بنك الجزيرة
BANK ALJAZIRA

2018 ANNUAL REPORT

CONTENTS

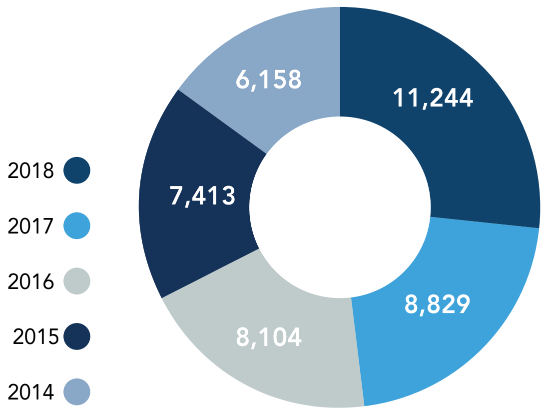
بسم الله الرحمن الرحيم

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

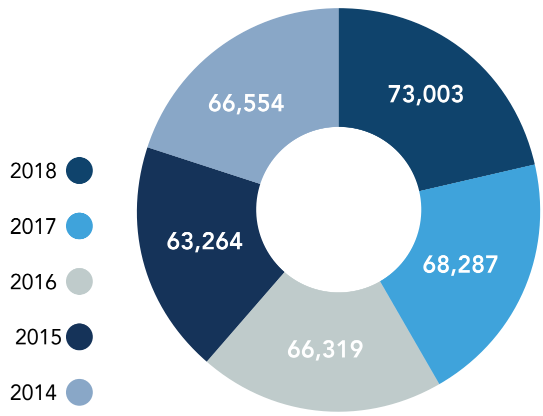
HRH Prince Mohammed bin Salman bin Abdulaziz Al Saud
The Crown Prince & Deputy Prime Minister & Defense Minister

FINANCIAL HIGHLIGHTS

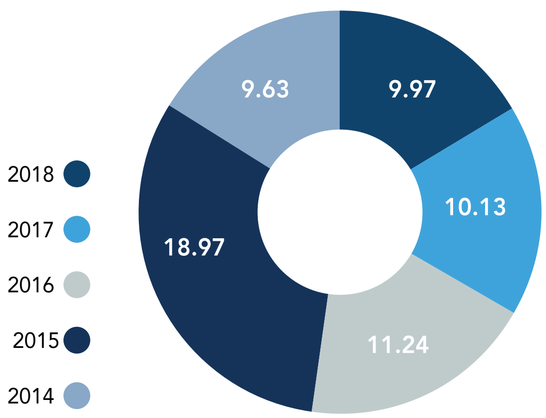
(In SAR millions, except where indicated)	2014	2015	2016	2017	2018
Loans and advances, net	41,245	42,174	42,099	39,790	**40,897**
Total assets	66,554	63,264	66,319	68,287	**73,003**
Customer deposits	54,569	49,765	51,602	50,278	**51,804**
Total Liabilities	60,396	55,851	58,216	59,459	**61,759**
Shareholders' equity	6,158	7,413	8,104	8,829	**11,244**
Net income	572	1,287	872	858	**1,000**
Total Operating income	2,226	2,922	2,519	2,580	**2,718**
Net income growth (%)	(12.01)	124.84	(32.26)	(1.65)	**16.65**
Total Operating income growth (%)	21.04	31.23	(13.79)	2.43	**5.36**
Return on average equity (%)	9.63	18.97	11.24	10.13	**9.97**
Return on average assets (%)	0.90	1.98	1.35	1.27	**1.42**
Earnings per share (SR)	1.01	2.27	1.54	1.51	**1.33**



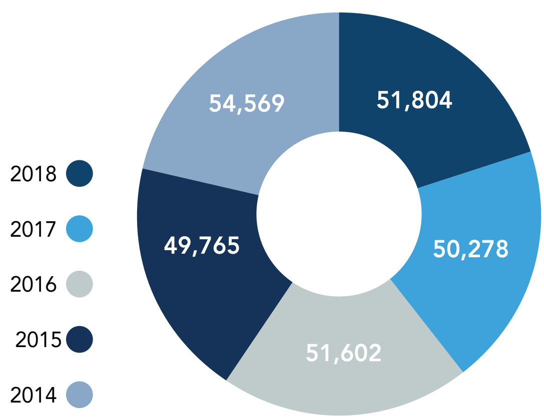
Shareholders' equity (In SAR millions)



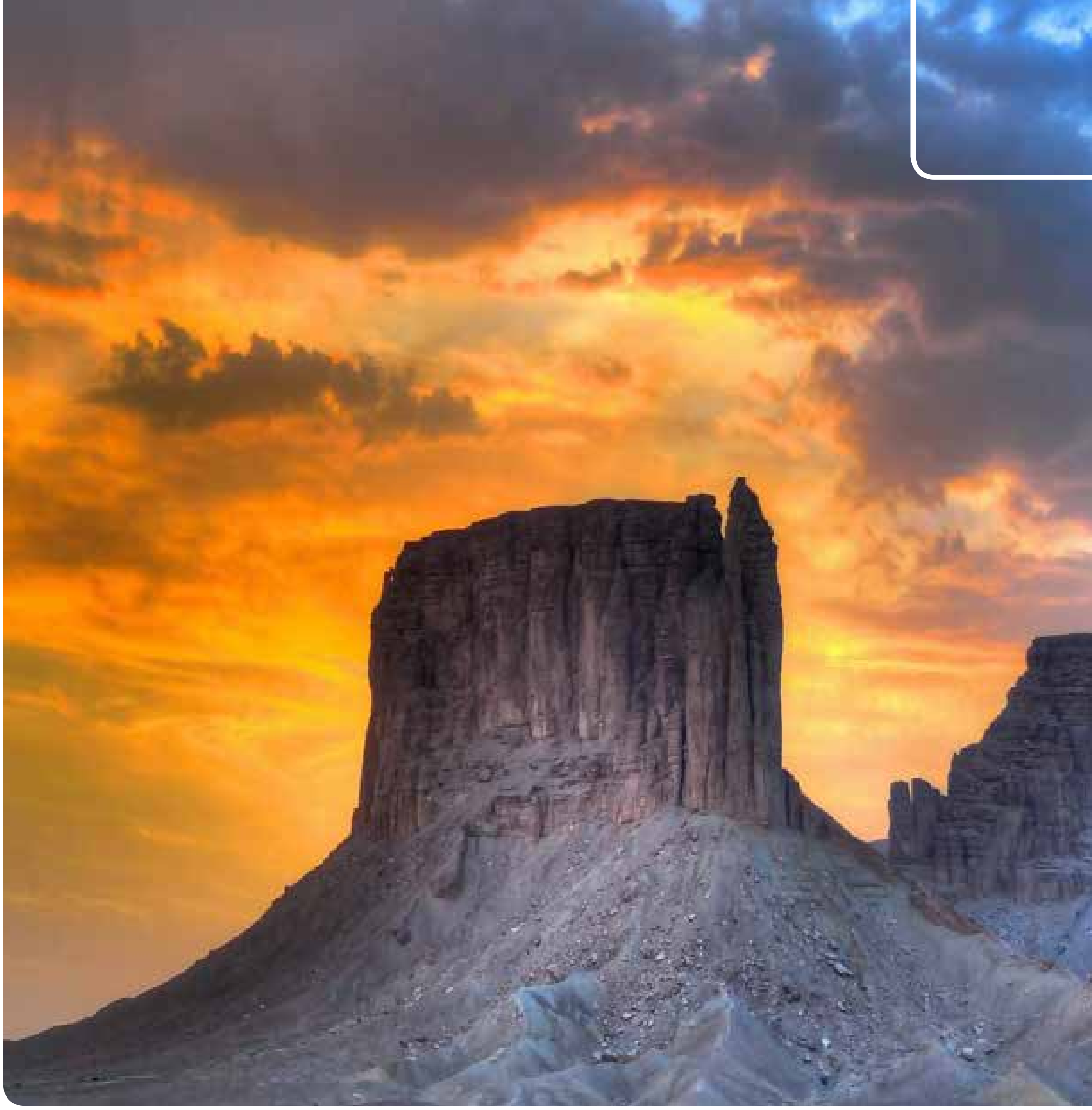
Total Assets (In SAR millions)



Return on average equity (%)



Customer deposits (In SAR millions)



OUR MISSION

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

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

Board of Directors

Engr. Tarek Othman Al-Kasabi
Chairman of the Board

Engr. Abdulmajeed Ibrahim Al-Sultan
Deputy Chairman of the Board

Mr. Khalifa Abdulatif Al-Mulhem
Member

Mr. Nabil Dawood Al-Hoshan
Member

Mr. Mohamed Abdullah Al-Hagbani
Member

Dr. Saeed Saad Al-Martan
Member

Mr. Abdulsalam Abdulrahman Alagil
Member

Mr. Abdullah Saleh Al-Rasheed
Member

Mr. Ibrahim Abdulaziz Al-Shaia
Member

CHAIRMAN'S STATEMENT

Praise be to Allah, the Almighty; Lord of the Worlds, and prayers and peace be upon his Messenger, Prophet Mohammad, and his descendants and all his followers.

Dear Shareholders,

On behalf of the Board of Directors of Bank Aljazira (BAJ), I present to you the Annual Report for the year 2018.

The continually developing expansion of the Kingdom's economic transformation has brought about profound changes to the economy as a whole, as well as to operational environment of the banking industry last year. This is in line with the Saudi Vision 2030 initiative decreed by the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al Saud, and spearheaded by Crown Prince Mohammed Bin Salman, the Deputy Premier and Defense Minister.

The latest full year GDP data for 2018 shows that the economy made a significant turnaround in 2018 to register growth of 2.2 percent, compared to -0.9 percent in 2017.

The finance, insurance, and business services sectors, which collectively comprised 6.7 percent of non-oil GDP, registered 3.8 percent growth in 2018, as supported by higher growth margins coming from the financial services sub-sector, and the inclusion of the "Tadawul All Share Index" (TASI) into the MSCI EM and FTSE EM indices during the year.

Yet GDP presently remains forecast to narrow to 2% in 2019, driven by the contraction of the oil sector GDP, as the Kingdom complies with the OPEC+ production cut agreement.

Additionally, the Housing Ministry's robust housing development projects in major areas of the Kingdom have had, and will continue to have a beneficial effect on the banking sector.

BAJ, true to its commitment in supporting the government's initiatives and objectives, has proactively adapted to the situation, by vigorously grasping emerging opportunities, addressing the challenges, and demonstrating its steady and stable operating style; our strategies are therefore driving margin expansion.

To fully fund this, the Bank's "Successful Rights Issue" raised its capital from SAR 5.2 Billion to SAR 8.2 Billion during 2018.

The Bank's real estate finance portfolio also grew by 11% in 2018, with an estimated market share of 7% by year's end. As part of the 2020 "National Transformation Program", BAJ has introduced several financing products in cooperation with the Real Estate Development Fund (REDF), such as subsidized funding that provides monthly subsidies to applicable candidates, and a "down payment guaranteed" alternative product that offers a discounted down payment from 10% to 5% of the property's value. The bank is fully focused on maintaining its Real Estate financing leadership position in the market as it successfully launched the remaining REDF solutions, such as "Off-plan Sale", "Self-Construction", "Flexible Installments", and "Mortgage Guarantees", including a down payment support program for the Military Sector.

Overall, total assets were SAR 73,003 million at 31 December 2018, compared with SAR 68,287 million at 31 December 2017, an increase of 7%. The bank's loans book has increased by 2.8% at 31 December 2018 to reach SAR 40,897 million from SAR 39,790 million at 31 December 2017. The Bank's investment portfolio totaled SAR 24,052 million at 31 December 2018, an increase of 18 % compared with SAR 20,361 million at 31 December 2017. Customer deposits reached SAR 51,804 million as of 31 December 2018 increase of 3% compared with SAR 50,278 billion at 31 December 2017.

As part of our strategy, we are re-focusing and optimizing our client coverage model to the benefit of our core clients. We continue to lay the foundations for sustained growth. Our strategy to deliver multi-year earnings growth is on track.

The bank will continue to accelerate its transformation and seize opportunities in 2019 to capture more market shares through business innovation and increase efficiency through risk management.

Moreover, the Bank sustains its Social Responsibility programs through partnerships with non-profit institutions and charities covering 96 cities across the kingdom.

The Bank's untiring efforts have received notable recognition. Among these are the Top CEO in the GCC Award, and the coveted Princess Sita Bin Abdulaziz for Excellence in Social Work National Achievement Award, in connection with our BAJ Social Responsibility Program (Khair Aljazira le Ahl Aljazira).

At this juncture, and on behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the continuous support of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al Saud, His Royal Highness Prince Mohammed Bin Salman Bin Abdulaziz Al Saud, Crown Prince and Defense Minister, His Excellency The Minister of Finance, The Saudi Arabian Monetary Authority (SAMA) and all government ministers, the Board of Directors, the BAJ Executive management team, and all our staff for their support, guidance and efforts as we continue our journey in serving the needs of our clients and country, by creating a strong and profitable bank for our shareholders.

Finally, we deeply extend all gratitude to Allah the Almighty for his blessing our success and prayers upon our Messenger, Prophet Mohammed – May peace be upon him, his descendants and all his followers.

Engr. Tarek Othman Al-Kasabi

Chairman

Executive Management

Mr. Nabil AlHoshan
CEO and Managing Director

Mr. Yasser Al Hedaithy
Senior Vice President &
Group Treasurer

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

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

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

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

Mr. Shahid Amin
Senior Vice President &
Chief Financial Officer

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

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

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

Mr. Hazem Al Megren
VP & Acting Head of Corporate
and Institutional Banking Group

Mr. Yaqoob Al Oraini
Senior Vice President &
Chief Compliance & AML Officer

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

CEO Statement

Praise be to Allah, the Almighty, Lord of the Worlds, and Prayers and Peace be upon his Messenger, Prophet Mohammad, and his descendants and all his followers.

Dear Shareholders,

On behalf of Bank Aljazira's (BAJ) Executive Management Team, I am pleased to present to you the financial performance for the year 2018.

In 2018, the Saudi economy registered modest growth, as markets were volatile and financial conditions were exacerbated by turns of events across the globe.

The regional and local markets remained challenging throughout 2018 due to subdued oil prices, tightened liquidity and a fierce business environment. Our Treasury Group maintained its strong liquidity position and ensured that funding requirements are met at optimal prices to support business growth.

BAJ status was elevated further in 2018 when the Debt Management Office appointed the bank as a 'Primary Dealer'. New zero-risk-weighted government issuances of SAR 4.55 Billion were added to the investment portfolio that resulted in a portfolio increase to SAR 24.1 Billion, registering of 18.1% growth over the prior year. The new additions resulted in enhancing our liquidity and portfolio yields. BAJ Treasury Group also established a Special Purpose Vehicle (SPV) in order to comply with the international regulations and standards in carrying out day-to-day activities. The fully integrated front-to-back processing system enhanced the Treasury's operational efficiency and product mix.

Treasury efforts to provide Shariah-compliant solutions to customers, along with better collaboration with other business groups for cross-selling, generated positive results. Considerable emphasis was placed to support Fawri business line by means of pre-funding arrangement, which also contributed to their continued success. All these efforts resulted in an overall growth of FX income by 28% YOY basis, thus increasing our market share to 12 %.

Moreover, we have also raised our capital to SAR 8.2 billion from SAR 5.2 billion through successful rights issue.

Driven by these developments, our conservative approach to risk management in safeguarding earnings and maintaining liquidity, among others, bode well. The Market Risk Policy Committee, tasked by the Board of Directors to formulate limits and controls used in managing market risks, has implemented a Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of our market risk exposures.

Last year the bank has also witnessed other major achievements and successes. Among these were the completion of backup links installation and configuration for all Retail Banking Group and Fawri branches, the completion of hardware upgrades for the Riverbed WAN Optimization Controller in our Main Data Center and Disaster Data Center, and the successful conclusion of the Full Disaster Recovery live test for all bank systems operating for five continuous business days from Disaster Data Center.

In 2019, Fawri® plans to introduce further cost-efficient products and services with the launch of SMART branches, varied electronic channels and the Fawri® Card. In 2018, seven new Fawri® remittance branches were opened, with enhancements upon older Fawri® branches,

In retail banking, we fully realize that modern banking is all about connecting people to money more efficiently, accurately and securely than ever before. We are therefore squarely focused on what our existing and prospective customers demand by way of technology. Accordingly, we will continue our investments in leveraging new technologies to reach and serve our existing and targeted new customers. Starting from our end- to-end "Online Account Opening" service, as well as through our other digital channels, our Retail customers will have the facility to apply for all the bank's range of products and services. In this respect, we endeavor to remain at the forefront in embracing and evolving digital services.

Furthermore, our Electronic Banking services are among the best in the Saudi market with AlJazira Phone being awarded the "Best in Customer Service in the World 2018". AlJazira SMART and AlJazira Online re-launch has made a great impact on customer experience and transaction based returns.

And to keep pace with emerging E-banking digital technologies, Bank Aljazira is dedicated to continuing its digital transformation strategy by introducing innovative products and services that meet our customer demands, as well as our customer-centric approach to providing a holistic positive customer experience, while simultaneously increasing work efficiency and reducing costs by generating a higher profitability ratio on existing resources.

To that purpose, our branches expansion plans incorporating innovative elements are in the pipeline to address these new market trends and customer needs, thus growing our current distribution network of 79 branches, 19 Ladies' units, 618 ATMs and 8,630 Point of Sale devices.

Loans book has increased by 2.8% at 31 December 2018 to reach SAR 40,897 million from SAR 39,790 million at 31 December 2017. Customer deposits reached SAR 51,804 million as of 31 December 2018 increase of 3.0% compared with SAR 50,278 billion at 31 December 2017.

The Bank's real estate finance portfolio also grew by 11% in 2018, with an estimated market share of 7% by year's end. As part of the 2020 "National Transformation Program", BAJ has introduced several financing products in cooperation with the Real Estate Development Fund

(REDF), such as subsidized funding that provides monthly subsidies to applicable candidates, and a "down payment guaranteed" alternative product that offers a discounted down payment from 10% to 5% of the property's value. The bank is fully focused on maintaining its Real Estate financing leadership position in the market as it successfully launched the remaining REDF solutions, such as "Off-plan Sale", "Self-Construction", "Flexible Installments", and "Mortgage Guarantees", including a down payment support program for the Military Sector.

To guarantee the highest possible Human Capital practices and audit ratings for all financial and regulatory compliance requirements, the Bank successfully passed several internal, regulatory and independent audits, made possible through the continual development and policy updates and practice enhancements to meet the developing and changing regulatory and governance demands.

BAJ maintained or exceeded its already exemplary Saudization success rate by reaching more than 93% in 2018. It also reflected a market demand training activity totals of more than five hundred and eight (508) annual training events, in addition to the Bank Administration, System wide required regulatory compliance, Security and Anti Money Laundering and other required refreshers for the entire bank population.

We have also strengthened our Corporate Banking aimed at providing better services for the Corporate enterprises sector and businesses through extensive packaged finance operations, trade and import operations, to include cash management and e-banking services.

And as SMEs remain the commercial backbone of any economy, the bank endeavors to increase SMEs contribution to the overall GDP from 20% to 35% through strategic alliances with government agencies that help and support this sector, such as the Saudi Industrial Development Fund, through the Kafalah program. In this endeavor, BAJ is currently at the second highest tier, and aims to become on top in 2019.

Looking forward, we are very confident that we can show a very strong turnaround and have BAJ become one of the top service provider for SME's in the kingdom.

In 2018, the bank continued to post strong asset growth driven by building a strong customer franchise with retail and corporate customers ranging from large corporations to SMEs, applying extensive focus toward cross-selling of the bank's retail, treasury, corporate, finance and investment banking franchise. Many initiatives were successfully completed and contributed to increase the business profitability and customer service quality. Moreover, many key initiatives were undertaken to enhance the bank efficiency in further boosting its services thereby increasing our market share, revenues and reduce expenses.

Vision 2030 initiative, BAJ remains steadfast in implementing its "Social Responsibility" programs through the conclusion of various social partnerships with non-profit institutions and charities, and by introducing a set of high-quality programs targeting all categories of the society across the Kingdom, covering more than 96 cities and regions in the Kingdom.

The number of male and female youths who benefited from the various activities and functions of ('Khair Aljazira le Ahl Aljazira') program in 2018 exceeded 8,800 participants in different cities and regions of the Kingdom of Saudi Arabia. In 2018, BAJ offered the 2nd version of "Mubtakeroon" program designed to support creative ideas from university students in several technical, industrial, commercial and medical fields and helping winners to realize their dreams and implement their projects.

The efforts of the Social Responsibility Group were rewarded by the bank's winning HRH Princess Seta Bint Abdulaziz for Excellence in social work "National Achievement Award" in its fifth session for BAJ Social Responsibility Program ('Khair Aljazira le Ahl Aljazira').

Bank Aljazira's efforts did not go unnoticed; with rewards not only in terms of profitability, but in gaining further accolades and distinctions in the international sphere. In 2018, Bank Aljazira received various awards. The notable the Princess Sitah Award already mentioned was followed by Gold and Silver Medals in Global Contact Center Awards by Aljazira Phone, and The Critics' Choice for Best Islamic Digital Banking and Best Islamic Retail Innovation Awards.

We will continue to lay the foundations for growth and returns. Our ongoing commitment to enhancing our customer offerings, investing in technology, building scale in our core businesses, and strengthening our competitive advantage, underpins our confidence that we can deliver strong results for shareholders.

In conclusion, I would like to thank our clients for their solid trust in Bank Aljazira. I also take this moment to express my gratitude to the Ministry of Finance, the Saudi Arabian Monetary Authority, Our esteemed Chairman and Board of Directors, BAJ senior management and all the staff for their resounding efforts, in confidence that we will continue along this path and success story.

May Allah the Almighty always guide us towards unending success in the future.

Nabil AlHoshan

CEO and Managing Director


Flax
Textiles
Wool
Fur
Sateen
Silk
Oil
Gas
Electric power
Gold
Platinum

Board of Directors Report

The Board of Directors is pleased to present the Bank' s annual report and consolidated financial statements for the financial year ended 31 December 2018

Introduction

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

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

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SAR 10 each.

Five-year financial highlights

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

Financial highlights

(In SAR millions, except where indicated)	2014	2015	2016	2017	2018
Loans and advances, net	41,245	42,174	42,099	39,790	40,897
Total assets	66,554	63,264	66,319	68,287	73,003
Customer deposits	54,569	49,765	51,602	50,278	51,804
Total Liabilities	60,396	55,851	58,216	59,459	61,759
Shareholders' equity	6,158	7,413	8,104	8,829	11,244
Net income	572	1,287	872	858	1,000
Total Operating income	2,226	2,922	2,519	2,580	2,718
Net income growth (%)	(12.01)	124.84	(32.26)	(1.65)	16.65
Total Operating income growth (%)	21.04	31.23	(13.79)	2.43	5.36
Return on average equity (%)	9.63	18.97	11.24	10.13	9.97
Return on average assets (%)	0.90	1.98	1.35	1.27	1.42
Earnings per share (SR)	1.01	2.27	1.54	1.51	1.33

Note: The Earnings per Share have been retrospectively adjusted for prior periods to reflect the effect of the changes in weighted average number of shares due to bonus shares issued in 2017 and due to bonus element included in the right shares issued during the current year.

Loans and Advances, net:

Totaled SAR 40.9 billion at the year-end, registering an increase of 2.8% compared to SAR 39.8 billion in 2017. The Bank continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk concentration.

Placements with Other Banks and Other Financial Institutions:

Total outstanding at the end of 2018 were SAR 1.3 billion versus SAR 369 million in 2017. This is a short term activity and represents the day to day liquidity / cash flow management.

Investments Book:

The investment portfolio comprises of Sukuks, investment in equities and mutual funds. Total portfolio at the year-end was SAR 24.1 billion versus SAR 20.4 billion in 2017, increased by 18.1%. This increase is mainly due to investment in government Sukuks.

Total Assets:

Reached SAR 73 billion in 2018, as compared to SAR 68.3 billion in 2017, representing an increase of 6.9%.

Customer Deposits:

Increased by 3%, reaching SAR 51.8 billion in 2018, as compared to SAR 50.3 billion in 2017. The increase is mainly associated with the increase in Demand deposits by 6.5 % from 25 billion to 26.6 billion.

Total Liabilities:

Reached SAR 61.8 billion in 2018, as compared to SAR 59.5 billion in 2017, representing an increase of 3.9%.

Geographical Analysis of Income

The table below depicts region-wise analysis of the total operating income of the Bank. The operating profit of Aljazira Capital (100 % subsidiary of the Bank) for the year ended amounted to SAR 172 million and is included below in groups total operating income:

Regions	Central	Eastern	Western	Head office	Total
			SAR in 000's		
Total Groups Operating Income	1,036,822	417,394	62,872	1,201,010	2,718,098

Main Business Segments/Sectors

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

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

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

2018 (SR'000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Management	Takaful Ta'awuni	Others	Total
Total operating income	1,238,830	433,391	1,092,328	172,135	19,140	(237,726)	2,718,098
Total operating expenses	(886,675)	(380,059)	(299,096)	(137,638)	(28,144)	3,393	(1,728,219)
Share in profit of associates	-	-	-	1,490	-	8,938	10,428
Net income/(loss)	352,155	53,332	793,232	35,987	(9,004)	(225,395)	1,000,307

Subsidiaries and Associates

Following table summarizes the names of every subsidiary/associate, its share capital, the Bank's ownership percentage in it, its main business, its principal country of operation and its country of incorporation as at 31st December 2018:

Subsidiaries / Associates	Country of incorporation	Country of operation	Nature of business	Share Capital	Ownership
Subsidiaries:					
Aljazira Capital Company	Saudi Arabia	Saudi Arabia	Brokerage, margin financing and asset management	SAR 500 million	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	SAR 1 million	100%
Aman Insurance Agency Company	Saudi Arabia	Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	SAR 500 Thousand	100%
Aljazira Securities Limited	Cayman Islands	Saudi Arabia	Carry out Shari'ah compliant derivative and capital market transactions	Authorized capital: 50,000 USD Paid up capital: 100 USD	100%
Associate:					
Aljazira Takaful Ta'awuni Company	Saudi Arabia	Saudi Arabia	Fully Shari'ah compliant protection and saving products	SAR 350 million	35%

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

Banks Profitability and growth in Financial Assets and Liabilities

The Bank has recorded a net profit of SAR 1,000.3 million for the year ended December 31, 2018. This represents an increase of SAR 142.8 million or 16.7 % compared to SAR 857.5 million for the same period in 2017. Net income has increased by 16.7% mainly due to an increase in operating income by 5.4%. This increase in operating income is mainly attributable to an increase in net special commission income by SAR 120.7 million, or 6.6% from SAR 1,817.6 million to SAR 1,938.3 million and net exchange income by SAR 42 million, or 28% from SAR 149.8 million to SAR 191.8 million. The effect of this increase was partially offset by decrease in fee and commission income (net) by SAR 17.4 million, or 2.9% from SAR 600.9 million to SAR 583.5 million. Earnings per share were SAR 1.33 for the year ended 31 December 2018 against SAR 1.51 for the same period last year, the decrease is due to an increase in weighted average number of shares due to right issue of 300 million share during the year.

Total assets were SAR 73 billion at 31 December 2018, compared with SAR 68.3 billion at 31 December 2017, an increase of 6.9 % or SAR 4.7 billion. Net loans and advances to customers amounted to SAR 40.9 billion at 31 December 2018, with an increase of SAR 1.1 billion, or 2.8 %, from SAR 39.8 billion at 31 December 2017. The Bank's investment portfolio totaled SAR 24.1 billion at 31 December 2018, an increase of SAR 3.7 billion or 18.1 % compared with SAR 20.4 billion at 31 December 2017. Total liabilities were SAR 61.8 billion at 31 December 2018, compared with SAR 59.5 billion at 31 December 2017, an increase of 3.9 % or SAR 2.3 billion.

Customer deposits totaled SAR 51.8 billion at 31 December 2018, increase of SAR 1.5 billion, or 3.0 %, compared with SAR 50.3 billion at 31 December 2017. Subordinated Sukuk totaled SAR 2.0 billion at 31 December 2018.

Borrowings and Sukuk in issue

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

SAR 2,000 million 10 year subordinated sukuk

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

As at 31 December 2018	
	SAR'000
SAR 2,000 million 10 year subordinated sukuk	2,000,000
Total	**2,000,000**

Borrowing from Banks

Total outstanding at the end of 2018 were SAR 6.4 billion versus SAR 6.2 billion in 2017, higher by 4.1%. This is a short term activity and represents day to day liquidity / cash flow management.

Staff Benefits and Schemes

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

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

According to the Labor Law of the Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefits are due for payment at the end of a staffer's service period. The total accrued amount of End of Service Benefits outstanding at the end of December 2018 totaled SAR 266 million.

Key Risks faced by the Bank

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

Some of the most prominent regional and global issues during the year have been:

- Oil exports rose to record high as the kingdom made efforts to maintain oil market stability as it seeks to compensate for supply shortages after the United States imposed sanctions on exports in some countries. However, as a result of subsequent lifting of sanctions on oil exports in eight countries, oil prices falls again.
- Economic growth is expected to pick up given strong fiscal stimulus and diversification efforts to support the non-oil economy.
- External risks include further oil price falls due to a global oil supply glut, as the world's top three producers operate at record levels.
- Greater trade protectionism and a synchronized slowdown in global growth could also reduce demand for oil, leading to a further fall in prices.

1. Maintenance of Capital Adequacy:

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

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

2. Liquidity Management:

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a proactive identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets. The Bank has also implemented a comprehensive ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity crunches.

3. Asset Quality:

Since January 2018 when IFRS-9 kicked in, the Implementation of IFRS 9 is unlikely to provide any further noticeable impact on the assets of the banks throughout the Kingdom. The Bank has therefore, focused on ensuring that the quality of assets, across its lines of businesses remains of a satisfactory quality, thus rationalizing any unwarranted classifications, provisioning and / or write-offs. The Bank has remained selective across all business segments and has approached its target customer segments with a well-defined approach based on:

- A clearly defined Credit Policy.
- Well defined Target Market, and Risk Acceptance Criteria
- Identified industry segments in terms of risks, rewards, regulatory requirements and their performance trends.
- Risk Appetite Framework to ensure risk associated with a particular Business line is duly reflected in the underlying Risk Appetite Matrices to be monitored, reviewed and reported in accordance with Board approved limits.
- Maintenance of a Target Obligor Risk Rating across its business segments and portfolios to ensure that the same supports the planned asset quality growth, probability of default and cost of credit estimates. The Bank has implemented IFRS-9 through a structured approach to adopt IFRS-9 Expected Credit Losses (ECL) framework in line with the regulatory mandate.

Market Risk Management

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

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

Market Risks

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

Management of Market Risks

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

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

Foreign Exchange Risks

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

Equity Price Risk

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

Capital Treatment for Market Risk

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

Stress Testing

The Bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios, and undertake the appropriate measures. Given the current economic environment, a broad spectrum of scenarios including liquidity and impact on sources of funding are considered in line with applicable regulatory guidelines. These scenarios are updated and may be

redefined on an ongoing basis. The Stress Test results are reported to Senior Management, Board Risk Committee, Management Risk Committee, the Board and SAMA to facilitate and manage risk with more transparency.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the Bank maintains an adequate balance of cash and cash equivalents. The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Liquidity Risk Management Approach

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

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short term and long term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix which is also considered as part of Contingency Funding Plan (CFP) and tested on a regular basis;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained above the required levels.
- Conducting semi-annual liquidity stress testing under various scenarios as part of prudent liquidity planning to examine the effectiveness and robustness of the liquidity plans.
- Instituting ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate to focus on the Bank's Liquidity Risk Assessment.

All liquidity policies and procedures are governed by the Market Risk Policy Manual which is subject to review and approval every year by the Market Risk Policy Committee. In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities in the form of cash and liquid assets which can be converted into cash within a period not exceeding 30 days. The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

Operational Risks

Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank.

Management of Operational Risks

The Operational Risk Framework is designed to establish an effective association between the risk management and the risk owners represented by various Business & Support groups within the Bank. Business & Support groups are responsible to manage the activities and risks within their respective groups, however processes have been established to involve the Operational Risk Division (ORD) to facilitate risk identification, measurement, assessment and control.

During the year, ORD conducted specialized data gathering through meetings with business and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions with the allocated operational risk appetite and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the Bank, a comprehensive risk awareness program is developed and implemented involving management, risk champions and respective risk owners.

Assessment of risks and categorizing them into levels of significance is conducted in consultation with business/ support groups to draw their attention to risks that require management attention.

The tools used to manage and monitor operational risks are as follows.

Risk & Control Self-Assessment (RCSA)

Risk & Control Self-Assessment (RCSA) is a tool to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly as a part of this tool. The RCSA review cycle involves discussions with the business/ support groups and periodic submissions to the Management Risk Management Committee (MRC) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment.

The Bank's comprehensive RCSA program involves facilitation of workshops by ORD to identify risks and control within each business and support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The Bank has also established a Policy and Product Review Committee to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

Key Risk Indicators (KRI)

Key Risk Indicators (KRI) is a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the Bank.

KRIs for business and support groups are defined through workshops and periodically monitored by ORD. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record loss incidents occurring in the Bank to enable analysis of control failures and ensure such incidents do not recur.

The Bank has established an internal loss data collection process through which incidents are reported to ORD for the purpose of recording and further management reporting. A comprehensive Loss Database from 2013 till date is maintained by ORD.

Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements & its scope extends to include:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond & manage adverse events, protect key assets. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

Outsourcing

Complying with SAMA regulations on outsourcing, ORD is involved in reviewing agreements related material outsourcing of banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Bank. The Bank has an intent of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a road map to adopt the new approach as per the timelines suggested by the regulators.

The Bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

Capital Adequacy under BASEL II and BASEL III

The Saudi Arabian Monetary Authority (SAMA) has been at the forefront of ensuring that the Saudi Banking Sector adopts and implements the best practices that Bank for International Settlements (BIS) proposes and has accordingly issued various guidelines to that effect. As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework.

During 2017, Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the existing Basel III framework. These new reforms seek to restore credibility in the calculation of Risk Weighted Assets (RWAs) and improve the comparability of bank's capital ratios. BCBS reforms seek revision to the standardized approaches for calculating Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) and Operational Risk to bring about greater risk sensitivity and comparability. Constraints on using internal models aim to reduce unwarranted variability in banks' calculations of RWAs.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework. With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

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

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

Accounting Standards

The Bank maintains proper books of accounts and records in an accurate manner. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and income tax and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2018 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017 except for changes in accounting policies due to adoption of complete version of IFRS 9 'Financial Instruments', adoption of IFRS 15 'Revenue from Contracts with Customers' and IFRS 7 (revised) 'financial instruments: disclosures'.

Appointment of External Auditors

The External Auditors are responsible for the annual audit and quarterly review of the banks financial statements. The Bank's Annual General Meeting held on 09 May 2018 (corresponding to 23/08/1439) approved the recommendation of the Board of Directors and the Audit Committee to re appoint EY and KPMG Al Fozan and partners as the external Auditors of the Bank for the financial year ended 31 December 2018.

Statutory Payments

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

Type of Statutory Payments	SAR in million
Zakat (related to 2017)	20.64
Income Tax (related to 2017)	2.58
Value Added Tax & Withholding Tax	55.96
Additional Zakat and withholding tax for previous years *	114.32
Advance Tax Payment for 2018	7.67
GOSI (including Bank and the employees)	75.36
Visa, Iqama and related services, etc	1.79

The zakat liability due for 2018 has been estimated at SAR 61.75 million that is attributable to Saudi shareholders. The Bank has adequate provision in the books to settle the estimated zakat liability. An amount of SAR 8.66 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.

As per the Bank announcement on 20 December 2018, The Bank has reached a Settlement Agreement with General Authority of Zakat & Tax (GAZT) in order to settle outstanding Zakat liabilities for the previous years up to 2017 against a payment of amount SR 551 million, a 20% advance payment of this settlement has been made this year and the remaining amount will be paid in five equal installments during five years beginning on 1 December 2019 and ending on 1 December 2023.

* This amount includes the amount of SAR 110.3 million as an advance payment from the Settlement Agreement with GAZT in order to settle outstanding Zakat liabilities for the previous years up to 2017.

Penalties and Regulatory Restrictions

Saudi Arabian Monetary Authority penalties

Subject of violation	Previous fiscal year		Current fiscal year	
	No. of Penalties	Total amount of Penalties SAR	No. of Penalties	Total amount of Penalties SAR
Violation of SAMA supervisory instructions	4	410,000	10	486,794
Violation of SAMA instructions for protecting customers	2	15,000	1	55,000
Violation of SAMA instructions related due diligence	Nil	-	2	570,000
Violation of SAMA instructions regarding the level of performance of ATMs and point of sale machine	1	20,000	Nil	-
Violation of SAMA instructions for due diligence in Anti money laundering and the financing of terrorism	1	215,000	1	75,000

Other Penalties and Regulatory Restrictions

General Organization for Social Insurance, General Authority of Zakat and Tax and other government related entities have imposed fines on the Bank with a total of SAR 110.5 thousand during 2018 as specified below:

Name of the Authority	SAR in thousand
General Organization for Social Insurance (GOSI)	87.9
General Authority of Zakat and Tax (GAZT)	16.6
Eastern Province Municipality	5.0
Madinah Municipality	0.5
Saudi Industrial Property Authority	0.5
Total	110.5

Related Party Transactions

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

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

	2018 SR' 000	2017 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**56**	71
Due to banks and other financial institutions	**174**	190
Subsidiary companies		
Investments	**501,480**	501,480
Customer deposits	**1,984**	20,407
Due from banks and other financial institutions	**505,825**	656,118
Due to banks and other financial institutions	**290,479**	-
Receivables	**210,184**	184,984
Payables	**15,369**	16,365
Commitments and contingencies	**530,247**	630,247
Notional values of outstanding derivative contracts	**2,958,992**	4,369,369
Associate and affiliate entities with significant influence		
Investments	**135,770**	134,071
Customer deposits	**374,417**	401,763
Accrued expenses payables	**3,700**	2,211
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**103,569**	120,473
Customers' deposits	**47,311**	85,055
Contingencies and commitments	**2,427**	6,447

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

	2018 SR' 000	2017 SR' 000
Mutual Funds under subsidiary's management		
Investments	33,456	60,870
Loans and advances, net	392,349	356,334
Customer deposits	548	531

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

	2018 SR' 000	2017 SR' 000
Special commission income	131,574	58,979
Special commission expense	155,321	57,990
Fees and commission income	31	132
Custody fee	839	-
Net share of expenses to associate	22,147	15,850
Insurance premium paid	40,311	38,114
Surplus distribution received from associate	1,450	1,524
Claims received	10,486	12,977
Directors' remuneration	7,834	7,562
Dividend received	7,350	5,250
Income under shared service agreements	3,391	3,988
Reimbursement of expense to a subsidiary	103	47
Expenses under revenue sharing agreement	-	3,109
Reimbursement of rent expense	8,825	9,355
Rent expense for branches	2,457	2,345
Operating expenses	92	-

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

	2018 SR' 000	2017 SR' 000
Short-term employee benefits	98,467	89,652
Termination benefits	29,633	25,735

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

The agreements and dealings between the Bank and Aljazira Takaful Taawuni Company (AJT), noting that the total dealings with the company in the previous year reached SAR 92.2 MM. These transactions are deemed to be related party transactions given that below member of the Board of directors of the Bank has direct or indirect interest in them as he is Deputy Chairman of Board of Directors for Bank Aljazira and the Chairman of AJT:

- Engr. Abdulmajeed Ibrahim Al-Sultan

'000 SAR

Nature of Contract	Period of the Contract	Transaction amount in 2018
Cost & Resource allocation arrangement - net amount	Ongoing	22,147
Personal Dinar Insurance Policy	One Year	15,709
Mortgage Insurance Policy	One Year	21,482
Group Life Insurance Policy	One Year	2,387
Staff Bait AlHasan Policy	One Year	733
Dividend Received	Dealings	7,350
Special commission expense	Dealings	10,467
Claims received	Dealings	10,486
Surplus distribution received	One Year	1,450
Total		**92,211**

The agreements and dealings between the Bank and Aljazira Capital, noting that the total dealings with the company in the previous year reached SAR 26.4 MM. These transactions are deemed to be related party transactions given that below members of Board of directors of the Bank had direct or indirect interests in them as they were both board members in the Bank and AJC:

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

'000 SAR

Nature of Contract	Period of the Contract	Transaction amount in 2018
Service Level Agreement	Effective, unless terminated	3,391
Special Commission expense on time deposits	Dealings	228
Special Commission income on money market placements	Dealings	13,114
Rent Expense for branches	Dealings	8,825
Custody fee	Effective, unless terminated	839
Total		**26,397**

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

'000 SAR

Contractor	Name of the related party	Relationship	Nature of Contract	Period of the Contract	Amount Paid in Year 2018
Mr. Ahmed bin Othman Al-Kasabi	Eng. Tarek bin Othman Al-Kasabi	Brother of Mr. Ahmed bin Othman Al-Kasabi	Rental for Al-Hassan Bin Ali Road branch	10 years	277
Dallah Health Care Holding Company	Eng. Tarek bin Othman Al-Kasabi	Board member in Dallah Health Care Holding Company	Rental for ATM in Riyadh	5 years	30
Investor/ Consolidated Company for Real Estate Development Owner/ Consolidated Brothers Co.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Owns part of Consolidated Brothers Co. for development	Rental for Al-Mather Branch	12 years	900
Investor/ Consolidated Company for Real Estate Development Owner / Mr. Ibrahim bin Abdul Mohsen Al-Sultan	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Son of Mr. Ibrahim bin Abdul Mohsen Al-Sultan	Rental for Heteen Branch	12 Years	920
Consolidated Brothers Co.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Owns part of Consolidated Brothers Co. for development	Rental for Al-Rehab Branch	12 years	330
Total					**2,457**

Board of Directors' Assurance

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

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

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

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

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

Description of the Company's policy for dividend distribution

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

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

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

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

c) Out of the remainder of the profit after deduction of the statutory reserve and Zakat and tax, a sum of not less than 2.5% of the paid-up capital shall be allocated for distribution to Saudi and non-Saudi shareholders in proportion to the paid-up part of the shares of the Saudi and non-Saudi shareholders as recommended by the Board of Directors and endorsed by General Meeting. In case the remainder of the profits payable to the shareholders concerned is insufficient for paying such dividend, shareholders may not be entitled to claim the payment thereof in the following year or years. The General Meeting may not resolve to pay a percentage of the dividends which exceeds the percentage that is recommended by the Board of Directors.

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

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

Proposed way to distribute dividends for the year 2018

In 2018, a cash dividend of SR 262.4 million was distributed to the shareholders of the Bank for the financial year 2017 after the approval of the General Assembly which was distributed for eligible shares for distribution which equal to 820 million shares multiplied 0.32 SAR per share.

Based on the Bank's dividend announcement on 6th January 2019, which the Board of Directors of Bank Aljazira recommended on 30/04/1440 H corresponding to 6th January 2019 to distribute cash dividends to the shareholders of the Bank for the fiscal year 2018. Accordingly, the dividends will be distributed in a total amount of SAR 410 million, which equal to 820 million eligible shares for distribution multiplied 0.5 SAR per share. The eligibility of dividends to shareholders registered with the Securities Depository Center by the end of the second trading day after the date of the General Assembly, and will be announced later.

Note that the dividend distribution is subject to the approval of the General Assembly of the Bank, which will be announced later. It should be noted that the cash dividends transferred by the resident financial intermediary to nonresident foreign shareholders will be subject to a deduction withholding tax by 5% in accordance with to Article (68) of the Income Tax Law and Article (63) of its Implementing Regulations.

Issuance of Right Shares

The shareholders of the Bank in their Extra Ordinary General Assembly meeting held on March 19, 2018 (corresponding to 2 Rajab 1439H), approved the increase in number of shares of the Bank from 520 million shares to 820 million shares through a rights issue of 300 million shares at an exercise price of SR 10 per share amounting to SR 3,000 million. During the second quarter, the Bank, after completing all legal formalities issued the rights shares.

Banking Transactions with the Directors, CEO and CFO:

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

Credit Rating

Referred below are the latest credit rating of the bank:

Credit Ratings	Moody's	Fitch Rating
	Oct-2018	Sep-2018
Short term		F2
Long term		BBB+
Baseline Credit - Long term	baa3	
Outlook Rating	Stable	Stable
Deposits - Short term	Baa1 / P-2	

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

a. Board of directors:

S	Name	Present Position	Past Position	Qualifications	Experience
1	Eng. Tarek bin Othman Al-Kasabi	1. 1998 - Member, BAJ Board of Directors 2. 2016 - Chairman, BAJ 3. 1994 – Vice Chairman, Aseer Trading, Tourism and Manufacturing Company 4. 1995 – Chairman, Dallah Healthcare Company 5. 2010 - Chairman, Ataa Educational Company 6. 2012 – Chairman, Sarb Real-Estate Investment Company 7. 2008 – Chairman, Rozam Investment Company 8. 2006 - Board Director, Kingdom University (Kingdom of Bahrain) 9. 2013 – Chairman RZM Gayrimenkul Anonim Sirketi (Turkey) 10. 2013 – Chairman, NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey)	1. 2008 -2013 – Chairman, Aljazira Capital	Bachelor of Civil Engineering, King Saud University - 1976.	Member of the Board of BAJ since 1998, member of Executive Committee, Previous Chairman of Risk Committee. Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia.
2.	Mr. Khalifa bin Abdul Latif Al-Mulhem	1. 2007 - Member, BAJ Board of Directors 2. 1995 – Member of the Board of Saudi White Cement Company 3. 2004 - Chairman of Advanced Petrochemical Company 4. 2012 – Member of the Board of Al Ettifaq Steel Company 5. 2007 - Member of the Board of International General Insurance (IGI) Company (Jordan) 6. 2013 - Member of the Board of Al Jazeera Support Services Company 7. 2017 - Member of the Board of National Shipping Company of Saudi Arabia	1. 1985 – 2002 – Member of The Board of SABB 2. 1987-1994 – Member of the Board of Saudi Spanish Bank, Madrid 3. 2003 – 2012 – Member of the Board of Nama Chemicals Company 4. 2007-2012 – Member of the Board of Saudi United Cooperative Insurance Company (Walaa Cooperative Insurance Co.) 5. 2014-2017 – Member of the Board of GOSI	Bachelor of Business Management, Colorado University, USA – 1978.	Member of the Board of BAJ since 2007, previous membership of SABB Board of Directors. Chairmanship and membership of companies of various other investment activities in and out of the Kingdom of Saudi Arabia.
3.	Mr. Nabil bin Dawood Al Hoshan	1. 2010 – CEO, BAJ 2. 2013 – Managing Director, BAJ 3. 2013 – Member of the Board, Aljazira Capital	1. 1984 – 1998 – Head of Retail Banking Group, Central province, SABB 2. 1998 – 2001 : Head of Retail Banking Services, Eastern Province, SAMBA 3. 2001-2006: Head of Retail Banking, ANB 4. 2006-2010: Director of the Board of SABB Takaful 5. 2006-2010: Head of Retail Banking, SABB	1984- Bachelor of Accounting, University of King Saud, Riyadh	Wide past experience in a number of Saudi banks at Corporate Banking Group, Retail Banking Group and branch network.
4.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 1993 - Member of the Board of Consolidated Brothers for Development Co. 2. 1998 - Member of the Board, Qassim Cement Company - 3. 2004 - Member of the Board, Aljazira Bank 4. 2013 - Chairman of the Board, Aljazira Takaful Taawuni Co. 5. 2013 – Member of the Board, Royal and Sun Alliance Insurance Company (Egypt).	1991 – 2007: Member of the Board, Saudi Packing Materials Manufacturing Company	1989 – Bachelor of Engineering – King Saud University, Riyadh	Member of the Board of Directors of Bank Aljazira since 2004. Chairman of the Board, Aljazira Takaful Ta'awuni Company. Member of the Boards of various other investment companies in and out of the Kingdom of Saudi Arabia.

S	Name	Present Position	Past Position	Qualifications	Experience
5.	Mr. Mohammed Bin Abdullah Al Hagbani	1. 2010 - Member of the Board - Aljazira Capital 2. 2014 - CEO, Astra Industrial Group 3. 2014 – Chairman, Board of Managers, Astra Mining Company. 4. 2016 – Member of the Board of Bank Aljazira. 5. 2016 - Chairman of the Board, Aljazira Capital 6. 2017 – Member of the Board, Herfy Food Services Company	1. 2009-2013 - Member of the Board of Bank Aljazira, representing GOSI 2. 2009-2013 – Member of the Board, National Petrochemical Company 3. 2005-2006: Portfolio Manager, Al Rajhi Bank 4. Member of Advisors Committee, International Investment House, Kuwait 5. 2006-2013: Director of Investment Research, GOSI 6. 2008-2013: Member of Investment Committee, Tawuniya Insurance Company 7. Member of Advisors Committee, Cerberus Capital Partner International (USA) 8. Member of Investment Committee, Apollo Capital Management Company LP (USA) 9. Member of Advisors Committee, Axa Capital Management Company (USA).	2005 – Bachelor of Finance, University of Virginia For Technology, USA	Previous experience at Al Rajhi Bank and GOSI in addition to membership of the Boards of Directors of many financial and investment companies in and out of the Kingdom. Previous membership of the Board of Directors of Bank Al Jazira.
6.	Mr. Abdullah Bin Saleh Al Rasheed	1. 2016 – Member of the Board, Bank Aljazira 2. 2015 – Constituent Partner, CEO and Member of the Board, Adae Financial and Management Consulting Company 3. 2017 – Member of Audit Committee Saudi Gas Cylinder Factory 4. Constituent Partner, CEO - Matjer Insurance World Company 5. 2018 – Member of the Board. Basma Real-Estate marketing Company 6. 2018 – Member of Audit Committee Majid Investment and Real Estate Company	1. 1983-1984, Estimate Budgets Officer, ANB 2. 1984-1988: Financial Affairs Officer, Office of the Educational Attache of KSA in Canada 3. 1988-1992: Financial Affairs Officer, Ministry of Higher Education 4. 1992-2001- Assistant General Manager, Saudi Traveller Cheques Company 5. 2001-2005: Deputy Chief Financial Affairs and member of the Board, Al-Othaim Trading Company 6. 2006-2008: Deputy Chief of Finance and member of the Board of Abdullah Al-Othaim Markets Company 7. 2008-2014: Deputy Chief Officer, Khalid Al Baltan Group Co., Riyadh	1983 – Bachelor of Management, King Saud University, Riyadh.	Previous experience at a number of Financial, Investment, Management and Retail companies

S	Name	Present Position	Past Position	Qualifications	Experience
7.	Mr. Abdulsalam Bin Abdulrahman Alagil	1. 2002: Chairman of the Board of Governors, Saudi 21 Century Saudi Company. 2. 2006: General Manager, Future Markets Co. 3. 2007: Chairman of Board of Governors, Advanced Markets Company 4. 2008: Managing Director and Chairman of the Board, Riyadh Najd National School. 5. Membe of the Board, Kinan Real-Estate Intrnational Development Company 6. 2010: General Manager, Arabian Afras Company. 7. 2013: Director of the Board, Etaam Charitable Society 8. 2013: Chairman of the Board, National Harma Company 9. 2013: Member of the Board, Wadi Harma Company 10. 2014: Member of the Board of Governors, Khumasiat Taiba Company 11. 2014: Member of the Board of Governors, Khumasiat Taba Company 12. 2014: Member of the Board of Governors, Sorooh El Marakez Co. Ltd. 13. 2014: Director of the Board, Asala Holding Company. 14. 2014: Member of the Board, Saudi Arabian General Investment Authority - SAGIA 15. 2014: Director of the Board, Al Andalus Real-Estate Company 16. Managing director, Jarir Commercial Investment Company. 17. 2016: Managing director, Jarir Commercial Development Company. 18. Chairman of the Board, Imtiaz Al Arabia Company. 19. Member of the Board of Directors, Bank Aljazira. 20. 2017: Chairman of the Board of Governors, Arabian Horses Urban Development Company 21. 2017: Chairman of the Board of Governors, Future Homes Company For Real-Estate Development and Investment. 22. 2016: Mamber of the Board, Hamat Real-Estate Company 23. 2016: Mamber of the Board of Governers, AlDhahia AlMithalia Company 24. 2017: Chairman of the Board of Governors, Rabia fal company 25. 2017: Chairman of the Board of Governors, Al Dhahia Al Mithalia Company 26. 2017: Manager, Borooj Acquisition Company 27. 2017: Manager, North Abhor Company 28. 2018: Member of the Board, Imtiaz Sports Company	1. 2008-2015: Member of the Board of Directors, Jarir Holding Company 2. 2009-2013: Member of the Board of Directors, Malaz Insurance and Reinsurance Company. 3. 2010-2013: Director of the Board, Herfy Food Services Company 4. 2013-2016: Member of Advisory Committee, Capital Market Authority	1990 – Bachelor of Science – Industrial Management – King Fahd University For Petroleum and Minerals	wide experience gained from occupying membership and chairmanship of many companies and institutions of various investment activities.

S	Name	Present Position	Past Position	Qualifications	Experience
8.	Dr. Saeed Bin Saad Al Martan	1. 2016: Member of the Board of Directors of Bank Aljazira. 2. 2018: Chairman of the Board, Spare Parts Company Limited, Jeddah	1. 1972-1980: Assistant Teacher for higher studies, University of Riyadh 2. 1980-1992: Assistant Professor, Economics Department, King Saud University 3. 1984-1987: Acting and Vice Dean, University Studies Center For Girls, King Saud University 4. 1987-1992: Associate professor at Economics Department and Head of Economics Department, University of King Saud. 5. 1992-1998: Assistant General Manager and Manager of Islamic Banking Services Department, NCB 6. 1998-1999: Executive Advisor to the Chairman of Head Office Committee, NCB 7. 1999-2000: Executive Advisor to the Chairman and Managing Dirctor, NCB 8. 2000-2004:CEO, Shamil Bank of Bahrain 9. 2000-2004: Deputy Chairman of the Board, Shamil Yemen-Bahrain Bank (Yemen) 10. 2000-2004: member of the Board of Directors, Faisal Financial Foundation. (Switzerland) 11. 2001-2004: Member of the Board of Directors, International Islamic Financial Market (Bahrain) 12. 2002-2005: Member of the Board of Directors, Solidarity Islamic Takaful Company (Bahrain) 13. 2004-2005: Executive Vice CEO, Dar Al Mal Al-Islami (Switzerland) 14. 2005-2006: Member of the Board of Governor, Al-Raed Islamic Fund 15. 2006-2008: CEO, Al-Sarat Financial and Economic Consulting Center. 16. 2008-2012: Chairman of the Board, Adeem Financial Company 17. 2009-2015: Member of the Board of Governors and General Manager, Business Solutions Company 18. 2007-2016: Chairman of the Board of Governors, Gulf Consultants Company for Financial Consultations. 19. 2005-2017P Chairman of the Board of Mnages, AlRiyadia Information Technology Company 20. 2015-2017: Member of the Board, Fortune Lights Real-Estate Investment Company.	1971: Bachelor of Economics and Political Science, Riyadh University 1975: Masters Degree in economics, Nebraska Lincoln, USA 1980: PhD in Economics- Nebraska Lincoln University (USA)	Past wide experience at a number of local and international financial and investment institutions.
9.	Mr. Ibrahim Bin Abdulaziz Al-Shaia	1. 2014: Manager Finance, GOSI 2. 2016: Member of the Board of Directors, Bank Aljazira.	1. 2002 – 2004: Financial Auditor, Al-Rashid Accountants, Auditors and Legal Consultants. 2. 2008-2009: Part-time advisor for development of financial and electronic administrative work, International Accounting and Auditing Authority for GCC Countries. 3. 2011-2014: Director of the Board, Safwa Cement Company 4. 2011-2015: Head of Budget Department, GOSI	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, USA	Past and present experience in accounting and auditing fields at various financial and investment institutions

b. Committee Members

S	Name	Present Position	Past Position	Qualifications	Experience
1	Eng. Tarek bin Othman Al-Kasabi	2016: Chairman of the Executive Committee, BAJ	1. 1998-2015: Member of BAJ Executive Committee 2. 2013-2015: Chairman of BAJ Risk Committee	Bachelor of Civil Engineering, King Saud University - 1976	Member of the Board of BAJ since 1998, member of Executive Committee, Previously Chairman of Risk Committee. Member of the Boards of many investment companies in and out of the Kingdom of Saudi Arabia
2	Mr. Khalifa bin Abdul Latif Al-Mulhem	1. 2007: Member of BAJ Executive Committee 2. 2016: Chairman of BAJ Remuneration and Nomination Committee	1. 2009-2011: Chairman of BAJ Risk Committee 2. 2013-2015: Member of of BAJ Risk Committee	Bachelor of Business Management, Colorado University, USA – 1978.	Member of the Board of BAJ since 2007, past membership of SABB Board of Directors. Chairmanship and membership of various investment companies in and out of the Kingdom of Saudi Arabia
3	Mr. Nabil bin Dawood AlHoshan	1. 2013: Member of BAJ Executive Committee	1. 2013-2015: Member of of BAJ Risk Committee 2. 2013-2015: Member of BAJ Remuneration and Nomination Committee	1984- Bachelor of Accounting, University of King Saud, Riyadh	Various past experience in a number of Saudi banks at Corporate Banking Group, Retail Banking Group and branch network
4	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 2016: Member of BAJ Executive Committee 2. 2016-2017: Member of Khair Aljazira Le-Ahl Aljazira Committee. 3. 2018 - Chairman of Khair Aljazira Le-Ahl Aljazira Committee.	1. 2004-2012: Member of BAJ Executive Committee 2. 2004-2009: Chairman of BAJ Audit Committee	1989 – Bachelor of Engineering – King Fahd University For Petroleum and Minerals	Member of the Board of Directors of Bank Aljazira since 2004. Chairman of the Board, Aljazira Takaful Ta'awuni Company. Member of the Boards of other investment companies in and out of the Kingdom of Saudi Arabia
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	1. 2016: Member of BAJ Executive Committee 2. 2016: Member of of BAJ Risk Committee	1. 2010-2013: Member of Audit Committee, Saudi Fransi Insurance Company. 2. 2013-2015: Chairman, Audit Committee – Elite Cement Company	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, USA	Previous and present experience in accounting and auditing fields at financial and investment institutions
6	Mr. Mohammed Bin Abdullah Al Hagbani	1. 2012: Member of Investment Committee, Jazira Capital 2. 2016: Chairman of BAJ Audit Committee	1. 2009-2013: Chairman of Audit Committee, National Petrochemical Company 2. 2010-2013: Chairman of BAJ Audit Committee	2005 – Bachelor of Finance, University of Virginia For Technology, USA	Past experience at Al Rajhi Bank and Gosi in addition to past membership of the Board of Directors of Bank Aljazira.
7	Mr. Abdusalam Bin Abdulrahman Al Agil.	1. 2001: Chairman of Audit Committee, Jarir Marketing Company 2. 2008: Member of Investment Committee, Kinan International Real-Estate Development Company 3. 2014: Member of Executive Committee, Asala Holding Company 4. 2014: Member of Audit and Risk Committee, General Investment Authority 5. 2016: Member of BAJ Remuneration and Nomination Committee	1. 2013-2016: Member of Advisors Committee, CMA	1990 – Bachelor of Science – Industrial Management – King Fahd University For Petroleum and Minerals	Wide experience gained from occupying membership and chairmanship of many companies and institutions of various investment activities

S	Name	Present Position	Past Position	Qualifications	Experience
8	Dr. Saeed bin Saad Almartan	1. 2016: Chairman of BAJ Risk Committee		1971: Bachelor of Economics and Political Science, Riyadh University 1975: Masters of Economics, IOWA University, USA 1980: PhD. of Economics, Nebraska Lincoln University, USA	Past wide experience at a number of local and international financial and investment institutions
9	Mr. Abdullah Bin Saleh Al Rasheed	1. 2016: Member of BAJ Risk Committee 2. 2016: Member of BAJ Remuneration and Nomination Committee 3. 2017: Member of Audit Committee, Saudi Gas Cylinder Factory. 4. 2018- Member of Audit Committee Majid Investment & Real Estate Development Company 5. 2018- Member of the Board Basma Real Estate Marketing Company		1983 – Bachelor of Management, King Saud University, Riyadh.	Past experience at a number of financial, consulting, administrative and retail companies
10	Mr. Fawaz Bin Mohammed Al-Fawaz	1. 2012: Member of BAJ Audit Committee 2. 2013: Member of Audit Committee, Malaz Insurance Company 3. 2015: Chief Financial Officer, National Industrialization Company	1. 1983-1999: Assistant Deputy Head of Finance, SABIC 2. 2000-2004: Director General of Services, Accounting Department, SABIC 3. 2004-2009: Director General of Finance, SABIC 4. 2007-2015: Deputy Chairman of the Board and Chairman of Audit Committee, Yanbu National Petrochemical Company	1983: Bachelor of Accounting, King Saud University	Wide past experience in accounting and auditing fields at investment institutions.
11	Mr. Taha Bin Mohammed Azhari	1. 2012: Member of BAJ Audit Committee 2. 2015: Senior Financial Officer, Saudi Civil Aviation Company Holding 3. 2017: Member of the Board of Directors, Batec Logistics and Investment Company 4. 2017: Director of the Board, Zahrat Al Waha Company.	1. 1993-1995: Financial Auditor, Arthur Anderson, Riyadh 2. 1995-1998: Internal Auditor, SAMBA Group 3. 1998-2001: Compliance and Quality Assurance Officer, SAMBA Group 4. 1999-2001: Internal Auditor, SAMBA Group 5. 2001-2004: Head of Internal Audit and Risk Group, Al-Othaim Trading Group. 6. 2004-2008: General Manager Finance Department, Saudi Super Stores Company (Carrefour) 7. 2008-20015: Economic Advisor to the CEO, National Water Company. 8. 2013-2016: member of Audit Committee, Aljazira Capital	1993: Bachelor of Accounting, King Saud University	Wide past experience in accounting and auditing fields at many financial and investment institutions in and out of the Kingdom
12	Mr. Abdulaziz Bin Ibrahim Al-Hadlaq	1. 2013: Member of Khair Aljazira Le-Ahl Aljazira Committee. 2. 2017: Advisor to the Minister of Labour and Social Development, Ministry of Labour and Social development	1. 1996-1998: Assistant General Manager, International Organizations Affairs, Ministry of Labour and Social Affairs. 2. 1998-2005: General Manager, International Organizations Affairs, Ministry of Labour and Social Affairs 3. 1996-2005: Member of the Board, International Work Organization 4. 2005-2006: General Supervisor of Public Affairs and Social Media Department, Ministry of Social Affairs 5. 2005-2007: Director of International Cooperation, Ministry of Social Affairs For Social Development 6. 2007-2011: Deputy Assistant Minister, Ministry of Social Affairs For Social Development 7. 2001-2013: Deputy Minister, Ministry of Social Affairs For Social Development 8. 2013-2017: Member of Shura Council	1982: Bachelor of Social Services, King Saud University 1984: Diploma of Community Development, Research and Training Center. 1991: Diploma of International Development, Missouri Columbia University, USA 1992: Masters of Community Development, Missouri Columbia University, USA	Past experience at various departments of the Ministry of Social Affairs in addition to membership of many international community-related organizations

C. Executive Management

Name: **Mr. Nabil AlHoshan**

Position: Chief Executive Officer and Managing Director

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

Name: **Mr. Yasser Al-Hedaithy**

Position: Head of Treasury Group

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

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

Position: Head of Human Capital Group

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

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

Position: Head of Private Banking Group

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

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

Position: Head of Retail Banking Group

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
London Business School - UK	Business Administration	Master Degree	2012

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

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

Name: **Mr. Hazim AL Megren**

Position: Acting Head of Corporate and Institutional Banking Group

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
King Saud University - KSA	Computer Information Systems	B.A. Computer Science	1995

Previous positions				
Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banking	Listed Joint-Stock Company	SAMBA	Senior Relationship Manager (Assistant General Manager)	1995-2003
Banking	Closed Joint-Stock Company	Gulf International Bank	Corporate Banking Group (Vice President and Team Leader)	2003-2008
Banking	Listed Joint-Stock Company	Bank Aljazira	Regional Head Central Region Corporate Banking	2008-2018

Current Positions				
Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banking	Listed Joint-Stock Company	Bank Aljazira / Corporate & Institutional Banking Group	Vice President and Acting Head of Corporate and Institutional Banking Group	01 June 2008

Name: **Mr. Ahmed Al Hassan**

Position: Chief Operating Officer

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

Name: **Mr. Shahid Amin**

Position: Chief Financial Officer

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

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

Position: Head of Legal and Board Secretary

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

Name: **Dr. Fahad Al-Elayan**

Position: Head of Sharia and Social Responsibility Group

Educational and professional qualifications

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

Previous positions

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

Current Positions

Sector	Legal Entity	Company/Organization	Position	Appointment Date
Education	Governmental Organization	Al Imam Mohammed Bin Saud Islamic University	Professor of Curricula and Methods of Language Teaching	2001
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Social Responsibility	2008
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Senior Vice President and Head of Sharia and Social Responsibility Group	2015

Name: **Mr. Ibrahim Zaid Al-Gomllas**

Position: Acting Head of Internal Audit Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Arkansas State University	Computer Information System	Bachelors Degree	1989

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Governmental	Government	Ministry of Finance	System Analyst	1989-1993
Banks and Financial Services	Listed Joint-Stock Company	Riyad Bank	Senior System Analyst	1993-1997
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Assistant General Manager - Operation & Support Group	1997-2001
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Assistant General Manager – Internal Audit Group	2001-2010
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Assistant General Manager – Corporate Banking Group	2010-2012

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banking	Listed Joint-Stock Company	Bank Aljazira	Head of Audit Operations Division	2012
Banking	Listed Joint-Stock Company	Bank Aljazira	Acting Head of Internal Audit	2018

Name: **Mr. Osama Al-Ibrahim**

Position: Chief Risk Officer

Educational and professional qualifications

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

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Assistant General Manager Corporate & Investment Banking Group	1996 - 2006
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Corporate Banking Regional Head – Central Region	2006 - 2008
Banks and Financial Services	Listed Joint-Stock Company	BAJ	Head of Corporate Banking	2008 - 2014
Banks and Financial Service	Listed Joint-Stock Company	BAJ	Acting Chief Risk Officer	2014 - 2017

Current Positions

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

Name: **Mr. Sami Al-Rajhi**

Position: Head of Fawri Banking Services Group

Educational and professional qualifications

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

Previous positions

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

Current Positions

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

Name: **Mr. Yaqoob Al Oraini**

Position: Chief Compliance and AML Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Northern Colorado	Social Science & Sociology	Bachelor Degree	1998

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Banking	Listed Joint-Stock Company	SAMBA	Corporate Banking Senior Relationship Manager	1998 - 2004
Banking	Listed Joint-Stock Company	SAMBA	Compliance Senior Manager	2004 - 2005
Banking	Listed Joint-Stock Company	ANB	Private Banking Senior Relationship Manager	2005 - 2008
Banking	Listed Joint-Stock Company	Alawwal Bank	Corporate Banking Support Division Head	2008 - 2011
Banking	Listed Joint-Stock Company	Alawwal Bank	Chief Compliance Officer	2011 - 2018

Current Positions

Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banking	Listed Joint-Stock Company	Bank Aljazira / Compliance	Senior Vice President and Chief Compliance and AML Officer	08 April 2018

Details of the entities in/out of the Kingdom, in which members of BAJ Board of Directors hold/held board membership or management positions:

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ ulisted joint-stock/ limited liability, etc…	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ulisted joint-stock/ limited liability, etc…
(1): Tarek bin Othman Al-Kasabi	1. Aseer Trading, Tourism and Industry Company 2. Dallah Health Services Company 3. Ataa Educational Company 4. Serb Real-Estate Investment Company 5. Rozam Investment Company 6. Kingdom University Company (Bahrain Kingdom) 7. RZM Gayrimenkul Anonim Sirketi (Turkey) 8. NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey)	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom	Listed Joint-Stock Listed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock	1. Aljazira Capital	In Kingdom	Closed Joint-Stock
(2): Mr. Khalifa bin Abdul Latif Al-Mulhem	1. Saudi White Cement Company 2. Advanced Petrochemicals Company 3. Al Ettifaq Steel Industries Company 4. IGA Company (Jordan) 5. Jazira Support Services Company 6. Saudi National Shipping Company	In Kingdom In Kingdom In Kingdom Out of Kingdom In Kingdom In Kingdom	Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock Listed Joint-Stock	1. SABB 2. Namaa Chemicals Company	In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock
(3): Mr. Nabil bin Dawood AlHoshan	1. Aljazira Capital	In Kingdom	Closed Joint-Stock			
(4): Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. Consolidated Brothers for Development Co. 2. Qassim Cement Company 3. Aljazira Takaful Ta'awuni 4. Royal and Sun Insurance Company (Egypt)	In Kingdom In Kingdom In Kingdom Out of Kingdom	Limited Liability Listed Joint-Stock Listed Joint-Stock Listed Joint-Stock	1. Packing and Wrapping Manufacturing Company	In Kingdom	Listed Joint-Stock
(5): Mr. Mohammed Bin Abdullah Al Hagbani	1. Aljazira Capital 2. Astra Industrial Group 3. Astra Mining Company	In Kingdom In Kingdom In Kingdom	Closed Joint-Stock Listed Joint-Stock Limited Liability	1. Al Rajhi Bank 2. International Investment House (KWT) 3. GOSI 4. Tawunieh 5. Cerberus Capital Partener International Company 6. Apollo Capital Management Company (USA)	In Kingdom Out of Kingdom In Kingdom In Kingdom Out of Kingdom Out of Kingdom	Listed Joint-Stock Listed Joint-Stock Government Body Listed Joint-Stock Partnership Closed Joint-Stock

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ ulisted joint-stock/ limited liability, etc…	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ulisted joint-stock/ limited liability, etc…
(6): Dr. Saeed bin Saad Almartan				1. King Saud University 2. NCB 3. Shamil Bank of Bahrain 4. Yemen-Bahrain Al-Shamel Bank (Yemen) 5. Faisal Bank Limited (Pakistan) 6. Faisal Financial Foundation (Switzerland) 7. International Islamic Financial Market (Bahrain) 8. Solidarity Islamic Takaful Company (Bahrain) 9. Dar Al Mal Al-Islami (Switzerland) 10. Al-Raed Islamic Fund (UK) 11. Al-Sarat Financial and Economic Consulting Center.	In Kingdom In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom In Kingdom	Government Body Listed Joint-Stock Listed Joint-Stock Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Non-profit Listed Joint-Stock Closed Joint-Stock Limited Liability Consulting office
(7): Mr. Abdullah Bin Saleh Al Rasheed	1. Adae Financial and Management Consulting Co. 2. Matjer Insurance World Company 3. Basma Real Estate Marketing Company 4. Saudi Gas Cylinder Manufacturing Company 5. Majid Investment and Real Estate Development Company	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Limited Liability Closed Joint-Stock Limited Liability Closed Joint-Stock Closed Joint-Stock	1. ANB 2. Educational Attache of KSA in Canada 3. Ministry of Higher Education 4. Saudi Traveller Cheques Company 5. Al-Othaim Commercial Company 6. Al-Othaim Holding Company 7. Khalid Al Baltan Group, Riyadh	In Kingdom Out of Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Government Body Government Body Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Limited Liability
(8): Mr. Ibrahim Bin Abdulaziz Al Shaia	1. GOSI	In Kingdom	Government Body	1. Al-Rashid Accountants, Auditors and Legal Consultants. 2. International Accounting and Auditing Organization for GCC Countries. 3. Saudi Fransi Insurance Company 4. Safwa Cement Company	In Kingdom In Kingdom In Kingdom In Kingdom	Limited Liability Government Body Listed Joint-Stock Closed Joint-Stock

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ ulisted joint-stock/ limited liability, etc...	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ulisted joint-stock/ limited liability, etc...
(9): Mr. Abdulsalam Bin Abdulrahman Al Agil	1. Saudi 21 Century Company.	In Kingdom	Limited Liability	1. Jarir Holding Company	In Kingdom	Closed Joint-Stock
	2. Jarir Commecial Investments Company	In Kingdom	Closed Joint-Stock	2. Malaz Insurance and Re-Insurance Company	In Kingdom	Listed Joint-Stock
	3. Jarir Commercial Development Company	In Kingdom	Closed Joint-Stock	3. Herfy Food Services Company	In Kingdom	Listed Joint-Stock
	4. Future Markets Company	In Kingdom	Limited Liability	4. CMA	In Kingdom	Government Body
	5. Advanced Markets Company	In Kingdom	Limited Liability			
	6. Riyadh Najd National School.	In Kingdom	Closed Joint-Stock			
	7. Arabian Imtiaz Company	In Kingdom	Closed Joint-Stock			
	8. Etaam Charitable Society	In Kingdom	Charitable Society			
	9. Taiba Khomasia Company	In Kingdom	Limited Liability			
	10. Taba Khomasia Company	In Kingdom	Limited Liability			
	11. Sorooh Al Marakez Company	In Kingdom	Limited Liability			
	12. General Investment Authority	In Kingdom	Government Body			
	13. Kinan International Real-Estate Development Company	In Kingdom	Closed Joint-Stock			
	14. Harma National Company	In Kingdom	Closed Joint-Stock			
	15. Wadi Harma Company	In Kingdom	Closed Joint-Stock			
	16. Asala Holding Company	In Kingdom	Closed Joint-Stock			
	17. Al Andalus Real-Estate Company	In Kingdom	Listed Joint-Stock			
	18. , Arabian Horses For Urban Development Company	In Kingdom	Limited Liability			
	19. Arabian Afras Company	In Kingdom	Close Joint-Stock			
	20. Hamat Real-Estate Company	In Kingdom	Limited Liability			
	21. AlWosta Medical Company	In Kingdom	Limited Liability			
	22. Sihat AlSharq Medical Company	In Kingdom	Limited Liability			
	23. Rabia Fal Company	In Kingdom	Limited Liability			
	24. AlDhahia Al Mithalia Company	In Kingdom	Limited Liability			
	25. Borooj Acquisition Company	In Kingdom	Limited Liability			
	26. North Abhor Company	In Kingdom	Limited Liability			
	27. Riyadh Imtiaz Company	In Kingdom	Limited Liability			

Composition of the Board of Directors and categories of membership:

Executive member/ Non-Executive member / Independent member

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

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

During the 55th extra-ordinary general meeting held on 19/03/ 2018, the 56th ordinary general meeting held on 09/05/2018 and the 57th ordinary general meeting held on 19/12/2018, some shareholders raised questions, inquiries and suggestions to the chairman and members of the Board regarding the bank's performance and results achieved for the fiscal year 2018. Clarifications and answers were made to all the questions and suggestions raised regarding the bank's performance and its Present and Future plans, with the participation of the chairman and Board members.

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

1) Board Executive Committee

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

The Executive Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabi Awal 1437 H (03 January 2016). The Committee held 9 meetings during 2018 (10 meetings in 2017), attended by members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 9 (nine) meetings								
			1st. meeting 29.01 2018	2nd. meeting 21.02 2018	3rd. meeting 19.03 2018	4th. meeting 09.05 2018	5th, meeting 03.06 2018	6th. meeting 16.09 2018	7th. meeting 24.10 2018	8th. meeting 21.11 2018	9th. meeting 19.12 2018
1	Eng. Tarek bin Othman Al-Kasabi	Chairman of Executive Committee	√	√	√	√	√	√	√	√	√
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member	√	√	√	√	√	√	√	√	√
3	Mr. Khalifa bin Abdul Latif Al-Mulhem	Member	√	√	√	X	√	√	√	√	√
4	Mr. Nabil bin Dawood Al-Hoshan	Member	√	√	√	√	√	√	√	√	√
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member	√	√	√	√	√	√	√	√	√

2) Audit Committee:

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

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

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

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

The Audit Committee was re-formed for this term at the Board of Directors Meeting No. 196 held on 23 Rabia Awal 1437H (03 Jan 2016). The Committee held 6 meetings during 2018 (6 meetings in 2017), attended by the Chairman and Members, as shown below table:

	Name	Functional Duties	No. of meetings: 6 (Six) meetings					
			1st. meeting 28.01.2018	2nd. meeting 01.04.2018	3rd. meeting 01.05.2018	4th. meeting 23.07.2018	5th, meeting 28.10.2018	6th. meeting 10.12.2018
1	Mr. Mohammed Bin Abdullah Al Haqbani	Chairman of Audit Committee	√	√	√	√	√	√
2	Mr. Fawaz Mohammed Al Fawaz	Member of Audit Committee	√	√	√	√	√	√
3	Mr. Taha Bin Mohammed Azhari	Member of Audit Committee	√	√	√	√	√	X

3) Nomination and Remuneration Committee (REMCO)

The Nomination and Remuneration Committee is a Board subcommittee reporting to the Board of Directors following the issuance of BAJ's Governance Policy. The Annual General Meeting sets, at a recommendation by the Board of Directors, the Committee's terms of reference. These terms of reference shall provide for the Committee's powers and responsibilities, its member nomination rules, membership term and remunerations. The functions and responsibilities of the committee focuses on recommending nominations to the Board of Directors as per the approved policies and standards, performing annual reviews on the skills required for the membership of the Board of Directors, performing reviews of the Board of Directors' structure and recommending those changes that can be carried out.

The Committee is also responsible for ensuring the independence of independent members and non - existence of any conflict of interests if any Director of the Board is also a member in any other company's board of directors, ensuring recommended appointment is commensurate with the proper skills and required qualifications, and development and review of remuneration of directors and senior executives.

The Nomination and Remuneration Committee was formed for the duration of the Board's term at the Board's Meeting No. 196 held on 23 Rabie I, 1437H (corresponding to January 03, 2016). The Committee held three meetings during 2018 (2 meetings during 2017), attended by the Chairman and Members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 3 (three) meetings		
			1st. meeting 15.02.2018	2nd.meeting 24.09.2018	3rd. meeting 19.12.2018
1	Mr. Khalifa bin Abdul Latif Al-Mulhem	Chairman of the Nomination and Remuneration Committee	√	√	√
2	Mr. Abdulsalam Bin Abdulrahman Alagil	Member of the Nomination and Remuneration Committee	√	√	√
3	Mr. Abdullah Bin Saleh Al Rasheed	Member of the Nomination and Remuneration Committee	√	√	√

4) Board Risk Committee

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

The Board Risk Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabie I, 1437 H (corresponding to January 03, 2016). The Committee held 4 meetings during 2018 (4 meetings in 2017), attended by the chairman and members of the Committee as described in the table below:

	Name	Functional Duties	No. of meetings: 4 (Four) meetings			
			1st. meeting 20.02.2018	2nd. Meeting 08.05.2018	3rd. meeting 17.09.2018	4th. Meeting 12.12.2018
1	Dr. Saeed bin Saad Almartan	Chairman of the Board Risk Committee	√	√	√	√
2	Mr. Abdullah Bin Saleh Al Rasheed	Member of the Board Risk Committee	√	√	√	√
2	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Board Risk Committee	√	X	√	√

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

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

The Committee of the 'Khair Aljazira le Ahl Aljazira' program for the current term was re-formed at the Board of Directors' meeting (196) held on 23 Rabi I, 1437 H (corresponding to 03 January 2016). The Committee was formed under the chairmanship of Engineer Abdulmajeed Bin Ibrahim Al-Sultan and membership of Mr. Abdulaziz Bin Ibrahim Al-Hadlaq and Dr. Fahd Bin Ali Al-Elayan as per SAMA no-objection in their letter No. 391000052089 dated 06.05.1439 which was received on 28.01.2018. The Committee held 4 meetings during 2018 (2 meetings in 2017), as below:

	Name	Functional Duties	No. of meetings: 4 (Four) meetings			
			1st. meeting 01.02.2018	2nd. meeting 23.05.2018	3rd. meeting 02.10.2018	4th. Meeting 10.12.2018
1	Eng. Abdulmajeed bin Ibrahim Al-Sultan	Chairman of the 'Khair Aljazira le Ahl Aljazira' program Committee	√	√	√	√
2	Mr. Abdul Aziz bin Ibrahim Al-Hadlaq	Member of the 'Khair Aljazira le Ahl Aljazira' program Committee	√	√	√	√
3	Dr. Fahd Bin Ali Al Elayan	Member of the 'Khair Aljazira le Ahl Aljazira' program Committee	√	√	√	√

Details of the dates of shareholders general meetings held during the fiscal year 2018 and names of board of directors who attended these meetings:

S	Name	Attendance record		
		1st. meeting 19.03.2018	2nd.meeting 09.05.2018	3rd.meeting 19.12.2018
1	Member (1): Eng. Tarek bin Othman Al-Kasabi	√	√	√
2	Member (2): Eng. Abdulmajeed bin Ibrahim Al-Sultan	√	√	√
3	Member (3): Mr. Khalifa bin Abdul Latif Al-Mulhem	√	X	√
4	Member (4): Mr. Nabil bin Dawood Al-Hoshan	√	√	√
5	Member (5): Mr. Mohammed Bin Abdullah Al Hagbani	√	√	√
6	Member (6): Dr. Saeed bin Saad Almartan	√	√	√
7	Member (7): Mr. Abdulsalam Bin Abdulrahman Alagil	√	√	√
8	Member (8): Mr. Abdullah Bin Saleh Al Rasheed	√	√	√
9	Member (9): Mr. Ibrahim Bin Abdulaziz Al Shaia	√	√	√

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

S	Name of Interested Person	No. of shares at the beginning of the year	No. of shares at the end of the year	Net change	Change %
1	National Bank of Pakistan	30,333,332	30,333,332	-	Holding percentage of this shareholder was 5.83% at the beginning of the year, then changed down at the year end to 3.70% due to non-subscription to the rights issue
2	Sheikh Saleh Abdullah Mohammed Kamel	26,000,000	26,000,000	-	Holding percentage of this shareholder was 5% at the beginning of the year, then changed down at the year end to 3.17% due to non- subscription to the rights issue

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

S	Name of interested person	Beginning of the year		End of the year		Net change	% change
		No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Eng. Tarek bin Othman Al-Kasabi	15,913		25,093		9,180	58%
2	• Eng. Abdulmajeed bin Ibrahim Al-Sultan	1,732		2,731		999	58%
	• Brothers Consolidated Co. for Development	34,288,480		54,070,295		19,781,815	58%
3	Mr. Khalifa bin Abdul Latif Al-Mulhem	2,707,468		4,269,468		1,562,000	58%
4	Mr. Nabil bin Dawood Al- Hoshan	3,465		5,464		1,999	58%
5	Mr. Mohammed Bin Abdullah Al Hagbani	1,300		1,300		-	-
6	Dr. Saeed bin Saad Almartan	2,600		1,000		(1,600)	(62%)
7	Mr. Abdulsalam Bin Abdulrahman Alagil	1,300		1,300		-	-
8	Mr. Abdullah Bin Saleh Al Rasheed	1,300		2,050		750	58%
9	GOSI, represented by Mr. Ibrahim Bin Abdulaziz Al Shaia	25,890,372		25,890,372		-	-

* The 55th Extra-Ordnary meeting (Second Meeting) held on 02 Rajab 1439H (19 March 2018) approved the increase of the Bank's capital from SAR 5.2 billion to SAR 8.2 billion which translates into an increase of the number of the bank's shares from 520 million shares to 820 million shares, by rights issue of SAR 3 billion for a nominal value of SAR 10 per share without issuance premium. Eligibility for rights issue was given to the shareholders registered in the bank's registers with the Securities Depository Company as at the end of trading on the above-mentioned General meeting day.

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

Director's name	No of Meetings: 6 (Six) Meetings					
	1st meeting 29/1/2018	2nd meeting 19/03/2018	3rd meeting 09/05/2018	4th meeting 03/06/2018	5th meeting 16/09/2018	6th meeting 19/12/2018
Eng. Tarek Othman Al Kasabi	√	√	√	√	√	√
Eng. Abdulmajeed Ibrahim Al Sultan	√	√	√	√	√	√
Mr. Khalifa bin Abdul Latif Al-Mulhem	√	√	X	√	√	√
Mr. Nabil Dawood Al-Hoshan	√	√	√	√	√	√
Mr. Mohammed Bin Abdullah Al Hagbani	√	√	√	√	√	√
Dr. Saeed Saad Al Martan	√	√	√	√	√	√
Mr. Abdulsalam bin Abdurahman Alagil	√	√	√	√	√	√
Mr. Abdullah bin Saleh Al Rasheed	√	√	√	√	√	√
Mr. Ibrahim bin Abdulaziz Al Shaia	√	√	√	√	√	√

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

No of Company's submissions to share registry	Submission date	Reason
(1)	19/02/2018	Others
(2)	12/03/2018	Others
(3)	19/03/2018	General Meeting
(4)	25/03/2018	Others
(5)	26/03/2018	General Meeting
(6)	08/04/2018	Others
(7)	22/04/2018	Others
(8)	08/05/2018	Others
(9)	09/05/2018	General Meeting
(10)	13/05/2018	Profits File
(11)	29/05/2018	Others
(12)	27/06/2018	Others
(13)	28/08/2018	Others
(14)	02/10/2018	Others
(15)	17/10/2018	Others
(16)	02/12/2018	Others
(17)	12/12/2018	Others
(18)	16/12/2018	General Meeting

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

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

Details of any arrangements or agreement under which any shareholder of the bank has waived any right to dividends: The Bank is not aware of any arrangements or agreements for the waiver by any of the bank shareholders of any of their rights to any dividends.

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

The Bank shall pay to directors the expenses and remuneration for attending the meetings of the Board of Directors. Total expenses and remunerations paid to Board members, its committees members and five senior executives including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in 2018 were as follows:

000 SAR

	Fixed remunerations	Variable remunerations	End of Service Award	Aggregate Amount	Expenses Allowance
Board of Directors	**4,050**	**130**	-	**4,180**	**72**
- Independent Directors	1,350	50	-	**1,400**	25
- Non-Executive Directors	2,250	80	-	**2,330**	47
- Executive Directors	450	-	-	**450**	-
Top 5 Senior Executives (including CEO and CFO)	**16,280**	**16,565**	**625**	**33,470**	-
Audit Committee Members	**300**	**85**	-	**385**	-
Remuneration & Nomination Committee Members	-	**45**	-	**45**	-
Board Risk Committee Members	-	**55**	-	**55**	-
Excom Members	-	**185**	-	**185**	-
Khair Aljazira Le-Ahl Aljazira Committee Members	-	**60**	-	**60**	-

Footnote, the Audit Committee and Khair Aljazira Le-Ahl Aljazira Committee includes members who are not Directors of the Board

Compensation Policy

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

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

1. Introduction

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

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

However, annual assessments vary from one year to the next and are not always conducted in the same manner or follow the same format. Accordingly, there are 2 types of Board Assessments at Bank Aljazira, following the recommendations of the industry standards in this respect.

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

2. **Details**

At the start of the term of the last Board of Directors (2013 – 2015), the Board of Directors Institute (BDI) of the GCC was commissioned to conduct the "B" type assessment for the outgoing BAJ Board of Directors. It was named The BDI Board Effectiveness Initiative (BEI). This was repeated again in 2018 where the entire membership of the Board of Directors and all non-Director committee members underwent the evaluation and assessment exercise in April/May 2018.

The BDI BEI method executed in both 2013 and 2018 centered around a two-step approach:

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

A final report was issued at the beginning of 2014 summarizing the findings and recommendations of this review which outlined major areas of strength and areas for improvement. A full comprehensive report complete with all findings, analysis and recommendations was issued by BDI in September 2018 and presented to the entire Board the following month, before the dissolution of the old Board and of the new 2019–2021 term elections. The adopted recommendations were carried over by the new Board elected in December 2018, with the most salient elements slated for implementation under the direction of the Head of the Human Capital Group and REMCO Secretary.

This same methodology and protocol was closely followed and used in 2017 for the BAJ Board of Directors whose term ended in December 2018, in conducting a Type "A" self-assessments, after the conclusion of their initial 1 year tenure. The exercise was highly successful, and yielded meaningful results. The "A" type assessment will be repeated for the newly seated Board in late 2019, and repeated annually for the duration of the term.

Internal Audit Group

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

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

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

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

Annual Review of the Effectiveness of Internal Control Procedures

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

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

Retail Banking

The Retail Banking Group continues to redefine banking services and reinforces BAJ position within the Saudi banking market by offering innovative products and smart banking solutions with a nationwide distribution network of 79 branches, 19 Ladies' units, 618 ATMs and 8,630 Point of Sale devices. Our products and services are designed to meet the end-to-end needs of all customers from online account opening to time deposits, debit and credit cards to personal finance in addition to a wide range of mortgage finance products. Furthermore, our Electronic Banking services are among the best in the Saudi Market with Aljazira Phone being awarded for the best in customer service in the world. Aljazira SMART and Aljazira Online re-launch has made a great impact on usage and transaction based returns. Overall, the Group's Loans book has increased by 7% in Q3 2018 to reach SAR 19,211 million from SAR 17,811 million in Sep 2017. The Liability portfolio has closed at SAR 34,149 million in Q3 2018.

Following the promising growth in the Real Estate finance market, the Bank's real estate finance portfolio grew by 11% in 2018, with an estimated market share of 7% by year end. As part of 2020 National Transformation Program, BAJ has introduced several financing products in cooperation with Real Estate Development Fund such as subsidized funding that provides monthly subsidies to applicable candidates. Down payment guaranteed product on the other hand, offers a discounted down payment percentage from 10% to 5% of the property value. The bank is fully focused on maintaining its Real Estate financing leadership position in the market as it successfully launched rest of REDF solutions; Off-plan Sale, Self-Construction, Flexible Installments, Mortgage Guarantees & Down Payment Support for Military Sector. All product applications are available for client use in branch, and soon to be, thru online for easy access.

Private Banking Group

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

Customer deposits reached SAR 7,091 Million as of the end of 2018.

The Group cooperates closely with Al Jazira Capital to provide advisory services and investment opportunities for HNW individuals. This continuous cooperation has led to a significant increase in the size of our customer investment portfolios, where the total value of the Group's customer portfolios reached SAR 5,676 Million as of the end of 2018.

The Group meets the credit needs of its customers through its credit unit with an objective to meet the credit requirements of all its customers in a way that meets their finance needs and purpose of investments. Total credit facilities portfolio increased by 43% to reach to SAR 1,078 Million as of the end of 2018.

The Group serves its customers through 4 centers located in Riyadh, Jeddah, AlKhobar and Makkah. These centers offer all services and banking transactions needed by HNW individuals through highly qualified Saudi cadres.

During 2018, The Group signed a referral agreement with InvestCorp Bank with respect to the introduction of certain InvestCorp's offerings of investments in Shariah compliant real-estate portfolios.

Banking Services Group - FAWRI

In 2018, Fawri continued to expand its foothold in the remittance industry of Saudi Arabia, by acquiring substantial market share relatively higher than the competition. In addition to constant revenue generation for the Bank, Fawri continued to overall business development including but not limited to; system development, remittance centers expansion, addition of new product lines and direct correspondent relations, launch of Fawri website and online remittance services for Bank Al Jazira customers being one of the breakthrough achievement. Besides, being pioneers in Marketing, Fawri persisted to its aggressive marketing approach and led from the front by conducting various marketing campaigns throughout the year, surpassing its competitors in garnering more visibility and customer reach.

In addition to 400,000+ payout network through partnership with MTOs - MoneyGram and Ria, Fawri DIRECT remittance services are now available for Philippines, Pakistan, Egypt, Nepal, Sri Lanka, Yemen and India and by the end of Q1 2019, targeting to add direct relations with correspondents in Sudan, Jordan, Turkey, Bangladesh and Indonesia.

Moving forward in 2019, Fawri is all set to enhance its market share and revenue pool by introducing cost-efficient products & services i.e. with the launch of SMART branches, varied electronic channels and Fawri Card.

Enterprise Risk Management Group (ERMG)

During the year 2018 Bank Aljazira continued its drive to focus on strengthening the Risk Management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management remained committed to ensure that the bank adopts best in class risk management practices supported by necessary infrastructure, in terms of people, processes and systems so that the practices adopted become embedded in the cultural fabric of the bank.

The priority has been to strengthen the Enterprise Risk Management function with core emphasis on the following:

1. Building a robust architecture and risk strategy to facilitate not only the current business strategy but also to adapt to the changing business landscape and environment.

2. Investment in and development of risk analytics capabilities and technology to lay a strong foundation for the Risk Data Warehouse. In this regards the bank has planned to invest in relevant technology infrastructure to adopt the Basel Committee on Banking Supervision (BCBS) 239 practices. The ultimate vision of the bank is aimed at developing a state of the art Risk Data Warehouse serving as the single source of truth for all risk data and analytics needs.

3. Delineation of the approvals and review processes, ensuring that Risk Approvers and Reviewers remain independent with an objective of strict adoption to Credit Committee Culture and minimum four eyes principle.

4. Enterprise Information Security Function in line with the banks mission and strategy continued its effort to strengthen, protect information and information systems to ensure that the confidentiality, integrity and availability of all information is commensurate with mission needs, information value, and associated threats.

5. Alignment and strategizing Capital Adequacy process in sync with bank's strategic direction. The Internal Capital Adequacy Assessment Process (ICAAP) goals are being continually rationalized in accordance with the existing strategic focus and the business plan on an annual basis. Capital adequacy assessment has been carried out in accordance with the nature, size and complexity of the Bank's Business Model along with detailed documentation.

6. The Bank has also developed its Internal Liquidity Adequacy Assessment Process (ILAAP) Framework in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity crunches.

7. Implementation of the Basel Program, perceived as a critical opportunity to:

    a. Upgrade and align the bank's risk management policies and procedures to ensure that the same are in line with the global best practices and local regulatory requirements.

    b. Develop, institutionalize and monitor detailed Risk Appetite Framework, which acts not only as a connection between the Board's strategy and Business execution of the same, but also serves as a feedback loop to ensure alignment of the strategy with the prevailing business and regulatory environment.

    c. Review, validate and improve the Pillar – 2 Risk Assessment Models, on a continuing basis, aligning them to the industry's best practices and SAMA guidelines and expectations.

    d. Automate Pillar-1 reporting to ensure that these reports are accurate, timely and remain in line with the regulatory expectations. In this respect the bank has successfully implemented the automated preparation and generation of the Pillar-1 regulatory reporting.

8. Refining and Strengthening the Stress Testing framework, prepared in light of best practices, SAMA and Basel bank guidelines enabling the bank to conduct Regulatory stress testing across various risk parameters and scenarios. Results of the stress testing are taken as a valuable feedback for business and capital planning purposes on a forward looking basis.

9. Ensuring that the bank remains the most compliant Financial Institution under IFRS-9. In this regards, the bank has delivered this key project to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank is now fully compliant with IFRS-9 Expected Credit Loss (ECL) methods, appropriate scenarios and models well within SAMA guidelines.

10. Implementation of an Operational Risk Policy/ Framework that is compliant with the recommendations of the Basel Committee and SAMA. This framework aims to promote and encourage a culture of risk awareness and loss prevention across the Bank. It lays down the principles of how operational risks are identified, assessed, mitigated, monitored & reported within the Bank.

11. Ensuring through validation and calibration that Bank's credit risk rating models and score cards maintain their forecasting power to assess the risk associated with default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models.

Corporate & Institutional Banking Group (CIBG)

Corporate Banking Group (CBG)

Bank Aljazira presents a wide range of Shari'a complaint corporate banking products and services in Saudi Arabia. These instruments have enabled the Corporate Banking Group to build a world class relationship banking approach, and tailoring innovative solutions to fulfill the requirements of corporate and commercial clients, thus reflecting unmatched corporate banking expertise.

Our unique relationship with clients is not limited to offering unique financial banking services but including advisory solutions which has contributed to diversify our clients' base to include government and public sectors, financial institutions and top tier private sector companies. As such, it has positioned Bank Aljazira as a strategic partner to help clients achieve business growth. Our service standards continue to receive accolades from almost all strata of our clientele. The corporate dedicated team through its proven expertise has encouraged clients to explore and capitalize on our specialists in a number of areas, including sophisticated and flexible financial business solutions.

In line with its focus on cautious lending, Corporate Banking Group put in a solid performance in FY2018 which has been a turning point in its development and repositioning. Having re-strategized and introduced new resources, the Corporate Banking Group is now poised for growth.

Going forward, Corporate Banking Group will continue relying on our key strengths represented by our relationship-driven business model combined with a dedicated approach, strong focus on risk management, resilient revenues and proven management track record. Focusing on all major Regions of the Kingdom, our relationship team will cherish in forging close bonds with the existing clients, and nurturing potential relationships which will transpire into solid ones, with the passage of time.

In line with the 2030 vision, anticipated economic growth, and approved mega projects, we believe that we are fully equipped to exploit and adapt to the challenges presented by changing client needs, economic conditions and increased competition and regulation. For the coming year, with a view to strengthen our asset base, we aim to focus on both public and private sector clients, a slight shift from penetrating small sized clients to top tier ones- to those who have displayed the ability to weather the prevalent recessionary trends, without having to compromise on our strong asset quality. The Corporate Banking Team is also envisaging to capitalize on diversified lending opportunities that are bound to open up in various business sectors of the Kingdom and be a strong partner and contributor to the highly anticipated Vision 2030.

Commercial Banking Services (CBS)

Commercial Banking Services (CBS) was established in 2012 to provide a wide range of commercial banking products and services to small and medium enterprises in the Kingdom. Operating out of three regional offices, CBS provide a full suite of products connecting and serving all commercial banking clients around the Kingdom via its various channels. Accordingly, customer base reached a current level of around 800 clients. Going forward, CBS will continue to provide enhanced services to play a pivotal role in delivering Sharia compliant offerings and providing services that exceed customer requirements.

SME's are the commercial backbone of any economy, and supporting their growth and prosperity at these critical times remains one of BAJ's main goals. Accordingly, and along with the kingdom's 2030 vision, the bank endeavors to increase SME's contribution to the overall GDP from 20% to 35%. To help achieve that goal, the bank continues its strategic alliances with government bodies that help and support this sector, such as the Saudi Industrial Development Fund, through the Kafalah program, where the bank is considered a very decent contender within the banks ranked at the second highest tier with the aim to reach top tier ranking in 2019. We are also working on increasing our alliances with other government bodies such as the General Authority for Small and Medium Enterprises (Monsha'at) and the Saudi Development Bank and BADER technology incubators, which will be extremely helpful for all parties.

2018 was a difficult year, as BAJ had to manage various challenges both internally and externally. Internally, in the form of a complete overhaul of policies and procedures, and externally through working in difficult overall market conditions and commercial environment. Operationally, Profits were lower than the previous year, with the bottom line being severely affected by strong provisions taken by the bank, which is in line with its conservative approach. Nevertheless, we have managed to overcome all obstacles and positioning ourselves for 2019.

Looking forward, we are to focus on growing this very important and profitable area of the bank, with the support and guidance of the banks higher management, whom are very confident that we can show a very strong turnaround and have BAJ's CBS become the top service provider for SME's in the kingdom..

Global Transaction Services (GTS)

Global Transaction Services (GTS) has emerged as a critical component of Islamic Cash Management Services and Trade Finance over the years, proving to be an efficient and reliable partner to many enterprises in the Kingdom; encompassing SMEs, commercial businesses, large corporate entities, government, quasi-government (Public Sector), and financial institutions. GTS payment solutions cover a complete spectrum of domestic and international transactions offered via online corporate banking service channels, such as Aljazira Online (E-Corporate) and Aljazira Online Trade, which provide full support to all products offered by GTS as well as the commercial finance services such as enabling the full sight of the account information and the establishment of local or foreign payment services within a secure environment around the clock; these futures are in addition to salary management service offered under the name of "Rawatebcom" which simplifies the administrative procedures relating to payment of salaries of companies employees.

These services provided with high level of IT security and protection enabling the management of salary information easily and up to the satisfaction of customers. The growth strategy of GTS is aligned with the fundamental trends that are driving change in terms of digitization and processing modernization across all business sectors in Saudi Arabia.

Specialized Finance (SFD)

The Specialized Finance Division continues to provide an innovative, customized, structured financial solutions to large institutional customers. SFD's objectives are to provide efficient and seamless client coverage for our offering of Sharia'h compliant specialized banking products and services for corporate and institutional clients and thereby generate attractive returns for our shareholders.

SFD continues to be instrumental in its leading role in syndicated finance arena with other leading banks to ensure constructive participation in major mega-deals by capitalizing on its expertise in structuring and playing various agency roles.

As part of our strategy, we are re-focusing and optimizing our client coverage model to the benefit of our core clients. Growth in large client activity is also expected to create opportunities in the institutional client segment, on which we will continue to consider on a selective basis. We expect the majority of growth to come primarily from announced government mega projects which will enable us to selectively deploy our capital into safe exposures and capture a market share in target institutional segments.

Looking ahead, we are confident of the Bank's ability to address all future challenges in a proactive and professional manner and remain aligned with the Government's focus on mega size projects, which will create sizeable lucrative opportunities.

Financial Institutions Unit (FIU)

The Financial Institutions Unit (FIU) succeeded in managing and developing a rapidly growing global partner bank network to enable BAJ to cater to its core clients' banking needs around the world by enhancing the capabilities of BAJ for meeting customer requirements and facilitating the finance of money remittances and commercial transactions, In addition, FIU has the ambition to make BAJ the partner bank of choice in the kingdom.

The FIU maintain strong relationships with banks, financial institution, government and quasi-government bodies, investment and brokerage companies, insurance companies and export credits security companies. The unit is specialized in the management of international and regional trade transactions, cash management business needs along with an intensive insight into the dynamic variables of our Correspondents home countries.

Public Sector Unit (PSU)

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

Micro, Small and Medium size Enterprises (MSMEs)

- **Currently approved definition of MSMEs**

MSME clients are categorized in line with the regulatory guidance and internal policy of the Bank, and are segmented as follows:.

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

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

- **Initiatives for MSMEs taken by the Bank**
  - BAJ has established 3 dedicated centers for MSMEs located in 3 Regions (Central, Eastern & Western)
  - Established Kafalah coordination team to streamline all matters between the bank and Kafalah program.
  - Established a new Risk Acceptance Criteria/ Customer Selection Criteria which includes a scoring mechanism aimed to improve overall turnaround time.
  - Established a dedicated Call Centre (MSME Phone Banking) to serve existing and new prospect clients. Toll free number "800 244 9090"
  - Established an Acquisition and Business Intelligence unit mainly to acquire new to bank clients and to act as centralized unit for all corporate referrals.
  - Established a new MSME segmentation module within the Bank core system to differentiate between clients segments, relationship, needs etc.
  - Signed an initial agreement with the Saudi Industrial Development Fund (SIDF) to provide financial services to some of their clients (mainly trade related).
  - Established a MSME Committee to review and discuss the overall performance on monthly basis headed by the CEO.
  - Develop a dedicated training programs for RMs focusing on relationship, credit & risk management.
  - In the final stages of concluding a Credit Card for MSME clients.
  - Also in the final stages of launching a new proposition called "AMAAL" which is a package of integrated banking and financial solutions specifically catered for MSME clients
  - Conducted a workshop with students from Al-Imam Mohammed Bin Saud University specialized in Finance and Banking.

- **MSMEs unit and staff**

MSMEs are managed by our Commercial Banking Services division within the Corporate & Institutional Banking Group (CIBG). Currently, CBS has more than 58 dedicated staff members serving our valued MSME clients.

Number of training and workshop for staff and customers :

Number of training for Staff	20
Number of training for Customer	2

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

	SR '000 2018			
	Micro	Small	Medium	Total
Loans to MSMEs on BS	42,278	240,622	83,650	966,550
Loans to MSMEs off BS	52,091	31,049	203,530	586,670
On BS MSMEs Loans as a % on Total BS Loans	0.1%	0.6%	1.7%	2.4%
Off BS MSMEs Loans as a % on Total BS Loans	0.1%	0.8%	0.5%	1.4%
Number of Loans on and Off	87	466	589	1142
Number of Customers for Loans	347	249	141	737
Number of Loans guaranteed by Kafalah program (on & Off)	43	84	7	134
Amount of Loans guaranteed by Kafalah program (on & Off)	26,244	55,193	9,868	91,305

	SR '000 2018			
	Micro	Small	Medium	Total
Loans to MSMEs on BS	85,108	495,062	845,692	1,425,862
Loans to MSMEs off BS	31,969	159,058	468,856	659,883
On BS MSMEs Loans as a % on Total BS Loans	0.2%	1.2%	2.1%	3.6%
Off BS MSMEs Loans as a % on Total BS Loans	0.1%	0.4%	1.2%	1.7%
Number of Loans on and Off	236	427	297	960
Number of Customers for Loans	239	437	306	982
Number of Loans guaranteed by Kafalah program (on & Off)	48	86	6	140
Amount of Loans guaranteed by Kafalah program (on & Off)	50,508	80,665	6,724	137,897

Treasury Group

Regional and local markets remained challenging throughout 2018 due to subdued oil prices, tightened liquidity and fierce business environment. Despite these challenges, Treasury continued to grow and showed strong financial performance while upholding prudent risk management. With its financial achievements, Treasury remains the main contributions to the bank's net income.

Liquidity in the local market endured pressure mounted by Quasi government withdrawals and aggressive debt issuances by the government. However, Treasury maintained strong liquidity position and ensured that funding requirements are met at optimal prices to support business growth.

New zero-risk-weighted government issuances of SAR 3.5 bln were added to the investment portfolio that resulted in portfolio increase to 23.8 bln, 17.3% growth over prior year. The new additions resulted in enhancement of liquidity and portfolio yield.

Customer business continued to thrive as it remained main focus. Treasury efforts in providing Shari'ah compliant solutions to customers along with better collaboration with other business groups for cross selling generated positive results. Considerable emphasis was placed to support FAWRI business line by means of pre-funding arrangement, which contributed to their continued success. All these efforts resulted in an overall growth of FX Income by 27% YOY basis thus increasing the market share.

The other achievements include bank's appointment as 'Primary Dealer' by the Debt Management Office (DMO) which provides unique opportunity to be the market maker and attain several other privileges. Treasury also established Special Purpose Vehicle (SPV) in order to comply with the international regulations & standards in carrying out day to day activities.

Treasury continued its efforts to upgrade infrastructure and completed the implementation of treasury systems, both Front Arena and Ambit Focus as per scheduled phases. The fully integrated front-to-back processing has enhanced Treasury's operational efficiency and product mix.

Human Capital Group (HCG)

Following through from the goals and progress achieved in 2017, the HCG continued its vital strategic role in 2018 as a full practical, consultative, advisory and administrative partner to all business functions, while complying with all relevant regulatory guidelines and mandates, with continued focus on recruitment, development, systems application enhancements, leading to a mix of long term top talent retention and a noticeably improved performance excellence curve for the bank.

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

In 2018, the HCG continued to collaborate with all business groups to increase proficiency and effectiveness of all our available human capital by focusing on the HC's Relationship Management role in conveying all strategic and critically important business line staff initiatives and programs to all business areas. This emphasized a dynamic approach spearheaded by the completion and launch of the several technology oriented initiatives designed to establish and enforce a cohesive and continual administrative self-services improvement and learning culture for all Bank personnel, and to advance the routine administrative capabilities and efficiencies of line managers by utilizing and expanding upon the latest technologies.

Additionally, 2018 was a regulatory intensive year for the HCG, which underwent several internal, regulatory and independent audits to assure the highest possible HC practices audit ratings for all financial and regulatory compliance audits and through the continual development and update of policy and practices enhancements to match developing and changing regulatory and governance demands.

As was the case in 2017, Saudi recruitment and training took a leading role in 2018, through the recruitment of (259) Saudi staff for all our business lines, as well as continuing to be a great talent attractor in general, in keeping with the bank's continued commitment towards numerous new job and internship training opportunities for high school and trade school diploma holders, undergrads & post graduate candidates.

The Bank has accordingly maintained its high success rate of effective Saudization of more than 93%. Furthermore, 2018, also reflected an optimum current bank needs and market demand training activity totals with more than (508) annual training events taking place, in addition to the administration of Bank and System wide required regulatory Compliance, Security and Anti Money Laundering and other compliance requirement refreshers for the entire bank population.

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

Bank Staff Ethical and Professional Principles

Bank Aljazira has a glowing record in pursuing exemplary conduct towards its stakeholders, customers, investors, and staff, as well as our regulatory and control authorities and entities, all of which stem from our standards, and aim at achieving our business objectives.

The Bank relies on a set of ethical and professional principles embedded in its Staff "Code of Conduct" that serve to create an ideal professional setting and growth with emphasis on a fully compliant crime, fraud, and corruption free environment.

The policies and practices of Bank Aljazira provide a stable conduct framework for its staff and associates that aid in taking prudent and appropriate long-term growth decisions. It is the responsibility of everyone to ensure full compliance with these policies and standards at all times, and to exhibit our professional and ethical principles in all of our dealings and interactions with others, whether internal or external in all elements of our society.

Shari'ah Group

Shariah Quality: The Shariah Group of Bank Al-Jazira focuses on Shariah Quality control of the bank services and products with a view to achieve the expectations of its customers and shareholders as a pioneer Islamic bank through intensive review and audit of the bank's transactions to ensure all activities of the Bank and its subsidiaries are compliant with the Islamic Shariah rules. The Group submits quarterly reports to the bank's Shariah Board. The review of the Bank's transactions, in respect of the sample selection, is based on the international audit criteria for selection of samples..

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

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

Learning and Training: The Bank considers its employees it's most valuable assets and most important tools for conducting its business. Therefore, the Shariah Group focuses on the development of employees' skills in the Islamic Banking field in cooperation

with the HR Group. To this effect, the Group has- in cooperation with the HR Group conducted direct training courses in the Islamic Banking Industry to the bank staff.

Publication of Books and Scientific Research Papers:

The Group has adopted a plan to spread knowledge through publishing and distributing of books and scientific research papers which cater for financial developments, particularly the Islamic finance issues. Published books and scientific research papers are distributed to students and educational and financial institutions. This year, the Group published and distributed a book ("Virtual currencies; their reality and Islamic Fiqh rules").

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

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

Support Groups

During 2018 there were major restructuring in Support Group in order to achieve the objectives of the Bank and to keep pace with the development of the banking sector in the Kingdom, which is an important part of the Saudi Vision 2030. The Strategy and Business Transformation group was joined under the umbrella of the Support Group led by the Chief Operating Officer Mr. Ahmed Bin Sufian Al Hassan.

This management change has contributed to enhancing and continuing to provide the best services and support needed for all different groups and divisions to achieve the Bank's objectives.

Logistics & Shared Services Group

Is the specialized group to provide all services and logistical support to Aljazira Group in terms of building branches and the maintenance of all Bank's buildings and properties and ensure it works around the clock in addition to administrative services, including but not limited to postal services / guards / hospitality and cleaning.

During this year 7 new Fawri remittance branches were delivered with modifications on some Fawri branches.

Successfully conducted 7 emergency evacuation drills in various locations across the Kingdom.

Also we have launched 15 operational automations serving different divisions in the Bank. And regarding to the Digital Archiving, we have scanned more than 13 million documents of customer records & stored in the local web application.

Replaced conventional lamps to LED lights in 12 main locations kingdom-wide for cost cutting initiative, also we have installed new corporate identity signage in 73 locations using new flex face materials & LED lamps which reduces the power consumptions by 30%.

Properties & Contracts Management Division

Managing Real Estates 37 Properties with total value of SR 687 million.

Conducted 64 successful business continuity test with the participation of 175 employees, also we have conducted successful integrated exercise with IT full DR test under third party supervision.

Also, we have Launched AMAN system with link to the saved scanned documents to be later retrieved if requested.

Bank Operations Division

Bank Operation division is responsible for processing all banks' incoming and outgoing local banks payments, swift/international payments, local and international check clearing/collection and direct debit mandate. The division also processes customers' personal and mortgage loans, account opening review, maintenance and KYC.

Treasury and trade finance operation processing commodity sales and purchase, time deposit and processes related to treasury products sales as well as import and export letters of credit and guarantee, import and export bill of collection and other services provided by the different businesses in the bank.

Bank operations' transaction volume has increased in the year 2018 due to increase in the sales of banks products and services..

Information Technology Group

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

Examples of major turning points achievements in 2018 are the completion of backup links installation and configuration for all RBG and Fawri Branches. Completion of Hardware Upgrade for Riverbed WAN Optimization Controller in Main Datacenter and Disaster Datacenter. Successfully concluded the Full Disaster Recovery Live test for bank systems operating for five Business days from Disaster Datacenter.

Supplier Management & Cost Rationalization Division

Below are some of the major accomplishments of Supplier Management & Cost Rationalization Division throughout the year.

- Managed to save 11% on the cost of insurance.
- Succeeded to save SAR 22 million of overall bank procurements spending.
- Managed to reduce Support Group investment by 23%
- A Number of cost rationalization case studies were completed in areas like Telephone Billing, Postage & Courier services, & Hospitality services.
- Achieved a reduction on Bank wide Support investment by 4%
- Recovered pending payments of SAR 9 million.
- Capitalized on contracts benefits to get staff training & support.
- Enhanced processes such as Tender management & Outsourcing.

Project Management Office

PMO has been providing vital support and organization to all BAJ annual projects in alignment with the concerned Businesses. We have delivered all SAMA required projects i.e. SAMA FCY Survey Project & SAMA Swift Security Controls Project.

PMO also managed to deliver critical projects for the bank such as F1 Online Account Opening, Multicurrency Card and Project-X moving credit card issuance from 3rd party overseas to In-House Production.

Strategy & Innovation division

The strategy division is managing the connection between executive management direction and business groups. Frequent meetings have been performed during the year to identify high priority opportunities as well as planning our next year projects plan. We have worked closely with all business groups and provided our full support to assure all projects are executed as planned and on time.

Performance measurement tools has been used to update and report the strategic and key project progress to the executive management and board members.

During this year, we have started the processes of evaluating and selecting a leading external strategy consulting firms to help formulating the bank's 2019-2023 strategy.

Strategy division will continue its major role in supporting all business achieving their plans and help driving the bank towards achieving its vision.

Digitalization & Automation Division

The objective of establishing the Digitalization & Automation Division is to focus on providing all the products and services of the bank through the digital banking channels, which facilitates the customer access at any time and from anywhere, which makes an exceptional customer experience with the bank, as well as the objective of automating the manual work to increase efficiency and reduce costs.

Aljazira Capital Company

2018 was a successful year for Aljazira Capital (AJC). The company maintained its leading market position in the local equity market and further diversified its earning steams through its continued focus on the growth of its asset management, investment banking and custody businesses. The Company retained its leading local brokerage market position with a market share of 11.5% (2017: 12.6%).

AJC's local online trading platform, Tadawulcom, delivers a superior, competitively priced service to its local brokerage clients. The maintenance and development of this online trading platform as a fast, efficient and reliable service for the Company's institutional and individual clients is a priority for the Company. Margin finance facilities offered to AJC's clients on a selective basis provide those clients with the opportunity to enhance their trading returns through the use of leverage. AJC's local brokerage business executed trades during 2018 amounting to SAR 201 billion (2017: SAR 211 billion).

AJC's asset management product revenue grew during the year by 11%, from SAR 39.5 (2017) to SAR 43.7 million (2018). This growth stemmed from successes in marketing both AJC's public and private funds. Management is particularly pleased to note that AJC's Saudi Equity Fund retained its #1 ranking as the top performing fund in its category for the 5 year period to date. AJC's SAR Murabaha Fund also performed well: it is one of the top 3 performing funds in its category for the 5 year period to date. Management is also proud of the returns delivered to its clients from investment in AJC's private discretionary and non-discretionary portfolio management fund offerings during 2018.

AJC was pleased to receive from Thomson Reuters the 'Lipper Fund Award - Global Equities, 2018' in recognition of the superior performance of Aljazira International Equities Fund during the year.

AJC management looks to 2019 with optimism. Management believes that, notwithstanding the geopolitical uncertainties in the region, the economic prospects for the Saudi economy are positive and will spur the further development of the capital markets in the Kingdom of Saudi Arabia.

Community Service

Social Responsibility Group: (Khair Aljazira le Ahl Aljazira program) 2018

In its endeavors to achieve the objectives of sustained development in line with the principles of the Kingdom's Vision 2030, Bank Aljazira continued to implement its social responsibility programs through the conclusion of various social partnerships with non-profit institutions and charities and by introducing a set of high-quality programs targeting all categories of the society across the Kingdom, covering more than 96 cities and regions in the Kingdom.

Support and enablement of innovation and creativity skills, and business Entrepreneurship have been given a major share of attention by the bank this year. To this effect, Bank Aljazira program advocating innovation "Mubtakiroon" was implemented as a business platform for innovated projects in the industrial and software fields and was widely contributed to by a considerable number of female and male Entrepreneurs.

To provide training and rehabilitation to the needy segments of our community, the bank assisted small and micro projects by providing (interest-free loans) for productive families to enable them to establish their micro projects which success has consequently increased their income and improved their living standards.

During the holy month of Ramadan, the Bank, in participation with the National Committee for Prisoners Relief – Tarahum, contributed to the release of a number of financial-rights prisoners in the Northern Borders and Qassim regions.

The bank continued its focus on providing educational and professional rehabilitation to male and female youths by introducing training programs to prepare them to the labor market and to enable them to own life basic skills. In addition, the bank introduced programs targeting special needs individuals (Disabled, Blind, Deaf, Down syndrome, Hypertension, Distracted Attention, Autism and Learning Difficulties). Quality programs were also provided to the handicapped persons and their families covering training, rehabilitation and employment.

In its continuous endeavors to develop non-profit sector, the Bank has implemented a set of leading development programs for the social work leaders. It has also established the infra-structure for charitable and community societies by providing them with the basic equipment, as well as giving attention to volunteering activities which contribute to the spreading of financial, legal, health, educational and environmental awareness programs and others in the various cities and regions of the Kingdom.

The efforts of the Social Responsibility Group were rewarded by the bank's wining Princess Seta Bint Abdulaziz Award for Excellence in social work "National Achievement field" in its fifth session for BAJ Social Responsibility Program ('Khair Aljazira le Ahl Aljazira').

The number of male and female youths who benefited from the various activities and functions of ('Khair Aljazira le Ahl Aljazira') program in 2018 stood at 8,882 persons in the different cities and regions of the Kingdom of Saudi Arabia.

Corporate Governance

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

Future Plans

Bank Aljazira is one of the leading Sharia compliant financial services institutions in the Kingdom of Saudi Arabia. Over the past years the bank has applied a strategic transformation plan to become a full-fledged bank with a wide range of products and services. The bank's principal lines of business are Retail Banking, FAWRI (Remittance Business), Private Banking, Corporate Banking, Global Transaction Services and Treasury Services. These offerings are complimented withe other financial services such as Takaful Insurance, Investment Banking, Asset Management, Brokerage and Securities Services provided by the bank subsidiaries (Aljazira Takaful and Aljazira Capital).

In 2018, the bank achieved several significant milestones and has continued to post strong asset growth. This has been driven by building a strong customer franchise with retail and corporate customers ranging from large corporations to SMEs, applying extensive focus towards cross selling of the bank's retail, treasury, corporate, finance and investment banking franchise. Moreover, many initiatives were successfully completed and contributed to increase the business profitability and customer service quality, many key initiatives were to enhance the bank efficiency that will scale up the Bank's service level.

In Retail Banking, we will continue our investments in leveraging new technologies to reach and serve our existing and potential customers starting from our end to end "Online Account Opening" service and going through our digital channels to apply for all the bank's products and services. Adding to that, we will continue to introduce new and innovative products and services that provide solutions to all segments with high quality of services levels coupled along with an optimized sales force to increase our market share, revenues and reduce expenses.

Branches expansion plans for both Bank and Fawri in addition to our ATM network will be built in a total new approach and concept addressing the new market trends and customer needs.

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

Bank AlJazia will continue its digital transformation strategy in introducing innovative products and services that meets our customer demands as well as our customer-centric approach to provide a positive customer experience before and after the banking relation in order to drive customer loyalty and grow business relationship.

Awards and Certification

- Princess Sitah bin Abdulaziz for Excellence in Social Work National Achievement Award – Awarded to BAJ by His Highness Prince Fahd bin Abdullah bin Saud Al Kabeer and the Ministry of Labor and Social Development
- Top CEO in GCC 2018 – Awarded to BAJ by Trends Magazine and INSEAD Business School
- Contact Center Awards – Gold Medal and First Rank in Best Customer Service Category, Silver Medal for the Best Contact Center Category in Europe Middle East and Africa and Silver Medal for the Best Contact Center Manager in Europe Middle East and Africa – Contact Center World
- Critics Choice Best Islamic Digital Banking Award – Awarded to BAJ by Cambridge International Financial Advisory
- Critics Choice Best Islamic Retail Banking Innovation Award – Awarded to BAJ by Cambridge International Financial Advisory
- Best Customer Service Award Gold Medal and First Rank – Awarded to BAJ by Contact Center World
- Best Social Responsibility Program K.S.A. 2017 – CPI Financial
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2017 – Cambridge Analytica
- Contact Center Award – Silver Medal Best Customer Service 2017 in the Middle East, Europe and Africa
- Best Customer Service, Abshir Baezzak Program - Awarded to BAJ by Banker Middle East Product Awards
- Most Innovative Personal Banking Provider, Saudi Arabia – Awarded to BAJ by AI Global Media
- Top Three Banks with the Highest ATM Performance and Cash Management – Awarded to BAJ by Saudi Arabian Monetary Authority (SAMA)
- Best Private Bank in Saudi Arabia 2016 – Awarded to BAJ by Global Banking and Finance Review
- Best Regional Bank to Watch 2016 – Awarded to BAJ by Private Banker International
- Top 100 CEO in GCC – Awarded to BAJ by Trends Magazine and INSEAD Business School
- Best Donor Organization 2016 – Non Governmental Arab Grants Council

- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2015 – Cambridge IF Analytica
- Best Remittance Middle East 2015 – CPI Financial
- Best Donor Organization – Non Governmental Arab Grants Council
- Best Private Bank 2015 – Global Banking and Finance Review
- Contact Center Award for Best Mid-Sized In-house Contact Center and Best Customer Service – Mid Sized Inhouse Center in EMEA 2015 Rank Number 1 – Contact Center World
- Okaz Awards for Professional Excellence – Okaz Newspaper
- Award for Being among the Top 100 Saudi Brands for 2015 – Al Watan Newspaper
- Data Quality Award – awarded to BAJ by Saudi Credit Bureau
- Best Retail Bank 2014 – World Finance Awards
- Best Credit Card 2014 – Banker Middle East Product Awards
- Best Real Estate Financing 2014 – Banker Middle East Industry Awards
- Best Islamic Bank – World Finance Award, KSA – World Finance Magazine
- Best Mobile Banking Award – MENA region by the EUROPEAN Magazine
- Ideal Institution award for Supporting Social and Developmental Actions – Bahrain / GCC Council of Ministers of Social Affairs.
- Award for being among the TOP 100 Saudi Brands in the presence of Prince Bandar Bin Khalid Al-Faisal, Chairman of Aseer Publishing, and Large Number of Government, Private and Media Representatives.
- 7 awards in the Contact Center World Awards – EMEA region 2013 Vienna as follows:
    - Gold Medal – Best Call Center Awards
    - Gold Medal – Best Customer Service Award
    - Silver Medal – Sales Incentives Award
    - Gold Medal – Executive Leader Award
    - Gold Medal – Technical Support Award
    - Gold Medal – Supervisor Award
    - Silver Medal – Call Center Agent Award
- Best Contact Center Manager in the Middle East – Dubai Insights Middle East
- Best Contact Center in the World 2013 Rank 1 and Gold Medal, Contact Center World
- Best Customer Service in the World 2013, Rank 1 and Gold Medal, Contact Center World
- Best Executive Leader in the World, Rank 2 and Silver Medal, Contact Center World
- Best Contact Center Manager in Europe, Middle East and Africa rank 1 and Gold Medal

Gratitude

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

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

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

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Western Region

Makkah

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

Madinah

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

Jeddah

Jeddah Main Branch (Al Nahda; formerly) Tel: (+966) 12 6098888 Fax: (+966) 12 2346838	**Al Bsateen Branch** (Alaya; formerly) Tel: (+966) 12 6949224	**Al Rehab Branch** Tel: (+966) 12 6756460
Jeddah Main Branch (Ladies) Tel: (+966) 12 6098888 Fax: (+966) 12 2347227	**Al Salama Branch** Tel: (+966) 12 6919719	**Al Rehab Branch (Ladies)** Tel: (+966) 12 6750190
Tahlia St. Branch Tel: (+966) 12 2610725	**Al Safa Branch** Tel: (+966) 12 6736712	**Makkah Road Branch** Tel: (+966) 12 6896600
Tahlia St. Branch (Ladies) Tel: (+966) 12 2610730 Fax: (+966) 12 2610731	**Sari Branch** Tel: (+966) 12 6901390	**Al Musa'adia Branch** Tel: (+966) 12 6610112
Khalid Bin Al-Waleed St. Branch Tel: (+966) 12 6518070	**Al Samer Branch** Tel: (+966) 12 2721870	**Al Musa'adia Branch (Ladies)** Tel: (+966) 12 6673700
Prince Sultan St. Branch Tel: (+966) 12 6075450	**Al Rabwa Branch** (Almakaronah; formerly) Tel: (+966) 12 6827683	**Al Noor Branch** Tel: (+966) 12 6098752
Prince Sultan St. Branch (Ladies) Tel: (+966) 12 6070828	**Al Naeem Branch** Tel: (+966) 12 6134333	**Al Balad Branch** Tel: (+966) 12 6485533

Taif

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

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

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Central Region

Riyadh

Al Worood Branch (Olaya) Tel: (+966) 11 2157000	**Al Malqa Branch** Tel: (+966) 11 4102998 Fax: (+966) 11 4103017	**Al Kharj Branch** Tel: (+966) 11 5476259 Fax: (+966) 11 5476273
King Fahad Road Branch Tel: (+966) 11 2051870	**Al-Rayyan Branch** Tel: (+966) 11 2080166	**Al Rawdah Branch** Tel: (+966) 11 2543847 Fax: (+966) 11 2543843
King Fahad Road Branch (Ladies) Tel: (+966) 11 2051865	**Al-Rayyan Branch (Ladies)** Tel: (+966) 11 2085366	**Al Shefa Branch** Tel: (+966) 11 2715589
King Abdullah Road Branch Tel: (+966) 11 2642123 Fax: (+966) 11 2071361	**West Ring Road Br.** (Dahrat Al-Badiah;formerly) Tel: (+966) 11 4338441	**Ishbilia Branch** Tel: (+966) 16 8124276
King Abdullah Road Br. (ladies) Tel: (+966) 11 2642047	**Al Takhasusi Branch** Tel: (+966) 11 2936599	**Al Sahafa Branch** Tel: (+966) 11 2251657
Al Qods Branch (Uqba Bin Nafe'a; formerly) Tel: (+966) 11 2781416	**Al-Suwaidi Branch** Tel: (+966) 11 4288695 Fax: (+966) 11 4493064	**Al Mrouj Branch** Tel: (+966) 11 4154893
Al Qods Branch (Ladies) Tel: (+966) 11 2784387	**Al-Suwaidi Branch (Ladies)** Tel: (+966) 11 4287523 Fax: (+966) 11 4288735	**Al Malaz Branch** Tel: (+966) 11 2915490
Khurais Road branch Tel: (+966) 11 2256399	**Al-Nafl Branch** Tel: (+966) 11 2751086	**Huteen Branch** Tel: (+966) 11 2145324
Al Nassem Branch Tel: (+966) 11 2357813 Fax: (+966) 11 2356876	**Al-Nafl Branch (Ladies)** Tel: (+966) 11 2751086 Fax: (+966) 11 2755681	**Qurtobah Branch** Tel: (+966) 11 2936599
Al Ma'ather Branch Tel: (+966) 11 8108058 Fax: (+966) 11 8108058		

Qasim		Hail
Buraidah Branch Tel: (+966) 16 3835310	**Onizah Branch** Tel: (+966) 16 3624121	**Hail Branch** Tel: (+966) 16 5712157

Southern Region

Khamis Mushait		Abha
Khamis Mushait Branch Tel: (+966) 17 2216465	**Khamis Mushait Branch (Ladies)** Tel: (+966) 17 2351441	**Abha Branch** Tel: (+966) 17 2260798 Fax: (+966) 17 2296243
Jazan		**Najran**
Jazan Branch Tel: (+966) 17 3228594	**Abu Areesh Branch** Tel: (+966) 17 3402129	**Najran Branch** Tel: (+966) 17 5236291 Fax: (+966) 17 5238267

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Eastern Region

Dammam

Dammam Main Branch Tel: (+966) 13 8321272 Fax: (+966) 13 8343314	**Jarir Branch** Tel: (+966) 13 8420237 Fax: (+966) 13 8417226	**Al Jalawea Branch** Tel: (+966) 13 8153394 Fax: (+966) 13 8153379
Al Faisaliah Branch Tel: (+966) 13 8116653 Fax: (+966) 13 8116702		**Al Khaleej Branch** Tel: (+966) 13 8353245 Fax: (+966) 13 8348156

Al Khobar

Al-Hada District Branch Tel: (+966) 13 8820040 Fax: (+966) 13 8878653	**Al Shatee Branch** Tel: (+966) 13 8324838 Fax: (+966) 13 8084458	**King Khalid St. Branch** Tel: (+966) 13 8942512 Fax: (+966) 13 8985330
Al-Hada District Branch (Ladies) Tel: (+966) 13 8828848 Fax: (+966) 13 8828722	**Al Shatee Branch (Ladies)** Tel: (+966) 13 8326314 Fax: (+966) 13 8082283	**Al Khobar Main Branch** Tel: (+966) 13 8346928 Fax: (+966) 13 8348156

Dhaharan

Al Doha Branch Tel: (+966) 13 8683512 Fax: (+966) 13 8912059	**Al Doha Branch (Ladies)** Tel: (+966) 13 8916927 Fax: (+966) 13 8912869	**Tilal Al Doha Branch** Tel: (+966) 13 8309188 Fax: (+966) 13 8309188

Al Ahsa

Al Hofuf Main branch Tel: (+966) 13 5863555 Fax: (+966) 13 5843111	**Al Shahbiyah Branch** Tel: (+966) 13 5995530 Fax: (+966) 13 5889078	**Al Shahbiyah Branch (Ladies)** Tel: (+966) 13 5995570 Fax: (+966) 13 5995560
Al Mabraz Branch Tel: (+966) 13 5730616 Fax: (+966) 13 8084381		**Al Salmaniyah Br.** (Al Nakheel; formerly) Tel: (+966) 13 5754310 Fax: (+966) 13 5364987

Jubail		Hafer Al Baten
Jubail Industrial –AlFanateer Br. Tel: (+966) 13 3670157 Fax: (+966) 13 3670157	**Jubail Plaza Branch** Tel: (+966) 13 3672701 Fax: (+966) 13 3471426	**Hafer Al Baten Branch** Tel: (+966) 13 7313417 Fax: (+966) 137313417

Qateef

Qateef Branch Tel: (+966) 13 8545463 Fax: (+966) 13 8545367	**Qateef Branch (Ladies)** Tel: (+966) 13 8558326 Fax: (+966) 13 8529877	

Fawri فوري

خدمات تحويل الأموال
Money Transfer Services

Central Region

Al Batha/ Gaghazali BR. - 6101 Tel : (+966) 11 4068467 11 4068524	**Al-Rawdah Br. - 6110** Tel : (+966) 11 2278447 11 2277506	**Industrial 2 - 6119** Tel : (+966) 11 8104209 11 8109653
AL-Balad (Manila) Br. - 6102 Tel : (+966) 11 8108056 11 8108058	**Al-Sulimania Br. - 6104** Tel : (+966) 11 4778350 11 4778541	**Buraidah Br. Qaseem 6501** Tel : (+966) 16 3694869 16 3271294
AL-Askary Br. - 6105 Tel : (+966) 11 4774889 11 4776472	**Manfouha Br. - 6108** Tel : (+966) 11 4571278 11 4571329	**Haiel Br. - 6510** Tel : (+966) 16 5349317 16 5349318
AL-Morooj Br. - 6106 Tel : (+966) 11 2031861 11 2033058	**Al Naseem Br. - 6111** Tel : (+966) 11 2324529 11 2328366	**Um Al Hammam Br. - 6117** Tel : (+966) 11 4824559 11 4824327
Al-Khalidiya Br. - 6103 Tel : (+966) 11 4469290 11 4469311	**Al Badiah Br. - 6109** Tel : (+966) 11 4101878 11 4101890	**Sultanah Br. - 6114** Tel : (+966) 11 4283873 11 4285096
Al-Kharj Br. - 6120 Tel : (+966) 11 5456467 11 5456476	**Al Sulay - 6113** Tel : (+966) 11 2415523 11 2415570	**Al Yarmouk Br. - 6112** Tel : (+966) 11 8103904 11 8103905
Al-Mountazah Br. - 6107 Tel : (+966) 11 4083414 11 4083384	**Al Yasmine - 6115** Tel : (+966) 11 8120043 11 8120051	**Al Rass Br. - 6522** Tel : (+966) 16 3392670 16 3392680
Al-Shamaisi Br. - 6118 Tel : (+966) 11 8103242 11 8403198	**Al Margab Br. - 6116** Tel : (+966) 11 4023424 11 4023430 /11 4023435	

Eastern Region

Jubail - 6705 Tel : (+966) 13 3448685 13 3448760	**Al Eisa Mall – Al-Khobar Br. - 6710** Tel : (+966) 13 8084917 13 8088173	**Al Akrabiah Br. - 6714** Tel : (+966) 13 8984349 13 8949425
Dammam Main - 6701 Tel : (+966) 13 8341347 13 8341976	**Al-Jalaweyah Br. - 6703** Tel : (+966) 13 8172190 13 8172623	**Al Ahsa Br. - 6731** Tel : (+966) 13 5732774 13 5732775
Block 91 – 6702 Tel : (+966) 13 8190058 13 8190049	**Al Jubail 2 Br. - 6706** Tel : (+966) 13 3615383 13 3632256	**Jubail - Industrial Br. - 6707** Tel : (+966) 13 3441119 13 3618118
Al Thouqba Br. - 6711 Tel : (+966) 13 8088319 13 8089747	**Industrial 2 Br. - 6709** Tel : (+966) 13 8021910 13 8021859	**Hafr Al Batin Br. - 6747** Tel : (+966) 13 7310049 13 7310151

Western Region

Al- Balad Br. - 6301 Tel : (+966) 12 2899757 12 2894596	**Bani Malik Br. - 6307** Tel : (+966) 12 6727797 12 6727727	**Bin Ladin Br. - 6316** Tel : (+966) 12 6811358 12 6811357
Al- Heraa Br. - 6302 Tel : (+966) 12 6826902 12 6834007	**Al-Hamdaniyah Br. - 6311** Tel : (+966) 12 6071194 12 6070316	**Khamis Musheit Br. - 6614** Tel: (+966) 17 2740534 17 2740535
Al- Bawadi Br. - 6303 Tel : (+966) 12 6558167 12 6558592	**Yanbu Br. - 6347** Tel : (+966) 14 3572748 14 3573406	**Al Salama Br. - 6304** Tel : (+966) 12 2861719 12 605 8581
Mishrifa Br. - 6306 Tel : (+966) 12 6737669 12 6736713	**Al Medina Al Menwara Br. - 6340** Tel : (+966) 14 8280357 14 8280328	**Al Sharafiah Br. - 6308** Tel : (+966) 12 6304023 12 6303762
Abha Br. - 6605 Tel : (+966) 17 2240401 17 2283150	**Najran Br. - 6620** Tel : (+966) 17 5221993 17 5221846	**Jizan Br. - 6646** Tel : (+966) 17 3220638 17 3220640
Taif Br. - 6330 Tel : (+966) 12 7322543 12 7327792	**Al Kakyah Br. - 6360** Tel : (+966) 12 5307034 12 5306986	**Tabuk Br. - 6580** Tel : (+966) 14 4216147 14 4221603
Rabegh Br. - 6380 Tel : (+966) 12 4221246 12 4221247	**Al Joof Br.6570** Tel : (+966) 14 6222139 14 6222368 / 14 6222372	**Baish Br.- 6661** Tel : (+966) 17 3340447 17 3340225
Al Otaibiah Br. 6363 Tel : (+966) 12 5970058 12 5970289		

الجزيرة كابيتال
ALJAZIRA CAPITAL

Central Region

King Fahd Road Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**King Fahd Road-Ladies** Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**Al-Nafel** Tel: (+966) 11 2751086 Fax: (+966) 11 2742590
Ocbah Bin Nafee Tel: (+966) 11 2780486 Fax: (+966) 11 2780486	**Ocbah Bin Nafee-Ladies** Tel: (+966) 11 2781416 Fax: (+966) 11 2780486	**Al-Suwaidi** Tel: (+966) 11 4288716 Fax: (+966) 11 4493064
Al-Riyan Tel: (+966) 11 2083385 Fax: (+966) 11 2080166 - Ext. 306	**Al-Riyan - Ladies** Tel: (+966) 11 2083449 Fax: (+966) 11 2080166 - Ext. 306	

Qasim Region

Oniza Tel: (+966) 16 3634615 Fax: (+966) 16 3618412		**Buraida** Tel: (+966) 16 3835230 Fax: (+966) 16 3835204

Eastern Region

Al-Khubar Alhada Tel: (+966) 13 8820040 Fax: (+966) 13 8820040		**Jubail** Tel: (+966) 13 3670190 Fax: (+966) 13 3471426
Qatif Tel: (+966) 13 8545370 Fax: (+966) 13 8529925		**Hafuf** Tel: (+966) 13 5861590 Fax: (+966) 13 5854092

Western and Southern Region

Mosaadia Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Mosaadia - Ladies** Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Al-Nahda** Tel: (+966) 12 6098560 Fax: (+966) 12 6098553
Madina Al-Monawara Tel: (+966) 14 8451959 Fax: (+966) 14 8457255	**Khamees Mushait** Tel: (+966) 17 2358385 Fax: (+966) 17 2219580	**Makkah Al-Mukarrama** Tel: (+966) 12 5230421 Fax: (+966) 12 5571010 - Ext. 600

P.O.Box 20438 Riyadh 11455

الجزيرة تكافل
Aljazira Takaful

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

Central Region		
Riyadh (Men)	King Abdullah Rd., Al Quds Dist.	Tel.: (+966) 11 2404052 Fax: (+966) 11 2784214 Ext : 381

Eastern Region		
Khobar (Men/Ladies)	King Saud Rd with Prince Faisal bin Fahad Rd. Close to Abdulatif Jamil Co. Side of Mall of Dhahran	Tel:(+966) 13 8821142

Takaful Ta'awuni Toll free Number

800 244 0959

SHARIA'H SUPERVISORY BOARD'S REPORT

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

The Shareholders of Bank Aljazira,

The Sharia'h Board of Bank Aljazira has reviewed and discussed the Bank final annual report. which was prepared by Sharia Group and which includes, the results of auditing and inspecting of the used procedures by the Bank based on randomly selected samples from all types of Operations.

The Sharia Board has also reviewed the principles followed and contracts regarding the application of products launched by the Bank during the period ending 31 / 12 / 2018 to give the sharia opinion, the necessary fatwas, directions and decisions and the responsibility for ensuring the Bank is operating in accordance with the rules and principles of Islamic Sharia'h lies with the executive management of the bank, whereas the Sharia'h Board's responsibility is restricted to providing an independent opinion based on its monitoring of the Bank's operations and presenting its report to you.

We have done our auditing to obtain all the necessary information and explanations which they considered necessary to provide reasonable assurance that the Bank did not violate the Sharia rules and principles of Islamic law, and It is our opinion that:

The contracts. operations and transactions executed by the Bank during the period covered by the above-mentioned report are generally compliant with the rules of Islamic Sharia , and that the observations made on some of these operations do not materially affect the integrity thereof from the Sharia point of view. Some of these instances were rectified by the management of the Bank, and the remaining cases will be handled in the course of the current fiscal year.

May Allah guide us to the right path.

Assalamu'alaikum warahmatullahi wabarakatuh

Sheik Abdulla Bin Suleiman Al-Mane'e **Chairman**

Dr. Abdullah Bin Mohammed Al-Mutlaq **Vice Chairman**

Dr. Mohammed Bin Ali El-Gari **Member**

Dr. Abdulsatar Abu-Ghuddah **Member**

Dr. Fahad Bin Ali Al-Elayan **Rapporteur**

INTERNAL CONTROL STATEMENT

Management Responsibility

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

Scope of Internal Audit Department

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

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

Evaluation and Assessment of the Effectiveness of the Internal Controls

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

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

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

Management Response on the Evaluation of Internal Controls

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

Board of Directors Response on the Evaluation of Internal Controls

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

Shahid Amin	Ibrahim Al-Gomllas	Yaqoob Al-Oraini
Chief Financial Officer	Acting Head of Internal Audit	Head of Compliance & AML

FINANCIAL STATEMENT

CONTENTS

Ernst & Young & Co. (Public Accountants)
General Partnership

13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45
Head Office - Riyadh

KPMG Al Fozan & Partners
Certified Public Accountant

9th Floor, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

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

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

Opinion

We have audited the 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, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 43.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter, our description of how our audit addressed the matter is set out below, provided in that context:

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements:

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment of loans and advances:

As at December 31, 2018, the Group's gross loans and advances amounted to SR 41,830 million (2017: SR 40,495 million), against which an impairment allowance of SR 933 million (2017: SR 705 million) maintained.

During the year the Group has adopted IFRS 9 which introduced a forward looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment of SR 636 million to the Group's equity as at January 1, 2018. The impacts of the transition is explained in note 3(a)(ii) to the consolidated financial statements.

We considered this as a key audit matter as the determination of ECL involves signficant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:

1. Categorisation of loans in Stage 1, 2 and 3 based on identification of:

(a) exposures with significant increase in credit risk ("SICR") since their origination; and

(b) individually impaired / default exposures.

2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.

3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

Refer to the significant accounting policies notes 3(a)(ii) to the consolidated financial statements for the adoption of IFRS 9 – Financial Instruments and significant accounting policy relating to impairment of financial assets, note 2(c)(i) which contains the disclosure of critical accounting judgement, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 30 for details of credit quality analysis and key assumptions and factors considered in determination of ECL .

</td><td>

We obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, Group's internal rating model, Group's impairment allowance policy and ECL modelling methodology.

We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9.

We assessed the design and implementation, and tested the operating effectiveness of controls over:

- the modelling process including governance over monitoring of the model and approval of key assumptions;
- the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR") since initial recognition;
- integrity of data inputs into the ECL model; and
- for a sample of customers, assessed whether the internal ratings assigned by management is in line with the Group's internal policies and procedures.

We checked the completeness and accuracy of data underlying the ECL calculation as of December 31, 2018. We assessed the underlying assumptions used by the Group in ECL calculations:

- checked the appropriateness of the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of exposures, we checked the appropriateness of the Group's staging;
- checked the appropriateness of management's computations for a sample of customers, across all the three stages of ELC assessment; and
- where management's overlays were used, assessed their appropriateness and governance process around such overlays.

We used our internal specialists to review model calculations and data integrity.

With respect to the transition adjustments, in addition to above mentioned procedures, we specifically considered the relevance and completeness of data and appropriateness of assumptions used by management at the initial adoption of IFRS 9.

We assessed the disclosures included by management in the consolidated financial statements.

</td></tr>
<tr><td>

Fee from banking operations:

The Group charges loan processing fee and certain other amounts upfront to customers on corporate and retail loans and recognizes the same within fee and commission income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be recognized as an adjustment to effective yield within special commission income. However, due to large volume of transactions with mostly insignificant fee amounts, adjustments to effective yield is made by the management based on certain thresholds and assumptions.

We considered this as a key audit matter since the use of inappropriate thresholds and assumptions could result in material over / under statement of fee and commission income and special commission income.

The Group's accounting policy related to revenue measurement and recording were described in note 3(h) to the consolidated financial statements and note 21 which contains the disclosure of amounts related to loan commitment and management fee.

</td><td>

We performed following audit procedures in response to this risk:

- We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds for making adjustments to the effective yield of loans for which the commission has been received.
- We assessed the reasonableness of assumptions used and thresholds established by the Group to record the fee and commission income on loans.
- We obtained management's assessment of the impact of the use of thresholds and assumptions on fees and commission income and:
  - o for a sample of customers, checked historical and current year data used by management to the contracted terms; and
  - o assessed management's estimation of the impact on the recognition of fee and commission income and special commission income due to the use of thresholds and assumptions.o

</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Hedge accounting: The Group hedges its exposure to cash flow risk arising from variability of special commission rates associated with the forecast payment of special commission on Bank's funding activities. The hedging is achieved by entering into derivative (special commission rate swaps) contracts with third parties. Under IFRSs in order to qualify for hedge accounting, among other criteria, the hedging transactions should be expected to be highly effective, i.e. the changes in cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. Hedge effectiveness test was significant to the audit because of strict IFRSs requirement to qualify for the hedge accounting and volume and amounts of hedged items and instruments. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically, maturity of the hedged item and instrument estimated future special commission rates and fair valuation of the derivatives, which are affected by expected future market or economic conditions globally and in the Kingdom of Saudi Arabia. The Group's accounting policy related to hedge accounting described in note 3 (e), the carrying amount of derivative designated for hedge accounting in note 11 and movement in hedging reserves in note 18 to the consolidated financial statements.	Our audit procedures in response to the risk associated with the application of hedge accounting included a detailed analysis of the Group's framework for financial risk management and hedge accounting. We assessed and tested management's controls over the establishment of hedging relationships, related documentation and monitoring, including performance of prospective and retrospective effectiveness testing. Moreover, for a selected sample of hedges, we also performed the following: · assessed the appropriateness of the assumptions used by the management when performing hedge effectiveness test; · while considering retrospective and prospective testing, checked the historic results with regard to existing hedging relationships, and evaluated forecasted analysis based on management's best estimates keeping in view future plans and budget to date. · assessed the appropriateness of the fair values assigned by reference to third-party data as applicable. · assessed how effectively the changes in cash flows of the hedging instrument offsets corresponding changes in the hedged item and whether the hedge remains effective in line with the requirements of the relevant accounting standards. · involved our hedge accounting specialists to independently reperform the hedge effectiveness test. Further, we assessed whether the financial statement disclosures appropriately reflect the Group's hedge accounting policy, as well as, it's exposures to derivatives designated under hedging relationships.

Other Information included in the Group's 2018 Annual Report

Management is responsible for the other information in Group's annual report. Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as modified by SAMA for the accounting of Zakat and income tax, the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young
(Public Accountants)
P.O. Box 1994
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Kingdom of Saudi Arabia

Ahmed I. Reda
Certified Public Accountant
Licence Number 356

for KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Khalil Ibrahim Al Sedais
Certified Public Accountant
Licence Number 371

February 5, 2019
Corresponding to Jumada Al Awwal 30, 1440H

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	Notes	2018 SR '000	2017 SR '000
ASSETS			
Cash and balances with SAMA	4	**4,965,122**	5,975,067
Due from banks and other financial institutions	5	**1,297,749**	369,249
Investments	6	**24,052,275**	20,360,547
Positive fair value of derivatives	11	**54,434**	104,021
Loans and advances, net	7	**40,896,891**	39,789,846
Investment in an associate	8	**135,770**	134,071
Other real estate	7(e)	**453,150**	445,046
Property and equipment, net	9	**761,247**	784,526
Other assets	10	**386,560**	325,082
Total assets		**73,003,198**	68,287,455
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	**6,423,430**	6,172,545
Customers' deposits	13	**51,804,098**	50,278,366
Negative fair value of derivatives	11	**151,789**	220,987
Subordinated Sukuk	14	**2,008,202**	2,006,382
Other liabilities	15	**1,371,207**	780,336
Total liabilities		**61,758,726**	59,458,616
SHAREHOLDERS' EQUITY			
Share capital	16	**8,200,000**	5,200,000
Statutory reserve	17	**2,409,560**	2,159,483
General reserve	17	**68,000**	68,000
Other reserves	18	**(96,284)**	(125,185)
Retained earnings		**253,196**	1,526,541
Proposed dividend		**410,000**	-
Total shareholders' equity		**11,244,472**	8,828,839
Total liabilities and shareholders' equity		**73,003,198**	68,287,455

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 SR '000	2017 SR '000
Special commission income	20	**2,987,608**	2,756,927
Special commission expense	20	**(1,049,346)**	(939,314)
Net special commission income		**1,938,262**	1,817,613
Fees and commission income	21	**866,372**	848,553
Fees and commission expense	21	**(282,892)**	(247,664)
Fees and commission income, net		**583,480**	600,889
Exchange income, net		**191,789**	149,781
Unrealised (loss)/ gain on investments as at fair value through profit or loss ((FVTPL		**(4,247)**	6,331
Trading (loss) / income, net	22	**(120)**	2,022
Dividend income	23	**286**	190
Gain on non-trading investments		**101**	-
Other operating income, net	24	**8,547**	2,912
Total operating income		**2,718,098**	2,579,738
Salaries and employee-related expenses	36	**915,904**	856,884
Rent and premises-related expenses		**140,950**	140,013
Depreciation and amortisation	9	**93,043**	86,526
Other general and administrative expenses		**453,586**	380,411
Impairment charge for credit losses, net	7(c)	**102,193**	267,149
Other operating expenses, net		**22,543**	1,922
Total operating expenses		**1,728,219**	1,732,905
Operating income		**989,879**	846,833
Share in net income of an associate	8	**10,428**	10,681
Net income for the year		**1,000,307**	857,514
Basic and diluted earnings per share (expressed in SR per share)	25	**1.33**	1.51

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 SR '000	2017 SR '000
Net income for the year		**1,000,307**	857,514
Other comprehensive income:			
Items that can be reclassified to consolidated statement of income in subsequent periods:			
Cash flow hedges:			
- Effective portion of change in the fair value	18	**16,338**	87,609
- Net amount transferred to consolidated statement of income	18	**329**	185
Items that cannot be reclassified to consolidated statement of income in subsequent periods:			
Net changes in fair value of investments classified as at fair value through other comprehensive income (FVOCI)	18	**23**	3,771
Actuarial gains / (losses) on defined benefit obligation	18	**2,014**	(1,931)
Total other comprehensive income for the year		**18,704**	89,634
Total comprehensive income for the year		**1,019,011**	947,148

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Share capital SR '000	Statutory reserve SR '000	General reserve SR '000	Other reserves SR '000	Retained earnings SR '000	Proposed dividend SR '000	Total SR '000
2018								
Balance at January 1, 2018 (audited)		**5,200,000**	**2,159,483**	**68,000**	**(125,185)**	**1,526,541**	**-**	**8,828,839**
Impact of adoption of IFRS 9 at January 1, 2018	3(a)(II)	**-**	**-**	**-**	**-**	**(636,157)**	**-**	**(636,157)**
Balance at January 1, 2018 – restated		**5,200,000**	**2,159,483**	**68,000**	**(125,185)**	**890,384**	**-**	**8,192,682**
Net income for the year		**-**	**-**	**-**	**-**	**1,000,307**	**-**	**1,000,307**
Other comprehensive income for the year		**-**	**-**	**-**	**18,704**	**-**	**-**	**18,704**
Gain on sale of investment classified as at FVOCI	18	**-**	**-**	**-**	**(10,951)**	**10,951**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**7,753**	**1,011,258**	**-**	**1,019,011**
Zakat for current year	26	**-**	**-**	**-**	**-**	**(61,746)**	**-**	**(61,746)**
Zakat for prior years	26	**-**	**-**	**-**	**-**	**(551,498)**	**-**	**(551,498)**
Income tax for current year	26	**-**	**-**	**-**	**-**	**(8,633)**	**-**	**(8,633)**
Share in Zakat of an associate	8	**-**	**-**	**-**	**-**	**(154)**	**-**	**(154)**
Right issue of shares	16	**3,000,000**	**-**	**-**	**-**	**-**	**-**	**3,000,000**
Dividend paid		**-**	**-**	**-**	**-**	**(252,802)**	**-**	**(252,802)**
Proposed dividend	26	**-**	**-**	**-**	**-**	**(410,000)**	**410,000**	**-**
Transfer to statutory reserve	17	**-**	**250,077**	**-**	**-**	**(250,077)**	**-**	**-**
Transfer of gain on investment at FVOCI to other liabilities		**-**	**-**	**-**	**-**	**(1,540)**	**-**	**(1,540)**
Right issue cost	18	**-**	**-**	**-**	**(90,848)**	**-**	**-**	**(90,848)**
Transfer of right issue cost to retained earnings	18	**-**	**-**	**-**	**111,996**	**(111,996)**	**-**	**-**
Balance at December 31, 2018		**8,200,000**	**2,409,560**	**68,000**	**(96,284)**	**253,196**	**410,000**	**11,244,472**
2017								
Balance at January 1, 2017		4,000,000	1,945,105	68,000	(211,790)	2,302,211	-	8,103,526
Net income for the year		-	-	-	-	857,514	-	857,514
Other comprehensive income for the year		-	-	-	89,634	-	-	89,634
Total comprehensive income for the year		-	-	-	89,634	857,514	-	947,148
Zakat and income tax	26	-	-	-	-	(27,117)	-	(27,117)
Share in Zakat of an associate	8	-	-	-	-	(462)	-	(462)
Issue of bonus shares		1,200,000	-	-	-	(1,200,000)	-	-
Dividend paid		-	-	-	-	(191,227)	-	(191,227)
Transfer to statutory reserve	17	-	214,378	-	-	(214,378)	-	-
Right issue cost	18	-	-	-	(3,029)	-	-	(3,029)
Balance at December 31, 2017		5,200,000	2,159,483	68,000	(125,185)	1,526,541	-	8,828,839

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 SR '000	2017 SR '000
OPERATING ACTIVITIES			
Net income for the year		**1,000,307**	857,514
Adjustments to reconcile net income to net cash from operating activities:			
Unrealised loss/ (gain) on investments as at fair value through profit or loss (FVTPL)		**4,247**	(6,331)
Trading loss / (income), net	22	**5,457**	(2,022)
Depreciation and amortisation	9	**93,043**	86,526
Dividend income	23	**(286)**	(190)
Gain on non-trading investments, net		**(101)**	-
(Gain) / loss on sale of property and equipment		**(148)**	81
Impairment charge for credit losses, net	7(c)	**102,193**	267,149
Share in net income of an associate	8	**(10,428)**	(10,681)
		1,194,284	1,192,046
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(55,193)**	39,329
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**66,485**	(167,049)
Investments held at FVTPL		**10,418**	39,494
Positive fair value of derivatives		**49,587**	24,697
Loans and advances		**(1,690,631)**	2,041,700
Other real estate, net		**(8,104)**	(383,034)
Other assets		**(61,478)**	45,888
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**250,885**	2,627,433
Customers' deposits		**1,525,732**	(1,323,988)
Negative fair value of derivatives		**(69,198)**	(112,731)
Other liabilities		**(28,681)**	138,221
Net cash from operating activities		**1,184,106**	4,162,006
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		**1,256,322**	740,075
Acquisition of non-trading investments		**(4,968,071)**	(4,839,019)
Dividend received from an associate	8	**8,575**	6,125
Acquisition of property and equipment	9	**(69,784)**	(169,674)
Proceeds from sale of property and equipment		**168**	200
Dividends received	23	**286**	190
Net cash used in investing activities		**(3,772,504)**	(4,262,103)
FINANCING ACTIVITIES			
Proceeds from issue of right shares	16	**3,000,000**	-
Payment of right issue costs	18	**(90,848)**	-
Special commission on Subordinated Sukuk		**1,820**	(89)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018 SR '000	2017 SR '000
Dividends paid		**(250,864)**	(190,034)
Zakat and income tax paid		**(141,227)**	(27,777)
Net cash from / (used in) financing activities		**2,518,881**	(217,900)
Net decrease in cash and cash equivalents		**(69,517)**	(317,997)
Cash and cash equivalents at the beginning of the year		**3,478,824**	3,796,821
Cash and cash equivalents at the end of the year	27	**3,409,307**	3,478,824
Special commission income received during the year		**2,639,239**	2,497,366
Special commission expense paid during the year		**784,491**	679,560
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		**16,667**	87,794

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

1. GENERAL

These financial statements comprise the financial statements of Bank Aljazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank Aljazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (2017: 79 branches) and 57 Fawri Remittance Centres (2017: 50 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,358 staff as of December 31, 2018 (2017: 2,256 staff). The Bank's Head Office is located at the following address:

Bank Aljazira
Nahda District, King Abdulaziz Road,
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

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

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

	Country of incorporation	Nature of business	Ownership (direct and indirect) 31 December 2018	Ownership (direct and indirect) 31 December 2017
Subsidiaries				
Aljazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%
Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	**100%**	100%
Aljazira Securities Limited	Cayman Islands	Carry out Shari'ah compliant derivative and capital market transactions	**100%**	100%
Associate				
Aljazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. BASIS OF PREPARATION

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and income tax' (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 - "Levies" in so far as these relate to accounting for Saudi Arabian zakat and income tax); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

ii. Basis of measurement and presentation

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

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

iii. Functional and presentation of currency

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

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

b) Basis of consolidation

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

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

i. Subsidiaries

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

i. the Group has power over an entity;

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

iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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

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

ii. Non-controlling interests

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

iii. Transactions eliminated on consolidation

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

iv. Investment in an associate

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

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

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

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

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

c) Critical accounting judgements, estimates and assumptions

The preparation of the 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 judgement in the process of applying the Bank'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. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Business model for managing financial assets (note 3(c)(i)(a))

ii. Contractual cashflows of financial assets (note 3(c)(i)(b))

iii. Classification of financial assets (note 3(c)(i))

iv. Impairment losses on financial assets (note 2(c)(i))

v. Fair value measurement (note 2(c)(ii))

vi. Impairment of non-financial assets (note 2(c)(iii))

vii. Determination of control over investees (note 2(c)(iv))

viii. Provisions for liabilities and charges (note 2(c)(v))

ix. Going concern (note 2(c)(vi))

x. Employee benefit obligation (note 2(c)(vii))

xi. Depreciation and amortisation (note (3)(k))

i. **Impairment losses on financial assets**

The measurement of impairment losses under both IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's expected credit loss "ECL" calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk (SICR) and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default "PDs", exposure at default "EADs" and loss given default "LGDs"
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

ii. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 6 (d) and note 34 (b).

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

iii. Impairment of non-financial assets

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

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

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

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

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

iv. Determination of control over investment funds

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

v. Provisions for liabilities and charges

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

vi. Going concern

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

vii. Employee Benefit Obligation

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi

Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard 19 – Employee Benefits, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 28 to these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the adoption of the following new standards and other amendments to existing standards mentioned below. Except for adoption of IFRS 9 these amendments and adoption has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods. The impact and disclosures pertaining to adoption of IFRS 9 has been illustrated in the later part of these consolidated financial statements.

Adoption of New Standards

Effective from January 1, 2018 the Group has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

I. **IFRS 15 Revenue from Contracts with Customers**

The Group adopted IFRS 15 'Revenue from Contracts with Customers' during the current year.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has completed its assessment of the impact of adoption of IFRS 15 and concluded that the new standard did not have any significant impact on the current revenue recognition practices. The financial impact of adoption of IFRS 15 is not material therefore prior period amounts have not been restated.

II. **IFRS 9 – Financial Instruments**

As allowed, the Group in 2011 adopted earlier version of IFRS 9 issued in November 2009 and subsequently revised in October 2010 (the early adopted IFRS 9), which mainly included classification and measurement of financial instruments. Effective from January 1, 2018, the Group adopted IFRS 9 issued in July 2014 (the complete IFRS 9), which supersedes all earlier versions and included classification and measurement, impairment and hedge accounting.

As permitted by the complete IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of the complete IFRS 9 are summarized below:

Classification and measurement of financial instruments

As a result of the adoption of the complete IFRS 9, there are no significant changes with respect to classification and measurement of financial assets other than:

- Contractual cash flow characteristics assessment;
- Introduction of a FVOCI measurement category for debt instruments; and
- Accounting for the reclassification of financial assets between measurement categories.

Impairment of financial assets

The complete IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). The complete IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and special commission income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Under the complete IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

Transition

Changes in accounting policies resulting from the adoption of the complete IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of the complete IFRS 9 is recognized in retained earnings as at 1 January 2018. Accordingly, the impairment allowance presented for 2017 does not reflect the requirements of the complete IFRS 9 and therefore impairment allowance is not comparable to the information presented for 2018 under the complete IFRS 9.
- The assessment for the determination of the business model within which a financial asset is held considering the facts and circumstances that existed at the date of initial application.

  It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of the complete IFRS 9.

  Reconciliation of carrying amounts under IAS 39/ early adopted IFRS 9 to carrying amounts under complete IFRS 9 at January 1, 2018

a) The following table reconciles the carrying amounts under IAS 39 / the early adopted IFRS 9 to the carrying amounts under the complete IFRS 9 on transition date of January 1, 2018.

	SR '000		
	December 31, 2017 (IAS 39 / early adopted IFRS 9 / (IAS 37	Re-measurement	January 1,2018 (the (complete IFRS 9
Financial assets			
Due from banks and other financial institutions	369,249	(306)	368,943
Loans and advances, net	39,789,846	(472,284)	39,317,562
	40,159,095	(472,590)	39,686,505
Financial liabilities			
Other liabilities	780,336	163,567	943,903

b) The following table reconciles the impairment allowance recorded as per the requirements of IAS 39 to that of the complete IFRS 9, considering the following:

- the closing impairment allowance for financial assets in accordance with IAS 39 and impairment allowance against loan commitments and financial guarantee contracts in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, as at December 31, 2017; to
- the opening ECL allowance determined in accordance with the complete IFRS 9 as at January 1, 2018.

	SR '000		
	December 31, 2017 (IAS 39/ /early adopted IFRS 9/ (IAS 37	Re-measurement	January 1, 2018 (the (complete IFRS 9
Financial assets			
Due from banks and other financial institutions	-	306	306
Loans and advances, net	704,729	472,284	1,177,013
	704,729	472,590	1,177,319
Financial liabilities			
Other liabilities	-	163,567	163,567
	-	163,567	163,567

c) The following table summarise the effect on retained earnings of the Group as a result of adoption of the complete IFRS 9:

	SR '000
Retained earnings as at December 31, 2017	1,526,541
Recognition of expected credit losses under IFRS 9 (including credit loss provision against loan commitments and financial guarantee contracts)	(636,157)
Retained earnings under complete IFRS 9 (January 1, 2018)	890,384

Classification of financial assets and financial liabilities

The following table provides summary of financial instruments of the Group by class of those instruments and their carrying amounts as at December 31, 2018:

		December 31, 2018				
	Notes	Mandatorily at FVTPL	FVTPL	FVOCI – equity investments	Amortized cost	Total carrying amount
				SR '000		
Financial assets						
Cash and balances with SAMA	4	-	-	-	4,965,122	4,965,122
Due from banks and other financial institutions	5	-	-	-	1,297,749	1,297,749
Investments	6	-	41,293	4,891	24,006,091	24,052,275
Positive fair value of derivatives	11	54,434	-	-	-	54,434
Loans and advances	7	-	-	-	40,896,891	40,896,891
Other assets		-	-	-	278,350	278,350
Total financial assets		54,434	41,293	4,891	71,444,203	71,544,821

	Notes	December 31, 2018				
		Mandatorily at FVTPL	FVTPL	FVOCI– equity investments	Amortized cost	Total carrying amount
		SR '000				
Financial liabilities						
Due to banks and other financial institutions	12	-	-	-	6,423,430	6,423,430
Customers' deposits	13	-	-	-	51,804,098	51,804,098
Negative fair value of derivatives	11	151,789	-	-	-	151,789
Subordinated Sukuk	14	-	-	-	2,008,202	2,008,202
Other liabilities		-	-	-	835,069	835,069
Total financial liabilities		151,789	-	-	61,070,799	61,222,588

	Notes	December 31, 2017				
		Mandatorily at FVTPL	FVTPL	FVOCI – equity investments	Amortized cost	Total carrying amount
		SR '000				
Financial assets						
Cash and balances with SAMA	4	-	-	-	5,975,067	5,975,067
Due from banks and other financial institutions	5	-	-	-	369,249	369,249
Investments	6	-	61,415	16,388	20,282,744	20,360,547
Positive fair value of derivatives	11	104,021	-	-	-	104,021
Loans and advances	7	-	-	-	39,789,846	39,789,846
Other assets		-	-	-	209,167	209,167
Total financial assets		104,021	61,415	16,388	66,626,073	66,807,897
Financial liabilities						
Due to banks and other financial institutions	12	-	-	-	6,172,545	6,172,545
Customers' deposits	13	-	-	-	50,278,366	50,278,366
Negative fair value of derivatives	11	220,987	-	-	-	220,987
Subordinated Sukuk	14	-	-	-	2,006,382	2,006,382
Other liabilities		-	-	-	724,847	724,847
Total financial liabilities		220,987	-	-	59,182,140	59,403,127

III. IFRS 7 (revised) financial instruments: disclosures

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning January 1, 2018. Changes include transition disclosures as shown in note 3(a)(II), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 30.

Reconciliations from opening to closing ECL allowances are presented in notes 3(a)(II).

b) Trade date accounting

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

c) Financial assets and financial liabilities

i. **Classification of financial assets**

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial asset at amortised cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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

Financial assets at FVOCI

A debt instrument: is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and special commission on the principal amount outstanding.

Equity instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis.

Investments in debt instruments as FVOCI are initially measured at fair value plus transaction costs. These are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and recycled to consolidated statement of income at the time of sale. Special commission income and foreign exchange gains and losses are recognised in consolidated statement of income.

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

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

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

(Policy applicable before January 1, 2018)

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

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

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

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

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

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

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debt securities classified neither as amortised cost nor FVOCI).

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

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

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

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

a. Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual special commission revenue, maintaining a particular special commission rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part

of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b. Assessments whether contractual cash flows are solely payments of principal and special commission (SPPI)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Special Commission' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and special commission, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of special commission rates.

Designation at fair value through profit or loss

At initial recognition, the Group may designate certain financial assets at FVTPL if this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

ii. Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Yield Rate.

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss or the Group has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

Financial liabilities classified as FVTPL using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and loan commitments that Group choose to measure at fair value through profit or loss (FVTPL) will have all fair value movements recognized in consolidated statement of income.

Designation at fair value through profit or loss

The Group may designate certain financial liabilities as FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

iii. Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(Policy applicable before January 1, 2018)

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

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

v. Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease / Ijarah receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective yield rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the sukuk yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under "other liabilities"; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional evaluators, or based on housing price indices.

(Policy applicable before January 1, 2018)

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

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

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

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

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

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

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

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

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

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

d) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market special commission rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from January 1, 2018: at the higher of this amortized amount and the amount of loss allowance; and
- Before January 1, 2018: at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- from January 1, 2018: the Group recognizes loss allowance;
- before January 1, 2018: the Group recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in "trading income, net". Derivatives held for trading also includes those derivatives, which do not qualify for hedge accounting.

ii) **Embedded derivatives**

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

- the host contract is not an asset in the scope of IFRS 9;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

iii) **Hedge Accounting**

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

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

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

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

For designated and qualifying cash flow hedging, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly as "other reserve" in consolidated statement of comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in consolidated statement of comprehensive income is transferred immediately to the consolidated statement of income.

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

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

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

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in "trading income, net". For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

f) Foreign Currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SR at exchange rates prevailing at the reporting date.

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

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

g) Offsetting financial instruments

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

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

h) Revenue /expense recognition

Special commission income and expenses

Special commission income and expense are recognized in consolidated statement of income using the effective yield method. The 'effective yield rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability.

When calculating the effective yield rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective yield rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective yield rate includes transaction costs and fees and points paid or received that are an integral part of the effective yield rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and special commission income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective yield method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the effective yield rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective yield rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, special commission income is calculated by applying the credit-adjusted effective yield rate to the amortized cost of the asset. The calculation of special commission income does not revert to a gross basis, even if the credit risk of the asset improves.

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

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred as disclosed in note 3(f).

Fees and commissions

Fee and commission income and expense that are integral to the effective yield rate on a financial asset or financial liability are included in the effective yield rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Rendering of services

The Group provides various services to its customers. These services are either rendered separately or bundled together with rendering of other services.

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory, remittance and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

Customer Loyalty Program

The Bank offers customer loyalty program (reward points / air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

Trading income / (loss), net

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, special commission, dividends and foreign exchange differences.

Dividend income

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

i) Sale and repurchase agreements

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

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

j) Other real estate and repossessed assets

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

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

k) Property and equipment

Property and equipment are measured at cost less accumulated depreciation / amortisation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

Freehold land is not depreciated. The cost of other property and equipment is depreciated / amortised using the straight-line method over the estimated useful lives of the assets as follows:

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

l) Deposits, debt securities issued and subordinated liabilities

When the Group designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its own credit risk is presented in Other Comprehensive Income (OCI) as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- The impact on profit or loss of expected changes in fair value of the related instruments.

m) 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.

n) Accounting for leases

i. Where the Group is the lessee

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

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

ii. Where the Group is the lessor

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

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

o) 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.

p) Employees' benefits

Defined unfunded benefit plan

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

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

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

Short term benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

q) Zakat and income tax

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

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on Zakat and income tax.

r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

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

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

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

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

Ijarah	is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on the customer's promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.
Musharaka	is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.
Tawaraq	is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.
Wa'ad Fx	is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).
Istisna'a	is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
Sukuk	are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

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

4. CASH AND BALANCES WITH SAMA

	2018 SR '000	2017 SR '000
Cash in hand	**1,175,558**	1,183,711
Cash with SAMA	**1,035,928**	2,092,913
Cash and cash equivalents (note 27)	**2,211,486**	3,276,624
Statutory deposit with SAMA	**2,753,636**	2,698,443
Total	**4,965,122**	5,975,067

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 SR '000	2017 SR '000
Current accounts	**297,346**	202,200
Money market placements	**1,001,039**	167,049
	1,298,385	369,249
Less: impairment allowance (note (a) below)	**(636)**	-
Total	**1,297,749**	369,249

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

a) An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows:

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loss allowance as at 1 January 2018	213	93	-	306
Transfers to life time ECL not credit impaired	(21)	21	-	-
Net re-measurement of loss allowance	(71)	100	-	29
New financial assets originated	1	301	-	302
Financial assets that have been derecognized	-	(1)	-	(1)
Loss allowance as at 31 December 2018	122	514	-	636

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. For credit quality of outstanding exposure by rating category refer note 30.2.

6. INVESTMENTS

a) As of December 31, 2018 investments are classified as follows:

	2018 SR '000		
	Domestic	International	Total
i) FVTPL			
Mutual funds	23,968	9,488	33,456
Equities	7,837	-	7,837
	31,805	9,488	41,293
ii) FVOCI			
Equities	4,143	748	4,891
iii) Amortised cost			
Sukuk investments	19,092,916	-	19,092,916
Wakala floating rate notes	4,913,175	-	4,913,175
	24,006,091	-	24,006,091
Total	24,042,039	10,236	24,052,275

During the year, the Bank has disposed-off one of its FVOCI equity investment. The fair value of the investment at the date of disposal was SR 12.08 million. As a result of disposal, a cumulative gain of SR 10.95 million which previously was booked in other comprehensive income, was transferred to retained earnings.

b) As of December 31, 2017 investments were classified as follows:

	2017 SR '000		
	Domestic	International	Total
i) FVTPL			
Mutual funds	28,623	32,247	60,870
Equities	545	-	545
	29,168	32,247	61,415
ii) FVOCI			
Equities	4,143	12,245	16,388
iii) Amortised cost			
Sukuk investments	15,374,113	-	15,374,113
Wakala floating rate notes	4,908,631	-	4,908,631
	20,282,744	-	20,282,744
Total	20,316,055	44,492	20,360,547

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

	2018			2017		
	Quoted SR '000	Unquoted SR '000	Total SR '000	Quoted SR '000	Unquoted SR '000	Total SR '000
Sukuk investments	**12,778,596**	**6,314,320**	**19,092,916**	2,935,255	12,438,858	15,374,113
Wakala floating rate notes	-	**4,913,175**	**4,913,175**	-	4,908,631	4,908,631
Equities	**7,837**	**4,891**	**12,728**	12,602	4,331	16,933
Mutual funds	**33,456**	-	**33,456**	60,870	-	60,870
Total investments	**12,819,889**	**11,232,386**	**24,052,275**	3,008,727	17,351,820	20,360,547

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

	2018				2017			
	Carrying value SR '000	Gross unrealized gains SR '000	Gross unrealized losses SR '000	Fair value SR '000	Carrying value SR '000	Gross unrealized gains SR '000	Gross unrealized losses SR '000	Fair value SR '000
Sukuk investments	**19,092,916**	**62,464**	**(21,446)**	**19,133,934**	15,374,113	23,642	(9,559)	15,388,196
Wakala Floating rate notes	**4,913,175**	-	-	**4,913,175**	4,908,631	-	-	4,908,631
Total	**24,006,091**	**62,464**	**(21,446)**	**24,047,109**	20,282,744	23,642	(9,559)	20,296,827

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

	2018 SR '000	2017 SR '000
Government and quasi Government	**22,770,053**	17,849,936
Banks and other financial institutions	**764,252**	1,765,163
Corporate	**517,970**	745,448
Total	**24,052,275**	20,360,547

The fair values of investments carried at amortised cost are not significantly different from their carrying values. Certain of the sukuk investments (disclosed in note 6(d)) are quoted in different markets but not actively traded.

Equities reported under FVOCI includes unquoted shares of SR 4.89 million (2017: SR 4.33 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia (disclosed in note 6(a)) with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

Sukuk investments include SAR 375 million (2017: Nil), which have been pledged under repurchase agreements with other banks. The market value of such investment is SAR 358.46 million (2017: Nil).

7. LOANS AND ADVANCES, NET

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

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

Others include loans and advances to staff.

a) Loans and advances, net comprised the following:

	SR '000				
	Credit cards	Consumer	Commercial	Others	Total
2018					
Performing loans and advances	**623,484**	**18,973,268**	**21,137,891**	**431,133**	**41,165,776**
Non-performing loans and advances	**39,423**	**160,327**	**464,870**	**-**	**664,620**
Total loans and advances	**662,907**	**19,133,595**	**21,602,761**	**431,133**	**41,830,396**
Allowance for impairment	**(43,078)**	**(164,257)**	**(726,170)**	**-**	**(933,505)**
Loans and advances, net	**619,829**	**18,969,338**	**20,876,591**	**431,133**	**40,896,891**

	SR '000				
	Credit Cards	Consumer	Commercial	Others	Total
2017					
Performing loans and advances	463,377	17,553,202	21,550,527	423,106	39,990,212
Non-performing loans and advances	25,839	49,882	428,642	-	504,363
Total loans and advances	489,216	17,603,084	21,979,169	423,106	40,494,575
Allowance for impairment	(16,750)	(209,704)	(478,275)	-	(704,729)
Loans and advances, net	472,466	17,393,380	21,500,894	423,106	39,789,846

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

Loans and advances include net receivables from Ijarah finance amounting to SR 10.79 billion (2017: SR 10.11 billion).

An analysis of changes in loss allowance for loans and advances is, as follows:

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances				
Loss allowance as at January 1, 2018	142,292	167,506	867,215	1,177,013
Transfer to 12-month ECL	72,729	(53,505)	(19,224)	-
Transfer to lifetime ECL not credit – impaired	(7,298)	8,252	(954)	-
Transfer to lifetime ECL credit impaired	(936)	(23,834)	24,770	-
Net re-measurement of loss allowance	(113,113)	59,313	259,303	205,503
New financial assets originated or purchased	52,586	37,550	17,839	107,975
Financial assets that have been derecognized	(7,926)	(2,227)	(60,936)	(71,089)
Write-offs	-	-	(489,014)	(489,014)
Allowance written back upon restructuring of loan	-	-	3,117	3,117
Loss allowance as at December 31, 2018	138,334	193,055	602,116	933,505

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2018 and that are still subject to enforcement activity is SR 445.20 million.

An analysis of changes is loss allowance by each class of financial instrument is, as follows:

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Credit Cards				
Loss allowance as at January 1, 2018	5,569	481	13,512	19,562
Transfer to 12-month ECL	1,934	(312)	(1,622)	-
Transfer to lifetime ECL not credit – impaired	(134)	401	(267)	-
Transfer to lifetime ECL credit impaired	(175)	(119)	294	-
Net re-measurement of loss allowance	(2,928)	(141)	7,795	4,726
New financial assets originated or purchased	11,957	1,578	9,070	22,605
Financial assets that have been derecognized	(634)	(24)	(1,096)	(1,754)
Write-offs	-	-	(2,061)	(2,061)
Loss allowance as at December 31, 2018	15,589	1,864	25,625	43,078

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Consumer Loans				
Loss allowance as at January 1, 2018	96,121	3,283	70,957	170,361
Transfer to 12-month ECL	19,352	(1,750)	(17,602)	-
Transfer to lifetime ECL not credit – impaired	(736)	1,423	(687)	-
Transfer to lifetime ECL credit impaired	(281)	(250)	531	-
Net re-measurement of loss allowance	(53,688)	(306)	27,012	(26,982)
New financial assets originated or purchased	35,019	550	4,932	40,501
Financial assets that have been derecognized	(3,582)	(433)	(13,570)	(17,585)
Write-offs	-	-	(2,038)	(2,038)
Loss allowance as at December 31, 2018	92,205	2,517	69,535	164,257

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Commercial Loans				
Loss allowance as at January 1, 2018	40,602	163,742	782,746	987,090
Transfer to 12-month ECL	51,443	(51,443)	-	-
Transfer to lifetime ECL not credit – impaired	(6,428)	6,428	-	-
Transfer to lifetime ECL credit impaired	(480)	(23,465)	23,945	-
Net re-measurement of loss allowance	(56,497)	59,760	224,496	227,759
New financial assets originated or purchased	5,610	35,422	3,837	44,869
Financial assets that have been derecognized	(3,710)	(1,770)	(46,270)	(51,750)
Write-offs	-	-	(484,915)	(484,915)
Allowance written back upon restructuring of loan	-	-	3,117	3,117
Loss allowance as at December 31, 2018	30,540	188,674	506,956	726,170

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

2018	Credit Cards (SR '000)	Consumer (SR '000)	Commercial (SR '000)	Total (SR '000)
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	**16,750**	**209,704**	**478,275**	**704,729**
Amounts restated through opening retained earnings	**2,812**	**(39,343)**	**508,815**	**472,284**
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	**19,562**	**170,361**	**987,090**	**1,177,013**
Impairment charge for the year	**25,577**	**84,787**	**328,149**	**438,513**
Bad debts written off during the year	**(2,061)**	**(2,038)**	**(484,915)**	**(489,014)**
Recoveries / reversals of amounts previously provided	**-**	**(88,853)**	**(107,271)**	**(196,124)**
Allowance written back upon restructuring of loan	**-**	**-**	**3,117**	**3,117**
Balance at the end of the year	**43,078**	**164,257**	**726,170**	**933,505**

2017	Credit Cards (SR '000)	Consumer (SR '000)	Commercial (SR '000)	Total (SR '000)
Balance at the beginning of the year	6,008	254,748	495,812	756,568
Impairment charge for the year	37,141	40,489	254,209	331,839
Bad debts written off during the year	(26,399)	(71,123)	(270,893)	(368,415)
Recoveries / reversals of amounts previously provided	-	(14,410)	(853)	(15,263)
Balance at the end of the year	16,750	209,704	478,275	704,729

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

	2018 SR '000	2017 SR '000
Impairment charge for credit losses on loans and advances for the year	**438,513**	331,839
Recoveries / reversal of amounts previously provided	**(196,124)**	(15,263)
Recoveries from debts previously written off	**(131,088)**	(49,427)
Net impairment charge for credit losses in respect of due from banks and other financial institutions	**330**	-
Reversal of amounts previously provided in respect of credit related contingent liabilities	**(9,438)**	-
Impairment charge for credit losses, net	**102,193**	267,149

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

2018	Performing SR '000	Non performing SR '000	Allowance for impairment SR '000	Loans and advances, net SR '000
Government and quasi Government	**729,624**	**-**	**(1,693)**	**727,931**
Banks and other financial institutions	**661,499**	**-**	**(932)**	**660,567**
Agriculture and fishing	**37,523**	**-**	**(13)**	**37,510**
Manufacturing	**4,958,667**	**10,307**	**(168,333)**	**4,800,641**
Building and construction	**943,685**	**173,607**	**(127,577)**	**989,715**
Commerce	**8,256,352**	**146,512**	**(248,088)**	**8,154,776**
Transportation and communication	**29,784**	-	**(59)**	**29,725**
Services	**1,384,982**	**118,602**	**(111,080)**	**1,392,504**
Consumer loans and credit cards	**19,596,752**	**199,750**	**(207,335)**	**19,589,167**
Share trading	**1,273,710**	**-**	**-**	**1,273,710**
Others	**3,293,198**	**15,842**	**(68,395)**	**3,240,645**
Total	**41,165,776**	**664,620**	**(933,505)**	**40,896,891**

2017	Performing SR '000	Non performing SR '000	Allowance for impairment SR '000	Loans and advances, net SR '000
Government and quasi Government	1,042,133	-	(10,215)	1,031,918
Banks and other financial institutions	687,813	-	(6,742)	681,071
Agriculture and fishing	7,417	-	(73)	7,344
Manufacturing	4,599,130	104,677	(146,521)	4,557,286
Building and construction	766,447	59,298	(53,183)	772,562
Commerce	8,591,559	177,237	(183,717)	8,585,079
Transportation and communication	76,361	-	(748)	75,613
Services	885,105	77,324	(19,651)	942,778
Consumer loans and credit cards	18,016,579	75,721	(226,454)	17,865,846
Share trading	1,294,176	1,596	(12,701)	1,283,071
Others	4,023,492	8,510	(44,724)	3,987,278
Total	39,990,212	504,363	(704,729)	39,789,846

e) Other real estate, net

	2018 SR '000	2017 SR '000
Balance at the beginning of the year	**445,046**	62,012
Additions during the year	**11,046**	383,137
Disposals during the year	**(2,942)**	(103)
Balance at the end of the year	**453,150**	445,046

8. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in Aljazira Takaful Ta'awuni Company ("ATT"). The details related to ATT are explained in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2018 is SR 214.62 million (2017: SR 335.65 million).

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

	2018 SR '000	2017 SR '000
Total assets	**613,368**	597,855
Total liabilities	**(225,455)**	(214,794)
Total shareholders equity	**387,913**	383,061
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**135,770**	134,071

	2018 SR '000	2017 SR '000
Total profit for the year before Zakat	**29,794**	30,517
The Group's share of profit for the year	**10,428**	10,681

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

	2018 SR '000	2017 SR '000
Balance at the beginning of the year	**134,071**	129,977
Share in profit for the year before Zakat	**10,428**	10,681
Share of Zakat	**(154)**	(462)
Dividend received	**(8,575)**	(6,125)
Balance at the end of the year	**135,770**	134,071

9. PROPERTY AND EQUIPMENT, NET

	2018 SR '000	2017 SR '000
Tangible assets (note a)	**606,973**	640,928
Intangible assets (note b)	**154,274**	143,598
Total	**761,247**	784,526

a) Tangible assets

	Land and buildings SR '000	Leasehold improve-ments SR '000	Furniture, equipment and vehicles SR '000	Capital work in progress SR '000	Total 2018 SR '000	Total 2017 SR '000
Cost						
Balance at the beginning of the year	241,126	534,561	574,015	33,352	1,383,054	1,358,896
Additions during the year	-	2,219	10,863	19,401	32,483	136,356
Transfers during the year	-	6,007	10,530	(16,537)	-	-
Reclassification during the year	-	-	-	-	-	(105,888)
Disposals during the year	-	-	(2,109)	-	(2,109)	(6,310)
Balance at the end of the year	241,126	542,787	593,299	36,216	1,413,428	1,383,054
Accumulated depreciation						
Balance at the beginning of the year	5,040	292,524	444,562	-	742,126	773,493
Charge for the year	-	27,074	39,344	-	66,418	66,974
Reclassification during the year	-	-	-	-	-	(92,312)
Disposals	-	-	(2,089)	-	(2,089)	(6,029)
Balance at the end of the year	5,040	319,598	481,817	-	806,455	742,126
Net book value						
At December 31, 2018	236,086	223,189	111,482	36,216	606,973	
At December 31, 2017	236,086	242,037	129,453	33,352		640,928

b) Intangible assets

	Computer Softwares SR '000	Capital work in progress SR '000	Total 2018 SR '000	Total 2017 SR '000
Cost				
Balance at the beginning of the year	203,395	75,037	278,432	139,226
Additions during the year	802	36,499	37,301	33,318
Transfers during the year	72,727	(72,727)	-	-
Reclassification during the year	-	-	-	105,888
Balance at the end of the year	276,924	38,809	315,733	278,432
Accumulated amortisation				
Balance at the beginning of the year	134,834	-	134,834	22,970
Charge for the year	26,625	-	26,625	19,552
Reclassification during the year	-	-	-	92,312
Balance at the end of the year	161,459	-	161,459	134,834
Net book value				
At December 31, 2018	115,465	38,809	154,274	
At December 31, 2017	68,561	75,037		143,598

10. OTHER ASSETS

	2018 SR '000	2017 SR '000
Advances, prepayments and other receivables	**227,553**	146,253
Margin deposits against derivatives	**104,344**	152,081
Others	**54,663**	26,748
Total	**386,560**	325,082

11. DERIVATIVES

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

a) **Swaps**

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

b) **Options (Wa'ad Fx)**

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

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

11.1 Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from, price differentials between markets or products.

11.2 Held for hedging purposes

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

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

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

Cash flow hedges

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

2018 SR '000	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**41,963**	**90,301**	**85,936**	**91,730**
Cash out flows (liabilities)	**(248,713)**	**(522,042)**	**(542,708)**	**(3,320,285)**
Net cash outflow	**(206,750)**	**(431,741)**	**(456,772)**	**(3,228,555)**

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

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

	2018 SR '000	2017 SR '000
Special commission income	**2,145**	1,981
Special commission expense	**(2,474)**	(2,166)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(329)**	(185)

	2018 SR '000	2017 SR '000
Balance at the beginning of the year	**(113,034)**	(200,828)
Gains from change in fair value recognised directly in equity, net (effective portion)	**16,338**	87,609
Losses removed from equity and transferred to consolidated statement of income	**329**	185
Balance at the end of the year	**(96,367)**	(113,034)

Fair value gain on cash flow hedges amounting to SR 16.34 million (2017: 87.61 million) included in the consolidated statement of comprehensive income comprised of net unrealized gain of SR 16.34 million (2017: SR 81.6 million) and realized gain of SR Nil (2017: SR 6 million).

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

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

	2018 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	-	-	-	-	-	-	-	86,244
Currency swaps	138	37	225,000	-	225,000	-	-	65,625
Currency forwards	8	138	201,408	201,408	-	-	-	135,319
Special commission rate swaps	29,215	29,215	2,649,073	400,000	39,207	2,209,866	-	3,699,015
Structured deposits	2,000	2,000	800,000	-	-	800,000	-	1,350,000
Held as cash flow hedges:								
Special commission rate swaps	23,073	120,399	3,550,625	-	-	1,685,000	1,865,625	3,350,625
Total	54,434	151,789	7,426,106	601,408	264,207	4,694,866	1,865,625	8,686,828

	2017 SR '000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Options	1,794	1,794	459,895	269,097	190,798	-	-	1,098,712
Currency swaps	1,242	-	188,750	188,750	-	-	-	252,474
Currency Forwards	1	-	224	224	-	-	-	224
Special commission rate swaps	69,140	69,140	5,652,788	1,889,539	63,850	3,621,388	78,011	5,839,711
Structured deposits	20,558	20,558	2,450,000	-	-	2,450,000	-	1,916,667
Held as cash flow hedges:								
Special commission rate swaps	11,286	129,495	3,250,625	-	-	828,750	2,421,875	4,038,229
Total	104,021	220,987	12,002,282	2,347,610	254,648	6,900,138	2,499,886	13,146,017

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 11.04 million (2017: SR 15.08 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 19.28 million (2017: SR 11.29 million) and special commission payable amounting to SR 20.29 million (2017: SR 16.85 million).

During the years ended on December 31, 2018 and December 31, 2017, there was no ineffectiveness in the cash flow hedges.

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Aljazira Securities Limited and intends to transfer all of its Profit rate swaps ("PRS") derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed among the Bank, the SPV and one of the counter party. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believe that existing hedging relationships continue to be effective.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 SR '000	2017 SR '000
Current accounts	**145,257**	181,638
Money market deposits from banks and other financial institutions	**5,987,694**	5,990,907
Repo agreement borrowings	**290,479**	-
Total	**6,423,430**	6,172,545

13. CUSTOMERS' DEPOSITS

	2018 SR '000	2017 SR '000
Demand	**26,607,390**	24,990,180
Time	**23,907,276**	24,172,493
Other	**1,289,432**	1,115,693
Total	**51,804,098**	50,278,366

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

Other customers' deposits include SR 687.34 million (2017: SR 736.50 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2018 SR '000	2017 SR '000
Demand	**1,034,396**	1,195,328
Time	**2,936,421**	917,268
Other	**16,404**	11,103
Total	**3,987,221**	2,123,699

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

14. SUBORDINATED SUKUK

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

15. OTHER LIABILITIES

	2018 SR '000	2017 SR '000
Accounts payable	**259,031**	257,809
Employee benefit obligation (refer note 28)	**265,599**	244,024
Aljazira Philanthropic Program (note a below)	**30,028**	39,581
Dividend payable	**30,161**	28,223
Impairment allowance for loan commitments and contingencies (refer note 19(c)(ii))	**154,129**	-
Other (note b below)	**632,259**	210,699
Total	**1,371,207**	780,336

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

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

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

b) This includes an amount of SR 441.20 million accrued as a result of Zakat settlemenet agreement entered into with GAZT in repect of assessment years from 2006 to 2017. The amount is payable in five instalments as more fully explained in note 26.

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (2017: 520 million shares of SR 10 each).

The shareholders of the Bank in their Extra Ordinary General Assembly meeting held on March 19, 2018 (corresponding to 2 Rajab 1439H), approved the increase in number of shares of the Bank from 520 million shares to 820 million shares through a rights issue of 300 million shares at an exercise price of SR 10 per share amounting to SR 3,000 million. During the second quarter of current year, the Bank, after completing all legal formalities issued the rights shares.

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

	2018	2017
Saudi shareholders	**84.23%**	91.38%
Non Saudi shareholder - National Bank of Pakistan Limited	**3.70%**	5.83%
Non Saudi shareholder - others	**12.07%**	2.79%

17. STATUTORY AND GENERAL RESERVES

Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 250.08 million has been transferred from net income (2017: SR 214.38 million). The statutory reserve is not available for distribution.

General reserve

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

18. OTHER RESERVES

2018	Cash flow hedges SR '000	Fair value reserve SR '000	Actuarial gains/ losses (note 28) SR '000	Right issue costs (note below) SR '000	Total SR '000
Balance at beginning of the year	(113,034)	10,928	(1,931)	(21,148)	(125,185)
Net change in fair value	16,338	23	-	-	16,361
Transfer to consolidated statement of income	329	-	-	-	329
Gain on sale of FVOCI investments transferred to retained earnings	-	(10,951)	-	-	(10,951)
Actuarial gains on defined benefit obligation	-	-	2,014	-	2,014
Rights issue cost incurred during the year	-	-	-	(90,848)	(90,848)
Transfer of right issue cost to retained earnings	-	-	-	111,996	111,996
Net movement during the year	16,667	(10,928)	2,014	21,148	28,901
Balance at the end of the year	(96,367)	-	83	-	(96,284)

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

The rights issue cost represents expenses incurred in respect of the legal and professional services for the right issue. During the second quarter of 2018, the cumulative right issue costs incurred in prior and current periods are charged directly in retained earnings on completion of right issue (refer note 16).

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2018, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

As at December 31, 2018, the Group had capital commitments of SR 67.23 million (2017: SR 103.36 million) in respect of the construction of branches and IT related projects.

c) **Credit related commitments and contingencies**

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less credit risk.

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

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

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

	(SR '000)				
2018	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**438,117**	**349,989**	**11,113**	**-**	**799,219**
Letters of guarantee	**912,826**	**2,449,592**	**555,906**	**13,100**	**3,931,424**
Acceptances	**338,053**	**-**	**-**	**-**	**338,053**
Irrevocable commitments to extend credit	**-**	**-**	**150,000**	**-**	**150,000**
	1,688,996	**2,799,581**	**717,019**	**13,100**	**5,218,696**
Loss allowance	**-**	**-**	**-**	**-**	**(154,129)**
Total	**1,688,996**	**2,799,581**	**717,019**	**13,100**	**5,064,567**

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

The outstanding unused portion of commitments as at December 31, 2018, which can be revoked unilaterally at any time by the Group, amounts to SR 5.36 billion (2017: SR 4.64 billion).

ii) An analysis of changes in loss allowance for loan commitments and contingencies is, as follows:

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loss allowance as at 1 January 2018	11,897	554	151,116	163,567
Transfer to 12-month ECL	132	(132)	-	-
Transfer to lifetime ECL not credit – impaired	(193)	193	-	-
Transfer to lifetime ECL credit impaired	(36)	-	36	-
Net re-measurement of loss allowance	1,342	1,158	(3,635)	(1,135)
New financial assets originated or purchased	967	8	-	975
Financial assets that have been derecognized	(844)	(98)	(8,336)	(9,278)
Loss allowance as at 31 December 2018	13,265	1,683	139,181	154,129

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

	2018 SR '000	2017 SR '000
Corporate	5,149,058	5,680,130
Banks and other financial institutions	69,638	61,035
	5,218,696	5,741,165
Loss allowance	(154,129)	-
Total	5,064,567	5,741,165

d) Operating lease commitments

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

	2018 SR '000	2017 SR '000
Less than 1 year	96,390	102,472
1 to 5 years	256,989	305,868
Over 5 years	94,591	137,918
Total	447,970	546,258

20. NET SPECIAL COMMISSION INCOME

	2018 SR '000	2017 SR '000
Special commission income		
Loans and advances	**2,015,099**	1,960,852
Investments held at amortised cost	**698,879**	506,525
Derivatives	**254,373**	262,477
Due from banks and other financial institutions	**19,257**	27,073
Total	**2,987,608**	2,756,927
Special commission expense		
Customers' deposits	**550,717**	496,163
Derivatives	**253,517**	265,485
Due to banks and other financial institutions	**156,034**	94,376
Subordinated Sukuk	**88,971**	82,752
Others	**107**	538
Total	**1,049,346**	939,314
Net special commission income	**1,938,262**	1,817,613

21. FEES AND COMMISSION INCOME, NET

	2018 SR '000	2017 SR '000
Fees and commission income		
Fees from ATM transactions	**178,318**	157,610
Local share trading	**167,075**	177,727
Loan commitment and management fees	**155,345**	196,387
Fees from remittance business	**119,231**	97,338
Mutual funds fees	**63,735**	57,552
Trade finance	**46,676**	52,237
Takaful Ta'awuni (insurance) Wakala fees	**18,271**	19,138
International share trading	**4,229**	4,719
Others	**113,492**	85,845
Total fees and commission income	**866,372**	848,553
Fees and commission expense		
Brokerage fees	**(100,793)**	(106,154)
Cards related expenses	**(87,907)**	(59,391)
ATM transaction costs	**(75,906)**	(65,770)
Mutual funds related expenses	**(12,286)**	(10,777)
Loans related expenses	**(2,785)**	(3,356)
Remittance business fee expense	**(2,032)**	(452)
International share trading	**(1,010)**	(1,760)
Trade finance	**(172)**	-
Takaful Ta'awuni – sales commission	**(1)**	(4)
Total fees and commission expense	**(282,892)**	(247,664)
Total	**583,480**	600,889

22. TRADING (LOSS) / INCOME, NET

	2018 SR '000	2017 SR '000
Mutual funds	(5,319)	2,022
Equities	(138)	-
Derivatives	5,337	-
Total	(120)	2,022

23. DIVIDEND INCOME

	2018 SR '000	2017 SR '000
Dividend income on FVTPL investments	286	190

24. OTHER OPERATING INCOME, NET

	2018 SR '000	2017 SR '000
Gain on sale of other real estate	1,073	630
Gain on sale of property and equipment	168	42
Rental income	-	90
Others	7,306	2,150
Total	8,547	2,912

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2018 and December 31, 2017 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding, as follows. The weighted average number of shares have been retrospectively adjusted for prior year to reflect the effect of the changes in number of shares due to bonus element included in the right issue (refer note 16).

	2018 SR '000	2017 SR '000
Profit attributable to ordinary share holders		
For basic and diluted earnings per share	1,000,307	857,514
	Shares	Shares
Weighted-average number of ordinary shares		
Issued ordinary shares as at January 1	520,000,000	520,000,000
Adjusted right issue	234,495,130	-
Effect of rights issue of shares	-	47,547,309
For basic and diluted earnings per share	754,495,130	567,547,309
Basic and diluted earnings per share (in SR)	1.33	1.51

The weighted average number of ordinary shares for prior year is computed using an adjustment factor of 1.09 which is a ratio of the theoretical ex-rights of SR 11.88 and closing price per share of SR 12.97 on March 19, 2018, the last day on which the shares were traded before the rights issue.

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

26. DIVIDEND, ZAKAT AND INCOME TAX

The estimated Zakat and income tax for the year ended 2018 amounted to SR 61.75 million (2017: SR 20.68 million) and SR 8.66 million (2017: SR 10.25 million) respectively.

Status of assessments:

During the current year, the Bank has reached a Settlement Agreement (the "Agreement") with the GAZT to comply with the directives provided by Royal Decree No. (26/M) dated Rabi Al-Awaal 20, 1440 H (November 28, 2018 G) and the Ministerial Resolution No. 1260 dated Rabi Al-Thani 5, 1440 H (December 12, 2018 G), in order to settle outstanding Zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending December 1, 2023. The Bank has already paid the first instalment of SR 110 million during the month of December 2018. Under the Agreement, the Bank and GAZT have also agreed to settle Zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all Zakat related disputes between the Bank and the GAZT pertaining to the years 2006 to 2017 stand resolved.

The Bank will continue to contest its appeals before the Appellate Committee for Resolution of Tax Disputes and Violations for the years 2006 through 2011. The Bank is confident of a favourable outcome from the appeal process.

The Bank has filed its Zakat and income tax returns with the GAZT and paid Zakat and income tax for the years up to and including the year 2017, except for the amounts agreed as a liability under the Agreement which will be paid to GAZT as and when they fall due.

Dividend

The Board of Directors has proposed a final dividend of SR 410 million equal to SR 0.5 per share, net of Zakat for the year ended December 31, 2018. The share of dividend of non-Saudi shareholders will be paid after deducting the related income taxes due.

Further during the second quarter of current year, the Bank paid final cash dividend of SR 262.4 million equal to SR 0.32 per share, net of Zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on May 9, 2018. This dividend was calculated based on increased paid up capital of the Bank after the issuance of right shares.

27. CASH AND CASH EQUIVALENTS

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

	2018 SR '000	2017 SR '000
Cash and balances with SAMA, excluding statutory deposit (note 4)	**2,211,486**	3,276,624
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**1,197,821**	202,200
Total	**3,409,307**	3,478,824

28. EMPLOYEE BENEFIT OBLIGATION

28.1 Defined Benefit obligation

a) General description

The Group operates an "End of Service Benefit Plan" for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

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

	2018 SR '000	2017 SR '000
Defined benefit obligation at the beginning of the year	**244,024**	217,763
Charge for the year	**42,995**	37,961
Benefits paid	**(19,406)**	(13,631)
Unrecognized actuarial (gain) / loss	**(2,014)**	1,931
Defined benefit obligation at the end of the year	**265,599**	244,024

c) Charge for the year

	2018 SR '000	2017 SR '000
Current service cost	**33,953**	29,523
Special commission cost	**9,042**	8,438
	42,995	37,961

d) Past service cost directly charged to other comprehensive income due to changes in actuarial assumptions:

	2018 SR '000	2017 SR '000
Changes in experience assumptions	**(2,938)**	437
Changes in financial assumptions	**924**	1,494
	(2,014)	1,931

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

	2018	2017
Discount rate	**4.50% p.a**	3.85% p.a
Expected rate of salary increase	**3.50% p.a**	2.85% p.a
Withdrawal rate	**8% p.a**	10% p.a
Average duration	**7.90 years**	6.97 years
Normal retirement age	**60 years**	60 years

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

		2018 SR '000	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(19,150)**	**22,017**
Expected rate of salary increase	**1%**	**23,396**	**(20,683)**
Withdrawal rate	**10%**	**(316)**	**299**

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

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

	SR '000 Less than a year	years 1-2	years 2-5	Over 5 years	Total
December 31, 2018	**29,975**	**27,764**	**64,342**	**272,533**	**394,614**
December 31, 2017	33,860	21,387	65,985	210,066	331,298

h) The expected contribution for next year amounts to SR 44.71 million comprising of service cost and special commission cost.

28.2 Defined Contribution obligation

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 41.39 million (2017: SR 40.16 million).

29. OPERATING SEGMENTS

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

All of the Group's operations are based in the Kingdom of Saudi Arabia, except Aljazira Securities Limited (SPV).

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

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

Personal banking Deposit, credit and investment products for individuals.

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

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

Brokerage and asset management Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary Aljazira Capital Company).

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

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

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

(SR '000)

2018	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	21,658,836	18,738,072	30,956,832	1,455,777	57,911	135,770	73,003,198
Total liabilities	33,317,306	18,666,181	9,124,052	593,276	57,911	-	61,758,726
Inter - segment operating (loss) / income	(55,433)	(91,855)	161,688	(14,400)	-	-	-
Total operating income	1,238,830	433,391	1,092,328	172,135	19,140	(237,726)	2,718,098
Net special commission income	693,016	300,815	889,681	56,074	1,002	(2,326)	1,938,262
Fee and commission income, net	352,145	116,524	3,127	120,339	18,139	(26,794)	583,480
Trading income / (loss), net	-	-	5,337	(2,257)	-	(3,200)	(120)
Share in profit of an associate	-	-	-	1,490		8,938	10,428
Impairment charge for credit losses, net	31,467	(133,330)	(330)	-	-	-	(102,193)
Depreciation and amortisation	(51,647)	(11,438)	(19,594)	(9,663)	(701)	-	(93,043)
Total operating expenses	(886,675)	(380,059)	(299,096)	(137,638)	(28,144)	3,393	(1,728,219)
Net income / (loss)	352,155	53,332	793,232	35,987	(9,004)	(225,395)	1,000,307

(SR '000)

2017	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	19,810,852	19,820,983	26,938,427	1,510,873	72,249	134,071	68,287,455
Total liabilities	35,539,607	14,563,514	8,532,527	750,719	72,249	-	59,458,616
Inter - segment operating (loss) / income	(11,591)	(97,494)	120,236	(11,151)	-	-	-
Total operating income	1,082,223	538,186	950,310	176,946	19,749	(187,676)	2,579,738
Net special commission income	631,409	356,161	786,169	45,471	614	(2,211)	1,817,613
Fee and commission income, net	310,072	164,698	9,710	121,291	19,134	(24,016)	600,889
Trading income, net	-	-	-	2,022	-	-	2,022
Share in profit of an associate	-	-	-	1,526	-	9,155	10,681
Impairment charge for credit losses, net	(15,118)	(252,031)	-	-	-	-	(267,149)
Depreciation and amortisation	(48,087)	(10,655)	(18,865)	(8,111)	(808)	-	(86,526)
Total operating expenses	(818,600)	(473,848)	(277,014)	(145,241)	(22,190)	3,988	(1,732,905)
Net income / (loss)	263,623	64,338	673,296	33,231	(2,441)	(174,533)	857,514

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

2018	Personal banking	Corporate banking	Brokerage and asset manage-ment	Treasury	Total
	(SR '000)				
Assets	**21,173,809**	**18,226,483**	**1,307,629**	**25,492,810**	**66,200,731**
Commitments and contingencies	**-**	**3,083,957**	**-**	**-**	**3,083,957**
Derivatives	**-**	**-**	**-**	**74,261**	**74,261**

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

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

30. FINANCIAL RISK MANAGEMENT

30.1 Credit Risk

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has set up Board Risk Committee (BRC) which has the responsibility to monitor the overall risk process within the Bank.

The BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The BRC is responsible for supervising risk management decisions and monitoring risk levels and reviewing Risk Management reports / Dashboards on a regular basis. BRC is mandated to escalate to the Board any risk management issue which warrants attention of the Board of Directors of the Bank.

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also the Group uses the external ratings, of the major rating agency, where available.

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 risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

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 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. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on banks maximum credit exposure by business segment is given in note 29.

30.2 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Due from banks and other financial institutions				
Investment grade	1,080,893	82,782	-	1,163,675
Non-investment grade	940	3,883	-	4,823
Unrated	20,871	109,016	-	129,887
	1,102,704	195,681	-	1,298,385
Loss allowance	(122)	(514)	-	(636)
Carrying amount	1,102,582	195,167	-	1,297,749
Loans and advances to customers at amortized cost				
Grades 1-6: Low – fair risk	36,199,180	-	-	36,199,180
Grades 7: Watch list	-	4,433,403	533,193	4,966,596
Grades 8 – 10: Default	-	-	664,620	664,620
	36,199,180	4,433,403	1,197,813	41,830,396
Loss allowance	(138,334)	(193,055)	(602,116)	(933,505)
Carrying amount	36,060,846	4,240,348	595,697	40,896,891

a) The following table sets out information about the credit quality of loans and advances to customers at amortized cost on a product basis.

Credit cards	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	31 December 2018			
	(SR '000)			
Loans and advances to customers at amortized cost-				
Grades 1-6: Low – fair risk	600,362	-	-	600,362
Grades 7: Watch list	-	23,122	-	23,122
Grades 8 – 10: Default	-	-	39,423	39,423
	600,362	23,122	39,423	662,907
Loss allowance	(15,589)	(1,864)	(25,625)	(43,078)
Carrying amount	584,773	21,258	13,798	619,829

Consumer loans	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	31 December 2018			
	(SR '000)			
Loans and advances to customers at amortized cost-				
Grades 1-6: Low – fair risk	18,740,415	-	-	18,740,415
Grades 7: Watch list	-	232,853	-	232,853
Grades 8 – 10: Default	-	-	160,327	160,327
	18,740,415	232,853	160,327	19,133,595
Loss allowance	(92,205)	(2,517)	(69,535)	(164,257)
Carrying amount	18,648,210	230,336	90,792	18,969,338

Commercial loans	month 12 ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	31 December 2018			
	(SR '000)			
Loans and advances to customers at amortized cost-				
Grades 1-6: Low – fair risk	16,427,269	-	-	16,427,269
Grades 7: Watch list	-	4,177,429	533,193	4,710,622
Grades 8 – 10: Default	-	-	464,870	464,870
	16,427,269	4,177,429	998,063	21,602,761
Loss allowance	(30,540)	(188,674)	(506,956)	(726,170)
Carrying amount	16,396,729	3,988,755	491,107	20,876,591

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	31 December 2018			
	(SR '000)			
Debt investment securities at amortized cost				
Grades 1-6: Low – fair risk	24,006,091	-	-	24,006,091
Loss allowance	-	-	-	-
Carrying amount	24,006,091	-	-	24,006,091
Commitments and contingencies				
Grades 1-6: Low – fair risk	4,748,375	-	-	4,748,375
Grades 7: Watch list	-	239,979	9,639	249,618
Grades 8-10: Default	-	-	220,703	220,703
	4,748,375	239,979	230,342	5,218,696
Loss allowance	(13,265)	(1,683)	(139,181)	(154,129)
Carrying amount (net of provision)	4,735,110	238,296	91,161	5,064,567

30.3 Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group 's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified-from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and special commission income is subsequently recognised based on a credit-adjusted effective yield rate. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

a) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Significant increase in credit risk is also evaluated based on the credit monitoring framework, including decrease in internal rating and macroeconomic factors and is subject to management overrides.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior – e.g. utilization of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

b) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, oil prices , real wages and unemployment rates. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the credit risk managers and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

c) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Group considers indicators that are:

- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

d) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance/remedial policy. The Bank Board Risk Committee regularly reviews reports on forbearance activities.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2018
	SR '000
Financial assets modified during the year	
Amortized cost before modification	1,169,678
Financial assets modified since initial recognition	
Gross carrying amount at December 31 of financial assets for which loss allowance has changed to 12-month measurement during the year	521,936

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

e) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank Market Risk Policy Committee, ALCO and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Saudi Arabia and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2018 included the following key indicators.

- GDP
- Oil prices
- Unemployment rates
- Real wages

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets are being developed based on analyzing historical data over the past 10 to 15 years.

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank:

2018	Due from Bank and other financial institutions	Loans and advances	Loan commitment and financial guarantees	Total
		SR '000'		
Most likely (Base case)	636	933,505	154,129	1,088,270
More optimistic (Upside)	467	908,464	148,403	1,057,334
More pessimistic (Downside)	894	979,607	164,118	1,144,619

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);

ii. loss given default (LGD);

iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD for each line of business based on expert judgment and historical experience. For wholesale exposures LGD is estimated to be 50%, for personal finance it is estimated to be 50%, for credit cards it is estimated to be 65% and retail mortgages it is estimated to be 40%.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Grouping is subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used	
	Exposure (SR '000)	PD	LGD
Due from Banks and other financial institutions	1,297,749	Moody's / FITCH – lower of the two ratings for each bank is considered for assignment of Risk Weights under Standardised Approach	N/A

30.4 Ageing of loans and advances (past due but not impaired)

	(SR '000)			
	2018			
	Credit Cards	Consumer loans	Commercial loans	Total
From 1 day to 30 days	20,749	737,796	421,554	1,180,099
From 31 Days to 90 days	18,398	226,203	39,020	283,621
From 91 Days to 180 days	-	-	71,748	71,748
More than 180 days	-	678	82,269	82,947
Total loans & advances	**39,147**	**964,677**	**614,591**	**1,618,415**

	(SR '000)			
	2017			
	Credit Cards	Consumer loans	Commercial loans	Total
From 1 day to 30 days	19,113	919,065	1,110,847	2,049,025
From 31 Days to 90 days	14,703	335,861	108,208	458,772
From 91 Days to 180 days	-	111,196	39,972	151,168
More than 180 days	-	91,358	462,296	553,654
Total loans & advances	33,816	1,457,480	1,721,323	3,212,619

30.5 Economic Sector risk concentration

Economic Sector risk concentration for the loans and advances and allowance for impairment has been disclosed in note 7(d).

30.6 Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for loans along with loan to collateral value percentage that are credit-impaired as at December 31, 2018 are as follows:

	2018
	SR '000
Less than 50%	34,587
51-70%	3,491
More than 70%	541,603
Total	579,681

30.7 Maximum credit exposure

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

	2018	2017
	SR '000	SR '000
Assets		
Due from banks and other financial institutions (note 5)	**1,297,749**	369,249
Investments at amortised cost (note 6)	**24,006,091**	20,282,744
Loans and advances, net (note 7)	**40,896,891**	39,789,846
Other assets - margin deposits against derivatives (note 10)	**104,344**	152,081
Total assets	**66,305,075**	60,593,920
Contingencies and commitments,net (note 19)	**5,064,567**	5,741,165
Derivatives - positive fair value (note 11)	**54,434**	104,021
Total maximum exposure	**71,424,076**	66,439,106

31. GEOGRAPHICAL CONCENTRATION

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

(SR '000)

2018	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,175,558	-	-	-	-	-	1,175,558
Balances with SAMA	3,789,564	-	-	-	-	-	3,789,564
Due from Banks and other financial institutions							
Current accounts	5,655	32,371	108,755	88,452	27,312	34,165	296,710
Money market placements	900,474	100,565	-	-	-	-	1,001,039
Investments							
Held as FVTPL	41,293	-	-	-	-	-	41,293
Held as FVOCI	4,143	187	561	-	-	-	4,891
Held at amortised cost	24,006,091	-	-	-	-	-	24,006,091
Positive fair value of derivatives							
Held for trading	31,361	-	-	-	-	-	31,361
Held as cash flow hedges	23,073	-	-	-	-	-	23,073
Loans and advances, net							
Credit Cards	619,829	-	-	-	-	-	619,829
Consumer Loans	18,969,338	-	-	-	-	-	18,969,338
Commercial Loans	20,876,591	-	-	-	-	-	20,876,591
Others	431,133	-	-	-	-	-	431,133
Investment in an Associate	135,770	-	-	-	-	-	135,770
Other assets	278,350	-	-	-	-	-	278,350
Total	71,288,223	133,123	109,316	88,452	27,312	34,165	71,680,591

(SR '000)

2018	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities Due to banks and other financial institutions							
Current accounts	35,017	75,289	17,198	4,956	-	12,797	145,257
Money market deposits	5,552,802	263,737	-	-	171,155	-	5,987,694
Repo agreement borrowing	-	-	290,479	-	-	-	290,479
Customer deposits							
Demand	26,606,421	930	4	6	-	29	26,607,390
Time	23,907,276	-	-	-	-		23,907,276
Other	1,285,207	-	-	-	-	4,225	1,289,432
Negative fair value of derivatives							
Held for trading	31,390	-	-	-	-	-	31,390
Held as cash flow hedges	120,399	-	-	-	-	-	120,399
Subordinated Sukuk	2,008,202	-	-	-	-	-	2,008,202
Other liabilities	835,069	-	-	-	-	-	835,069
Total	60,381,783	339,956	307,681	4,962	171,155	17,051	61,222,588
Commitments and Contingencies							
Letters of credit	798,993	226	-	-	-	-	799,219
Letters of guarantee	3,720,260	134,871	45,089	4,953	3,126	23,125	3,931,424
Acceptances	338,053	-	-	-	-	-	338,053
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,007,306	135,097	45,089	4,953	3,126	23,125	5,218,696
Credit exposure (credit equivalent) Commitments and contingencies							
Letters of credit	798,993	226	-	-	-	-	799,219
Letters of guarantee	1,860,130	67,435	22,544	2,476	1,563	11,563	1,965,711
Acceptances	169,027	-	-	-	-	-	169,027
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for trading	19,567	5,965	13,156	-	-	67	38,755
Held for hedging	7,000	7,537	20,969	-	-	-	35,506
	3,004,717	81,163	56,669	2,476	1,563	11,630	3,158,218

31. GEOGRAPHICAL CONCENTRATION (continued)

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

(SR' 000)

2017	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,183,711	-	-	-	-	-	1,183,711
Balances with SAMA	4,791,356	-	-	-	-	-	4,791,356
Due from Banks and other financial institutions							
Current accounts	20,580	42,929	91,944	29,657	3,635	13,455	202,200
Money market placements	71,200	95,849	-	-	-	-	167,049
Investments							
Held as FVTPL	61,415	-	-	-	-	-	61,415
Held as FVOCI	4,143	188	-	12,057	-	-	16,388
Held at amortised cost	20,282,744	-	-	-	-	-	20,282,744
Positive fair value of derivatives							
Held for trading	92,735	-	-	-	-	-	92,735
Held as cash flow hedges	11,286	-	-	-	-	-	11,286
Loans and advances, net							
Credit Cards	472,466	-	-	-	-	-	472,466
Consumer Loans	17,393,263	117	-	-	-	-	17,393,380
Commercial Loans	21,500,894	-	-	-	-	-	21,500,894
Others	423,106						423,106
Investment in an Associate	134,071	-	-	-	-	-	134,071
Other assets	325,082	-	-	-	-	-	325,082
Total	66,768,052	139,083	91,944	41,714	3,635	13,455	67,057,883

(SR '000)

2017	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	24,867	76,387	14,334	55,629	-	10,421	181,638
Money market deposits	5,632,612	-	-	-	358,295	-	5,990,907
Customer deposits							
Demand	24,986,120	3,710	257	6	2	85	24,990,180
Time	24,172,493	-	-	-	-	-	24,172,493
Other	1,108,868	-	-	-	-	6,825	1,115,693
Negative fair value of derivatives							
Held for trading	91,492	-	-	-	-	-	91,492
Held as cash flow hedges	129,495	-	-	-	-	-	129,495
Subordinated Sukuk	2,006,382	-	-	-	-	-	2,006,382
Other liabilities	780,336	-	-	-	-	-	780,336
Total	58,932,665	80,097	14,591	55,635	358,297	17,331	59,458,616
Commitments and Contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	3,904,859	159,125	77,773	5,487	2,001	21,600	4,170,845
Acceptances	398,698	4,599	1,491	-	-	213	405,001
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,465,715	166,200	79,264	5,487	2,001	22,498	5,741,165
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	1,952,429	79,563	38,886	2,744	1,000	10,800	2,085,422
Acceptances	199,349	2,299	745	-	-	106	202,499
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for trading	47,387	4,582	35,548	-	-	-	87,517
Held for hedging	7,000	4,538	20,969	-	-	-	32,507
	3,368,323	93,458	96,148	2,744	1,000	11,591	3,573,264

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 6(a) to these financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

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

b) The distributions by geographical concentration of non-performing loans and advances and impairment allowance for credit losses are as follows:

	Non-performing loans, net		Allowance for impairment	
	2018 SR '000	2017 SR '000	2018 SR '000	2017 SR '000
Kingdom of Saudi Arabia				
Credit cards	**39,423**	25,839	**43,078**	16,750
Consumer loans	**160,327**	49,882	**164,257**	209,704
Commercial loans	**464,870**	428,642	**726,170**	478,275
Total	**664,620**	504,363	**933,505**	704,729

32. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book is managed and monitored using Value at Risk (VaR) methodology and sensitivity analysis. The market risk for the non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK - TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group periodically applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses historical methodology models to assess the possible changes in the market value of the trading book based on historical data. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Board Risk Committee for their review.

The Group's VaR related information for the year ended December 31, 2018 is as under.

	2018 SR '000
	Foreign exchange rate
VaR as at December 31, 2018	**690**
Average VaR for 2018	**349**

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

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

	2018 SR '000	2017 SR '000
US Dollar	**2,531**	7,300
Hong Kong Dollar	**2,632**	9,432
Taiwan Dollar	**1,652**	5,579

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2018**		2017	
	Increase/ decrease in currency rate in %	**Effect on net income SR '000**	Increase/ decrease in currency rate in %	Effect on net income SR '000
US Dollar	± **0.4**	± **10**	± **0.08**	± **6**
Hong Kong Dollar	± **2.47**	± **65**	± **0.53**	± **50**
Taiwan Dollar	± **3.28**	± **54**	± **4.88**	± **272**

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVTPL portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2018		2017	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR '000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR '000
Global Emerging Markets	**11.2% ±**	**1,063 ±**	15.84% ±	5,108 ±
Others	8.31% ±	**1,991 ±**	0.22% ±	63 ±

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTPL at December 31, 2018 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2018		2017	
Market index	Increase / decrease in index %	Effect on consolidated statement of income SR '000	Increase / decrease in index %	Effect on consolidated statement of income SR '000
Tadawul	± 8.31%	± 651	± 0.22%	± 1

b) MARKET RISK – NON TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2018 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	2018		2017	
	Increase / decrease in basis points	Sensitivity of special commission income	Increase / decrease in basis points	Sensitivity of special commission income
		SR '000		SR '000
SR	± 25	± 1,459	± 25	± 17,802
USD	± 25	± 2,655	± 25	± 3,085
AED	± 25	± 1	± 25	± 18
INR	± 25	± 5	± 25	± -

Commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

(SR '000)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,175,558	1,175,558	-
Balances with SAMA	1,035,928	-	-	-	2,753,636	3,789,564	2.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	296,710	296,710	-
Money market placements	1,000,000	-	-	-	1,039	1,001,039	2.50%
Investments							
Held as FVTPL	-	-	-	-	41,293	41,293	-
Held as FVOCI	-	-	-	-	4,891	4,891	-
Held at amortised cost	7,301,455	527,646	9,150,648	6,825,570	200,772	24,006,091	3.30%
Positive fair value of derivatives							
Held for trading	-	-	-	-	31,361	31,361	-
Held as cash flow hedges	-	-	-	-	23,073	23,073	-
Loans and advances, net							
Credit cards	619,829	-	-	-	-	619,829	24.72%
Consumer loans	1,831,692	4,869,245	12,160,176	40,366	67,859	18,969,338	4.83%
Commercial loans	10,070,090	10,521,024	-	-	285,477	20,876,591	5.66%
Others	-	-	-	-	431,133	431,133	-
Investment in an associate	-	-	-	-	135,770	135,770	-
Other real estate, net	-	-	-	-	453,150	453,150	-
Property and equipment, net	-	-	-	-	761,247	761,247	-
Other assets	-	-	-	-	386,560	386,560	-
Total assets	21,858,994	15,917,915	21,310,824	6,865,936	7,049,529	73,003,198	

(SR '000)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	145,257	145,257	-
Money market deposits	4,576,000	781,625	584,000	-	46,069	5,987,694	2.80%
Repo agreement borrowings	-	288,671	-	-	1,808	290,479	3.01%
Customer deposits							
Demand	-	-	-	-	26,607,390	26,607,390	-
Time	18,383,237	4,631,117	763,077	-	129,845	23,907,276	3.01%
Other	-	-	-	-	1,289,432	1,289,432	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	31,390	31,390	-
Held as cash flow hedges	-	-	-	-	120,399	120,399	-
Subordinated Sukuk	-	2,000,000	-	-	8,202	2,008,202	4.92%
Other liabilities	-	-	-	-	1,371,207	1,371,207	-
Equity	-	-	-	-	11,244,472	11,244,472	-
Total liabilities and Equity	22,959,237	7,701,413	1,347,077	-	40,995,471	73,003,198	
Commission rate sensitivity on consolidated statement of financial position gap	(1,100,243)	8,216,502	19,963,747	6,865,936	(33,945,942)	-	
Commission rate sensitivity off consolidated statement of financial position gap	750,625	-	(1,285,000)	534,375	-	-	
Total commission rate sensitivity gap	(349,618)	8,216,502	18,678,747	7,400,311	(33,945,942)	-	
Cumulative commission rate sensitivity gap	(349,618)	7,866,884	26,545,631	33,945,942	-	-	

(SR '000)

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,183,711	1,183,711	-
Balances with SAMA	2,092,913	-	-	-	2,698,443	4,791,356	1.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	202,200	202,200	-
Money market placements	163,750	-	-	-	3,299	167,049	2.18%
Investments							
Held as FVTPL	-	-	-	-	61,415	61,415	-
Held as FVOCI	-	-	-	-	16,388	16,388	-
Held at amortised cost	8,485,654	530,252	3,872,500	7,254,937	139,401	20,282,744	2.80%
Positive fair value of derivatives							
Held for trading	-	-	-	-	92,735	92,735	-
Held as cash flow hedges	-	-	-	-	11,286	11,286	-
Loans and advances, net							
Credit cards	472,466	-	-	-	-	472,466	24.81%
Consumer loans	1,684,673	4,926,225	10,621,646	49,374	111,462	17,393,380	4.74%
Commercial loans	10,071,716	11,219,098	-	-	210,080	21,500,894	5.05%
Others	-	-	-	-	423,106	423,106	-
Investment in an associate	-	-	-	-	134,071	134,071	-
Other real estate, net	-	-	-	-	445,046	445,046	-
Property and equipment, net	-	-	-	-	784,526	784,526	-
Other assets	-	-	-	-	325,082	325,082	-
Total assets	22,971,172	16,675,575	14,494,146	7,304,311	6,842,251	68,287,455	

(SR '000)

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	181,638	181,638	-
Money market deposits	5,311,250	646,250	-	-	33,407	5,990,907	1.85%
Customer deposits							
Demand	-	-	-	-	24,990,180	24,990,180	-
Time	15,269,223	7,040,291	1,728,780	-	134,199	24,172,493	2.11%
Other	-	-	-	-	1,115,693	1,115,693	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	91,492	91,492	-
Held as cash flow hedges	-	-	-	-	129,495	129,495	-
Subordinated Sukuk	-	2,000,000	-	-	6,382	2,006,382	3.96%
Other liabilities	-	-	-	-	780,336	780,336	-
Equity	-	-	-	-	8,828,839	8,828,839	-
Total liabilities and Equity	20,580,473	9,686,541	1,728,780	-	36,291,661	68,287,455	
Commission rate sensitivity on consolidated statement of financial position gap	2,390,699	6,989,034	12,765,366	7,304,311	(29,449,410)	-	
Commission rate sensitivity off consolidated statement of financial position gap	450,625	-	(828,750)	378,125	-	-	
Total commission rate sensitivity gap	2,841,324	6,989,034	11,936,616	7,682,436	(29,449,410)	-	
Cumulative commission rate sensitivity gap	2,841,324	9,830,358	21,766,974	29,449,410	-	-	

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2018 SR '000 Long / (Short)	2017 SR '000 Long /(Short)
USD	**643,190**	986,974
INR	**31,761**	2,632
AED	**13,274**	7,602

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2018. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2018**		2017	
	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	±322	**±0.05**	**±493**
INR	±0.05	± 16	**±0.05**	**± 1**
AED	±0.05	± 7	**±0.05**	**± 4**

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 FVOCI at December 31, 2018 and December 31, 2017 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2018**		2017	
	Increase / decrease in index %	**Effect on share-holders' equity (other reserve) SR '000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR '000
New York Stock Exchange	± **11.20%**	± Nil	± 15.84%	**± 1,910**

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 93% of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

The liquidity ratio during the year was as follows:

	2018 %	2017 %
As at December 31	**46**	44
Average during the year	**45**	40
Highest	**51**	49
Lowest	**40**	32

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2018 and December 31, 2017 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

(SR '000)

	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2018						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	145,257	145,257
Money market deposits	4,623,860	806,481	604,297	-	-	6,034,638
Repo agreement borrowing	-	-	-	377,415	-	377,415
Customers' deposits						
Demand	-	-	-	-	26,607,390	26,607,390
Time	18,335,748	4,940,696	805,464	-	-	24,081,908
Other	1,289,432	-	-	-	-	1,289,432
Negative fair value of derivatives						
Held for trading	11,278	234	19,878	-	-	31,390
Held as cash flow hedges	20,291	-	5,188	94,920	-	120,399
Subordinated Sukuk	24,607	75,187	399,172	2,241,964	-	2,740,930
Other liabilities	-	88,240	352,959	-	930,008	1,371,207
Total undiscounted financial liabilities	24,305,216	5,910,838	2,186,958	2,714,299	27,682,655	62,799,966
Derivatives	420,050	330,804	3,599,348	2,251,812	-	6,602,014

(SR '000)

	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2017						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	181,638	181,638
Money market deposits	5,347,704	662,577	-	-	-	6,010,281
Customers' deposits						
Demand	-	-	-	-	24,990,180	24,990,180
Time	15,381,382	8,139,532	824,592	4,516	-	24,350,022
Other	1,115,693	-	-	-	-	1,115,693
Negative fair value of derivatives						
Held for trading	18,547	1,189	69,873	1,883	-	91,492
Held as cash flow hedges	16,847	-	11,845	100,803	-	129,495
Subordinated Sukuk	19,807	60,520	321,305	2,275,090	-	2,676,722
Other liabilities	-	-	-	-	780,336	780,336
Total undiscounted financial liabilities	21,899,980	8,863,818	1,227,615	2,382,292	25,952,154	60,325,859
Derivatives	1,279,363	198,482	4,199,923	2,928,347	-	8,606,115

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 19.

b) Maturity analysis of assets and liabilities

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

(SR '000)

2018	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,175,558	1,175,558
Balances with SAMA	-	-	-	-	-	-	3,789,564	3,789,564
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	296,710	296,710
Money market placements	-	1,001,039	1,001,039	-	-	-	-	1,001,039
Investments								
Held as FVTPL	-	-	-	-	-	-	41,293	41,293
Held as FVOCI	-	-	-	-	-	-	4,891	4,891
Held at amortised cost	-	361,903	361,903	9,213,704	14,430,484	23,644,188	-	24,006,091
Positive fair value of derivatives								
Held for trading	11,148	335	11,483	19,878	-	19,878	-	31,361
Held as cash flow hedges	19,275	-	19,275	3,798	-	3,798	-	23,073
Loans and advances, net								
Credit cards	224,127	-	224,127	-	-	-	395,702	619,829
Consumer loans	102,239	214,832	317,071	9,204,442	9,447,825	18,652,267	-	18,969,338
Commercial loans	9,957,346	8,125,422	18,082,768	1,774,162	1,019,661	2,793,823	-	20,876,591
Others	-	431,133	431,133	-	-	-	-	431,133
Investment in an associate	-	-	-	-	-	-	135,770	135,770
Other real estate, net	-	-	-	-	-	-	453,150	453,150
Property and equipment, net	-	-	-	-	-	-	761,247	761,247
Other assets	64,144	94,385	158,529	-	-	-	228,031	386,560
Total assets	10,378,279	10,229,049	20,607,328	20,215,984	24,897,970	45,113,954	7,281,916	73,003,198

(SR '000)

2018	Within 3 Month	3-12 month	Within 1 yea	1-5 year	Over 5 year	More than 1 yea	No fixed maturit	Tota
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	145,257	145,257
Money market deposits	-	4,615,021	4,615,021	1,372,673	-	1,372,673	-	5,987,694
Repo agreement borrowing	-	-	-	-	290,479	290,479	-	290,479
Customer deposits								
Demand	-	-	-	-	-	-	26,607,390	26,607,390
Time	5,482,383	14,251,852	19,734,235	4,173,041	-	4,173,041	-	23,907,276
Other	-	-	-	-	-	-	1,289,432	1,289,432
Negative fair value of derivatives								
Held for trading	11,278	234	11,512	19,878	-	19,878	-	31,390
Held as cash flow hedges	20,291	-	20,291	5,188	94,920	100,108	-	120,399
Subordinated Sukuk	-	8,202	8,202	-	2,000,000	2,000,000	-	2,008,202
Other liabilities	-	88,240	88,240	352,959	-	352,959	930,008	1,371,207
Total liabilities	5,513,952	18,963,549	24,477,501	5,923,739	2,385,399	8,309,138	28,972,087	61,758,726

(SR '000)

2017	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,183,711	1,183,711
Balances with SAMA	-	-	-	-	-	-	4,791,356	4,791,356
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	202,200	202,200
Money market placements	-	167,049	167,049	-	-	-	-	167,049
Investments								
Held as FVTPL	-	-	-	-	-	-	61,415	61,415
Held as FVOCI	-	-	-	-	-	-	16,388	16,388
Held at amortised cost	-	89,535	89,535	5,248,125	14,945,084	20,193,209	-	20,282,744
Positive fair value of derivatives								
Held for trading	19,789	1,189	20,978	69,874	1,883	71,757	-	92,735
Held as cash flow hedges	11,286	-	11,286	-	-	-	-	11,286
Loans and advances, net								
Credit cards	150,146	-	150,146	-	-	-	322,320	472,466
Consumer loans	123,684	169,837	293,521	8,744,923	8,354,936	17,099,859	-	17,393,380
Commercial loans	9,023,118	8,972,133	17,995,251	2,069,874	1,435,769	3,505,643	-	21,500,894
Others	-	422,805	422,805	301	-	301	-	423,106
Investment in an associate	-	-	-	-	-	-	134,071	134,071
Other real estate, net	-	-	-	-	-	-	445,046	445,046
Property and equipment, net	-	-	-	-	-	-	784,526	784,526
Other assets	56,459	101,693	158,152	-	-	-	166,930	325,082
Total assets	9,384,482	9,924,241	19,308,723	16,133,097	24,737,672	40,870,769	8,107,963	68,287,455

(SR '000)

2017	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	181,638	181,638
Money market deposits	-	5,342,233	5,342,233	648,674	-	648,674	-	5,990,907
Customer deposits								
Demand	-	-	-	-	-	-	24,990,180	24,990,180
Time	4,606,310	13,162,878	17,769,188	6,399,283	4,022	6,403,305	-	24,172,493
Other	-	-	-	-	-	-	1,115,693	1,115,693
Negative fair value of derivatives								
Held for trading	18,547	1,189	19,736	69,873	1,883	71,756	-	91,492
Held as cash flow hedges	16,847	-	16,847	11,845	100,803	112,648	-	129,495
Subordinated Sukuk	-	6,382	6,382	-	2,000,000	2,000,000	-	2,006,382
Other liabilities	-	-	-	-	-	-	780,336	780,336
Total liabilities	4,641,704	18,512,682	23,154,386	7,129,675	2,106,708	9,236,383	27,067,847	59,458,616

34. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

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

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

(SR '000) 2018	Level 1	Level 2	Total
Financial assets			
FVTPL			
Mutual Funds	**33,456**	**-**	**33,456**
Equities	**7,837**	**-**	**7,837**
FVOCI			
Equities	**-**	**-**	**-**
Derivatives	**-**	**54,434**	**54,434**
Total	**41,293**	**54,434**	**95,727**
Financial liabilities			
Derivatives	**-**	**151,789**	**151,789**
Total	**-**	**151,789**	**151,789**

a) The following table presents the Group's financial assets and liabilities that are measured at fair values: (continued)

(SR '000) 2017	Level 1	Level 2	Total
Financial assets			
FVTPL			
Mutual Funds	60,870	-	60,870
Equities	545		545
FVOCI			
Equities	12,057	-	12,057
Derivatives	-	104,021	104,021
Total	73,472	104,021	177,493
Financial liabilities			
Derivatives	-	220,987	220,987
Total	-	220,987	220,987

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, profit rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps, options and structured deposits are fair valued using forward special commission rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between Levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

Investments amounting to SR 4.89 million (2017: SR 4.33 million) are carried at cost and, accordingly, are not fair valued.

b) Following table represent fair values of financial assets and liabilities measured at amortised cost. There are no financial assets and liabilities that are measured as level 1 fair value.

	31 December 2018 (SR '000)		
	Amortised cost	**Level 2**	**Level 3**
Financial assets:			
Due from banks and other financial institutions	**1,297,749**	**-**	**1,297,307**
Investment held at amortised cost	**24,006,091**	**24,047,109**	**-**
Loans and advances, net	**40,896,891**	**-**	**42,208,458**
Total	**66,200,731**	**24,047,109**	**43,505,765**
Financial liabilities:			
Due to banks and other financial institutions	**6,423,430**	**-**	**6,419,789**
Customers' deposits	**51,804,098**	**-**	**51,805,378**
Total	**58,227,528**	**-**	**58,225,167**

	31 December 2017 (SR '000)		
	Amortised cost	Level 2	Level 3
Financial assets:			
Due from banks and other financial institutions	369,249	-	369,196
Investment held at amortised cost	20,282,744	20,296,827	-
Loans and advances, net	39,789,846	-	41,260,628
Total	60,441,839	20,296,827	41,629,824
Financial liabilities:			
Due to banks and other financial institutions	6,172,545	-	6,174,470
Customers' deposits	50,278,366	-	50,288,545
Total	56,450,911	-	56,463,015

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount. The fair values of level 2 and level 3 financial instruments are estimated as at December 31, 2018 at the current applicable yield curve taking into account the counteparty risks and applicable market rate.

35. RELATED PARTY TRANSACTIONS

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

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

	2018 SR '000	2017 SR '000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**56**	71
Due to banks and other financial institutions	**174**	190
Subsidiary companies		
Investments	**501,480**	501,480
Customer deposits	**1,984**	20,407
Due from banks and other financial institutions	**505,825**	656,118
Due to banks and other financial institutions	**290,479**	-
Receivables	**210,184**	184,984
Payables	**15,369**	16,365
Commitments and contingencies	**530,247**	630,247
Notional values of outstanding derivative contracts	**2,958,992**	4,369,369
Associate and affiliate entities with significant influence		
Investments	**135,770**	134,071
Customer deposits	**374,417**	401,763
Accrued expenses payables	**3,700**	2,211

	2018 SR '000	2017 SR '000
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**103,569**	120,473
Customers' deposits	**47,311**	85,055
Contingencies and commitments	**2,427**	6,447

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

	2018 SR '000	2017 SR '000
Mutual Funds under subsidiary's management		
Investments	**33,456**	60,870
Loans and advances, net	**392,349**	356,334
Customer deposits	**548**	531

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

	2018 SR '000	2017 SR '000
Special commission income	131,574	58,979
Special commission expense	155,321	57,990
Fees and commission income	31	132
Custody fee	839	-
Net share of expenses to associate	22,147	15,850
Insurance premium paid	40,311	38,114
Surplus distribution received from associate	1,450	1,524
Claims received	10,486	12,977
Directors' remuneration	7,834	7,562
Dividend received	7,350	5,250
Income under shared service agreements	3,391	3,988
Reimbursement of expense to a subsidiary	103	47
Expenses under revenue sharing agreement	-	3,109
Reimbursement of rent expense	8,825	9,355
Rent expense for branches	2,457	2,345
Operating expenses	92	-

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

	2018 SR '000	2017 SR '000
Short-term employee benefits	98,467	89,652
Termination benefits	29,633	25,735

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

36. SALARIES AND EMPLOYEE RELATED EXPENSES

	2018			
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000	Total SR '000
Senior executives that require SAMA no objection	16	38,108	19,350	57,458
Employees involved in control functions	195	73,460	8,392	81,852
Employees involved in risk taking activities	202	73,915	13,425	87,340
Other employees	2,127	492,333	73,449	565,782
Outsourced employees	609	89,743	3,086	92,829
Total	3,149	767,559	117,702	885,261
Variable compensation (accrual basis)		118,847		
Other employee related benefits		29,498		
Total salaries and employee-related expenses		915,904		

Categories of employees	2017 Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000	Total SR '000
Senior executives that require SAMA no Objection	16	39,857	18,767	58,624
Employees involved in control functions	174	70,319	5,294	75,613
Employees involved in risk taking activities	208	74,805	13,355	88,160
Other employees	2,029	453,738	62,840	516,578
Outsourced employees	604	84,889	2,959	87,848
Total	3,031	723,608	103,215	826,823
Variable compensation (accrual basis)		96,456		
Other employee related benefits		36,820		
Total salaries and employee-related expenses		856,884		

The compensation and benefits program philosophy

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

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

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefit outstanding at end of December 2018 amounted to SR 265.60 million (2017: SR 244.02 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2018		2017	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**11,849,764**	**22.92%**	8,941,872	16.52%
Supplementary capital (Tier 2)	**2,348,955**	**-**	2,396,689	-
Core and supplementary capital (Tier 1 + Tier 2	**14,198,719**	**27.46%**	11,338,561	20.94%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

A strong capital position is essential to the Group's business strategy and competitive position. The Group's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.

The Group seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the Bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the Group to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2018 SR '000	2017 SR '000
Credit risk	**46,061,300**	48,032,983
Operational risk	**4,849,725**	4,975,084
Market risk	**799,342**	1,127,857
Total pillar-1 – risk weighted assets	**51,710,367**	54,135,924

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, Aljazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Thirteen such funds for which AJC acts as the manager are Aljazira International Equities Fund, Aljazira European Equities Fund, Aljazira Japanese Equities Fund, Aljazira Saudi Equities Fund, Aljazira Saudi Riyal Murabaha Fund, Aljazira Residential Projects Fund, Aljazira Residential Projects Fund 2, Aljazira GCC Income Fund, Aljazira Diversified Aggressive Fund, Aljazira Diversified Balanced Fund, Aljazira Diversified Conservative Fund, Aljazira Global Emerging Markets Fund and Aljazira Mawten REIT Fund. All of the above are open ended funds except for Aljazira Residential Projects Fund and Aljazira Residential Projects Fund 2 which are closed-ended funds and Aljazira Mawten REIT Fund which is a public traded fund on Tadawul. Aljazira International Equities Fund, Aljazira European Equities Fund, Aljazira Japanese Equities Fund invests in foreign equities, while Aljazira Saudi Equities Fund invests in local equities. Aljazira Saudi Riyal Murabaha Fund trades in commodities through Murabaha.

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

Total assets under administration held by the Group related to its brokerage services business amounted to SR 47 billion (2017: SR 43.8 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 4.6 billion (2017: SR 4.9 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets
Investment in funds	Mutual Funds managed by Alazira Capital Company (Subsidiary of the Bank Aljazira)	% of holding	SR '000
	Aljazira Global Emerging Markets Fund	28.57%	45,256
	Aljazira GCC Income Fund	10.13%	33,797
	Aljazira Residential Projects Fund	43.64%	18,938
	Aljazira Residential Projects Fund 2	13.05%	99,846

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR ' 000
Aljazira Global Emerging Markets Fund	9,488
Aljazira GCC Income Fund	3,977
Aljazira Residential Projects Fund	8,930
Aljazira Residential Projects Fund 2	11,061

40. TAKAFUL TA'WUNI

Takaful Ta'awuni provides protection and saving products services that are fully Shari'ah compliant.

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

Aljazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2018. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

41. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The new and amended standards and interpretations that are issued, but not yet effective as at December 31, 2018 are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 1, 2019:

i. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the special commission expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group has decided to apply the modified retrospective approach in adopting IFRS 16. In the modified retrospective approach, the comparable figures for the previous year are not adjusted and all adjustments effects as of January 1, 2019. Upon initial application, Group has also decided to recognise right-of-use assets corresponding to the lease liabilities with adjustment of prepaid and accrued rent to right-of-use asset. This will therefore not have any impact on equity as of the effective date. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipments (i.e., POS terminals and note counting machines) that are considered of low value. Group will also elect to use the following practical expedients that are available under modified retrospective approach:

- Leases with a short remaining term
- Initial direct cost
- Use of hindsight
- Discount rates

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position as at December 31, 2018:

Assets	**SR '000**
Property and equipment, net (right of use assets)	461,338
Other assets	(43,883)
Liabilities	
Long term lease rentals (lease liability)	417,455

Impact on the statement of profit or loss for 2018:

SR Nil

Due to the adoption of IFRS 16, the Group's operating profit will deteriorate in initial years due to front loading of special commission expense however profit will improve in later years as the special commission expense reduces due to reduction in lease liability. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

ii. Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after January 1, 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2019, the Group does not anticipate that these will have a material impact on the Group's consolidated financial statements.

42. COMPARATIVE FIGURES

During the current year, credit cards balances included in the consumer loans have been shown separately for better presentation and enhanced disclosures.

The impact of this reclassification on the net loans and advances amount reported in note 7 as of December 31, 2017 is disclosed below. There was no impact on consolidated statement of financial position.

	As originally reported	Reclassification	Amounts reported after reclassification
		SR '000	
As at December 31, 2017			
Credit cards	-	472,466	**472,466**
Consumer loans	17,865,846	(472,466)	**17,393,380**

In addition, intangible assets (note 9) are disclosed separately from property and equipment and fee and commission income and related expenses (note 21) which were previously reported net, are disclosed separately. Certain immaterial amounts have been reclassified so as to align with the current year presentation.

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on February 3, 2019, corresponding to Jumada Al Awwal 28, 1440H..

BASEL III Pillar 3 Disclosures

for FY 2018

1. OVERVIEW

The Pillar 3 Disclosure for financial year ending 31st December 2018 for Bank Aljazira (the Bank) complies with the Saudi Arabian Monetary Authority (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

2. SCOPE OF APPLICATION

The report is prepared after full-consolidation of the Bank and the following fully-owned subsidiaries (the Bank):

	Business	Capital [SAR]	BAJ Ownership%
Entity			
Aman Development and Real Estate Investment Company	Collateral holder trustee Company	1 Million	100%
Aljazira Capital Company	Asset Management & Advisory	500 Million	100%
Aman Insurance Agency Company	Acting as an agent for bancassurance activities on behalf of the bank	SAR 500 Thousand	100%
Aljazira Securities Limited	Carry out Sharia'h Compliant derivative and Capital market transactions	Authorized Capital 50,000 USD paid up capital: 100 USD	100%

3. MEDIUM AND LOCATION OF DISCLOSURE

The bank's Pillar 3 disclosure will be made available under the Financial Reports (Basel III section) of the bank's website at www.baj.com.sa and as a separate report in the annual financial reports, after the notes to the financial statements.

4. BASIS AND FREQUENCY OF DISCLOSURE

This Pillar 3 disclosure document has been designed to be in compliance with SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ending 31st December 2018.

The Qualitative Disclosure Requirements are reported annually.

5. CAPITAL STRUCTURE

The authorized share capital of the Bank is SAR 8.2 billion. As of 31st December 2018, the shareholders' equity is SAR 11.24 billion. The total Tier 1 and Tier 2 capital of the Bank is SAR 14.2 billion including Sukuk issuance of SAR 2.0 billion as of 31st December 2018.

A. SUBSIDIARIES AND ASSOCIATES

Aljazira Capital Company:

Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, margin financing advisory and arranging services. The company has a paid up capital of SAR 500 million wholly subscribed by the Bank.

Aman Development and Real Estate Investment Company:

Based in Jeddah, formed as an SPV to facilitate mortgage financing and to only hold on behalf of the Bank, the title for real-estate transferred as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 1 million wholly subscribed by the Bank.

Aman Insurance Agency Company:

Based in Saudi Arabia, the company is acting as an agent for bancassurance activities on behalf of the Bank. The Company has not yet commenced commercial operations. The issued share capital amounts to SAR 500 Thousand Comprising of 50 Thousand Shares of SAR 10 each

Aljazira Securities Limited:

Based in Cayman Islands, company is formed to carry out Sharia'h compliant derivative and capital market transactions, The authorized capital amounts to USD 50,000 and its paid up capital is USD 100 comprising of 100 Shares of USD 1 each.

Aljazira Takaful Ta'wuni (ATT):

Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The bank has acquired 35% stake in the company's capital of SAR 350 million. ATT commenced its commercial operations from January 2014.

B. CAPITAL TRANSFERABILITY

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

6. CAPITAL ADEQUACY

The table below illustrates the various approaches that are currently adopted at Bank Aljazira for capital requirements calculation under Basel III in relation to the various risk types under Pillar 1:

Credit Risk	Market Risk	Operational Risk
The Standardized Approach (TSA)	The Standardized Approach (TSA)	Basic Indicator Approach (BIA)

For Operational Risk, the Bank has plans of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

The pillar 1 Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2018 stood at **22.73**% (of Tier 1) and **27.46%** (of Tier 1 and Tier 2).

CAPITAL MANAGEMENT

A strong capital position is essential to the bank's business strategy and competitive position. The bank's capital strategy focuses on long-term stability, which aims to build and invest in core Banking activities.

The bank seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the bank to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

During 2017, Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the existing Basel III framework. These new reforms seek to restore credibility in the calculation of Risk Weighted Assets (RWAs) and improve the comparability of bank's capital ratios. BCBS reforms seek revision to the standardized approaches for calculating Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) and Operational Risk to bring about greater risk sensitivity and comparability. Constraints on using internal models aim to reduce unwarranted variability in banks' calculations of RWAs.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework. With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

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

7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

The bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP is also a reflection of the Bank's short to medium term strategy taking into consideration the prevailing macroeconomic scenarios and how the Bank fares against the same, whilst maintaining adequate capital buffers. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The ICAAP framework determines the level of capital required to support the group's current and projected activities for capital under normal and stressed conditions.

As a new requirement for 2018, the Saudi Arabian Monetary Authority (SAMA) requires that Banks develop the Internal Liquidity Assessment Process (ILAAP) to be submitted annually. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant. ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank duly follows ILAAP as per the regulatory mandate.

The ICAAP and ILAAP reports are updated on an annual basis and reviewed by the Board Risk Committee (BRC) before being approved by the Board of Directors (BOD).

A. COMPREHENSIVE RISK ASSESSMENT UNDER ICAAP FRAMEWORK

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

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

B. RISK ASSESSMENT UNDER ILAAP FRAMEWORK

The Bank develops the Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the guidelines issued by Saudi Arabia Monetary Authority (SAMA) on ILAAP in August 2017. The ILAAP helps the Bank identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios.

The purpose of the ILAAP is to ensure that the Bank has sufficient liquidity necessary for its survival during a period of market-wide and bank-specific stress scenarios. In addition, the Bank also assesses its Liquidity Risk Management Framework and Risk Appetite to ensure that they are adequate and in proportion to the Bank's business model, size, complexity, structure of the balance sheet and market expectations.

C. ASSESSMENT OF PILLAR 1 AND PILLAR 2 RISKS UNDER BASEL III REGIME

The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's Capital Adequacy and Liquidity Adequacy processes then focus on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

D. STRESS TESTING PROGRAM

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Policy. It is embedded in the risk and capital management processes. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices.

The stress testing exercise at the Bank is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank's Stress Testing Policy, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled and evaluated for impact on Bank's capital requirements.

Specifically, the stress test program is designed with an objective to assess the resilience, solvency, liquidity and profitability of the Bank to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise, where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators.

The Enterprise Risk Management Group presents the stress testing reports with CEO and Board Risk Committee before seeking approval from Board and discusses the results with regulators during annual / scheduled bilateral meetings

E. INTERNATIONAL FINANCIAL REPORTING STANDARD NO.9 (IFRS-9)

The bank had adopted a project centric approach to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank has now fully implemented ECL calculation methodologies, appropriate scenarios and models to ensure impairments and Expected Credit Loss (ECL) calculations are in compliance with the IFRS-9 requirements set forth by SAMA.

The Bank endeavors to ensure, through validation and calibration that the Bank's credit risk rating models and score cards maintain their predictive power / accuracy to assess the potential risk associated with the default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models. As the Bank's enhanced and IFRS-9 compliant risk rating models have moved into production and completed a full year, the models are going through an independent validation exercise to ensure that models parameters remain current and forecasting abilities of the models are in sync with the behavior of the Bank's portfolios.

8. RISK MANAGEMENT

The ERM framework of the Bank aims to establish a Risk based strategy for all its products and banking services, driving operational efficiency across the Bank, with guidance on identifying and addressing various forms of risks (including credit, market, operational, liquidity, reputational, compliance risk, etc.), with risk based capital utilization forming the key criteria for design and implementation of services, where applicable.

The ERM framework of the Bank is managed centrally for implementing the following elements

Risk based Strategy	Establish Risk management as the key driver, driving credit, operations, pricing and other product strategies of the Bank, through Risk Appetite statements at enterprise level.
Operational Efficiency	Establish Risk based approach for businesses and product design of the Bank, to enable effective allocation of capital for businesses, and deploying monitoring tools or controls for risks.
Risk reporting & Communication	Reporting to external stakeholders including regulators, shareholders, and drive risk based communication for businesses, operations and management of the Bank,
Compliance	Ensure compliance to SAMA directives on risk based reporting, and aligning to Basel stipulated reporting standards.
Identification of Risks & Provisioning	Enterprise Risk Management facilitates effective response to the interrelated impacts, and integrated responses to multiple risk, mitigating risk of losses, and provisioning in line with IFRS 9 principles.

THE BANK'S SIX BROAD PRINCIPLES OF RISK MANAGEMENT

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

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assume the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC) and the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management and advisory to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the Basel regime.
4. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. Also, ERMG is responsible for the development and implementation of various risk policies and related business decisions empowered by the board.

5. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.

6. BAJ's Board, through the ALCO, MRC, MRPC, BRC and EXCOM, maintains overall responsibility for risk management within the Bank.

9. RISK APPETITE FRAMEWORK & POLICY

The Risk Appetite Framework & Policy is reviewed by BRC and the Board on a periodic basis and takes into consideration the bank's risk taking-capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the bank and which are periodically reported to BRC, EXCOM and to the board through specific reports.

A. CREDIT RISK MANAGEMENT

Risk appetite for credit risk is an expression of the amount of risk that the bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill its part of the agreement. In mitigating credit risk, the Bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The Bank uses internal rating tools to determine an Obligor Risk Rating (ORR) that reflects the Bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Chief Credit Officer and the Chief Risk Officer, the credit risk is monitored through continuous review, monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the Bank's interests. The Bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The Bank also mitigates its credit risk by requiring tangible collateral where necessary.

The Bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, risk rating etc. To mitigate these concentration risks the Bank seeks to diversify its portfolio through customer acquisition across economic sectors, diversification of type of financing in terms of short term working capital financing and longer term fixed capital financing and project financing through syndication arrangements to meet needs of its clients. Obligor and Sector Financing Concentrations are monitored by ERMG periodically or as per applicable regulatory guidelines through the CRO Dashboards and are regularly reviewed by the Chief Credit Officer, the Chief Risk Officer, the business heads and the MRC. The concentration levels are also reported to the Board Risk Committee (BRC) on a regular basis.

Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed.

The Bank continually updates its credit polices to reflect economic, market and legal realities.

B. MARKET RISK MANAGEMENT

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

C. OPERATIONAL RISK MANAGEMENT

The bank's operational risk appetite has been defined in the Risk Appetite and Operational Risk policies of the Bank and expressed through the following measures and limits as part of semi-annual stress testing exercise:

a. Impact and materiality in terms of limits;

b. Tolerance and thresholds that reflects bank's tolerance for acceptable risks and operational losses;

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

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

10. CREDIT RISK

A. OVERVIEW

Credit risk is the potential that the bank's obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions.

The principal bank units responsible for taking credit risk are:

- Corporate and Institutional Banking Group (CIBG)
- Commercial Banking Services-SME (CBS)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Private Banking (PBG)

Each credit risk taking unit has developed certain policies and guidelines governing their credit risk taking functions which are contained in the Credit Risk Policy, Retail Risk Policy and Market / Liquidity Risk Policy documents.

B. PROVISIONS FOR LOANS/FINANCING

Ensuring that the bank remains the most compliant Financial Institution under IFRS-9. In this regards, the bank has delivered this key project to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank is now fully compliant with IFRS-9 Expected Credit Loss (ECL) methods, appropriate scenarios and models well within SAMA guidelines. The bank makes provisions according to guidelines set by SAMA under IFRS-9. The provisioning strategies are governed by Credit Policy and IFRS-9 Charter of the bank and are regularly reviewed for appropriateness by the Chief Credit Officer, the Chief Risk Officer, the Heads of the Business Units, the Chief Financial Officer and by the CEO. All risk management policies are reviewed and approved by Board Risk Committee and Board of the Bank.

The IFRS-9 standard has introduced revised rules for classification of assets of financial institutions, their accounting, rules for considering provision and reporting in accordance with new standards, with the objective of addressing the shortcomings with regard to recognition and provisioning for stressed assets. The three main modules of IFRS-9 principles are:

- Classification and measurement of financial instruments;
- Impairment of financial assets;
- Hedge accounting.

The IFRS-9 standards mandate compliance by January 1, 2018. The rules of the IFRS 9 standards aim for classification and measurement of all the financial instruments of the Bank across specified measurement categories of Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). This includes business model development for all the financial instruments at an aggregate level and assessment of cash flow characteristics test (SPPI test) at an individual instrument level.

The impairment computation is initiated with the stage assessment exercise, to identify the applicability of the assets to the three prescribed stages, based on the levels of Credit Risk.

The following summarizes the stage types and the assessment rules.

Stage	Definition	Description
Stage 1	Characterizes low Credit Risk assets	This stage includes performing assets with no signs of impairment. This would also include newly originated assets, considering assessment in the appraisal process.
Stage 2	Assets where there has been a Significant Increase in Credit Risk (SICR)	The criteria for this stage is 'significant increase in credit risk', which is evaluated based on the credit monitoring framework, including internal and macroeconomic factors, or the Early Warning Signals (EWS) framework of the Bank.
Stage 3	Asset category of impaired and non-performing assets	Categorization of assets in Stage 3 is based on objective evidence of impairment, based on the credit monitoring and overdue status of the accounts. Stage 3 categorization can also be based on qualitative assessments, based on internal or external information available pertaining to accounts or obligors.

11. MARKET RISK

A. INTRODUCTION

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

B. Management of Market Risk

Delegated by the Board, ALCO and MRPC (Market Risk Policy Committee) are responsible for the policies, limits and control used in managing market risk. The bank has an approved Market Risk Policy that clearly defines policies, procedures, and limits for managing market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, BRC, ALCO, the Board of Directors and the national supervisor.

Foreign Exchange Risk

Foreign Exchange Risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The Market Risk Policy has set limits on Net Open Positions by currency groups. There are limits for USD, other G10 currencies, GCC currencies, and all the other currencies. The bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a smaller extent in United States Dollars (USD) or in USD-pegged currencies.

Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of the bank's investments in equities. The bank's portfolio of listed securities is periodically marked to market. This trading portfolio mostly relates to strategic investments of seed capital by Aljazira Capital in various funds under their management. All these funds are listed on the Tadawul exchange. BAJ also holds a small and immaterial, legacy equity portfolio in its banking book; most of these equities are unquoted. Investments in unquoted equity instruments are measured at fair value. Any changes are taken into the bank's equity and other comprehensive income.

C. CAPITAL TREATMENT FOR MARKET RISK

Bank Aljazira computes the minimum capital requirements against market risk using The Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the bank's activities.

D. STRESS TESTING

The bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are updated and may be redefined on an ongoing basis to reflect current market conditions. The bank carries out Stress Testing assessments based on both regulatory guidelines and also ad hoc basis based on purpose built scenarios to test the resilience of specific portfolios. The Stress Test results are reported to Senior Management, BRC, EXCOM and the Board to facilitate and manage risk with more transparency.

12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank. Operational risk excludes Credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The bank has an independent Operational Risk Team under Enterprise Risk Management Group (ERMG) which is tasked with monitoring, measuring and management of operational risks within the Bank. Functions of this unit are guided by the Operational Risk Policy. In addition, the Bank has implemented Business Continuity and Disaster Recovery programs, tested at regular intervals with results of testing communicated to relevant management forums.

A. MANAGEMENT AND MONITORING OF OPERATIONAL RISK

The OR Framework is designed to establish an effective association between the risk management and the risk owners represented by various business & support groups within the bank. Business & support groups are responsible to manage their activities and the risks within their respective groups, however processes have been established to involve the Operational Risk Division to facilitate risk identification, measurement, assessment and control.

During the year, the Operational Risk Division conducted specialized data gathering through meetings with business & support groups endeavoring to gain a clear understanding of business directions by cascading the strategic objectives. The approach is designed to associate the management directions with the allocated operational risk appetite and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

Assessment of risks and categorizing them into levels of significance is conducted in consultation with business and support groups to draw their attention to risks that require management attention.

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

Risk & Control Self-Assessment (RCSA).

Risk & Control Self-Assessment (RCSA) is a tool to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly as a part of this tool. The RCSA review cycle involves discussions with the business & support groups and periodic submissions to the Management Risk Committee (MRC) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment.

The bank's comprehensive RCSA program involves facilitation of workshops by Operational Risk Division to identify risks and controls within each business & support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The bank has also established a Policy and Product Review Committee (PPRC) to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

Key Risk Indicators (KRI)

Key Risk Indicators (KRI) is a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the bank.

KRIs for business & support groups are defined through workshops and periodically monitored through Operational Risk Division. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record operational loss incidents occurring in the bank to enable analysis of control failures and ensure such incidents do not recur.

The bank has established an internal loss data collection process through which incidents are reported to Operational Risk Division for recording purpose. A comprehensive Loss Database from 2013 till date is maintained by ORD.

Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements with its scope encapsulating:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events whilst protecting key assets. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

Outsourcing

To ensure compliance to the SAMA regulations on outsourcing, the bank ensures that its outsourcing engagements are reviewed from various risk perspectives covering compliance, operational, business continuity and information security risk.

Anti-Fraud Management

The bank has established an Enterprise Anti-Fraud program in coordination with several internal stakeholders, aiming to prevent and reduce the losses arising from internal and external frauds. The Bank wide anti-fraud awareness program is periodically conducted and the bank is preparing for a bank wide fraud risk assessment exercise which will be linked to the existing risk profile and control registers.

B. MEASUREMENT OF OPERATIONAL RISK (OR) CAPITAL CHARGE

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the bank. The bank has the intent of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

13. SHARIA'H COMPLIANCE

Being an Islamic enitity, the bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the bank established an independent Sharia'h Board and a Sharia'h Compliance Division under Shariah Group.

A. SHARIA'H GOVERNANCE

The Sharia'h Compliance Framework was formulated to enable the bank to achieve its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Compliance Framework is the enterprise-wide Sharia'h Group plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following Divisions:

- Sharia'h Board Secretary;
- Research and Development;
- Sharia'h Compliance;

B. SHARIA'H BOARD

The operation of the Islamic Bank is governed by Sharia'h Governance Standards of Islamic Financial Institutions which stipulates that any licensed Islamic Bank is required to provide for the establishment of Sharia'h Board, which is responsible for directing, supervising and monitoring the activities of the Bank to ensure compliance with Islamic Sharia'h rules and principles .

The Sharia'h Board is responsible to:

- Approve the Articles of Association, the regulations, the models and the policies of used in the Bank.
- Study the forms of contracts, documents and applications existing with the Bank, and determine the results of the Commission and correct the products subject to modification.
- Looking into all transactions and products executed by the Bank for the first time to indicate the extent of their compliance with Sharia'h rules and principles. And put the basic principles for drafting their contracts and documents.
- Provide Sharia'h alternatives to conventional products and develop the basic principles for the formulation of contracts and documents and contribute to the development to enrich the experience of the bank in this field.
- Periodic review by the Sharia'h Compliance Division in the Sharia'h Group to the Bank transactions to verify the validity of the application and ensure that it conforms to the rules of the Islamic Sharia'h and the Fatwas issued by the Sharia'h Board on the new transactions by examining the files and documents of transactions, contracts and agreements concluded thereon.
- Answer questions, inquiries and clarifications received from the senior management of the bank or from various other technical departments as well as from the customers of the bank.
- Provide an annual report to the general assembly showing the extent of compliance with the rules and principles of Sharia in the light of the views expressed and guidance and through the review of transactions, and the annual budget of the Bank.
- Ensure that the gains made from sources or in ways that are contrary to the rules and principles of Sharia'h are avoided and disbursed to Charity according to the reports prepared by the Sharia Compliance Division of the Sharia'h Group.
- Ensure that Zakat is calculated in accordance with the rules and principles of Islamic Sharia.

C. Rectification Process of Sharia'h Non-Compliance Income

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia'h non-compliance has already been put in place.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

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

14. LIQUIDITY RISK

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the bank maintains an adequate balance of cash and cash equivalents.

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

A. LIQUIDITY RISK MANAGEMENT APPROACH

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

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

All liquidity policies and procedures are covered by the Market Risk Policy which is subject to review and approval by the Market Risk Policy Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the bank also maintains liquid reserves of no less than 20% of it's deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

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

Furthermore, the bank undertakes a detailed assessment of its liquidity risks under the annual ILAAP review process.

15. PROFIT RATE RISK IN BANKING BOOK

Profit Rate Risk in Banking Book arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.

Yield sensitivity of assets, liabilities and off balance sheet items

The bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).

Profit rate risk is measured as per industry best practices and reported on a daily basis to senior management. The bank uses behavioral models for non-maturity deposits; these models employ statistical time series data.

Respective assumptions are derived from the model results in conjunction with other qualitative factors. Essentially, a small percentage of the non-maturity deposits (based on business segment) are then placed in the short term gap bucket while the remainder goes to a longer term gap bucket.

The revised guidelines from the Basel Committee on Banking Supervision/ SAMA on Profit Rate Risk in the Banking Book have been implemented by the Bank. These guidelines have updated both the principles and methods expected to be used by Banks for measuring, managing, monitoring and controlling this risk.

16. MACROECONOMIC AND BUSINESS CYCLE RISK

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

17. STRATEGIC RISK

Strategic Risk of the bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the bank in the form of reduction in shareholder value, loss of earnings, etc.

The bank has assessed its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and implementation capabilities.

18. REPUTATIONAL RISK

Reputational Risk refers to the potential adverse effects, which can arise from the bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/ adverse publicity etc.

The bank has assessed the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score.

19. IMPLEMENTATION OF IFRS -9:

As part of strengthening BAJ's Risk Management Framework and to ensure it remains in compliance with applicable regulatory requirements, the bank has implemented IFRS-9, Financial Instruments", as per SAMA stipulated timelines.

The Bank has followed a detailed road map with defined stakeholders and activities to ensure timely execution and implementation of the SAMA road mapKey results of IFRS-9 implementation are regularly reported to the Management Risk Committee with updates provided to the Board Risk Management Committee on a periodic basis.

20. ENTERPRISE RISK MANAGEMENT GROUP – THE ROAD AHEAD

The Bank remains focused on fortifying its risk management practices and culture. In this regards the Bank has managed to reengineer its risk management organization enabling it to provide assurance to both internal and external stakeholders as regards to sound risk management practices being implemented in letter and spirit. Furthermore, a detailed review to all policies and procedures has also been undertaken to ensure these remain up to date and fit for purpose.

The bank has initiated a an independent validation exercise of its Obligor Risk Rating models to ensure that the models remain in sync with the broad strategic objectives and are predictive of the obligor and portfolio risk profile. A separate set of score cards is under development with respect to the Retail Portfolio of the Bank to ensure that obligor's risk assessment is carried out at both application (pre-approval) and behavioral (post approval) basis.

The bank has also successfully automated its capital calculation capabilities under Basel III requirements. The new capital calculation engine has been successfully commissioned and operationalized with SAMA's approval.

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