qatif
Tel: (+966) 3 8545370
Fax: (+966) 3 8529925
Jubail
Tel: (+966) 3 3471422
Fax: (+966) 3 3471426

Hafuf
Tel: (+966) 3 5861590
Fax: (+966) 3 5854092

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Central Region

Riyadh
Riyadh- (Men) King Abdullah Road, Exist 10- AlQuds Dist
Tel: (+966) 1 2781416
Fax: (+966) 1 2784214
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Riyadh- (Men) King Abdullah Road- Opposite to the walk way.
Tel: (+966) 1 2071460
Fax: (+966) 1 2071424
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Western Region

Jeddah
Jeddah- (Men) Madina Road- Mosaydiah Souqe
Tel: (+966) 2 6688877
Fax: (+966) 2 6677319
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia
Jeddah- (ladies) Madian Road Mosaydyah Souqe
Tel: (+966) 2 6688877
Fax: (+966) 2 6618474
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Madina Monawara
Almadina- (Men) King Abdullah Road Crossing Sultana St. - Algowth Towers – 2nd Tower, 6th floor.
Tel: (+966) 4 8483764
Fax: (+966) 4 8212147
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia
Almadina-(Ladies) King Abdullah Road Crossing Sultana St. - Algowth Towers – 2nd Tower, 7th floor.
Tel: (+966) 4 8221572
Fax: (+966) 4 8212147
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Makkah
Makkah- (Ladies) Alaziziah Main Road- Alrajhi Center- Office Building- 3rd floor
Tel: (+966) 2 5613980
Fax: (+966) 2 5613988
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Eastern Region

Dammam
Dammam- (Men) the 9th street. Opposite to the regional office of ministry of finance
Tel: (+966) 3 8311717
Fax: (+966) 3 8211776
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Dammam
Dammam- (Ladies) the 9th street. Opposite to the regional office of ministry of finance
Tel: (+966) 3 8338330
Fax: (+966) 3 83449966
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

Al-Hafouf
Al-Khobar- Athurayat St. Almousa Center- next to Panda supermarket
Tel: (+966) 3 5854747
Fax: (+966) 3 5854419
P.O. Box: 6277
Zip Code: 21442
Saudi Arabia

الجزيرة تكافل
Aljazira Takaful

Shari'ah Advisory Board's Report

Praise be to Allah, and Allah's blessing and peace be upon the Prophet Mohammed, his household and companions.

To all Shareholders at Bank Aljazira,

The Shari'ah Board has reviewed and discussed the final annual Sharia compliance report for year 2012 prepared by the Bank's Sharia Group, that includes but not limited to the examination of documentation and processes adopted by the Bank, based on samples taken from each transaction type.

Bank Aljazira's Shari'ah Board also examined the Financial Statements for the period ending 31/12/2012, as well as principles observed, transaction contracts made and products introduced by the Bank during the same period, so that the Sharia Board can deliver opinion, fatwa, guidance and necessary decisions. It is the Bank's Executive Management's responsibility to make sure that the Bank is operating in compliance with the regulations and principles of Islamic Sharia. The Sharia Board's responsibility is restricted to providing an independent opinion based on their inspection of the Bank's operations through the Sharia Group and provide a report for its shareholders.

We have performed the said inspection to obtain all information and interpretations that we considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'ah rules and principles.

In our opinion:

1) Contracts, operations and transactions made by the Bank during the above mentioned period covered by this report are on the whole compliant with Islamic Shari'ah. The observations made on some of its transactions do not materially affect the Banks operations from Shari'ah perspective. Corrective actions and controls were recommended by the Sharia Board to avoid such observations in the future.

2) Previously in 2011 report, the Sharia Board drew attention to some observations that had to be corrected by the bank with regards to the disposal of non-Shari'ah compliant income of the bank that has been addressed in-principle. It was also recommended that the financial statements should reflect the actual Sharia compliant description of products and services offered by the bank. There were some observations about the method of calculating Zakat in accordance with Sharia standards. After reviewing the Bank's efforts over the past year, the Board finds that the Bank has begun to address these observations. Implementation of the Sharia Board's recommendations are expected to be completed by end of fiscal year 2013

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 Ali Al-Guari Member
Dr. Mohammed Bin Said Al-Ghamdi Rappoteur	Dr. Hamza Bin Hussain Al-Feir Member	Dr. Abdulsattar Abu Ghudah Member

CONSOLIDATED STATEMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

Independent Auditor's Report

ERNST & YOUNG
P.O. Box 1994
Jeddah 21441
Saudi Arabia

Deloitte.
Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P. O. Box 442, Jeddah
21411
Kingdom of Saudi Arabia

INDEPENDENT AUDITORS' REPORT
To the Shareholders of Bank AlJazira:
(a Saudi Joint Stock Company)

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, 2012, and the consolidated statements of income, statements of 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 41. We have not audited Note 42, nor the information related to "Basel II 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 Bank'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

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, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
Licence Number 393

For Deloitte & Touche
Bakr Abulkhair & Co

Al-Mutahhar Y.Hamididdin
Certified Public Accountant
License Number 296

24 February 2013
14 Rabi Thani 1434 H

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012 AND 2011

	Notes	2012 SR'000	2011 SR'000
ASSETS			
Cash and balances with SAMA	3	7,109,044	4,379,043
Due from banks and other financial institutions	4	3,138,622	4,331,024
Investments	5	9,098,734	5,396,915
Loans and advances, net	6	29,896,782	23,307,451
Other real estate, net	6e	660,446	680,778
Property and equipment, net	7	466,103	446,829
Other assets	8	586,791	356,210
Total assets		50,956,522	38,898,250
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	3,286,044	1,305,778
Customers' deposits	11	40,675,290	31,158,531
Other liabilities	12	809,590	497,078
Subordinated sukuk	13	1,000,000	1,000,000
Total liabilities		45,770,924	33,961,387
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	14	3,000,000	3,000,000
Statutory reserve	15	1,599,500	1,474,000
General reserve	15	68,000	68,000
Other reserve	16	(37,644)	24,250
Retained earnings		381,997	6,287
Proposed dividend	26	-	160,000
Total equity attributable to equity holders of the Bank		5,011,853	4,732,537
Non-controlling interest		173,745	204,326
Total equity attributable to equity holders of the Bank and non-controlling interest		5,185,598	4,936,863
Total liabilities and equity		50,956,522	38,898,250

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

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	2012 SR'000	2011 SR'000
Special commission income	18	1,220,011	968,116
Special commission expense	18	(269,128)	(186,653)
Net special commission income		**950,883**	**781,463**
Fees and commission income, net	19	564,184	356,208
Foreign exchange income, net		23,740	19,927
Trading income, net	20	35,915	11,381
Dividend income	21	10,800	9,719
Loss on non-trading investments	22	-	(6,441)
Other operating income	23	15,433	35,841
Total operating income		**1,600,955**	**1,208,098**
Salaries and employee-related expenses		574,831	482,842
Rent and premises-related expenses		68,589	62,864
Depreciation	7	65,508	66,775
Other general and administrative expenses		206,817	187,206
Impairment charge for credit losses, net	6c	172,479	70,352
Other operating expenses	24	12,094	35,148
Total operating expenses		1,100,318	905,187
Net income for the year		**500,637**	**302,911**
Attributable to:			
Equity holders of the Bank		500,480	302,853
Non-controlling interest		157	58
Net income for the year		**500,637**	**302,911**
Earning per share (expressed in SR per share)			
Basic and diluted earnings per share	25	1,67	1,01

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	2012 SR'000	2011 SR'000
Net income for the year		**500,637**	302,911
Other comprehensive (loss) / income			
Cash flow hedges:			
Fair value (loss) / gain on cash flow hedges	16	(49,999)	5,585
Net amount transferred to consolidated Statement of Income	16	(686)	(374)
Net changes in fair value of investment classified as at Fair Value through other comprehensive income (FVTOCI)	16	(11,209)	(91,045)
Gain on sale of Investments classified as FVTOCI		730	-
Other comprehensive loss for the year		**(61,164)**	(85,834)
Total comprehensive income for the year		**439,473**	217,077
Attributable to:			
Equity holders of the Bank		439,316	217,019
Non-controlling interest		157	58
Total comprehensive income for the year		**439,473**	217,077

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2012	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 equity attributable to equity holders of the Bank SR'000	Non-controlling interest SR'000	Total SR'000
Balance at January 1, 2012		3,000,000	1,474,000	68,000	24,250	6,287	160,000	4,732,537	204,326	4,936,863
Net income for the year		-	-	-	-	500,480	-	500,480	157	500,637
Other comprehensive loss		-	-	-	(61,164)	-	-	(61,164)	-	(61,164)
Gain on sale of investments classified as at FVTOCI		-	-	-	(730)	730	-	-	-	-
Total comprehensive income / (loss)		-	-	-	(61,894)	501,210	-	439,316	157	439,473
Transfer to statutory reserve	15	-	125,500	-	-	(125,500)	-	-	-	-
Net changes in non-controlling interest		-	-	-	-	-	-	-	(30,738)	(30,738)
Gross Dividend paid for 2011	26	-	-	-	-	-	(160,000)	(160,000)	-	(160,000)
Balance at December 31, 2012		3,000,000	1,599,500	68,000	(37,644)	381,997	-	5,011,853	173,745	5,185,598
2011										
Balance at January 1, 2011		3,000,000	1,398,000	68,000	739	48,779	-	4,515,518	290,164	4,805,682
Effect of early adoption of IFRS 9 (note 2m (iv))		-	-	-	109,345	(109,345)	-	-	-	-
Net income for the year		-	-	-	-	302,853		302,853	58	302,911
Other comprehensive loss		-	-	-	(85,834)	-	-	(85,834)	-	(85,834)
Total comprehensive income / (loss)		-	-	-	(85,834)	302,853	-	217,019	58	217,077
Transfer to statutory reserve	15	-	76,000	-	-	(76,000)	-	-	-	-
Net changes in non-controlling interest		-	-	-	-	-	-	-	(85,896)	(85,896)
Proposed dividend for 2011		-	-	-	-	(160,000)	160,000	-	-	-
Balance at December 31, 2011		3,000,000	1,474,000	68,000	24,250	6,287	160,000	4,732,537	204,326	4,936,863

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	2012	2011
OPERATING ACTIVITIES			
Net income for the year attributable to equity holders of the Bank		500,480	302,853
Adjustments to reconcile net income to net cash from / (used in) **operating activities:**			
Trading income	20	(35,915)	(11,381)
Loss on investment held on amortised cost	22	-	6,441
Depreciation	7	65,508	66,775
Dividend Income		(10,800)	(9,719)
Gain on disposal of property and equipment, net		(84)	(31,494)
Loss on sale/ write-off of property and equipment, net		3,685	-
Impairment charge for credit losses	6c	172,479	70,352
		695,353	393,827
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(537,882)	(124,265)
Due from banks and other financial institutions maturing after three months from the date of acquisition		144,250	790,408
Investments held as at FVTIS		(243,835)	971,481
Loans and advances		(6,761,810)	(4,673,361)
Other real estate, net		20,332	(978)
Other assets		1,611,012	83,923
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,980,266	917,059
Customers' deposits		9,516,759	3,691,113
Other liabilities		(1,547,180)	16,124
Net cash from operating activities		4,877,265	2,065,331
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		4,568,318	2,742,371
Acquisition of FVTOCI and amortised cost investments		(8,069,265)	(4,733,609)
Acquisition of property and equipment	7	(88,467)	(65,931)
Proceeds from sale of property and equipment		84	46,314
Dividend received		10,800	9,719
Net cash used in investing activities		(3,578,530)	(2,001,136)
FINANCING ACTIVITIES			
Dividends paid		(160,124)	(353)
Net movements in non-controlling interest		5,356	2,126
Issue of subordinated sukuk		-	1,000,000
Net cash (used in) / from financing activities		(154,768)	1,001,773
Net increase in cash and cash equivalents		1,143,967	1,065,968
Cash and cash equivalents at the beginning of the year		5,971,431	4,905,463
Cash and cash equivalents at the end of the year	27	7,115,398	5,971,431
Special commission received during the year		1,193,137	941,079
Special commission paid during the year		238,633	178,581
SUPPLEMENTAL NON-CASH INFORMATION			
Real estate acquired in settlement of loans and advances	6 (e)	326	2,628

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

1. GENERAL

Bank AlJazira (the Bank) is a 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 54 branches (2011: 51 branches) in the Kingdom of Saudi Arabia and employed 1,620 staff (2011: 1,574 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-commision based) banking services.

The Bank provides its customers Shari'ah compliant (non-commision based) banking products 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, 2012	Ownership (direct and indirect) December 31, 2011
Al-Mashareq Japanese Equities Fund	Saudi Arabia	Mutual fund	-	23%
Al-Thoraiya European Equities Fund	Saudi Arabia	Mutual fund	25%	28%
Al-Jazira Residential Projects Fund	Saudi Arabia	Mutual fund	44%	-
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Real Estate	Saudi Arabia	Holding and managing collateral on behalf of the Bank	100%	98%

The Bank has control over the entities listed above and therefore, such entities are considered to be subsidiaries.

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 promulgated 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 Articles of Association.

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 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.

Al-Mashareq Japanese Equities Fund was consolidated in the financial statements of the Bank up to 31 December 2011. Due to the reduction in ownership interest of the Bank in Al-Mashareq Japanese Equities to 20.35%, the Bank has ceased to consolidate this fund with effect from 1 January 2012, as management believes that the bank retains neither the control nor significant influence over the fund.

Subsidiaries are all entities over which the Bank has the power to directly or indirectly govern the financial and operating policies so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. 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, are included in the consolidated Statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

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

Non-controlling interests represent the portion of net income / (loss) of net assets 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 shareholders' equity. Any losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interests even if doing so cause the non-controlling interest to have a deficit balance.

Transactions with non-controlling interest that do not result in loss of control are accounted for as equity transaction- that is as, transactions with owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposal are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

All significant inter-company transactions and balances have been eliminated in full upon consolidation.

These consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries, namely, Al-Thoraiya European Equities Fund, Al-Jazira Residential Projects Fund, AlJazira Capital Company and Aman Real Estate (collectively the "Group").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Countinued)

c) Changes in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statement for the year ended December 31, 2011. The adoption of the new and amended standards and interpretation applicable to the Group as explained below, did not have any significant financial impact on the financial statements, for the year ended December 31, 2012.

Amendment to IFRS 7 – Financial Instruments: Disclosures

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

Other amendments resulting from Improvements to IFRSs relating to IAS 12 Income Taxes (amendment) – Deferred Taxes did not have any impact on the accounting policies, consolidated financial position or performance of the Group.

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 advices and expectations of future events that are believed to be reasonable under the circumstances. Where management has used estimates, assumptions or exercised judgements are as follows:

i) Business model

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii) Impairment for credit losses on loans and advances and investment carried at amortised cost

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 costs 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 consolidated Statement of income and reflected in an 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) 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, commission rate swap and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently and are re-measured at fair value in the statement of financial position. The transaction cost associated with these agreements is recognised in statement of income.

All derivatives, are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

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 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.
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(ii) Hedge Accounting

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

(ii) Hedge Accounting (continued)

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 the inception and on an ongoing 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 hedged is expected to be highly effective if the changes in fair value or cash flow 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 Hedge

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.

For designated and qualifying fair value hedge, the change in the fair value of a hedging derivative is recognized in the consolidated statement of income in 'trading income, net'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated statement of income in 'trading income, net'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For hedged items recorded at amortised cost, 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 rate of return (ERR). 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 hedge are used to hedge the exposure to variability in cash flow that is 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge Accounting (continued)

Cash Flow Hedge (continued)

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated statement of income. When the forecast transactions subsequently results in the recognition of non-financial assets or non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from the reserves and included in the initial cost of asset and liability.

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) 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 dereognition 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 statement is not reclassified to consolidated statement of income, but is transferred to retained earnings.

h) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the parent company'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.

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

Foreign exchange gains or losses from settlement of transactions and translation of period 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Foreign currencies (countinued)

The accounting records of the Bank's subsidiaries are maintained in United States Dollar (USD) or Saudi Riyal (SR). As the rate of exchange of the United States Dollar (USD) against the Saudi Riyal is pegged, no exchange difference has arisen on the translation of the subsidiaries' financial statements for the purposes of consolidation.

i) Offsetting financial instrument

Financial assets and 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.

j) Revenue /expense recognition

Special commission income and expenses 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 financial asset or liability. 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 fee, which are expensed as services are received.

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTIS financial instruments or other operating income based on the underlying classification of the equity instrument.

k) 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 as at FVTIS and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

l) 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 bank retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments as at FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowing and counterparty liability for amounts received under these agreements is included in "due to SAMA" or "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Sale and repurchase agreements (countinued)

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 Bank 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.

m) Investments

A financial asset is measured initially at fair value plus, for an item not through statement of income, transaction cost 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 asset. At inception, financial asset is classified at amortized cost or fair value.

i) Investment 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 focus 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 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.

Debt instruments that do not meet the amortised cost criteria are measured at FVTIS. In addition, debt **2.**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investments (countined)

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 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 consolidated statement of income when the Group's right to receive the dividends is established and is included in the consolidated statement of income.

iii) Investment in equity instruments designated as at Fair Value through Other Comprehensive Income (FVTOCI)

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

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).

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. Gain and losses on such equity instruments are never reclassified to consolidated statement of income and no impairment is recognised in consolidated statement of income. Investment in unquoted equity instruments are measured at fair value. The cumulative gain or loss will not be reclassified to 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 consolidated statement of income when the Groups right to receive the dividends is established, unless the dividends 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Impact of early adoption of IFRS 9

The impact of the early adoption on the opening retained earnings and other reserves classified in equity as at 1 January 2011, and on the classification of financial assets as at 1 January 2011, is as follows:

Impact on other reserves and retained earnings

	Carrying amount as at 31 December 2010 SR'000	Carrying amount as at 1 January 2011 upon adoption of IFRS 9 SR'000	Impact of early adoption SR'000
Other reserves	739	110,084	109,345
Retained earnings	48,779	(60,566)	(109,345)

Cumulative fair value gains of SR 109.3 million recognised in the consolidated statement of income for periods up to 31 December 2010, in relation to the Bank's investment in equity shares previously designated as at FVIS under IAS 39, have been reclassified from opening retained earnings as at 1 January 2011 to other reserves as at 1 January 2011.

n) Financial liabilities

Financial liabilities carried at amortised cost have been measured at amortised cost using the effective yield method.

All money market deposits, customer deposits and subordinated sukuk are initially recognised at cost, which represents fair value. Financial liabilities as per FVTIS recognised initially at fair value and the transaction cost are taken directly to consolidated statement of income.

For financial liabilities that are designated as at FVTIS, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liabilities credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated statement of income. Changes in fair value attributable to a financial liabilities credit risk are not subsequently reclassified to consolidated statement of income.

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVTIS that are attributable to changes in the credit risk of these liabilities and which would not create or enlarge accounting mismatch in consolidated statement of income. Amount presented in liability credit reserve are not subsequently transferred to consolidated statement of income.

Subsequently, all commission-bearing financial liabilities, other than those held at FVTIS or where fair values have been hedged, are measured at amortised cost. Amortised cost using expected yield method. is calculated by taking into account any discount or premium.

Premiums are amortised and discounts accreted on effective yield basis to maturity and taken to special commission expense.

When such financial liabilities are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated statement of income when derecognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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 costs 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 consolidated statement of income and reflected in an allowance account against loans and advances. 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.

p) Other real estate

The Bank, 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 are 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 consolidated statement of income. Gain or losses on disposal are recognised 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	4 to 10 years

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Property and equipment (countinued)

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

In the ordinary course of business, the Bank 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 Bank'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.

t) Provisions

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

u) Accounting for leases

i. Where the Bank is the lessee

Leases entered into by the Bank as a lessee are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

ii. Where the Bank is the lessor

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

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

v) Cash and cash equivalents

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) 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.

x) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of 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 Bank's consolidated statement of income as they are deducted from the dividends paid to the shareholders.

Zakat and income tax relating to AlJazira Capital are included in the consolidated statement of changes in equity.

y) 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 accompanying consolidated financial statements.

z) 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.

aa) 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 his 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 ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

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 his 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 assets.

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

	2012 SR'000	2011 SR'000
Cash in hand	763,135	737,657
Balances with SAMA:		
Statutory deposit	1,885,268	1,347,386
SAMA Current account	4,460,641	2,294,000
Total	7,109,044	4,379,043

In accordance with article 7 of the Banking Control Law and regulations issued by 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. Furthermore, an amount of SR 122.5 million is included in Cash in hand for 2012 (2011: SR 122.5 million), being restricted as share capital of Al Jazira Takaful, pending its initial public offering.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 SR'000	2011 SR'000
Current accounts	201,622	154,024
Money market placements	2,937,000	4,177,000
Total	3,138,622	4,331,024

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

5. INVESTMENTS

a) As of 31 December 2012, investments are classified as follows:

i) Mandatorily measured at FVTIS

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

ii) Designated as at FVTIS

	Domestic	International	Total
	2012 SR'000	2012 SR'000	2012 SR'000
Mutual funds	24,198	57,266	81,464
Equities	10,058	178,384	188,442
	34,256	235,650	269,906

iii) FVTOCI

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

5. INVESTMENTS (continued)

iv) Amortised cost

	Domestic	International	Total
	2012 SR'000	2012 SR'000	2012 SR'000
Murabaha investments	1,745,808	-	1,745,808
Sukuk investments	4,939,994	1,081,875	6,021,869
Total	6,685,802	1,081,875	7,767,677
Grand Total	7,777,092	1,321,642	9,098,734

b) As of December 31, 2011, investments were classified as follows:

i) Mandatory measured at FVTIS

	Domestic	International	Total
	2011 SR'000	2011 SR'000	2011 SR'000
Mutual funds	565,440	-	565,440

ii) Designated as at FVTIS

	Domestic	International	Total
	2011 SR'000	2011 SR'000	2011 SR'000
Equities	-	293,824	293,824

iii) FVTOCI

	Domestic	International	Total
	2011 SR'000	2011 SR'000	2011 SR'000
Equities	295,445	2,872	298,317

iv) Amortised cost

	Domestic	International	Total
	2011 SR'000	2011 SR'000	2011 SR'000
Murabaha investments	1,648,971	-	1,648,971
Sukuk investments	1,508,410	1,081,953	2,590,363
Total investments	3,157,381	1,081,953	4,239,334
Grand Total	4,018,266	1,378,649	5,396,915

5. INVESTMENTS (continued)

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

	2012			2011		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	**-**	**1,745,808**	**1,745,808**	-	1,648,971	1,648,971
Sukuk investments	**2,574,869**	**3,447,000**	**6,021,869**	1,791,025	799,338	2,590,363
Equities	**445,445**	**3,438**	**448,883**	588,703	3,438	592,141
Mutual fund	**882,174**	**-**	**882,174**	565,440	-	565,440
Investments	**3,902,488**	**5,196,246**	**9,098,734**	2,945,168	2,451,747	5,396,915

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

	2012				2011			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross**	**Fair value SR'000**	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Murabaha investments	**1,745,808**	**-**	**-**	**1,745,808**	1,648,971	-	-	1,648,971
Sukuk investments	**6,021,869**	**8,968**	**(4,849)**	**6,025,988**	2,590,363	3,975	(361)	2,593,977
Total	**7,767,677**	**8,968**	**(4,849)**	**7,771,796**	4,239,334	3,975	(361)	4,242,948

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

	2012 SR'000	2011 SR'000
Government and quasi Government	2,760,183	2,663,346
Corporate	5,281,330	1,872,495
Banks and other financial institutions	1,057,221	861,074
Total	9,098,734	5,396,915

The outstanding balance of investments held at FVTOCI, as at 31 December 2012, includes an amount of SR 253.07 million (2011: SR 292.92 million) relating to equity securities. These equity securities were acquired in the settlement of loan in 2009 amounting to SR 274.6 million.

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.

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

2012	Consumer	Commercial	Others	Total
Performing loans and advances	10,498,093	19,593,526	142,714	30,234,333
Non-performing loans and advances, net	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

SR '000

2011	Consumer	Commercial	Others	Total
Performing loans and advances	7,230,960	16,169,005	87,242	23,487,207
Non-performing loans and advances, net	57,886	972,802	-	1,030,688
Total loans and advances	7,288,846	17,141,807	87,242	24,517,895
Provision for credit losses				
Specific provision	(28,115)	(876,465)	-	(904,580)
Portfolio provision	(101,497)	(204,367)	-	(305,864)
Total provision for credit losses	(129,612)	(1,080,832)	-	(1,210,444)
Loans and advances, net	7,159,234	16,060,975	87,242	23,307,451

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 includes net receivables from Ijara finance amounting to SR 5.51 billion (2011: 4.04 billion)

6. LOANS AND ADVANCES, NET (continued)

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

2012	Consumer	Commercial	Total
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

2011	Consumer	Commercial	Total
Balance at the beginning of the year	70,234	1,053,830	1,124,064
Provided during the year, net	65,076	70,496	135,572
Bad debts written off	(421)	(2,375)	(2,796)
Reclassification	(300)	300	-
Reclassification from other liabilities	-	11,245	11,245
Recoveries of amounts previously provided	(4,977)	(52,664)	57,641
Balance at the end of the year	129,612	1,080,832	1,210,444

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

	2012 SR'000	2011 SR'000
Addition during the year, net	192,453	135,572
Recoveries of amounts previously provided	(19,814)	(57,641)
Recoveries of debts previously written off	(160)	(7,579)
Impairment charge for credit losses, net	172,479	70,352

6. LOANS AND ADVANCES, NET (continued)

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

2012	**Performing SR'000**	**Non performing, net SR'000**	**Provision for credit losses SR'000**	**Loans and advances, net SR'000**
Banks and other financial institutions	684,353	-	-	684,353
Agriculture and fishing	58,411	-	-	58,411
Manufacturing	5,795,266	56,974	(56,974)	5,795,266
Mining and quarrying	663,028	-	-	663,028
Electricity, water, gas and health services	-	16,744	(16,744)	-
Building and construction	4,958,573	110,116	(87,546)	4,981,143
Commerce	3,250,388	666,101	(655,932)	3,260,557
Transportation and communication	301,534	-	-	301,534
Services	462,224	62,617	(32,617)	492,224
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**

2011	Performing SR'000	Non performing, net SR'000	Provision for credit losses SR'000	Loans and advances, net SR'000
Banks and other financial institutions	711,692	-	-	711,692
Agriculture and fishing	57,549	-	-	57,549
Manufacturing	4,846,965	81,418	(56,974)	4,871,409
Mining and quarrying	12,182	-	-	12,182
Electricity, water, gas and health services	10,112	16,744	(15,996)	10,860
Building and construction	3,877,097	126,614	(89,287)	3,914,424
Commerce	2,436,343	671,032	(671,032)	2,436,343
Transportation and communication	162,049	-	-	162,049
Services	460,449	62,617	(32,617)	490,449
Consumer loans and credit cards	7,230,960	57,886	(28,115)	7,260,731
Share trading	1,293,016	10,677	(10,339)	1,293,354
Others	2,388,793	3,700	(220)	2,392,273
	23,487,207	1,030,688	(904,580)	23,613,315
Portfolio provision	-	-	(305,864)	(305,864)
Total	23,487,207	1,030,688	(1,210,444)	23,307,451

6. LOANS AND ADVANCES, NET (continued)

e) Other real estate, net

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	**694,778**	693,800
Additions	**326**	2,628
Disposal	**(20,658)**	(1,650)
	674,446	694,778
Provision for unrealised revaluation losses	**(14,000)**	(14,000)
Balance at the year end	**660,446**	680,778

7. 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 2012 SR'000**	Total 2011 SR'000
Cost						
Balance at the beginning of the year	175,759	271,732	426,877	55,269	**929,637**	879,740
Additions	-	5,409	10,764	72,294	**88,467**	65,931
Transfers	-	20,103	56,329	(76,432)	**-**	-
Disposals	-	-	(118)	(1,655)	**(1,773)**	(16,034)
Write off	-	(2,999)	-	-	**(2,999)**	-
Balance at the end of the year	**175,759**	**294,245**	**493,852**	**49,476**	**1,013,332**	929,637
Accumulated depreciation						
Balance at the beginning of the year	4,585	138,152	340,071	-	**482,808**	417,247
Charge for the year	151	27,484	37,873	-	**65,508**	66,775
Disposals	-	-	(118)	-	**(118)**	(1,214)
Write off		(969)		-	**(969)**	-
Balance at the end of the year	**4,736**	**164,667**	**377,826**	**-**	**547,229**	482,808
Net book value At December 31, 2012	**171,023**	**129,578**	**116,026**	**49,476**	**466,103**	-
At December 31, 2011	171,174	133,580	86,806	55,269	-	446,829

8. OTHER ASSETS

	2012 SR'000	2011 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**10,081**	5,900
Investments	**35,605**	10,643
Derivatives	**12,368**	2,235
Loans and advances	**201,450**	213,852
Total accrued special commission receivable	**259,504**	232,630
Advances and prepayments	**124,639**	74,698
Positive fair value of derivatives	**151,257**	18,007
Others	**51,391**	30,875
Total	**586,791**	356,210

9. DERIVATIVES

In the ordinary course of business, the Bank 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 option, whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. Where one party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Option would be a unilateral promise or combination of promises. The Bank does the option depending on the client risk profile, where client may promise to buy, sell or (buy & sell) a currency with or without conditions for hedging his exposure.

9.1 Held for trading purposes
Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, 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.

9.2 Held for hedging purposes
The Bank uses Shariah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and 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 bank 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 Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating 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.

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

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**

2011 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	5,251	15,495	20,883	-
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	5,251	15,495	20,883	-

9. DERIVATIVES (continued)

The net gains on cash flow hedges reclassified to the consolidated statement of income during the year was as follows

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	5,211	-
Gains from change in fair value recognised directly in equity, net (effective portion)	(49,999)	5,585
(Gain) removed from equity and transferred to consolidated statement of income	(686)	(374)
Balance at the year end	**(45,474)**	5,211

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

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	2,246,545	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 cash flow hedge:	-	-	-	-	-	-	-	-
Special commission rate swaps	10,070	58,805	2,550,625	-	-	718,125	1,832,500	1,501,667
Total	**151,257**	**199,992**	**8,630,483**	**491,872**	**1,589,674**	**883,125**	**5,665,813**	**7,072,491**

2011 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	14,292	14,292	4,379,140	-	1,311,336	3,067,804	-	1,691,554
Held as cash flow hedge:								
Special commission rate swaps	3,715	1,430	790,250	-	-	790,250	-	385,927
Total	18,007	15,722	5,169,390	-	1,311,336	3,858,054	-	2,077,481

9. DERIVATIVES (continued)

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
2012						
Floating commission rate investments	2,208,182	2,150,625	Cash flow	Commission rate swap	1,248	58,805
Floating commission rate loans	391,178	400,000		Commission rate swap	8,822	-
2011						
Floating commission rate investments	787,604	789,889	Cash flow	Commission rate swap	3,715	1,430

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012 SR'000	2011 SR'000
Current accounts	**32,598**	111,368
Money market deposits from banks and other financial institutions	**3,253,446**	1,194,410
Total	**3,286,044**	1,305,778

11.CUSTOMERS' DEPOSITS

	2012 SR'000	2011 SR'000
Demand	**16,697,067**	10,052,986
Time	**23,135,130**	20,639,890
Other	**843,093**	465,655
Total	**40,675,290**	31,158,531

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

Other customers' deposits include SR 340 million (2011: SR 266 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2012 SR'000	2011 SR'000
Demand	**249,457**	246,915
Time	**5,228,422**	5,274,975
Other	**18,745**	31,989
Total	**5,496,624**	5,553,879

12. OTHER LIABILITIES

	2012 SR'000	2011 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**17,535**	1,528
Customers' deposits	**67,234**	53,716
Subordinated Sukuk	**6,988**	6,018
Total accrued special commission payable	**91,757**	61,262
AlJazira Philanthropic Program (see note below)	**68,701**	76,905
Accounts payable	**218,242**	144,947
Dividend payable	**25,038**	25,162
Negative fair value of derivatives	**199,992**	15,722
Other	**205,860**	173,080
Total	**809,590**	497,078

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.

13. 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 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 is used by the Bank for strengthening its capital base as the Sukuk comprises Tier II capital for Saudi Arabian regulatory purposes. The proceeds of the Sukuk was used to grow its banking and finance activities. 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 are due in 2021 with a step up in margin to 550 basis point in 2016. 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. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi stock exchange (Tadawul).

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (2011: 300 million shares of SR 10 each).

	2012	2011
Saudi shareholders	**94.17 %**	94.17 %
Non Saudi shareholder - National Bank of Pakistan	**5.83 %**	5.83 %

15. 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 125.5 million has been transferred from net income for 2012 (2011: SR 76 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.

16. OTHER RESERVE

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)	(11,209)	**(61,208)**
Transfer to consolidated statement of income	(686)	-	**(686)**
Net movement during the year	(50,685)	(11,209)	**(61,894)**
Balance at end of the year	**(45,474)**	**7,830**	**(37,644)**

2011	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	-	739	739
Effect of early adoption of IFRS 9 (note 2m (iv))	-	109,345	109,345
Net change in fair value	5,585	(91,045)	(85,460)
Transfer to consolidated statement of income	(374)	-	(374)
Net movement during the year	5,211	18,300	23,511
Balance at end of the year	**5,211**	**19,039**	**24,250**

17.COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2012, there were legal proceedings of a routine nature outstanding against the Bank. 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, 2012, the Bank had capital commitments of SR 43.25 million (2011: SR 46.2 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.
Guarantee and standby letters of credit, which represents irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his 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 Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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.

17.COMMITMENTS AND CONTINGENCIES (continued)

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

Commitments to extend credit represent the unused portion of authorizations 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 Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

c) Credit related commitments and contingencies (continued)

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

(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**

(SR'000)

2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	461,111	141,770	-	-	602,881
Letters of guarantee	810,766	1,152,895	506,369	2,988	2,473,018
Acceptances	407,612	-	-	-	407,612
Irrevocable commitments to extend credit	-	14,286	-	650,131	664,417
Total	1,679,489	1,308,951	506,369	653,119	4,147,928

The outstanding unused portion of commitments as at December 31, 2012, which can be revoked unilaterally at any time by the Bank, amounts to SR 3.5 billion (2011: SR 2.6 billion).

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

	2012 SR'000	2011 SR'000
Corporate	**5,207,495**	3,992,240
Banks and other financial institutions	**134,575**	155,688
Total	**5,342,070**	4,147,928

17.COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

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

	2012 SR'000	2011 SR'000
Less than 1 year	5,613	1,766
1 to 5 years	22,100	4,249
Over 5 years	13,874	-
Total	41,587	6,015

18. NET SPECIAL COMMISSION INCOME

	2012 SR'000	2011 SR'000
Special commission income		
Investment:		
Investment held as at amortised cost	131,334	31,777
Due from banks and other financial institutions	21,506	34,489
Loans and advances	1,067,171	901,850
Total	1,220,011	968,116
Special commission expense		
Due to banks and other financial institutions	12,532	7,550
Customers' deposits	209,349	148,060
Subordinated Sukuk	26,257	19,223
Others	20,990	11,820
Total	269,128	186,653
Net special commission income	950,883	781,463

19. FEES AND COMMISSION INCOME, NET

	2012 SR'000	2011 SR'000
Fee and commission income		
Local share trading	394,850	203,475
Takaful Ta'awuni (insurance) wakala fee	26,687	43,381
Loan commitment and management fee	136,763	96,515
Trade finance	35,064	30,943
International share trading	2,897	2,775
Mutual funds fee	14,970	1,838
Fee from ATM transactions	36,988	34,874
Others	51,466	8,907
Total fee and commission income	699,685	422,708
Fee and commission expense		
Brokerage Fee	(134,348)	(59,798)
Takaful Ta'awuni – sales commission	(1,153)	(6,702)
Net	564,184	356,208

20. TRADING INCOME

	2012 SR'000	2011 SR'000
Equities	11,481	(12,633)
Mutual funds	10,268	12,235
Dividends on equity investments held for trading	5,737	6,104
Derivatives	8,429	5,675
Total	35,915	11,381

21. DIVIDEND INCOME

	2012 SR'000	2011 SR'000
Investments held at FVTOCI	10,800	9,719

22. LOSS ON NON-TRADING INVESTMENTS

	2012 SR'000	2011 SR'000
Held as at amortised cost investments	-	(6,441)

In the year 2011, the Bank sold a Sukuk held as at amortised cost as the investment sold no longer met the Bank's investment policy as allowed by IFRS 9 i.e. the credit rating of the investment declined below the level required as per Bank's policy.

23. OTHER OPERATING INCOME

	2012 SR'000	2011 SR'000
Rental income	46	-
Gain on sale of property and equipment and others	15,387	35,841
Total	15,433	35,841

24. OTHER OPERATING EXPENSES

	2012 SR'000	2011 SR'000
Takaful accelerated receivable written off	-	26,743
Provision for other losses	-	6,600
Other operating expenses	12,094	1,805
Total	12,094	35,148

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2012 and 2011 is calculated by dividing the net income for the year attributable to equity holders of the Bank by weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during 2012 was 300 million (2011: 300 million).
The calculations of basic and diluted earnings per share are same for the Bank.

26. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

On December 26, 2011, the Board of Directors approved a proposed gross dividend for the year ended December 31, 2011 of SR 160 million. 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 2012 amounted to SR 12 million (2011: SR 10 million).

b) Non-Saudi shareholder:

The income tax payable on the current year's share of income for Non-Saudi shareholder amounted to SR 6 million (2011: SR 3.5 million).

Income Tax and Zakat assessment for the years up to 2000 and year 2005 have been finalised. For the years 2001 through 2004 the Department of Zakat and Income Tax (DZIT) has raised assessment with additional liability of SR 3.6 million.

The Bank has filed appeals with the Higher Appeal Committee [HAC] against Preliminary Appeal Committee (PAC) decision. The Bank has also lodged a Bank Guarantee for the disputed liability. The bank has also filed an appeal against DZIT's imposition of delay fine amounting to SR 1.5 million on deferred tax for the years 2002 through 2004 relating to the non-Saudi shareholder.

During the year 2012, the DZIT raised assessment for the years 2006 through 2009 with additional zakat of SR 286.7 million, corporate tax of SR 1.8 million and Withholding Tax of SR 9.4 million. The Bank accepted additional Withholding Tax liability of SR 688 thousands and filed an appeal against remaining additional liabilities of zakat, corporate tax and Withholding tax. Final assessments for the years 2010 and 2011 have not yet been raised by the DZIT. However, the DZIT issued initial assessments for the years 2010 and 2011 disallowing investments from the zakat base with an additional zakat of SR 128.8 million and SR 72.8 million respectively. Bank filed appeals against DZIT's initial assessments. DZIT's review is awaited.

27. CASH AND CASH EQUIVALENTS

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

	2012 SR'000	2011 SR'000
Cash and balances with SAMA, excluding statutory deposit and restricted share capital for AlJazira Takaful (note 3)	**5,101,276**	2,909,157
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition (note 4)	**2,014,122**	3,062,274
Total	**7,115,398**	5,971,431

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 liabilities.

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

Personal Banking
Deposit, credit and investment products for individuals.

28. OPERATING SEGMENTS (continued)

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'awuni
Takaful Ta'awuni provides protection and saving products services and is fully Shariah compliant and is substitute to conventional life insurance products.

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)

2012	Personal Banking	Corporate Banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Total assets	13,062,987	18,140,294	790,158	18,780,211	9,323	173,549	50,956,522
Total liabilities	15,767,984	24,366,949	67,444	5,521,156	46,017	1,374	45,770,924
Total operating income	383,507	434,062	354,459	426,699	25,556	(23,328)	1,600,955
Net special commission	267,606	327,400	10,675	347,375	22	(2,195)	950,883
Fee and commission income, net	87,032	89,170	339,194	25,588	25,534	(2,334)	564,184
Trading income	4,183	3,333	2,072	21,514	-	4,813	35,915
Operating expenses:							
- Impairment charge for credit losses, net	(74,032)	(98,447)	-	-	-	-	(172,479)
- Depreciation	(39,875)	(6,530)	(9,512)	(6,483)	(3,108)	-	(65,508)
Total operating expenses including non-controlling interest	(518,983)	(264,737)	(140,395)	(125,553)	(52,796)	1,989	(1,100,475)
Net (loss) / income attributable to equity holders of the Bank	(135,476)	169,325	214,064	301,146	(27,240)	(21,339)	500,480

28. OPERATING SEGMENTS (continued)

(SR'000)

2011	Personal Banking	Corporate Banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Total assets	9,303,028	15,465,984	440,433	13,463,222	13,513	212,070	38,898,250
Total liabilities	12,565,175	18,419,474	165,811	2,767,404	35,759	7,764	33,961,387
Total operating income	329,462	431,722	203,233	226,939	36,439	(19,697)	1,208,098
Net special commission	247,298	330,796	11,184	191,419	(260)	1,026	781,463
Fee and commission income, net	53,753	81,842	188,570	(557)	36,677	(4,077)	356,208
Trading income	(5,846)	(5,158)	(54)	16,334	-	6,105	11,381
Operating expenses:							
- Impairment charge for credit losses, net	(45,661)	(24,691)	-	-	-	-	(70,352)
- Depreciation	(39,963)	(7,700)	(13,436)	(2,224)	(3,452)	-	(66,775)
Total operating expenses including non-controlling interest	(449,238)	(196,075)	(133,723)	(60,507)	(68,769)	3,067	(905,245)
Net (loss) / income attributable to equity holders of the Bank	(119,776)	235,647	69,510	166,432	(32,330)	(16,630)	302,853

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

(SR'000)

2012	**Personal Banking**	**Corporate Banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'awuni**	**Others**	**Total**
Consolidated statement of financial position assets	**12,444,145**	**17,353,859**	**-**	**9,358,338**	**-**	**-**	**39,156,342**
Commitments and contingencies	**-**	**2,309,219**	**-**	**-**	**175,000**	**-**	**2,484,219**
Derivatives	**-**	**-**	**-**	**86,305**	**-**	**-**	**86,305**

(SR'000)

2011	Personal Banking	Corporate Banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Consolidated statement of financial position assets	8,567,711	14,789,835	-	10,188,440	-	-	33,545,986
Commitments and contingencies	-	2,281,725	-	-	175,000	-	2,456,725
Derivatives	-	-	-	51,693	-	-	51,693

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

29. CREDIT RISK

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 17. Information on the Bank'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 note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2012 and 2011. 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 gradings 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.

29. CREDIT RISK (continued)

a) Credit quality of financial assets (Loans and advances and Due from banks and other financial institutions)

(SR'000) Loans and advances

2012	**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**

(SR'000) Loans and advances

2011	Consumer	Commercial	Others	Sub total	Due from Banks and Other Financial Institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	3,230,166	-	3,230,166	4,331,024	7,561,190
Standard – medium risk	-	9,935,105	-	9,935,105	-	9,935,105
Standard – unclassified	7,041,289	1,255,231	87,242	8,383,762	-	8,383,762
Sub total - standard	7,041,289	14,420,502	87,242	21,549,033	4,331,024	25,880,057
Special mention	-	1,669,340	-	1,669,340	-	1,669,340
Sub total	7,041,289	16,089,842	87,242	23,218,373	4,331,024	27,549,397
Past due but not impaired						
Less than 30 days	150,849	48,931	-	199,780	-	199,780
30-60 days	29,038	30,232	-	59,270	-	59,270
60-90 days	6,663	-	-	6,663	-	6,663
Over 90 days	3,121	-	-	3,121	-	3,121
Total	7,230,960	16,169,005	87,242	23,487,207	4,331,024	27,818,231
Less: portfolio provision	(101,497)	(204,367)	-	(305,864)	-	(305,864)
Net performing	7,129,463	15,964,638	87,242	23,181,343	4,331,024	27,512,367
Non Performing						
Total non Performing	57,886	972,802	-	1,030,688	-	1,030,688
Less: Specific provision	(28,115)	(876,465)	-	(904,580)	-	(904,580)
Net non performing	29,771	96,337	-	126,108	-	126,108

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

Others mainly comprise employee loans.

29. CREDIT RISK (continued)

Performing loans as at December 31, 2012 include renegotiated loans restructured due to deterioration in the borrower's financial position) of SR 1,378.5 million (2011: SR 969.9 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 Investments as at Amortised Cost

The credit quality of investments include debt instrument held as at amortised cost is managed using credit ratings of Moody's.

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

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

	2012 SR'000	2011 SR'000
Performing		
High grade (AAA – BBB)	**4,132,980**	2,553,966
Standard grade (BA1 – B2)	**-**	-
Sub-standard grade (BA3 – C)	**-**	-
Unrated	**3,634,697**	1,685,368
Total performing	**7,767,677**	4,239,334
Less: portfolio provision	**-**	-
Net performing	**7,767,677**	4,239,334
Overall Investments, net	**7,767,677**	4,239,334

As at December 31, 2012 and 2011, no provision was required for the impairment in the value of investments held as at amortised cost.

29. CREDIT RISK (continued)

c) An economic sector analysis of Bank's loans and advances

The tables below show an economic sector analysis of 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

2012	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**

Maximum exposure

2011	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	702,745	155,688	858,433
Agriculture and fishing	56,826	14,828	71,654
Manufacturing	4,810,475	607,034	5,417,509
Mining and quarrying	12,029	93,750	105,779
Electricity, water, gas and health services	10,733	1,515	12,248
Building and construction	3,865,683	1,404,601	5,270,284
Commerce	2,405,714	476,426	2,882,140
Transportation and communication	160,012	160,730	320,742
Services	484,660	84,610	569,270
Consumer loans and credit cards	7,159,234	-	7,159,234
Share trading	1,277,099	-	1,277,099
Other	2,362,241	1,137,591	3,499,832
Maximum exposure	23,307,451	4,136,773	27,444,224
Less: collateral for performing and non performing	(9,710,792)	(1,314,362)	(11,025,154)
Net maximum exposure	13,596,659	2,822,411	16,419,070

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)

2012 Assets	Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Cash and balances with SAMA	7,107,096	-	1,948	-	-	-	7,109,044
Due from banks and other financial institutions	2,866,228	109,723	61,057	96,273	3,953	1,388	3,138,622
Investments	7,776,487	67,688	178,384	61,800	264,375	750,000	9,098,734
Loans and advances, net	29,599,770	33,990	-	-	75,556	187,466	29,896,782
Total	**47,349,581**	**211,401**	**241,389**	**158,073**	**343,884**	**938,854**	**49,243,182**
Commitments and Contingencies	**5,153,605**	**64,039**	**103,770**	**-**	**-**	**20,656**	**5,342,070**
Credit exposure (credit equivalent)							
Commitments and Contingencies	2,385,256	30,801	52,733	-	2,602	12,827	2,484,219
Derivatives	30,399	29,201	26,705	-	-	-	86,305

(SR'000)

2011 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe management	North America	South East Asia	Other Countries	Total
Cash and balances with SAMA	4,365,341	-	11,720	-	1,982	-	4,379,043
Due from banks and other financial institutions	2,030,353	2,220,797	49,201	25,831	4,741	101	4,331,024
Investments	4,018,345	67,688	133,691	25,151	402,041	749,999	5,396,915
Loans and advances, net	23,237,260	70,191	-	-	-	-	23,307,451
Total	33,651,299	2,358,676	194,612	50,982	408,764	750,100	37,414,433
Commitments and Contingencies	4,013,133	17,094	98,452	-	2,272	16,977	4,147,928
Credit exposure (credit equivalent)							
Commitments and Contingencies	2,386,677	10,565	49,641	-	1,136	8,706	2,456,725
Derivatives	21,895	25,423	4,375	-	-	-	51,693

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

30. GEOGRAPHICAL CONCENTRATION (continued)

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	
	2012 SR'000	2011 SR'000	**2012 SR'000**	2011 SR'000
Kingdom of Saudi Arabia	**1,040,219**	1,030,688	**1,377,770**	1,210,444

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, net of non controlling interest, in its trading book, denominated in foreign currencies as at December 31:

Currency	**2012 SR'000**	2011 SR'000
USD	15,443	13,107
Euro	17,494	12,118
Pound Sterling	17,658	19,040
Japanese Yen	34,370	32,584

The table below indicates the extent to which the Group was exposed to currency risk at December 31, 2012 on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi 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	**2012**		2011	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	± 0.400	± 62	± 0.375	± 49
Euro	± 8.260	± 1,445	± 6.450	± 782
Pound Sterling	± 6.300	± 1,112	± 10.630	± 2.024
Japanese Yen	± 7.470	± 2,567	± 7.210	± 2.349

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) 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 financial instruments included in the FVTIS portfolio are equity securities held by one mutual fund that are subsidiaries of the Bank and mutual fund. The Bank manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities held by the subsidiaries of the Bank are managed by the Bank 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, 2012 and 2011 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

At the end of the year, the Group has the following significant exposure, net of non controlling interest, in its trading book, denominated in foreign currencies as at December 31:

Portfolio	**2012**		2011	
	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	± 14.170	± 6.239	± 8.29	± 3.146
Al Khair	± 14.160	± 3.447	± 6.11	± 1.373
Al Mashareq	± 27.080	± 8.916	± 17.34	± 5.296
Al Qawafel	± 5.98	± 1.447	-	-

The effect on the consolidated statement of income as a result of a change in the fair value of mutual fund investments as at FVTIS at December 31, 2012 and 2011 due to reasonably possible change in the net asset value (NAV) of the fund, with all other variables held constant, is as follows:

Portfolio	**2012**		2011	
	Increase / decrease in NAV %	**Effect on consolidated statement of income SR'000**	Increase / decrease in NAV %	Effect on consolidated statement of income SR'000
Mutual Fund	± 5	± 44.109	± 5	± 28.227

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, 2012, previously FVIS at 31 December 2011 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	**2012**		2011	
	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	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 Assets Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported on a monthly basis to ALCO to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to ALCO 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, 2012 including the effect of hedging instrument. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Currency	2012 Increase / decrease in basis point	2012 Sensitivity of special commission income SR'000	2011 Increase / decrease in basis point	2011 Sensitivity of special commission income SR'000
SR	+25	(802)	+25	13,136
SR	- 25	802	- 25	(13,136)
USD	+25	(2,123)	+25	(3,617)
USD	- 25	2,123	- 25	3,617
Qatari Riyal	-	-	+25	83
Qatari Riyal	-	-	- 25	(83)
AED	+25	5	-	-
AED	- 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.

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2012	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	4,357,000	-	-	-	2,752,044	7,109,044	-
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	1,331,719	9,098,734	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	-	-	-	-	586,791	586,791	-
Total assets	18,378,372	14,140,810	7,808,327	4,619,750	6,009,263	50,956,522	-
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	-	-	-	-	809,590	809,590	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Equity including non-controlling interests	-	-	-	-	5,185,598	5,185,598	-
Total liabilities and Equity	20,044,917	6,322,103	1,021,715	-	23,567,787	50,956,522	
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	-	-	-

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2011	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	2,293,984	-	-	-	2,085,059	4,379,043	-
Due from banks and other financial institutions	3,749,774	581,250	-	-	-	4,331,024	0,71%
Investments	2,511,209	1,115,000	613,125	-	1,157,581	5,396,915	1,00%
Loans and advances, net	7,133,516	8,959,935	6,052,651	1,035,241	126,108	23,307,451	4,25%
Other real estate, net	-	-	-	-	680,778	680,778	-
Property and equipment, net	-	-	-	-	446,829	446,829	-
Other assets	-	-	-	-	356,210	356,210	-
Total assets	15,688,483	10,656,185	6,665,776	1,035,241	4,852,565	38,898,250	-
Liabilities and equity							
Due to banks and other financial institutions	1,194,410	-	-	-	111,368	1,305,778	1,02%
Customers' deposits	15,480,492	4,650,169	59,289	-	10,968,581	31,158,531	0,89%
Other liabilities	-	-	-	-	497,078	497,078	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,00	-
Equity including non-controlling interests	-	-	-	-	4,936,863	4,936,863	-
Total liabilities and Equity	16,674,902	5,650,169	59,289	-	16,513,890	38,898,250	-
On-balance sheet gap	(986,419)	5,006,016	6,606,487	1,035,241	(11,661,325)	-	-
Commission rate sensitivity – off balance sheet	5,054,390	115,000	(5,169,390)	-	-	-	-
Total commission rate sensitivity gap	4,067,971	5,121,016	1,437,097	1,035,241	(11,661,325)	-	-
Cumulative commission rate sensitivity gap	4,067,971	9,188,987	10,626,084	11,661,325	-	-	-

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.

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

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 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:

Currency	2012 SR' 000 Long (short)	2011 SR'000 Long (short)
USD	(674,688)	194,063
Qatari Riyals	-	(1,915)
AED	16,081	-

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2012. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi 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	2012 SR'000		2011 SR'000	
	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	± (337)	± 0.05	± 97
Qatari Riyals	-	-	± 0.05	± 1
AED	± 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, 2012 and December 31, 2011 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2012 SR'000		2011 SR'000	
	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	± 14.16%	± 556	± 6.11%	± 164
Tadawul	± 5.98%	± 15,134	± 3.22%	± 9.418

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 15% 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. Deposits 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:

	2012 %	2011 %
As at 31 December	42	33
Average during the period	34	33
Highest	42	47
Lowest	26	26

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at December 31, 2012 and 2011 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 on 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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

32. LIQUIDITY RISK (continued)

Financial liabilities	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
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
Financial liabilities						
As at 31 December 2011						
Due to banks and other financial institutions	111,368	1,179,404	20,161	-	-	1,310,933
Customers' deposits	10,069,636	16,566,598	4,028,226	1,133,087	-	31,797,547
Subordinated Sukuk	-	6,018	11,775	1,094,200	-	1,111,993
Derivatives	-	894	1,317,913	3,893,617	-	5,212,424
Total undiscounted financial liabilities 2011	10,181,004	17,752,914	5,378,075	6,120,904	-	39,432,897

The contractual maturity structure of the Bank's credit-related contingencies and commitments are shown under note 17.

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 Bank's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

(SR'000)

2012	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,109,044	7,109,044
Due from banks and other financial institutions	-	3,138,622	-	-	-	3,138,622
Investments	45,143	907,436	3,629,348	3,185,750	1,331,057	9,098,734
Loans and advances, net	6,373,069	8,540,490	8,184,065	6,799,158	-	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	-	-	271,419	586,791
Total assets	6,528,383	12,791,749	11,813,413	9,984,908	9,838,069	**50,956,522**
Liabilities and equity						
Due to banks and other financial institutions	-	3,253,446	-	-	32,598	3,286,044
Customers' deposits	4,832,101	12,864,032	5,154,737	-	17,824,420	40,675,290
Subordinated Sukuk	-	-	1,000,000	-	-	1,000,000
Other liabilities	62,869	17,201	4,698	-	724,822	809,590
Equity including non-controlling interests	-	-	-	-	5,185,598	5,185,598
Total liabilities and equity	4,894,970	16,134,679	6,159,435	-	23,767,438	**50,956,522**

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR'000)

2011	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,379,043	4,379,043
Due from banks and other financial institutions	1,499,910	2,482,364	348,750	-	-	4,331,024
Investments	1,449,838	124,976	2,239,519	425,000	1,157,582	5,396,915
Loans and advances, net	3,091,910	8,367,908	7,076,316	4,645,209	126,108	23,307,451
Other real estate, net	-	-	-	-	680,778	680,778
Property and equipment, net	-	-	-	-	446,829	446,829
Other assets	137,479	111,616	52,575	45,009	9,531	356,210
Total assets	6,179,137	11,086,864	9,717,160	5,115,218	6,779,871	38,898,250
Liabilities and equity						
Due to banks and other financial institutions	879,702	293,234	-	-	132,842	1,305,778
Customers' deposits	4,659,207	12,067,528	3,913,155	-	10,518,641	31,158,531
Subordinated Sukuk	-	-	1,000,000	-	-	1,000,000
Other liabilities	46,913	11,197	3,152	-	435,816	497,078
Equity including non-controlling interests	-	-	-	-	4,936,863	4,936,863
Total liabilities and equity	5,585,822	12,371,959	4,916,307	-	16,024,162	38,898,250

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

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. The fair values of loans and advances, commission bearing customer deposits, subordinated sukuks, 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 investment held at amortised costs are based on quoted market prices, when available. The fair values of these investments are disclosed in note 5.

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 identical assets or liabilities.

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

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

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Determination of fair value and fair value hierarchy (continued)

2012 (SR'000)

Financial assets	Level 1	Level 2	Level 3	Total
FVTIS	1,070,616		-	1,070,616
FVTOCI	257,003		3,438	260,441
Derivatives	-	151,257	-	151,257
Financial liabilities				
Derivatives	-	(199,992)	-	(199,992)
Net	1,327,619	(48,735)	3,438	1,282,322

2011 (SR'000)

Financial assets	Level 1	Level 2	Level 3	Total
FVTIS	859,264	-	-	859,264
FVTOCI	294,879	-	3,438	298,317
Derivatives	-	18,007	-	18,007
Financial liabilities				
Derivatives	-	(15,722)	-	(15,722)
Net	1,154,143	2,285	3,438	1,159,866

During the year there were no transfer between levels and it remained as it was at December 31, 2011. New investments acquired during the year are classified under the relevant categories.

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 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:

	2012 SR' 000	2011 SR'000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	622	-
Due to banks and other financial institutions	1,511	506
Other receivables	726	369
Commitments and contingencies	1,247	1,347
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	1,326,993	1,480,022
Customers' deposits	4,337,448	3,883,162
Other receivables	6,982	-
Commitments and contingencies	6,403	10,730

34. RELATED PARTY TRANSACTIONS (continued)

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Included within the related party transactions is a fully collateralised loan that has been past due but regularised post year-end.

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

	2012 SR' 000	2011 SR'000
Special commission income	37,497	49,444
Special commission expense	42,878	41,992
Fees and commission income	158	110
Fees and commission expense	-	264
Directors' remunerations	4,263	5,109

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

	2012 SR' 000	2011 SR'000
Short-term employee benefits	67,005	51,472
Termination benefits	13,391	12,277

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.

35. COMPENSATION

Categories of employees	Number of employees	Fixed compensation SR' 000	Variable compensation SR' 000	Total SR' 000
Senior Executives that require SAMA no objection	13	21,585	9,199	30,784
Employees involved in control function	87	10,331	3,388	13,719
Employees involved in risk taking activities	32	26,903	4,637	31,540
Other employees	1,811	317,070	54,608	371,678
Outsourced employees	835	43,120	1,700	44,820
Total	2,778	419,009	73,532	**492,541**
Variable Compensation accrued in 2012 and other employee related benefits				82,290
Total Salaries and employee-related expenses				574,831

35. COMPENSATION (continued)

Categories of employees	Number of employees	Fixed compensation SR' 000	Variable compensation SR' 000	Total SR' 000
Senior Executives that require SAMA no objection	12	20,655	5,353	26,008
Employees involved in control function	110	29,937	3,867	33,804
Employees involved in risk taking activities	29	7,911	775	8,686
Other employees	1,721	291,350	46,310	337,660
Outsourced employees	749	27,707	169	27,876
Total	2,621	377,560	56,474	434,034
Variable Compensation accrued in 2011 and other employee related benefits				48,808
Total Salaries and employee-related expenses				482,842

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

The compensation and benefits program is applicable to all regular (Headcount) Saudi National and Expatriate employees of Bank AlJazira, and its wholly and/or partially owned 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 contract 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 Contract, 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.

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management to ensure that the capital is adequate for risk inherent in its business activities.

SAMA has issued guidance regarding implementation of Basel II effective January 1, 2008. This guidance requires holding a 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%.

	2012 SR'000		2011 SR'000	
	Eligible capital SR '000	Capital adequacy ratio %	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	5,011,853	12.12%	4,732,537	13.64%
Supplementary capital (Tier 2)	1,467,673		1,305,864	
Core and supplementary capital (Tier 1 + Tier 2)	6,479,526	15.67%	6,038,401	17.40%

Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves and retained earnings. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Bank and eligible portfolio provisions.

To calculate the risk weighted assets and required Regulatory Capital as per Basel II, the Bank uses the Standardized approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Bank's Risk Management Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	2012 SR' 000	2011 SR'000
Credit risk	37,157,226	30,819,867
Operational risk	2,412,388	2,102,541
Market risk	1,779,882	1,785,681
Total pillar-1 – risk weighted assets	41,349,496	34,708,089

37.INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary AlJazira Capital Company (AJC) (note 1) offers investment management and advisory services to its customers, compliant with the principle of Shari'ah (non-interest based). These services include portfolio management on discretionary and non discretionary basis and management of investment funds in conjunction with professional investment advisors. Seven 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, Al Jazira Residential Projects 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 Al Jazira Global Emerging Markets Fund is to provide long term capital growth by investing in a diversified portfolio of Shariah compliant companies. The Fund will follow an active investment strategy by investing in Shariah compliant equities that are either listed or carry out a substantial part of their economic activities in any emerging market company. The financial statements of Al-Thoraiya European Equities Fund and Al Jazira Residential Projects Fund are consolidated with these financial statements.

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

38. TAKAFUL TA'AWUNI DIVISION

As required by Insurance Law of Saudi Arabia, the Group has decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia. The Bank and AlJazira Capital Company will have 35% shareholding in the new insurance company and remaining will be held by other founding shareholders and offered to the public by way of the Initial Public Offering. Once the new insurance company is incorporated and licensed, the assets, liabilities and operations of the insurance business will be transferred to the new insurance company at a valuation to be approved by the Regulator.

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 for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
July 1, 2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	The amendments require that an entity present separately, the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss.
January 1, 2013	IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7	These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.
January 1, 2013	IFRS 10 – Consolidated Financial Statements	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.
January 1, 2013	IFRS 11 – Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to two categories (i.e. Joint Operations and Joint Control). In addition, IAS 28 has also been amended to include the application of the equity method to investments in joint ventures.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2013	IFRS 12 – Disclosure of Interests in Other Entities	IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity's interests in other entities; and • the effects of those interests on the entity's financial position, financial performance and cash flows.
January 1, 2013	IFRS - 13 Fair Value Measurement	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.
January 1, 2013	IAS 27 Separate Financial Statements (as revised in 2011)	As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
January 1, 2013	IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
January 1, 2014	IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

40. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on -23 February 2013. The asset held by the Group under the investment management and brokerage services are amounted to SR 1.27 billion (2011: SR 1.29 billion).

41. COMPARATIVE FIGURES

The consolidated financial statements were authorized for issue by the Board of Directors on -23 February 2013. The asset held by the Group under the investment management and brokerage services are amounted to SR 1.27 billion (2011: SR 1.29 billion).

42. BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, will be made available on the Bank's website www.baj.com.sa and the annual report, respectively as required by the Saudi Arabian Monetary Agency (SAMA). Such disclosures are not subject to audit or review by the external auditors of the Bank.

BASIS OF DISCLOSURES

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 2012. 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. The following table lists the entities that are consolidated in the Bank financial statements, where control exists, for accounting and regulatory purposes:

Entity Name	Consolidation	
	Accounting	Regulatory
AlJazira Capital Company	Yes	Yes
Aman Real Estate	Yes	Yes
Al-Thoraiya European Equities Fund	Yes	NR*
Al-Jazira Residential Projects Fund	Yes	NR*

***not required**

Al Jazira Capital Company (JAZC):

JAZC 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.

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.

Entities that are not consolidated for Regulatory Purposes are:

Two entities namely Al-Thoraiya European Equities Fund and Al-Jazira Residential Projects Fund, the mutual funds operated by the Bank are not consolidated for regulatory purposes; all are incorporated in Saudi Arabia. The Bank consolidates these funds for accounting purposes due to the Bank's holding of units in these funds and the indirect control through its subsidiary AlJazira Capital Company.
Due to the nature of the funds with units being subscribed to and/or redeemed on a daily basis and since the risk associated with the third parties' units do not affect the financial position of the Bank; these funds are not consolidated for regulatory purposes. Furthermore, the units held by the Bank are held as part of the Held for Trading Investments and are considered for the purpose of calculating capital adequacy under Pillar I.
There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the Bank.

CAPITAL STRUCTURE

The components of the regulatory capital for Bank Al Jazira are as follows:

	SR' 000
Tier One Capital:	
Paid up share capital	3,000,000
Eligible statutory and general reserve	1,667,500
Retained earnings	381,997
IAS type adjustments	(37,644)
Deduction from Tier I:	
Reciprocal holding of bank capital at 50% deduction	-
Total Tier One Capital	**5,011,853**
Tier Two Capital:	
Subordinated Sukuk	1,000,000
Portfolio provision	467,673
Total Tier One and Tier Two Capital	6,479,526

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. Eligible Reserves

Eligible reserves are created by accumulated appropriations of profits and are maintained for future growth. 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. It also includes any general reserves created out the earnings.

3. Eligible 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.

4. Portfolio Provision

This is the portfolio provision created under IAS 39 to cover the incurred but not reported losses in the loan portfolio.

5. Issuance of 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 proceeds of the Sukuk will be used by the Issuer to grow its banking and finance activities. 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 are due in 2021 with a step up in margin to 550 basis point 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 may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi stock exchange (Tadawul).

6. IAS Type Adjustments

The adjustments represent the mark to market impacts directly taken into equity, and amount SAR 37.64 million.

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. The Banks' presented program is one of expansion and building on success for long term growth, with the majority of capital held to support the expansion.
ii. Capital is held with the purpose to generate the required expected shareholders' returns from the successful provision 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 purpose 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, Sukuks, Shari'ah compliant commercial paper and Musharaka programs are proposed to consist of sound ring-fenced income generating assets.

Specific Capital Objectives

- ***Investment Capital***

BAJ specific strategy is to grow and expand the investment in financial services in range and service offering with investment opportunities. The Banks holding in the investment capital is to support the risk uncertainty and price volatility on exposures (Foreign Exchange, Property Exposures, Mutual Funds, Equities & etc.) providing a level of comfort for depositors.

- **Trading Services**

BAJ has a specific objective of holding capital to engage in trading through identifiable channels:
i. Credit Risk Capital for Shari'ah compliant financing services are:
a. Tawarq and Murabaha contracts. Products descriptions are Dinar, Naqa'a and Tamam;
b. Trade financing advances – Letters of Credit/Guarantees;
c. Istisna' a contracts; and
d. Ijara transactions.
ii. Market Risk Capital for Shari'ah compliant trading are:
a. Treasury trading;
b. Musharaka.
iii. Operational Risk Capital in respect of the provision of payment, transaction and professional services which could expose BAJ to operational risk failures.

RISK EXPOSURE AND ASSESSMENT GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS

Current Methodology and Assumptions

The current methodology adopted by the Bank on the implementation of SAMA requirements for implementation of Basel II is structured in two phases.
The Bank initial elected Internal Capital Adequacy Assessment Plan (ICAAP) methodology for the implementation program is to calculate Pillar 1 capital requirements and then add the Pillar 2 assessments.
The Pillar 1 risks (credit, market and operational) have been assessed under the following approaches:

- Credit Risk – Standardized Approach,
- Market Risk – Standardized Approach, and
- Operational Risk – Basic Indicator Approach.

The Bank has been in compliance with Basel II since January 2008.

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.

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:
- Risk philosophy;
- Risk appetite;
- Risk governance and risk management organisation;
- Risk identification and assessment process; and
- 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. Its 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 2013 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 programme specifically targeted at the Risk Management Group. This began in 2012 with intensive Basel III training and will be followed up in early 2013 with further courses on Stress Testing and Developing the ICAAP.
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 acts as the ultimate parent body of a number of other risk 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.

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 a commitment that it has entered into. 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 property 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 personal, retail customers, commercial entities 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 backtested 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 characterised 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 line with SAMA Regulations, sets the maximum limit for exposures to individual counterparties or group of connected entities.

Risk Mitigation
An obligor risk rating system facilitates the early identification and management of any deterioration in loan quality. Changes in the objective information (i.e. financial and business variables as describe 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 common practices 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 level. 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 security held for the loan or Bank of loans. 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:
a) Specific;
b) 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 valuations to assist in reaching appropriate valuations for the collateral held. The valuers 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:
1. Real Estate
2. Quoted Shares
3. Cash
4. Bank Guarantees
5. 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 bank 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.

MARKET RISK – Standardised Approach

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 relevant group. 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. The actual format and frequency of risk disclosure depends on the audience. For example, front office and risk functions receive the full range of daily control and activity, valuation, sensitivity and risk measurement reports, while the Board receives a monthly market risk commentary.
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 rigor 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.

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 Available for Sale Investments.
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.

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 analysis of scenarios showed an impact in the banking book as follows:

31 December 2012	+25bp	-25bp	Shock Stress + / - 150bp
31 December 2011	+25bp	-25bp	

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.

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..

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.

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 the Unit Head 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.

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.

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 report 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.

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 Process ("ICAAP"), which is subject to supervisory review and evaluation. The capital adequacy requirements set by SAMA, which reflect the requirements of the Capital Requirements Directive ("CRD") establish a floor of 8%. Actual capital adequacy ratios as of the end of 2012 and 2011 have been presented in Note 36 in the financial statements for the year ended December 31, 2012.

BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة