ERNST & YOUNG

Deloitte.

BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011 AUDITORS' REPORT

ERNST & YOUNG

P.O. Box 1994
Jeddah 21441
Saudi Arabia

Deloitte.

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank AlJazira:
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41. We have not audited Note 42, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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INDEPENDENT AUDITORS' REPORT (continued)

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and

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

For Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
Licence Number 393

For Deloitte & Touche
Bakr Abulkhair & Co.

Al-Mutahhar Y.Hamiduddin
Certified Public Accountant
Licence Number 296

24 February 2013
14 Rabi Thani 1434 H

Bank AlJazira
(A Saudi Joint Stock Company)

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

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

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

	Notes	2012 SR'000	2011 SR'000
Special commission income	18	**1,220,011**	968,116
Special commission expense	18	**(269,128)**	(186,653)
Net special commission income		**950,883**	781,463
Fees and commission income, net	19	**564,184**	356,208
Foreign exchange income, net		**23,740**	19,927
Trading income, net	20	**35,915**	11,381
Dividend income	21	**10,800**	9,719
Loss on non-trading investments	22	**-**	(6,441)
Other operating income	23	**15,433**	35,841
Total operating income		**1,600,955**	1,208,098
Salaries and employee-related expenses		**574,831**	482,842
Rent and premises-related expenses		**68,589**	62,864
Depreciation	7	**65,508**	66,775
Other general and administrative expenses		**206,817**	187,206
Impairment charge for credit losses, net	6c	**172,479**	70,352
Other operating expenses	24	**12,094**	35,148
Total operating expenses		**1,100,318**	905,187
Net income for the year		**500,637**	302,911
Attributable to:			
Equity holders of the Bank		**500,480**	302,853
Non-controlling interest		**157**	58
Net income for the year		**500,637**	302,911
Earning per share (expressed in SR per share)			
Basic and diluted earnings per share	25	**1.67**	1.01

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

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

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

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

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

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

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

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

1. GENERAL

Bank AlJazira (the Bank) is a Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia and operates under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah, through its 54 branches (2011: 51 branches) in the Kingdom of Saudi Arabia and employed 1,620 staff (2011: 1,574 staff). The Bank's Head Office is located at the following address:

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

The objective of the Bank is to provide a full range of Shari'ah compliant (non-commision based) banking services.

The Bank provides its customers Shari'ah compliant (non-commision based) banking products comprising of Murabaha, Istisna'a, Ijarah and Tawaraq, which are approved and supervised by an independent Shari'ah Board established by the Bank.

The Bank's subsidiaries are as follows:

	Country of incorporation	**Nature of business**	**Ownership (direct and indirect) December 31, 2012**	Ownership (direct and indirect) December 31, 2011
Al-Mashareq Japanese Equities Fund	Saudi Arabia	Mutual fund	-	23%
Al-Thoraiya European Equities Fund	Saudi Arabia	Mutual fund	25%	28%
Al-Jazira Residential Projects Fund	Saudi Arabia	Mutual fund	44%	-
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Real Estate	Saudi Arabia	Holding and managing collateral on behalf of the Bank	100%	98%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

i. Statement of Compliance

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

ii. Basis of measurement

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

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries drawn up to December 31 each year. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Subsidiaries are all entities over which the Bank has the power to directly or indirectly govern the financial and operating policies so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, are included in the consolidated Statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

Non-controlling interests represent the portion of net income / (loss) of net assets not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated Statement of income and within equity in the consolidated statement of financial position, separately from Bank's shareholders' equity. Any losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interests even if doing so cause the non-controlling interest to have a deficit balance.

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

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

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

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

c) Changes in accounting policies

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

Amendment to IFRS 7 – Financial Instruments: Disclosures

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Where management has used estimates, assumptions or exercised judgements are as follows:

i) Business model

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

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

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

ii) Contractual cash flows of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in consolidated Statement of income and reflected in an impairment for credit losses. Commission on impaired assets continues to be recognised through the unwinding of the discount.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iv) Going concern

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

e) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date are accounted for in the same way as acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

f) Derivative financial instruments and hedge accounting

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

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

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

(i) Derivatives held for trading

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

(ii) Hedge Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge Accounting (continued)

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at the inception and on an ongoing basis.

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

Fair Value Hedge

Fair value hedges are used to hedge the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss.

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

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

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective rate of return (ERR). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash Flow Hedge

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

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in trading income, net.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge Accounting (continued)

Cash Flow Hedge (continued)

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

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

g) Derecognition of financial instruments

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

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

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

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

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

h) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Foreign currencies (continued)

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

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

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

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

i) Offsetting financial instrument

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

j) Revenue /expense recognition

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

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

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment provisions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Revenue recognition (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability. Foreign exchange income / loss is recognised when earned / incurred.

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

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

k) Net Trading Income / (Loss)

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

l) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the bank retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments as at FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowing and counterparty liability for amounts received under these agreements is included in "due to SAMA" or "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement using the effective special commission rate. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective special commission rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investments

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

i) Investment in debt instruments classified as at amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through income statement on initial recognition):

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investments (continued)

ii) Financial assets classified as at Fair Value through Income Statement (FVTIS)

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

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

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

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

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

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

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

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

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

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

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investments (continued)

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

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

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

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

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

iv) Impact of early adoption of IFRS 9

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

Impact on other reserves and retained earnings

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial liabilities

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of financial assets

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in consolidated statement of income and reflected in an allowance account against loans and advances. Commission on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income. The Group writes off loans and advances and investment securities when they are determined to be uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Other real estate

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

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

q) Property and equipment

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

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

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

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

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

r) Financial guarantees

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Financial guarantees (continued)

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

t) Provisions

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

u) Accounting for leases

i. Where the Bank is the lessee

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

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

ii. Where the Bank is the lessor

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

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

v) Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Due from banks and other financial institutions

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

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

x) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholder's share of net income for the year.

Zakat and income taxes, relating to the shareholders of the Bank, are not charged to the Bank's consolidated statement of income as they are deducted from the dividends paid to the shareholders.

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

y) Fiduciary assets

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

z) End of Service Benefits

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

3. CASH AND BALANCES WITH SAMA

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

3. CASH AND BALANCES WITH SAMA (continued)

In accordance with article 7 of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 32). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents. Furthermore, an amount of SR 122.5 million is included in Cash in hand for 2012 (2011: SR 122.5 million), being restricted as share capital of Al Jazira Takaful, pending its initial public offering.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

5. INVESTMENTS

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

i) Mandatorily measured at FVTIS

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

ii) Designated as at FVTIS

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

5. INVESTMENTS (continued)

iii) FVTOCI

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

iv) Amortised cost

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

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

i) Mandatory measured at FVTIS

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

ii) Designated as at FVTIS

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

5. INVESTMENTS (continued)

iii) FVTOCI

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

iv) Amortised cost

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

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

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

5. INVESTMENTS (continued)

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

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

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

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

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

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

6. LOANS AND ADVANCES, NET

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

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

Others include loans and advances to staff

a) Loans and advances, net comprise the following:

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

	SR'000			
2011	Consumer	Commercial	Others	Total
Performing loans and advances	7,230,960	16,169,005	87,242	23,487,207
Non-performing loans and advances, net	57,886	972,802	-	1,030,688
Total loans and advances	7,288,846	17,141,807	87,242	24,517,895
Provision for credit losses				
Specific provision	(28,115)	(876,465)	-	(904,580)
Portfolio provision	(101,497)	(204,367)	-	(305,864)
Total provision for credit losses	(129,612)	(1,080,832)	-	(1,210,444)
Loans and advances, net	7,159,234	16,060,975	87,242	23,307,451

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

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

6. LOANS AND ADVANCES, NET (continued)

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

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

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

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

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

6. LOANS AND ADVANCES, NET (continued)

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

2012	**Performing SR'000**	**Non performing, net SR'000**	**Provision for credit losses SR'000**	**Loans and advances, net SR'000**
Banks and other financial institutions	684,353	-	-	684,353
Agriculture and fishing	58,411	-	-	58,411
Manufacturing	5,795,266	56,974	(56,974)	5,795,266
Mining and quarrying	663,028	-	-	663,028
Electricity, water, gas and health services	-	16,744	(16,744)	-
Building and construction	4,958,573	110,116	(87,546)	4,981,143
Commerce	3,250,388	666,101	(655,932)	3,260,557
Transportation and communication	301,534	-	-	301,534
Services	462,224	62,617	(32,617)	492,224
Consumer loans and credit cards	10,498,093	107,205	(49,778)	10,555,520
Share trading	1,906,954	-	-	1,906,954
Others	1,655,509	20,462	(10,506)	1,665,465
	30,234,333	1,040,219	(910,097)	30,364,455
Portfolio provision	-	-	(467,673)	(467,673)
Total	**30,234,333**	**1,040,219**	**(1,377,770)**	**29,896,782**

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

6. LOANS AND ADVANCES, NET (continued)

e) Other real estate, net

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

7. PROPERTY AND EQUIPMENT, NET

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

8. OTHER ASSETS

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

9. DERIVATIVES

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

a) Swaps

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

b) Options (Wa'ad Fx)

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

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

9.1 Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices: Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

9. DERIVATIVES (continued)

9.2 Held for hedging purposes

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

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

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

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

9.3 Cash flow hedges

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

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

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

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

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

9. DERIVATIVES (continued)

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

2012
SR'000

				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 Months	1-5 years	Over 5 years	Monthly average
Held for trading								
Options	4,330	4,330	2,246,545	491,872	1,589,673	165,000	-	2,277,857
Special commission rate swaps	136,857	136,857	3,833,313	-	-	-	3,833,313	3,292,967
Held as cash flow hedge:	-	-	-	-	-	-	-	-
Special commission rate swaps	10,070	58,805	2,550,625	-	-	718,125	1,832,500	1,501,667
Total	**151,257**	**199,992**	**8,630,483**	**491,872**	**1,589,673**	**883,125**	**5,665,813**	**7,072,491**

2011
SR'000

				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading								
Options	14,292	14,292	4,379,140	-	1,311,336	3,067,804	-	1,691,554
Held as cash flow hedge:								
Special commission rate swaps	3,715	1,430	790,250	-	-	790,250	-	385,927
Total	18,007	15,722	5,169,390	-	1,311,336	3,858,054	-	2,077,481

9. DERIVATIVES (continued)

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

		SR'000				
Description of hedged items	**Fair Value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2012						
Floating commission rate investments	2,208,182	2,150,625	Cash flow	Commission rate swap	1,248	58,805
Floating commission rate loans	391,178	400,000		Commission rate swap	8,822	-
2011						
Floating commission rate investments	787,604	789,889	Cash flow	Commission rate swap	3,715	1,430

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

11. CUSTOMERS' DEPOSITS

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

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

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

The above include foreign currency deposits as follows:

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

12. OTHER LIABILITIES

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

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

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

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

13. SUBORDINATED SUKUK

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on 29 March and 29 September each year until 29 March 2021, on which date the Sukuk will expire. The proceeds of the Sukuk is used by the Bank for strengthening its capital base as the Sukuk comprises Tier II capital for Saudi Arabian regulatory purposes. The proceeds of the Sukuk was used to grow its banking and finance activities. The obligation of the issuer to the Sukukholders is not secured by any assets or security or guaranteed by third party and is subordinated. The Sukuk are due in 2021 with a step up in margin to 550 basis point in 2016. The Bank has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi stock exchange (Tadawul).

14. SHARE CAPITAL

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

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

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

15. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly SR 125.5 million has been transferred from net income for 2012 (2011: SR 76 million). The statutory reserve is currently not available for distribution.

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

16. OTHER RESERVE

2012	**Cash flow hedges SR' 000**	**Fair value reserve SR' 000**	**Total SR' 000**
Balance at beginning of the year	5,211	19,039	24,250
Net change in fair value	(49,999)	(11,209)	(61,208)
Transfer to consolidated statement of income	(686)	-	(686)
Net movement during the year	(50,685)	(11,209)	(61,894)
Balance at end of the year	**(45,474)**	**7,830**	**(37,644)**

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

17. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2012, there were legal proceedings of a routine nature outstanding against the Bank. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2012, the Bank had capital commitments of SR 43.25 million (2011: SR 46.2 million) in respect of the construction of branches and IT related Projects.

c) Credit related commitments and contingencies

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

Guarantee and standby letters of credit, which represents irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less credit risk.

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

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

17. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

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

			(SR'000)		
2011	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	461,111	141,770	-	-	602,881
Letters of guarantee	810,766	1,152,895	506,369	2,988	2,473,018
Acceptances	407,612	-	-	-	407,612
Irrevocable commitments to extend credit	-	14,286	-	650,131	664,417
Total	1,679,489	1,308,951	506,369	653,119	4,147,928

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

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

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

17. COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

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

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

18. NET SPECIAL COMMISSION INCOME

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

19. FEES AND COMMISSION INCOME, NET

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

20. TRADING INCOME

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

21. DIVIDEND INCOME

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

22. LOSS ON NON-TRADING INVESTMENTS

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

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

23. OTHER OPERATING INCOME

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

24. OTHER OPERATING EXPENSES

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

25. EARNINGS PER SHARE

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

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

26. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

On December 26, 2011, the Board of Directors approved a proposed gross dividend for the year ended December 31, 2011 of SR 160 million. The dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax, respectively, as follows:

a) Saudi shareholders:

The zakat attributable to Saudi shareholders for 2012 amounted to SR 12 million (2011: SR 10 million).

b) Non-Saudi shareholder:

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

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

26. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX (continued)

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

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

27. CASH AND CASH EQUIVALENTS

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

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

28. OPERATING SEGMENTS

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

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

Transactions between business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and liabilities.

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

Personal Banking

Deposit, credit and investment products for individuals.

28. OPERATING SEGMENTS (continued)

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

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

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

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

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

(SR'000)

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

28. OPERATING SEGMENTS (continued)

2011	Personal banking	Corporate banking	(SR'000) Brokerage and asset management	Treasury	Takaful ta'awuni	Others	Total
Total assets	9,303,028	15,465,984	440,433	13,463,222	13,513	212,070	38,898,250
Total liabilities	12,565,175	18,419,474	165,811	2,767,404	35,759	7,764	33,961,387
Total operating income	329,462	431,722	203,233	226,939	36,439	(19,697)	1,208,098
Net special commission	247,298	330,796	11,184	191,419	(260)	1,026	781,463
Fee and commission income. net	53,753	81,842	188,570	(557)	36,677	(4,077)	356,208
Trading income	(5,846)	(5,158)	(54)	16,334	-	6,105	11,381
Operating expenses:							
- Impairment charge for credit losses, net	(45,661)	(24,691)	-	-	-	-	(70,352)
- Depreciation	(39,963)	(7,700)	(13,436)	(2,224)	(3,452)	-	(66,775)
Total operating expenses including non-controlling interest	(449,238)	(196,075)	(133,723)	(60,507)	(68,769)	3,067	(905,245)
Net (loss) / income attributable to equity holders of the Bank	(119,776)	235,647	69,510	166,432	(32,330)	(16,630)	302,853

28. OPERATING SEGMENTS (continued)

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

(SR'000)

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

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

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

29. CREDIT RISK

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 17. Information on the Bank's maximum credit exposure by operating segment is given in note 28.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2012 and 2011. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

29. CREDIT RISK (continued)

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

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

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

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

29. CREDIT RISK (continued)

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

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

	SR'000 Loans and advances					
2012	Consumer	Commercial	Others	Sub total	Due from Banks and Other Financial Institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	4,992,733	-	4,992,733	3,138,622	8,131,355
Standard – medium risk	-	10,412,948	-	10,412,948	-	10,412,948
Standard – unclassified	10,444,455	2,329,826	142,714	12,916,995	-	12,916,995
Sub total - standard	10,444,455	17,735,507	142,714	28,322,676	3,138,622	31,461,298
Special mention	-	1,376,263	-	1,376,263	-	1,376,263
Sub total	10,444,455	19,111,770	142,714	29,698,939	3,138,622	32,837,561
Past due but not impaired						
Less than 30 days	45,541	22,126	-	67,667	-	67,667
30-60 days	1,687	20,267	-	21,954	-	21,954
60-90 days	1,050	1,686	-	2,736	-	2,736
Over 90 days	5,360	437,677	-	443,037	-	443,037
Total Performing	10,498,093	19,593,526	142,714	30,234,333	3,138,622	33,372,955
Less: portfolio provision	(178,211)	(289,462)	-	(467,673)	-	(467,673)
Net performing	**10,319,882**	**19,304,064**	**142,714**	**29,766,660**	**3,138,622**	**32,905,282**
Non Performing						
Total non Performing	107,205	933,014	-	1,040,219	-	1,040,219
Less: Specific provision	(49,778)	(860,319)	-	(910,097)	-	(910,097)
Net non performing	**57,427**	**72,695**	-	**130,122**	-	**130,122**

29. CREDIT RISK (continued)

	SR'000					
	Loans and advances				Due from Banks and Other Financial Institutions	
2011	Consumer	Commercial	Others	Sub total		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	3,230,166	-	3,230,166	4,331,024	7,561,190
Standard – medium risk	-	9,935,105	-	9,935,105	-	9,935,105
Standard – unclassified	7,041,289	1,255,231	87,242	8,383,762	-	8,383,762
Sub total - standard	7,041,289	14,420,502	87,242	21,549,033	4,331,024	25,880,057
Special mention	-	1,669,340	-	1,669,340	-	1,669,340
Sub total	7,041,289	16,089,842	87,242	23,218,373	4,331,024	27,549,397
Past due but not impaired						
Less than 30 days	150,849	48,931	-	199,780	-	199,780
30-60 days	29,038	30,232	-	59,270	-	59,270
60-90 days	6,663	-	-	6,663	-	6,663
Over 90 days	3,121	-	-	3,121	-	3,121
Total	7,230,960	16,169,005	87,242	23,487,207	4,331,024	27,818,231
Less: portfolio provision	(101,497)	(204,367)	-	(305,864)	-	(305,864)
Net performing	7,129,463	15,964,638	87,242	23,181,343	4,331,024	27,512,367
Non Performing						
Total non Performing	57,886	972,802	-	1,030,688	-	1,030,688
Less: Specific provision	(28,115)	(876,465)	-	(904,580)	-	(904,580)
Net non performing	29,771	96,337	-	126,108	-	126,108

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

Others mainly comprise employee loans.

29. CREDIT RISK (continued)

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

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

b) Credit quality Investments as at Amortised Cost

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

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

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

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

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

29. CREDIT RISK (continued)

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

The tables below show an economic sector analysis of Bank's loans and advances, net of specific and portfolio provisions; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2012	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Banks and other financial institutions	674,663	233,299	**907,962**
Agriculture and fishing	57,584	80,441	**138,025**
Manufacturing	5,713,206	1,142,925	**6,856,131**
Mining and quarrying	653,640	656,250	**1,309,890**
Electricity, water, gas and health services	-	2,075	**2,075**
Building and construction	4,910,929	1,386,502	**6,297,431**
Commerce	3,214,532	899,153	**4,113,685**
Transportation and communication	297,264	69,182	**366,446**
Services	485,679	164,326	**650,005**
Consumer loans and credit cards	10,367,310	-	**10,367,310**
Share trading	1,879,952	-	**1,879,952**
Other	1,642,023	707,917	**2,349,940**
Maximum exposure	**29,896,782**	**5,342,070**	**35,238,852**
Less: collateral for performing and non performing	**(12,462,707)**	**(1,438,546)**	**13,901,253**
Net maximum exposure	**17,434,075**	**3,903,524**	**21,337,599**

29. CREDIT RISK (continued)

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

2011	Maximum exposure On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Banks and other financial institutions	702,745	155,688	858,433
Agriculture and fishing	56,826	14,828	71,654
Manufacturing	4,810,475	607,034	5,417,509
Mining and quarrying	12,029	93,750	105,779
Electricity, water, gas and health services	10,733	1,515	12,248
Building and construction	3,865,683	1,404,601	5,270,284
Commerce	2,405,714	476,426	2,882,140
Transportation and communication	160,012	160,730	320,742
Services	484,660	84,610	569,270
Consumer loans and credit cards	7,159,234	-	7,159,234
Share trading	1,277,099	-	1,277,099
Other	2,362,241	1,137,591	3,499,832
Maximum exposure	23,307,451	4,136,773	27,444,224
Less: collateral for performing and non performing	(9,710,792)	(1,314,362)	(11,025,154)
Net maximum exposure	13,596,659	2,822,411	16,419,070

30. GEOGRAPHICAL CONCENTRATION

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

(SR'000)

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

30. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

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

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

30. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

	Non performing loans, net		Impairment for credit losses	
	2012 SR' 000	2011 SR' 000	**2012 SR' 000**	2011 SR' 000
Kingdom of Saudi Arabia	**1,040,219**	1,030,688	**1,377,770**	1,210,444

31. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset value of mutual fund.

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

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

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

The table below indicates the extent to which the Group was exposed to currency risk at December 31, 2012 on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2012**		2011	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	± 0.400	± 62	± 0.375	± 49
Euro	± 8.260	± 1,445	± 6.450	± 782
Pound Sterling	± 6.300	± 1,112	± 10.630	± 2,024
Japanese Yen	± 7.470	± 2,567	± 7.210	± 2,349

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The financial instruments included in the FVTIS portfolio are equity securities held by one mutual fund that are subsidiaries of the Bank and mutual fund. The Bank manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities held by the subsidiaries of the Bank are managed by the Bank in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31, 2012 and 2011 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2012		2011	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Al Thoraiya	± 14.170	± 6,239	± 8.29	± 3,146
Al Khair	± 14.160	± 3,447	± 6.11	± 1,373
Al Mashareq	± 27.080	± 8,916	± 17.34	± 5,296
Al Qawafel	± 5.98	± 1,447	-	-

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

	2012		2011	
Portfolio	**Increase / decrease in NAV %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in NAV %	Effect on consolidated statement of income SR'000
Mutual Fund	± 5	± 44,109	± 5	± 28,227

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2012, previously FVIS at 31 December 2011 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2012		2011	
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	5%	503	-	-

b) MARKET RISK – NON TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported on a monthly basis to ALCO to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to ALCO more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2012 including the effect of hedging instrument. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

31. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

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

Commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

31. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2012	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	4,357,000	-	-	-	2,752,044	7,109,044	-
Due from banks and other financial institutions	2,937,000	-	-	-	201,622	3,138,622	0.60%
Investments	2,177,745	2,669,604	978,976	1,940,690	1,331,719	9,098,734	1.83%
Loans and advances, net	8,906,627	11,471,206	6,829,351	2,679,060	10,538	29,896,782	3.98%
Other real estate, net	-	-	-	-	660,446	660,446	-
Property and equipment, net	-	-	-	-	466,103	466,103	-
Other assets	-	-	-	-	586,791	586,791	-
Total assets	18,378,372	14,140,810	7,808,327	4,619,750	6,009,263	50,956,522	-
Liabilities and equity							
Due to banks and other financial institutions	3,253,375	-	-	-	32,669	3,286,044	1.11%
Customers' deposits	16,791,542	5,322,103	1,021,715	-	17,539,930	40,675,290	1.07%
Other liabilities	-	-	-	-	809,590	809,590	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Equity including non-controlling interests	-	-	-	-	5,185,598	5,185,598	-
Total liabilities and Equity	20,044,917	6,322,103	1,021,715	-	23,567,787	50,956,522	-
On-balance sheet gap	(1,666,545)	7,818,707	6,786,612	4,619,750	(17,558,524)	-	-
Commission rate sensitivity – off balance sheet	1,295,625	455,000	(718,125)	(1,032,500)	-	-	-
Total commission rate sensitivity gap	(370,920)	8,273,707	6,068,487	3,587,250	(17,558,524)	-	-
Cumulative commission rate sensitivity gap	(370,920)	7,902,787	13,971,274	17,558,524	-	-	-

31. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

(SR' 000)

2011	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	2,293,984	-	-	-	2,085,059	4,379,043	-
Due from banks and other financial institutions	3,749,774	581,250	-	-	-	4,331,024	0.71%
Investments	2,511,209	1,115,000	613,125	-	1,157,581	5,396,915	1.00%
Loans and advances, net	7,133,516	8,959,935	6,052,651	1,035,241	126,108	23,307,451	4.25%
Other real estate, net	-	-	-	-	680,778	680,778	-
Property and equipment, net	-	-	-	-	446,829	446,829	-
Other assets	-	-	-	-	356,210	356,210	-
Total assets	15,688,483	10,656,185	6,665,776	1,035,241	4,852,565	38,898,250	-
Liabilities and equity							
Due to banks and other financial institutions	1,194,410	-	-	-	111,368	1,305,778	1.02%
Customers' deposits	15,480,492	4,650,169	59,289	-	10,968,581	31,158,531	0.89%
Other liabilities	-	-	-	-	497,078	497,078	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Equity including non-controlling interests	-	-	-	-	4,936,863	4,936,863	-
Total liabilities and equity	16,674,902	5,650,169	59,289	-	16,513,890	38,898,250	-
On-balance sheet gap	(986,419)	5,006,016	6,606,487	1,035,241	(11,661,325)	-	-
Commission rate sensitivity – off balance sheet	5,054,390	115,000	(5,169,390)	-	-	-	-
Total commission rate sensitivity gap	4,067,971	5,121,016	1,437,097	1,035,241	(11,661,325)	-	-
Cumulative commission rate sensitivity gap	4,067,971	9,188,987	10,626,084	11,661,325	-	-	-

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

31. MARKET RISK (continued)

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

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

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

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2012. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2012**		2011	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	± 0.05	± (337)	± 0.05	± 97
Qatari Riyals	-	-	± 0.05	± 1
AED	± 0.05	± 8	-	-

31. MARKET RISK (continued)

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

iii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as at FVTOCI at December 31, 2012 and December 31, 2011 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2012		2011	
	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	± 14.16%	± 556	± 6.11%	± 164
Tadawul	± 5.98%	± 15,134	± 3.22%	± 9,418

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 15% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 75% of the value of Murabaha placements with SAMA.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, Murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio. The liquidity ratio during the year was as follows:

32. LIQUIDITY RISK (continued)

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at December 31, 2012 and 2011 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (b) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	(SR' 000)					
	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities						
As at 31 December 2012						
Due to banks and other financial institutions	**32,598**	**3,210,884**	**222,026**	**-**	**-**	**3,465,508**
Customers' deposits	**15,810,298**	**18,200,818**	**5,344,025**	**1,479,606**	**-**	**40,834,747**
Subordinated Sukuk	**-**	**6,687**	**13,375**	**53,499**	**1,046,812**	**1,120,373**
Derivatives	**-**	**508,152**	**1,610,661**	**969,340**	**5,739,552**	**8,827,705**
Total undiscounted financial liabilities 2012	**15,842,896**	**21,926,541**	**7,190,087**	**2,502,445**	**6,786,364**	**54,248,333**
Financial liabilities						
As at 31 December 2011						
Due to banks and other financial institutions	111,368	1,179,404	20,161	-	-	1,310,933
Customers' deposits	10,069,636	16,566,598	4,028,226	1,133,087	-	31,797,547
Subordinated Sukuk	-	6,018	11,775	1,094,200	-	1,111,993
Derivatives	-	894	1,317,913	3,893,617	-	5,212,424
Total undiscounted financial liabilities 2011	10,181,004	17,752,914	5,378,075	6,120,904	-	39,432,897

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

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

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

	(SR' 000)					
2012	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	7,109,044	**7,109,044**
Due from banks and other financial institutions	-	3,138,622	-	-	-	**3,138,622**
Investments	45,143	907,436	3,629,348	3,185,750	1,331,057	**9,098,734**
Loans and advances, net	6,373,069	8,540,490	8,184,065	6,799,158	-	**29,896,782**
Other real estate, net	-	-	-	-	660,446	**660,446**
Property and equipment, net	-	-	-	-	466,103	**466,103**
Other assets	110,171	205,201	-	-	271,419	**586,791**
Total assets	**6,528,383**	**12,791,749**	**11,813,413**	**9,984,908**	**9,838,069**	**50,956,522**
Liabilities and equity						
Due to banks and other financial institutions	-	3,253,446	-	-	32,598	**3,286,044**
Customers' deposits	4,832,101	12,864,032	5,154,737	-	17,824,420	**40,675,290**
Subordinated Sukuk	-	-	1,000,000	-	-	**1,000,000**
Other liabilities	62,869	17,201	4,698	-	724,822	**809,590**
Equity including non-controlling interests	-	-	-	-	5,185,598	**5,185,598**
Total liabilities and equity	**4,894,970**	**16,134,679**	**6,159,435**	-	**23,767,438**	**50,956,522**

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

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

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The fair values of on balance sheet financial instruments, except for investments as at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customer deposits, subordinated sukuks, due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the duration of due from and due to banks. The estimated fair values of other investment held at amortised costs are based on quoted market prices, when available. The fair values of these investments are disclosed in note 5.

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

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the identical assets or liabilities.

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

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

	2012 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS	**1,070,616**	-	-	**1,070,616**
FVTOCI	**257,003**	-	**3,438**	**260,441**
Derivatives	-	**151,257**	-	**151,257**
Financial liabilities				
Derivatives	-	**(199,992)**	-	**(199,992)**
Net	**1,327,619**	**(48,735)**	**3,438**	**1,282,322**

	2011 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	859,264	-	-	859,264
FVTOCI	294,879	-	3,438	298,317
Derivatives	-	18,007	-	18,007
Financial liabilities				
Derivatives	-	(15,722)	-	(15,722)
Net	1,154,143	2,285	3,438	1,159,866

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

34. RELATED PARTY TRANSACTIONS

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

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

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

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

Included within the related party transactions is a fully collateralised loan that has been past due but regularised post year-end.

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

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

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

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

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

35. COMPENSATION

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

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

The compensation and benefits program philosophy

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

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

35. COMPENSATION (continued)

The compensation and benefits program philosophy (continued)

The compensation and benefits program is applicable to all regular (Headcount) Saudi National and Expatriate employees of Bank AlJazira, and its wholly and/or partially owned subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes Salaries and Wages, and job/position specific Allowances and related Benefits, which are fixed in employment contract and are given irrespective of performance;

- **Variable Compensation** includes Performance Bonuses, incentives and Other Variable Performance related Allowances which are not fixed by the Employment Contract, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

36. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

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

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

36. CAPITAL ADEQUACY (continued)

SAMA has issued guidance regarding implementation of Basel II effective January 1, 2008. This guidance requires holding a minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

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

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

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

37. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary AlJazira Capital Company (AJC) (note 1) offers investment management and advisory services to its customers, compliant with the principle of Shari'ah (non-interest based). These services include portfolio management on discretionary and non discretionary basis and management of investment funds in conjunction with professional investment advisors. Seven such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel commodities Fund, Al Jazira Residential Projects Fund and Al Jazira Global Emerging Markets Fund. All are open-ended mutual funds for Saudi and foreign nationals except for Al Jazira Residential Projects Fund which is a closed-ended fund. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund and Al-Mashareq Japanese Equities Fund invest in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha. The objective of Al Jazira Global Emerging Markets Fund is to provide long term capital growth by investing in a diversified portfolio of Shariah compliant companies. The Fund will follow an active investment strategy by investing in Shariah compliant equities that are either listed or carry out a substantial part of their economic activities in any emerging market company. The financial statements of Al-Thoraiya European Equities Fund and Al Jazira Residential Projects Fund are consolidated with these financial statements.

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

The asset held by the Group under the investment management and brokerage services are amounted to SR 1.27 billion (2011: SR 1.29 billion).

38. TAKAFUL TA'AWUNI DIVISION

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

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
July 1, 2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	The amendments require that an entity present separately, the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss.
January 1, 2013	IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7	These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (Continued)

Effective for annual periodsbeginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2013	IFRS 10 – Consolidated Financial Statements	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.
January 1, 2013	IFRS 11 – Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to two categories (i.e. Joint Operations and Joint Control). In addition, IAS 28 has also been amended to include the application of the equity method to investments in joint ventures.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (Continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2013	IFRS 12 – Disclosure of Interests in Other Entities	IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity's interests in other entities; and • the effects of those interests on the entity's financial position, financial performance and cash flows.
January 1, 2013	IFRS - 13 Fair Value Measurement	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.
January 1, 2013	IAS 27 Separate Financial Statements (as revised in 2011)	As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (Continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2013	IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
January 1, 2014	IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

40. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on - 23 February 2013.

41. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform with the current year presentation.

42. BASEL II PILLAR 3 DISCLOSURES

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