BANK ALJAZIRA بنك الجزيرة

AFAQ آفاق 2012

OUR PATH TO SUCCESS

Annual Report 2009

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

HRH Prince Sultan Bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister,
Minister of Defense and Aviation,
and Inspector General

HRH Prince Naif Bin Abdulaziz Al-Saud

Second Deputy Prime Minister and
Minister of the Interior

Contents

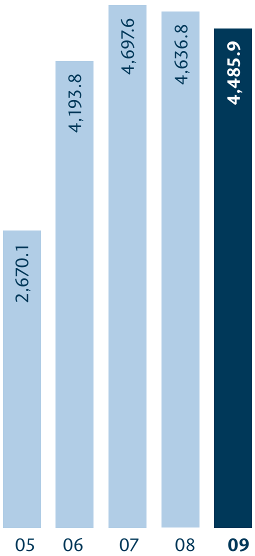
Head Office
King Road, P.O. Box: 6277, Jeddah 21442, Kingdom of Saudia Arabia, Tel: (+966) 2 609 8888, Fax: (+966) 2 609 8881
SWIFT: BAJZSAJE, Telex: 601 574 HJAZSJ, Email: info@baj.com.sa, www.baj.com.sa

بسم الله الرحمن الرحيم

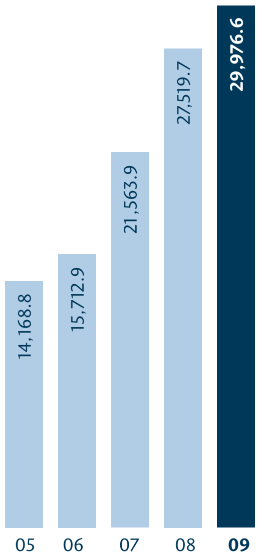
Financial Highlights

(In SR millions, except where noted)	2009	2008	2007	2006	2005
Loans and advances, net	**15,504.1**	15,133.1	9,879.2	6,271.1	6,910.9
Total assets	**29,977.6**	27,519.7	21,563.9	15,712.9	14,168.8
Customer deposits	**22,142.5**	20,900.0	15,647.1	10,917.1	10,816.1
Shareholders' equity	**4,485.9**	4,636.8	4,697.6	4,193.8	2,670.1
Fee income and others	**399.0**	562.0	721.4	1,890.0	925.2
Net special commission income	**667.8**	631.4	595.1	476.6	276.4
Total operating income	**1,171.4**	1,136.5	1,446.8	2,615.4	1,318.6
Net income	**27.6**	222.3	805.2	1,974.0	874.4
Net income growth (%)	**(87.6)**	(72.4)	(59.2)	125.8	365.9
Return on average equity (%)	**0.6**	4.8	18.1	57.5	41.6
Return on average assets (%)	**0.1**	0.9	4.3	13.2	7.0
Earnings per share (SR)	**0.09**	0.74	2.68	8.77	7.77*

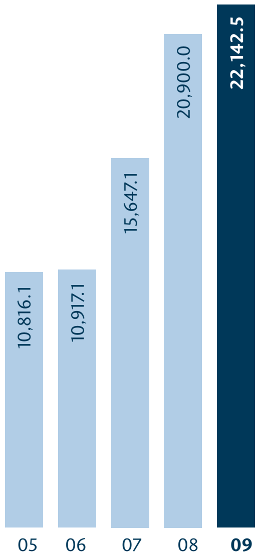
*Restated



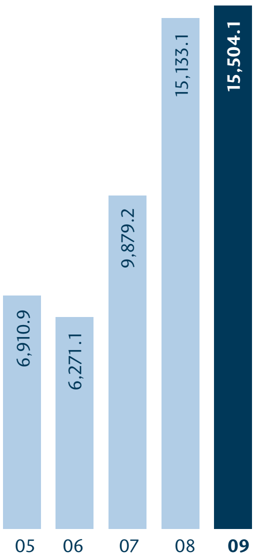
Shareholders' Equity SR millions



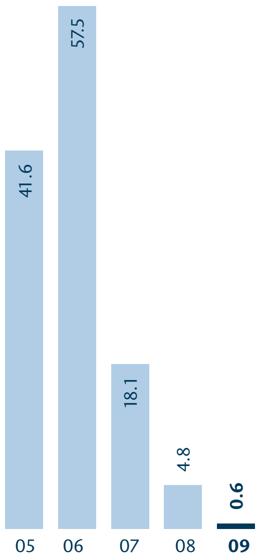
Total Assets SR millions



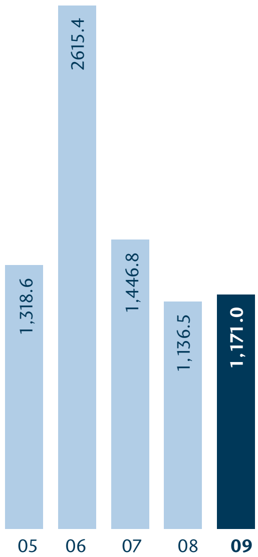
Customer Deposits SR millions



Net Loans and Advances SR millions



Return on Average Equity Percent



Operating Income SR millions

OUR MISSION

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

Board of Directors

Taha A. Al-Kuwaiz
Chairman of the Board

Abdul Majeed I. Al-Sultan
Mohammed A. Al-Madbel

Abdullah S. Kamel
Mohammed A. Angari

Tarek O. Al-Kasabi
Khalifa A. Al-Mulhem

Khalid O. Al-Baltan
Mishari I. Al-Mishari

Chairman's Statement

Thanks to Almighty Allah and prayers upon our beloved messenger Mohammed – may peace be upon him, his descendents and all his followers.

Dear Bank Aljazira's Shareholders,

On behalf of the Bank's Board of Directors, I have great pleasure in presenting Bank Aljazira's annual report and financial statements for the financial year ended 31 December 2009.

Although 2009 was a year of challenges, the Bank achieved great steps towards our goal of becoming a multi-specialist Shari'ah-compliant financial group with a key focus on diversifying our sources of revenue while attracting and developing the best human resources.

In doubling our number of branches and expanding our presence in the Kingdom's major cities, we achieved excellent growth in retail business and sustained the foundation for further gains in this sector. Although our results for the year were not up to the expectations, we ended 2009 a stronger and more resilient organization, well equipped to take advantage of the opportunities that lie ahead. New and diversified revenue sources, strong liquidity, and appropriate capitalization would create a powerful platform for continued growth.

Dear Shareholders,

AFAQ2012, our strategic plan, made excellent progress with more than 30 projects launched and implemented during the year. Improvements to areas such as risk management, upgrading of applications to support operational excellence, and re-alignment of technical and sales resources have further reinforced our ability to capture new market opportunities.

The performance of core business sectors strongly helped in the offset of losses, the net income reached SR 27.5 million despite the sizable provisions, and we also succeeded in reducing the operating expenses by 8.3 percent, while total assets reached SR 30 billion.

The number of customers grew by 40% with a corresponding rise in deposits, from SR 20.9 billion to SR 22.1 billion, underlining that we are adopting the right approach and indicating the extent of customers' confidence in the Bank. Continued growth in the retail sector will be a strategic priority as Bank Aljazira transforms into a multi-specialist Shari'ah complaint financial group. Our strong and successful entry into mortgage business is alone indicative of what can be achieved in this sector which has huge opportunities that can be captured. Similarly, our Takaful operations still have many promising opportunities for growth and we are making significant inroads in new areas such as trade finance.

Dear Shareholders,

On behalf of the Board of Directors, I express our appreciation for the support extended by the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud; His Royal Highness, Prince Sultan Bin Abdulaziz Al-Saud, the Crown Prince, the Deputy Prime Minister, the Minister of Defense and Aviation, the Inspector General; His Royal Highness, Prince Naif Bin Abdulaziz Al-Saud, Second Deputy Prime Minister and Minister of Interior; and all Government Ministers. We are also grateful for the continued support and guidance of the Ministry of Finance and National Economy, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, and the Capital Market Authority. The wise counsel and guidance of these regulators has proved of inestimable value in protecting the Kingdom's economy and banking sector from the turmoil that has so severely affected global finance.

Finally, I would like to take this opportunity to extend our heartfelt thanks and appreciation to the Bank's shareholders, customers, and associates for their continued trust and support, and I also thank the Bank's management and staff for their dedication and distinguished achievements.

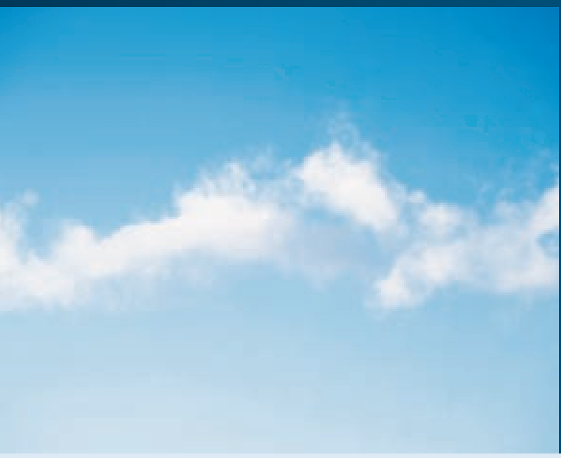
I deeply extend our sincerest gratitude to Almighty Allah and prayers upon our beloved messenger Mohammed – may peace be upon him, his descendents and all his followers.

Taha Abdullah Al-Kuwaiz
Chairman

More than 30 projects were launched during 2009 under AFAQ2012 strategic plan program, designed to transform Bank Aljazira into a multi-specialist Shariah-compliant financial group through a series of strategic initiatives involving every business and support unit.

AFAQ 2012

Bank Aljazira's new Head Office in Jeddah was inaugurated on 19 April 2009. The "Mortgage Finance Program", launched in March 2009, is characterized by the speed and efficiency with which applications are processed giving the Bank a strong market edge.



Corporate Regional Offices in Riyadh, Jeddah, and Dammam provide a one-stop full range of products and services by dedicated professional staff to fulfill the needs of companies, establishments and organizations in a speedy and easy manner.

Acting Chief Executive Officer's Report

Despite the challenges faced by the banking industry as a result of the international economic turmoil, Bank Aljazira made great progress during 2009 in sustaining its solid foundations for future growth.

Notable among the year's achievements was the doubling of our retail network from 24 to 48 branches – resulting in increasing numbers of new customers, expanding the Bank's reach in Riyadh, Jeddah and Dammam, and re-entering areas such as Taif, Jizan, and Abha where the Bank previously had presence. We also optimized our ATM network, moving some to more profitable locations. Online banking, telephone banking, and credit card offerings were also significantly enhanced.

In promoting the Bank's image as a Shari'ah-compliant multi-specialist, we were able to reinforce our market position through diversification of our products and services in accordance with customers' requirements. Among these is our 'Mortgage Finance Program', characterized by the speed and efficiency with which applications are processed – giving the Bank a strong market edge. This is evident in the volume of transactions concluded over the year, underlining the vast opportunities in this sector.

To better serve corporate customers, we have set up Corporate Regional Offices in Riyadh, Jeddah, and Dammam to provide a one-stop service with a dedicated team of qualified employees. The two new areas of corporate business – Cash Management and Trade Finance – along with our internet portal **'Aljazira Online Trade'** played a vital role in creating additional sources of income and improving the Bank's overall profitability.

Aljazira Capital continued to strengthen its brokerage offering through the introduction of other tradable securities, enhancing its award-winning **'TadawulCom'** platform to offer online trading across multiple regional and international markets. Aljazira Capital also reinstated its sell-side research capacity by introducing a best-of-breed array of economic, technical, company, and sector reports. Aljazira Capital has maintained its leadership position in the Saudi share trading market over the past seven years.

To reinforce the Bank's financial position, its shareholders' equity, and strategy of excellence and image, management has embarked on adoption of best banking practices through obtaining ISO certification for its operations. Several sections of the Bank's operations have already been ISO certified and efforts are on-going to implement the overall quality standards on the remaining sections.

The achievements of 2009 could not have been realized without the dedication of our employees, the support of the Board of Directors, and of course the loyalty of our shareholders and customers, to whom we all extend our grateful thanks.

Ziad T. Aba Al-Khail
Acting Chief Executive Officer

Executive Management

First row:
Ziad T. Aba Al-Khail Acting Chief Executive Officer.

Second row left to right:
Mazen Abdulmajeed Acting CEO, Aljazira Capital, **Sager Nadershah** Head, Retail Banking Group, **Dr. Mohammed Al-Ghamdi** Head, Shari'ah Group, **Ramiz Ferak** Head, Treasury Group.

Third row left to right:
Shahid Malik Chief Risk Officer, **Osama Al-Ibrahim** Head, Corporate Banking Group, **Juan Corral** Chief Financial Officer, **Salah Al-Ajaji** Head, Compliance Group.

Forth row left to right:
Jad Zerouali Head, Strategy & Transformation Group, **Sameeulhaq Thanvi** Head, Takaful Ta'awuni Group, **Ibrahim Al-Hurabi** Head, Internal Audit Group, **Adel Abbas** Acting Head, Human Capital Group.










Board of Directors' Report

The Board of Directors is pleased to present the Bank's annual report and consolidated financial statements for the financial year ending 31 December 2009.

Financial Performance

In spite of the challenges faced by the banking industry as a result of the economic turmoil, Bank Aljazira was successful during 2009 in diversifying its income sources, enhancing revenues through other income resources, reinforcing liquidity, widening its customer base, reducing risk, and decreasing its dependency on a single source of revenue.

Total operating income grew 3% compared to 2008 and net special commission income grew 5.75% as a consequence of the higher level of Shari'ah compliant finance (2.45%) and material growth in customer deposits (7.85%) partially offset by a material decrease of profit rates during the period.

Fee and commission income reduced from SR 537 to SR 386 million, mainly due to the lower level of local share trading activity and partially offset by higher trade finance and international share trading fees.

Trading income was positively influenced by the profit on the sale of equities portfolio by SR 25 million (compared with a loss of SR 46 million in 2008).

Operating expenses (before provisions) were reduced by SR 65 million or 8.2%, mainly due to strategic cost management measures taken to improve efficiency.

Although the Bank was able to increase profit during 2009 by 55% over 2008, based on its conservative approach to mitigate and manage credit risks and reinforce its balance sheet, the Bank booked provisions for credit losses of SR 412 million, compared to SR 61 million during 2008. Furthermore, the Bank booked SR 5.4 million as an impairment charge for its investment assets.

Based on the above, net income decreased to SR 27.5 million, compared to SR 222 million in 2008, while earnings per share decreased from SR 0.74 in 2008 to SR 0.09 in 2009.

Table 1 (opposite) depicts the Bank's financial performance for the period from 2005 to 2009.

Financial Position

During 2009, the Bank's total assets reached SR 30 billion, compared to SR 27.5 billion in 2008, representing an increase of 9% over 2008. Placements with banks and other financial institutions reached SR 7.2 billion, an increase of 85% compared to last year. Finance operations ended the year at SR 15.5 billion, a 2.45% increase over the SR 15.1 billion achieved in 2008, mainly due to a very careful assessment of risk and stringent lending policies. Client deposits have increased by 6% to a total of SR 22.1 billion, compared to SR 20.9 billion in 2008.

Table 2 (opposite) reflects the positive growth in client deposits during the period from 2005 to 2009.

Shareholders' Equity

Shareholders' equity ended the year at SR 4,694 million and earnings per share reached SR 0.09.

Future Planning

The Bank will continue reinforcing its current activities, through which it has built an excellent position. The Bank will continue to capture new opportunities in the market to diversify its revenues, as per the AFAQ2012 strategic plan.

Business Lines

Bank Aljazira's activities comprise three core areas: retail banking, corporate banking, and treasury. Two dedicated subsidiaries offer investment and takaful services. The Bank's services are conducted through a network of 48 branches across the Kingdom. Tables 3 and 4 (opposite) details the Bank's assets, liabilities, total operating income, etc.

Retail Banking Group

Since 2008, the Bank has broadened the segmentation and targeting of its retail customer base to include all segments. While continuing to build market share in personal finance, Retail Banking has diversified into new streams of revenue, with a strong focus on mortgage products and credit cards.

During 2009 the branch network doubled from 24 to 48, using a new concept that enables a branch to be fully operational within 45 days. Greater access and visibility are backed by new branding and merchandising standards to reinforce the Bank's retail image.

The consumer finance portfolio has trebled over three years and the average revenue of ATM transactions has also increased. New products were launched including Joint Ijara, which allows first-degree relatives to purchase a mortgage jointly to maximize the value, and a savings concept for the 16-24 age group – an entirely new product in the Saudi market.

Corporate Banking Group

Two new Corporate Banking Group divisions – Trade Finance and Cash Management and E-banking – were established during the year, and Corporate Regional Offices were set up in Jeddah, Riyadh, and Dammam to provide a full range of services.

TABLE 1: **FINANCIAL PERFORMANCE – CORE BANKING PERFORMANCE**

SR'000	2005	2006	2007	2008	**2009**
Special commission income	530,911	749,677	908,968	1,114,431	961,241
Special commission expenses	(254,499)	(273,030)	(313,847)	(483,010)	(293,460)
Net special commission income	276,412	476,647	595,121	631,421	667,781
Fees from banking services:					
Loan commitment and management fee	22,341	31,797	48,897	51,617	32,884
Trade finance	12,626	13,733	15,528	21,072	24,930
Others	2,531	8,625	20,371	42,607	50,614
Total fees	37,498	54,155	84,796	115,296	108,428
Exchange income	4,794	6,563	17,232	21,708	15,837
Dividend income	15,026	13,377	12,385	11,532	5,122
Other operating income	379	5,424	5,673	2,806	6,835
Total operating income	334,109	556,166	715,207	782,763	804,003
Growth over previous year (%)	40.5%	66.5%	28.6%	9.4%	2.7%

TABLE 2: **CUSTOMER DEPOSITS**

SR millions	2005	2006	2007	2008	**2009**
Demand deposits	4,898	6,394	5,544	5,322	6,053
Time deposits					
Time deposits (Corporate)	4,463	2,019	6,372	10,701	11,026
Time deposits (Retail)	1,195	2,316	3,126	4,701	4,507
Total time deposits	5,658	4,335	9,489	15,402	21,585
Others	260	188	605	176	557
Total customers' deposits	10,816	10,917	15,647	20,900	22,142
% growth of customers' deposits	32.8%	9%	43.3%	33.6%	6%

TABLE 3: **SUMMARY FINANCIAL STATEMENT**

SR'000	Personal Banking	Corporate Banking	Brokerage	Treasury and others	**Total**
Total assets	3,384,580	13,534,044	556,712	12,501,268	29,976,604
Total liabilities	10,324,745	1,997,904	55,028	12,904,593	25,282,270
Total operating income	252,709	507,305	233,465	177,557	1,171,036
Inter – segment operating income / (loss)	55,841	(107,516)	8,888	42,787	-
Total operating income	252,709	507,305	233,465	177,557	1,171,036
Fee and commission income, net	48,717	54,710	230,687	42,227	376,341
Trading income, net	-	-	756	35,796	36,552
Operating expenses include:					
Charge for provision for credit losses, net	1,920	410,168	-	-	412,088
Impairment of other financial assets	-	-	-	5,392	5,392
Depreciation	42,280	9,876	18,608	12,132	82,896
Total operating expenses and minority interests	336,767	515,726	190,623	100,396	1,143,512
Net income	(84,058)	(8,421)	42,842	77,161	27,524

TABLE 4: **DISTRIBUTION OF INCOME WITHIN SAUDI ARABIA**

SR'000	Central	Eastern	Western	Head Office	**Total**
Total operating income	371,784,916.72	178,027,093.08	285,199,317.23	336,024,672.97	1,171,036,000.00
Total operating expenses and minority interests	(106,235,056.90)	(38,855,345.72)	(37,291,338.69)	(543,620,286.66)	(731,393,860.76)
Net operating income	265,549,859.82	139,171,747.36	37,291,338.69	(207,595,613.69)	439,642,139.24
Charge for provision for credit losses, net	(1,656,992.76)	(454,536,476.35)	(10,879,851.01)	(33,225,478.86)	(412,088,139.24)
Impairment of other financial assets	-	-	-	(5,391,832.79)	-
Net income	263,892,867.06	(315,364,728.99)	258,787,829.55	(179,761,967.62)	27,554,000.00

The year was challenging yet successful for the Syndication division, which achieved significant growth in assets. The division has expanded its activities to include agency roles in strategic project financing, and is also seeking greater involvement in this area by providing Shari'ah compliant alternatives in originating debt and structuring transactions.

Trade Finance is now a specialized division that supports business units in marketing and manages new relationships for trade finance and services. To facilitate credit approval procedures, the division is preparing programs for products such as the financing of documentary credits.

Treasury

During the year, the average spread between direct Treasury assets and liabilities increased significantly. The inter-bank desk also maintained good performance, achieving yields that surpassed market returns. Strong performance continued in the investment portfolio, yielding an average of 3.63% compared to the 1.07% over Sibor. Most assets of this portfolio are Murabaha deals placed with SAMA, at very low credit risks.

Customer deposits increased by 7% during 2009, with a focus on diversifying the depositors' base through long-term deposit and saving programs such as Thrift Saving Plan and Naqa'a fixed deposits, which grew 300%, while the liabilities charge was decreased to 1.34%, compared to 2.44% in 2008.

Aljazira Capital

Although trading volumes and values decreased in the Saudi Stock Market, leading to a reduction of profit from brokerage business, Aljazira Capital was able to maintain an excellent market share and its leadership position in the Saudi share trading business.

Simultaneously, the Bank's dependency on brokerage income was reduced with the Bank's trend to diversify its revenues as per the AFAQ2012 strategic plan. As a strategic initiative, Aljazira Capital launched its research desk to issue reports and analyses on the corporate and economic sectors on a periodical basis.

Takaful Ta'awuni

Being one of the fastest-growing family takaful organizations in Saudi Arabia and still at a relatively early development stage, Takaful Ta'awuni was able to weather the challenges of 2009. It pursued regulatory segregation and licensing, focused on building a strong infrastructure in readiness for operational separation from the Bank, made significant upgrades to the core life application system, and explored diversified fund offerings for its customers.

The licensing and segregation process reached its final stage in preparation for the IPO process – expected to take place in 2010. Takaful Ta'awuni, through its eight-year history of operations, will be a key part of Aljazira Financial Group.

Support Group

During 2009, the IT function was identified as one of the key enablers for AFAQ2012 strategic plan implementation. Requirements were identified and prioritized and an IT strategic plan developed, covering more than 50 projects to be implemented up to 2011.

The year alone saw 35 projects successfully completed: Cross Business Unit 6, Retail Banking Group 10, Corporate Banking Group 5, Aljazira Capital 7, Treasury 2, Credit Group 2, and Financial Services 1.

As a part of the Bank's strategy to enhance its services, products, and processes, Operations gained the ISO 9001:2008 quality certification. Operations also acted as a strategic enabler and business partner to all business lines to enable the success of AFAQ2012 strategic plan, supporting new products and expansion of the branch network.

Risk Management Group

During 2009, the Bank implemented a new risk organization headed by a Chief Risk Officer overseeing and managing credit risk (corporate and retail), market risk, and operational risk, as well as credit administration and risk architecture (covering Basel II, SAMA, portfolio management, policy and procedures, risk ratings, and related framework). A senior risk manager heads each area. The new structure provides an integrated approach towards risk origination and risk management.

Internal Audit Group

Compliance self-assessment guidelines have been developed for all key controls to ensure that these guidelines are deployed as required. All key controls are tested at least twice a year by the unit head and reports are sent to Risk Management to update the database. In future, Internal Audit will be required during annual audits to independently verify that all key controls are working as desired.

Periodically, a risk summary report is generated that shows progress on risk assessment, gaps in the control environment, controls not working as desired, risks not fully mitigated, and recommendations pending to enhance systems and controls. This report is used by management to evaluate operational risk governance and provide guidance on the strategy and approach.

During 2009 the Bank's retail network doubled from 24 to 48 branches, resulting in attracting new customers and serving our current customers with better service through expanding the Bank's reach to new areas Kingdom-wide. ATM network was also re-structured to provide our dear customers with enhanced services.

Internal Audit closely monitors all functions to identify, evaluate and counter any negligence in banking services. The internal monitoring system was established on proper basis and effectively implemented to pinpoint any preventative measures and assure the Bank's ability to sustain its activities.

Strategic Management

Execution of the AFAQ2012 strategic plan was the main focal point of this group's function during 2009. The four-year transformation plan aims to turn Bank Aljazira into a multi-specialist Shari'ah-compliant institution through a set of identified strategic initiatives and enablers, involving every business and support unit.

In 2010, Strategic Management will continue to build on the foundations laid in 2009, focusing time and energy on ensuring the effective implementation of critical projects across the Bank (including Aljazira Capital and Takaful Ta'awuni) such as new customer acquisition, new product development, creating new business lines, and re-engineering main business processes.

Shari'ah Group

The Shari'ah Group's focus in 2009 was on the creation of the Research and Development Center, equipped with a library and full research facilities. The Center designed a total of eight innovative products – four for Trade Finance, two for Treasury, one structured solution for Corporate Banking, and a socially responsible Qard Al Hasan product. In addition, the Center prepared a report on product performance with recommendations for a continuous cycle of assessment, improvement, and monitoring of all the Bank's products.

The Research and Development Center's resources were also used to deliver training courses in Islamic banking for middle and higher management. Six Shari'ah Board meetings were held during 2009. All products and processes were presented to the Board, and 18 resolutions were made. Three Shari'ah Board gatherings were held in Riyadh, Jeddah, and Al Khobar to create awareness of the Bank's products and services from a Shari'ah-compliance perspective.

Compliance Group

The Compliance Group continued to reinforce its role to ensure that the various activities of the Bank comply with the standards, rules, and regulations issued by regulatory and supervisory bodies such as SAMA and the CMA, as well as the Bank's own controls.

During 2010, the Group plans to upgrade its human resources through specialized training programs, and by recruiting professionals in this field to continue raising levels of compliance awareness.

Credit Ratings

Table 5 (opposite) illustrates the credit ratings achieved by the Bank.

Dividend Policy

Bank Aljazira shall distribute dividends for its shareholders in accordance with provisions of Article No. (45) of the Bank's Articles of Association, as follows:

The Bank shall distribute the net annual profit, after deduction of general expenses and other costs, creation of reserves required for meeting doubtful debts, investment losses and contingent liabilities deemed necessary by the Board of Directors, in accordance with provisions of the Banks' Control Law in the Kingdom of Saudi Arabia, as follows:

A) The amounts required for the payment of Zakat imposed on the Saudi shareholders and tax imposed on non-Saudi shareholders, in accordance with regulations in force in the Kingdom of Saudi Arabia, shall be computed and paid by the Bank for the competent authorities. The amounts of Zakat paid for Saudi shareholders shall be deducted from their share of the net profit, and tax paid for non-Saudi shareholders shall be deducted from their share of the net profit.

B) A minimum of 25% of the remainder of the net profit, after deduction of Zakat and tax as stated in the above-mentioned Paragraph (A), shall be transferred to the Legal Reserve until this reserve equals, at least, the paid-up capital.

C) A minimum of 5% of the paid-up capital of the remainder of profit after deduction of the legal reserve, Zakat and tax, shall be allocated as dividends for the Saudi and non-Saudi shareholders provided that it shall be distributed according to ratio of amounts paid from value of stocks of Saudi and non-Saudi shareholders, as proposed by the Board of Directors and decided by the General Assembly. If the remaining profit relates to any relevant shareholders, shareholders may not claim to be paid in subsequent year(s) and the General Assembly may not decide to distribute dividends, more than the ratio proposed by the Board of Directors.

D) After appropriation of amounts stated in the aforementioned paragraphs (A, B and C), the remainder shall be utilized in accordance with the proposal of the Board of Directors and the decision of the General Assembly.

TABLE 5: **CREDIT RATINGS**

	Capital Intelligence	Moody's	Fitch
Foreign Currencies Risk (Short Term)	A2		F2
Foreign Currencies Risk (Long Term)	BBB+		A-
Financial Strength Rating	BBB+	D+	C/D
Support Rating	2		1
Outlook	Stable	Stable	Stable
Bank Deposits		A3/P-2	
Sovereign Risks (Short Term)	A1+		F1-
Sovereign Risks (Long Term)	AA-		AA-

E) The shareholding's ratio of both Saudi and non-Saudi shareholders shall be preserved upon computing the necessary provisions for the Legal Reserve and other reserves of the net profit – after deduction of Zakat and tax – and both groups shall contribute to these reserves in accordance with their equity contributions in the capital provided that their contributions shall be deducted from their share of the net profit.

Long-Term Borrowing

There were no long-term borrowings in 2009 and 2008.

Bank Dealings with Board Members, Chief Executive Officer, and Chief Financial Controller

Notwithstanding the information included in note 33 in the Audited Financial Statements 'Related Party Transactions' that have been conducted according to the same terms and conditions as transactions with independent third parties, there are no substantial interests for the Board members, the Chief Executive Officer, or the Chief Financial Officer.

Corporate Governance

The Bank endeavors to fully comply with corporate governance rules, which ensure strict application of internal control and transparency policies, as well as rigid adherence to risk management principles. In conducting its business, the Bank ensures comprehensive and consistent compliance with all the rules and regulations promulgated in the Kingdom of Saudi Arabia and all the directives issued by SAMA and the CMA, as well as the Basel committee requirements.

In accordance with Article 1 section (C) and Article 9 section (A) of the Corporate Governance Regulations in the Kingdom of Saudi Arabia issued by the CMA, Bank Aljazira has implemented all rules and regulations except for Article 6 Section (B) relating to Cumulative Vote, whereby the Bank is in the process of reviewing the responsibility of application in the future. All other clauses and sections relating to the rules and regulations of corporate governance have been integrated into the Corporate Governance manual of the Bank.

These policies have been substantially detailed in order to guarantee compliance while allowing for development and adjustment wherever necessary through the Board of Directors. During 2009 the Bank was charged by SAMA and CMA fines totaling SR 408,683.

A) Board of Directors

The Board of Directors consists of nine members, independent/executive, and non-executive, who regularly attend Board meetings. During 2009, the Board held five meetings (three meetings in 2008) as detailed in Table 6 (next page).

The Saudi General Organization for Social Insurance (GOSI) has notified the Bank's Board of the retirement of its Board representative, Mr. Mohammed Abdullah Al-Madbel, effective on 30 June 2009, and the appointment of Mr. Mohammed Abdullah Al-Hagbani as its new Board representative. Mr. Al-Hagbani started his membership on the Board as of 22 July 2009.

The Board of Directors monitors the performance and progress of the Bank through regular meetings held throughout the year. The Board establishes general policies, ensures their proper implementation, and regularly reviews the effectiveness of regulations and internal controls.

The Board monitors all areas of the Bank's operations to ensure proper application of policies. The Board also monitors risk levels and ensures that they are satisfactorily managed.

Through the Review Committee, the Board reviews the Bank's financial position with external auditors to ensure sound financial performance, and to guarantee full compliance with the rules, regulations, and accounting standards of Saudi Arabia. The Board assumes the statutory responsibility for the validity of the financial statements and ensures they fairly reflect the Bank's financial position and operational results, and compliance with Shari'ah Controls as set-up by the Bank's Shari'ah Board.

Bank Aljazira's Board Directors maintained memberships in other Saudi companies listed in the Tadawul System on 31 December 2009 as detailed in Table 7 (page 16).

In view of termination of Board's tenure on 31 December 2009, the Bank's Shareholders Ordinary General Assembly held its 44th meeting on 21 December 2009 and elected new Board members for the tenure commenced on 1 January 2010, for three years up to 31 December 2012. The newly elected members are:

1. Mr. Taha A. Al-Kuwaiz
2. Mr. Abdullah S. Kamel
3. Eng Abdulmajeed I. Al-Sultan
4. Mr. Mohammed A. Al-Hagbani (GOSI Representative)
5. Mr. Khalid Omer Al-Baltan
6. Eng. Tarek O. Al-Kasabi
7. Mr. Khalifa A. Al-Mulhem
8. Mr. Mohammed A. Al-Angari
9. Mr. Hesham A. Al-Shaikh

Board of Directors' Report continued

TABLE 6: **BOARD OF DIRECTORS – MEETINGS ATTENDANCE**

Name	Functional duties	Meetings attended
Mr. Taha A. Al-Kuwaiz	Chairman of the Board	5
Mr. Abdullah S. Kamel	Member of the Board	4
Eng. Tarek O. Al-Kasabi	Member of the Board	5
Eng. Abdul Majeed I. Al-Sultan	Member of the Board	5
Mr. Mohammed A. Angari	Member of the Board	4
Mr. Mohammed A. Al-Hagbani Representative of the General Organization of Social Insurance	Member of the Board	2
Mr. Khalid O. Al-Baltan	Member of the Board	4
Mr. Khalifa A. Al-Mulhem	Member of the Board	4
Mr. Mishari I. Al-Mishari	Member of the Board	5

TABLE 7: **BOARD OF DIRECTORS – MEMBERS**

Director's Name	Company Name
Mr. Taha A. Al-Kuwaiz	Saudi Petrochemical Company (CYAN)
Mr. Abdullah S. Kamel	1. Aseer Trading, Tourism, Manufacturing, Agriculture, Real Estate and Construction Company – Board Chairman
	2. Saudi Research and Marketing Group – Board Member
	3. Imar Economic City Company – Board Member
	4. Halawani Brothers Company – Board Member
Eng. Tarek O. Al-Kasabi	1. Aseer Trading, Tourism, Manufacturing, Agriculture, Real Estate and Construction Company – Board Member
Eng. Abdul Majeed I. Al-Sultan	1. Qaseem Cement Company – Board Member
Mr. Mohammed A. Angari	1. Saudi Hotels and Resort Areas Company – Board Member
Mr. Mohammed A. Al-Hagbani	1. National Petro-chemical Company – Board Member (Representative of the General Organization of Social Insurance)
Mr. Khalid O. Al-Baltan	1. Al-Ehssa Development Company – Board Chairman
Mr. Khalifa A. Al-Mulhem	1. Advance Polypropylene Company – Board Chairman
	2. Nama Chemical Company – Board Member
	3. Wala'a Insurance Company – Board Member
Mr. Mishari I. Al-Mishari	None

TABLE 8: **MAJOR SHAREHOLDERS EXCLUDING BOARD DIRECTORS**

At the beginning of the year		During the year		At the year end	
No. of shares	% ownership against net share capital 225,000,000	Net change in shares	% of change	Total ownership	% ownership against share capital 300,000,000
109,295,053	36.43%	30,302,590	+27.7%	139,597,645	46.5%

TABLE 9: **CHANGE IN PERCENTAGE OF BANK SHAREHOLDINGS FOR BOARD DIRECTORS, SENIOR EXECUTIVES, THEIR SPOUSES AND UNDERAGE**

At the beginning of the year		During the year		At the year end	
No. of shares	% ownership against share capital 300,000,000	Net change in shares	% of change	Total ownership	% ownership against share capital 300,000,000
66,988,030	22.33%	8,090,004	-12.07%	58,898,026	19.63%

TABLE 10: **THE EXECUTIVE COMMITTEE**

Name	Functional Duties	Meetings Attended
Mr. Taha A. Al-Kuwaiz	Chairman	11
Eng. Tarek O. Al-Kasabi	Member	11
Eng. Abdul Majeed I. Al-Sultan	Member	11
Mr. Khalifa A. Al-Mulhem	Member	9

TABLE 11: **THE AUDIT COMMITTEE**

Name	Functional Duties	Meetings Attended
Eng. Abdul Majeed I. Al-Sultan	Chairman	9
Dr. Saleh J. Malikah	Member	5
Mr. Faraj M. Abu-Thenian	Member	9
Mr. Majed A. Al-Hogail	Member	7

TABLE 12: **THE COMPENSATION COMMITTEE**

Name	Functional Duties	Meetings Attended
Mr. Taha A. Al-Kuwaiz	Chairman	2
Eng. Tarek O. Al-Kasabi	Member	2
Eng. Abdul Majeed I. Al-Sultan	Member	2
Mr. Mohammed A. Al-Angari	Member	2

The new Board of Directors nominated Mr. Taha A. Al-Kuwaiz as Chairman of the Board for the new tenure.

The membership of Mr. Mishari I. Al-Mishari on the Board expired on 31 December 2009. He was replaced by Mr. Hesham A. Al-Shaikh who joined the Board for the first time. See Table 8 (opposite) showing major Shareholders excluding Board Directors.

Change in percentage of shares ownership of the Chairman, Board Directors and senior executives and their spouses and underage

The Board of Directors consists of nine members, that represent legal persons, natural persons, and representatives of the Board in their personal capacity.

It has been confirmed that no ownership in Bank Aljazira's shares was proved for any of the executives, their spouses and children. Changes in the Bank's shareholdings held by Board Directors, their spouses and children during 2009 are detailed in Table 9 (opposite).

B) Board Committees

In response to statutory requirements and to ensure optimum performance and utilization of the expertise of Board Directors, three principal supporting committees were established:

1. The Executive Committee

The Executive Committee comprises Directors elected by the Board and is presided over by the Chairman of the Board within this tenure. The Committee's terms of reference are determined by Board resolution. It is responsible for controlling the implementation of strategy and policies laid down by the Board and Risk Management and Performance Control Department, and recommendation for the proposed budget and business plan for the financial year.

The Committee ensures policies are properly implemented, and that internal controls are effective.

In their meeting on 16 December 2006, the Board of Directors formed the Executive Committee. In 2009 the Committee held 11 meetings (10 meetings in 2008). Those meetings were attended as detailed in Table 10 (opposite).

2. The Audit Committee

The Audit Committee assists the Board of Directors in fulfilling their statutory financial and accounting responsibilities. The Committee reviews risk limits and audit duties, and liaises with the Bank's external auditors. On a quarterly basis, the Committee reviews financial statements and assists the Board of Directors in annual assessments of the effectiveness of internal controls, in identifying potential risks and establishing strategic plans to address such risks. The results of the annual review of the effectiveness of the interim control procedures reflects an excellent level of compliance as the Bank adopts all the requirements set forth by the regulators and best practices followed internationally.

The Audit Committee comprises a Chairman selected by the Board of Directors from the non-executive Board members and three independent members from outside the Bank. Meetings are attended regularly by the Bank's Head of Internal Audit and the Financial Controller and, when required, by the Chief Executive Officer. The Committee was formed on 31 May 2007. During 2009 the Committee held nine meetings (five in 2008). These meetings were attended as detailed in Table 11 (opposite).

3. The Nomination & Compensation Committee

Upon the issuance of the Bank's governance rules, this Committee was formed as per the Bank's governance rules Appendix (F) stipulating the Committee's structure and terms of reference based on the CMA's governance rules and regulations. The most significant roles and responsibilities of the Nomination and Compensation Committee are: recommendation to the Board for nomination of Board membership in accordance with the approved policies and standards; annual revision of the requirements needed of proper skills for Board membership; revision of the Board structure and submission of recommendations in respect of the changes that might be made; assurance on an annual basis of the independence of the independent Directors and the non-existence of conflicts of interest if Directors join the membership of other companies; linking the recommendation for the appointment with proper skills, capabilities and qualifications; and forming and revising polices regarding the remuneration and compensation of Directors and Executives.

The Extraordinary General Assembly in its meeting No. 42 held on 16 April 2008 approved the rules of selection of the members of the Remuneration and Compensation Committee and its duties and functional needs as per the Corporate Governance Regulations issued by the CMA.

During 2009 the Committee held two meetings, attended as detailed in Table 12 (opposite).

During 2009 a Risk Management Committee was formed, chaired by Board Member Mr. Khalifa A. Al-Mulhem. One meeting was held during the year.

C) Payments to Board Members and Executive Management
The Bank pays meeting attendance expenses and remuneration to Directors and Board Committee members. Payments during 2009 to Board members and remuneration paid to the top five Executives, including the Chief Executive Officer and the Chief Financial Officer, are detailed in Table 13 (below).

D) External Auditors
The external auditors are responsible for auditing Bank Aljazira's final accounts and financial statements. At its 43rd meeting held on 23 Rabe' II 1430 AH (corresponding to 19 April 2009), the Ordinary Shareholders' General Assembly resolved to appoint Ernst & Young and Al-Juraid and Associates as the official auditors of the Bank's financial statements for 2009.

Social Responsibility
Driven by its Islamic values and commitment to the community, Bank Aljazira has continued to demonstrate its responsibility towards the society. Through the 'Khair Aljazira Le Ahl Aljazira' program, the Bank offers programs and activities that contribute to sustainable development of the community.

In its pursuit to raise the standard of living of young people of needy families, the Bank financed a number of small business projects for the benefit of productive families. Young women from these families were trained in a variety of skills, including fashion design, tailoring, beauty care and crochet needlework, in addition to other training courses that help to improve living standards.

The Bank contributed to the training and support of the handicapped. Computer training courses were attended by 200 blind people as part of the 'Tamouh 2' program, and courses were offered to deaf people as preparation for employment. This was carried out in collaboration with charitable societies and specialist training centers. In addition, a number of computer labs were fitted-out at charity organizations and social development committees to encourage beneficiaries to use modern technology.

The Bank is a founding member of the Prince Salman Center for Disability Research, for its vital role in serving disabled people in Saudi Arabia. In addition, the 'Khair Aljazira Le Ahl Aljazira' held a number of cultural activities for boys and girls of needy families, in an effort to add a touch of joy to their life.

'Khair Aljazira Le Ahl Aljazira' offered a number of activities to communities in various regions and cities of the Kingdom. In total, these benefited approximately 5,000 people. Through the 'Khair Aljazira Le Ahl Aljazira' program, the Bank's social contribution in 2009 amounted to SR 7,393,195. It also spent SR 4,758,000 on other charitable activities.

Gratitude
The Board of Directors extends best wishes and thanks to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud; His Royal Highness, Prince Sultan Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General; His Royal Highness, Prince Naif Bin Abdulaziz Al-Saud, Second Deputy Prime Minister and Minister of the Interior; and to all Government ministers.

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

Finally, we extend heartfelt thanks and appreciation to the Bank's shareholders, customers, and associates for their confidence and trust. We also reiterate our appreciation to Bank Aljazira's staff for their dedication and hard work during 2009.

Board of Directors

TABLE 13: **COMPENSATION PAID TO THE BOARD OF DIRECTORS AND TOP 5 EXECUTIVE MANAGEMENT**

SR'000	Executive Board Members	Non-executive Board Members	Top 5 Executive Managers including the CEO & CFO
Salaries	SR 1,500,000	-	SR 8,572,554
Allowances	SR 48,000	SR 396,160	SR 1,978,604
Bonus	SR 240,000	SR 1,920,000	SR 7,675,000
Incentives	-	-	SR 1,437,500
Total Compensation	**SR 1,788,000**	**SR 2,316,160**	**SR 19,663,658**

Bank Aljazira's new corporate headquarters in Jeddah embody stylish architecture and a state of the art in office design and technology. The new building brings most of the Bank's departments together under one roof, reinforcing communication and term spirit and supporting enhanced levels of customer service.

Diversification of products and services is an integral part of Bank Aljazira's strategy to meet market needs. Our new credit cards, mortgage finance program and network expansion initiative embody such strategy and reflect our care of customers requirements

Shari'ah Adviory Board Report

In Holy Mecca on 26th February 2010

Dear Bank Aljazira Shareholders,

In the Name of Allah, The Most Gracious, The Most Merciful. Praise be to Allah, and Allah's blessing and peace be upon the Prophet Mohammed, his household and companions.

The Shari'ah Board has reviewed and discussed the final annual report prepared by the Bank's Shari'ah Review Department, comprising the examination of documentation and processes adopted by the Bank, based on samples taken from each transaction type.

Bank Aljazira's Shari'ah Board also examined the Financial Statements for the period ending on 31st December 2009, as well as principles observed, transaction contracts made and products introduced by the Bank during the same period, so that the Shari'ah Board can deliver opinion, fatwa, guidance and necessary decisions.

It is the Bank Aljazira Executive Management's responsibility to make sure that Bank Aljazira is operating in compliance with the regulations and principles of Islamic Shari'ah. The Shari'ah Board's responsibility is restricted to providing an independent opinion based on their inspection of the Bank's operations and to provide you with a report on the same.

We have performed the inspection to obtain all information and interpretations that we considered necessary to provide us with sufficient evidence to give reasonable certainty that the Bank has not violated Islamic Shari'ah regulations and principles. In our opinion:

1. Contracts, deals and transactions made by the Bank during the above mentioned period covered by this report are in the whole compliant with Islamic Shari'ah. Directions were given for correction, where required.
2. All gains made through Shari'ah non-compliant sources or methods have been deposited in separate accounts to be disposed of on charitable purposes.
3. The Board noticed that the Bank is still using accounting terminology such as loans, advances and deposits (with reference to Murabaha) in their Financial Statements and notes. Therefore, the Board again urges the Bank's Management to comply with Shari'ah terminology that conforms to the actually used formulas.
4. The Board was not certain about the way Shari'ah Zakat was calculated in the Bank's 2009 Financial Statements. The Bank should assign a chartered accountant to prepare the Bank's Zakat Base in accordance with Shari'ah criteria, to calculate the amount of Zakat due on each share, and to present the same to the Shari'ah Board for approval. This remark was also made in our report last year.

May Allah guide us to the right path!
Peace be upon you!

Sheikh Abdulla Bin Suleiman Al-Mane'e
Chairman

Dr. Abdulla Bin Mohammed Al-Mutlaq
Member

Dr. Mohammed Ali Al-Guari
Member

Dr. Mohammed Bin Said Al-Ghamdi
Rappoteur

Dr. Hamza Bin Hussain Al-Feir
Member

Dr. Abdulsattar Abu Ghudah
Member

Translated from Arabic

Group Network

BANK ALJAZIRA بنك الجزيرة

WESTERN REGION

Jeddah

Prince Sultan St. Branch
Tel: (+966) 2 607 5450
Fax: (+966) 2 607 5450
Ext. 208

Prince Sultan St. Branch (Ladies)
Tel: (+966) 2 607 0828
Fax: (+966) 2 607 0125

Tahlia St. Branch
Tel: (+966) 2 668 5050
Fax: (+966) 2 663 7084

Tahlia St. Branch (Ladies)
Tel: (+966) 2 669 4469
Fax: (+966) 2 665 3416

Al Musa'adia Branch
Tel: (+966) 2 661 0120
Fax: (+966) 2 661 0108

Al Musa'adia Branch (Ladies)
Tel: (+966) 2 667 3700
Fax: (+966) 2 226 2600

Al Balad Branch
Tel: (+966) 2 648 5533
Fax: (+966) 2 648 4599

Khalid Bin Al-Waleed St. Branch
Tel: (+966) 2 651 8070
Fax: (+966) 2 651 8070
Ext. 1012

Al Nahda Branch
Tel: (+966) 2 609 8500
Fax: (+966) 2 234 6838

Al Nahda Branch (Ladies)
Tel: (+966) 2 609 8520
Fax: (+966) 2 234 7227

Alaya Branch
Tel: (+966) 2 694 9224
Fax: (+966) 2 694 9117

Al Salama Branch
Tel: (+966) 2 657 5730
Fax: (+966) 2 653 3860

Al Safa Branch
Tel: (+966) 2 673 6712
Fax: (+966) 2 673 6874

Al Siteen Branch
Tel: (+966) 2 659 7749
Fax: (+966) 2 659 7251

Al Samer Branch
Tel: (+966) 2 271 6058
Fax: (+966) 2 272 1870

Al Rabwa Branch
Tel: (+966) 2 682 7683
Fax: (+966) 2 683 6578

Rabigh

Rabigh Branch
Tel: (+966) 4 423 3311
Fax: (+966) 4 423 3366

Al Taif

Al Taif Branch
Tel: (+966) 2 742 6678
Fax: (+966) 2 740 1737

Makkah Mukarama

Aziziah Branch
Tel: (+966) 2 557 1010
Fax: (+966) 2 553 1655

Al Shawqiya Branch
Tel: (+966) 2 539 1826
Fax: (+966) 2 538 2493

Madinah Munawara

Madinah Munawara Branch
Tel: (+966) 4 845 1111
Fax: (+966) 4 845 1953

Madinah Munawara Branch (Ladies)
Tel: (+966) 4 845 1956
Fax: (+966) 4 845 1952

CENTRAL REGION

Riyadh

Olaya Branch
Tel: (+966) 1 215 7000
Fax: (+966) 1 215 7016

Olaya Branch (Ladies)
Tel: (+966) 1 215 7074
Fax: (+966) 1 215 7052

King Fahd Road Branch
Tel: (+966) 1 225 6000
Fax: (+966) 1 225 6151

King Fahd Road Branch (Ladies)
Tel: (+966) 1 225 6161
Fax: (+966) 1 225 6166

Al-Suwaidi Branch
Tel: (+966) 1 433 8441
Fax: (+966) 1 430 3682

Uqba Bin Nafe'a Branch
Tel: (+966) 1 278 1416
Fax: (+966) 1 278 4616

Uqba Bin Nafe'a Branch (Ladies)
Tel: (+966) 1 278 4387
Fax: (+966) 1 278 4359

Khurais Road Branch
Tel: (+966) 1 225 6399
Fax: (+966) 1 225 6399
Ext. 2021

Al Rayyan Branch
Tel: (+966) 1 208 0166
Fax: (+966) 1 208 0166
Ext. 210

Al Rayyan Branch (Ladies)
Tel: (+966) 1 208 5366
Fax: (+966) 1 208 0166
Ext. 258

Dahrat Al-Badiah Branch
Tel: (+966) 1 428 9269
Fax: (+966) 1 449 3064

Dahrat Al-Badiah Branch (Ladies)
Tel: (+966) 1 428 8309
Fax: (+966) 1 428 8735

King Abdullah Road Branch
Tel: (+966) 1 207 1460
Fax: (+966) 1 207 1362

King Abdullah Road Branch (Ladies)
Tel: (+966) 1 269 6228
Fax: (+966) 1 269 3650

Al-Nafl Branch
Tel: (+966) 1 275 1086
Fax: (+966) 1 274 1507

Al-Nafl Branch (Ladies)
Tel: (+966) 1 275 1086
Fax: (+966) 1 275 1086
Ext. 450

Al Naseem Branch
Tel: (+966) 1 235 7813
Fax: (+966) 1 235 6876

Sultana Branch
Tel: (+966) 1 428 4924
Fax: (+966) 1 428 3873

Al Kharj Branch
Tel: (+966) 1 547 6259
Fax: (+966) 1 547 6273

Qasim

Buraidah Branch
Tel: (+966) 6 383 5310
Fax: (+966) 6 383 5306

Onaizah Branch
Tel: (+966) 6 361 7547
Fax: (+966) 6 361 8412

EASTERN REGION

Dammam

Dammam Branch
Tel: (+966) 3 832 1272
Fax: (+966) 3 834 3314

Jarir Branch
Tel: (+966) 3 842 1961
Fax: (+966) 3 841 7226

Al Jalawea Branch
Tel: (+966) 3 887 2814
Fax: (+966) 3 887 2632

Al Faisaliah Branch
Tel: (+966) 3 811 6653
Fax: (+966) 3 811 6702

Al Khaleej Branch
Tel: (+966) 3 834 6928
Fax: (+966) 3 834 8156

Al Doha Branch
Tel: (+966) 3 891 6148
Fax: (+966) 3 891 2059

Al Khobar

Al-Hada Branch
Tel: (+966) 3 882 0040
Fax: (+966) 3 887 8653

Al-Hada Branch (Ladies)
Tel: (+966) 3 882 8848
Fax: (+966) 3 882 8722

King Abdul Aziz Road Branch
Tel: (+966) 3 867 6707
Fax: (+966) 3 867 6923

Jubail

Jubail Industrial City Branch
Tel: (+966) 3 347 1386
Fax: (+966) 3 347 1426

Qateef

Qateef Branch
Tel: (+966) 3 854 5463
Fax: (+966) 3 854 5367

Qateef Branch (Ladies)
Tel: (+966) 3 852 9900
Fax: (+966) 3 852 9877

Al-Ahsa

Al Hofuf Branch
Tel: (+966) 3 586 3555
Fax: (+966) 3 584 3111

Al Shahabiya Branch
Tel: (+966) 3 589 3952
Fax: (+966) 3 588 9078

Al Nakheel Branch
Tel: (+966) 3 575 4310
Fax: (+966) 3 536 4987

SOUTHERN REGION

Khamis Mushait

Khamis Mushait Branch
Tel: (+966) 7 221 6465
Fax: (+966) 7 220 4230

Khamis Mushait (Ladies) Branch
Tel: (+966) 7 221 6465
Fax: (+966) 7 235 1022

Abha

Abha Branch
Tel: (+966) 7 226 0798
Fax: (+966) 7 229 6243

Najran

Najran Branch
Tel: (+966) 7 523 0421
Fax: (+966) 7 523 8267

Jizan

Jizan Branch
Tel: (+966) 7 322 8594
Fax: (+966) 7 322 8601

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

WESTERN REGION

Jeddah

Tahlia St. Center
Tel: (+966) 2 668 2566

Tahlia St. Center (Ladies)
Tel: (+966) 2 668 5050

Al Musa'adia Center
Tel: (+966) 2 660 6020

Al Musa'adia Center (Ladies)
Tel: (+966) 2 660 6020

Al Nahda Center
Tel: (+966) 2 609 8852

Al Balad Center
Tel: (+966) 2 648 5533

Prince Sultan St. Center (Ladies)
Tel: (+966) 2 607 5450

Makkah Mukarama

Aziziah Center
Tel: (+966) 2 557 1010

Madinah Munawara

Madinah Munawara Center
Tel: (+966) 4 845 1111

Madinah Munawara Center (Ladies)
Tel: (+966) 4 845 1956

CENTRAL REGION

Riyadh

Olaya Center
Tel: (+966) 1 215 7111

Olaya Center (Ladies)
Tel: (+966) 1 215 7252

King Fahd Road Center
Tel: (+966) 1 225 6000

King Fahd Road Center (Ladies)
Tel: (+966) 1 205 1838

Al-Suwaidi Center
Tel: (+966) 1 449 6791

Uqba Bin Nafe'a Center
Tel: (+966) 1 278 5390

Uqba Bin Nafe'a Center (Ladies)
Tel: (+966) 1 278 4387

Al Rayyan Center
Tel: (+966) 1 208 3316

Al Rayyan Center (Ladies)
Tel: (+966) 1 208 3316

King Abdullah Road Center
Tel: (+966) 1 207 1460

King Abdullah Road Center (Ladies)
Tel: (+966) 1 207 1406

Al-Nafl Center
Tel: (+966) 1 275 1086

Al-Nafl Center (Ladies)
Tel: (+966) 1 275 1086

Qasim

Buraidah Center
Tel: (+966) 6 383 5230

Onaizah Center
Tel: (+966) 6 361 7547

EASTERN REGION

Dammam

Dammam Center
Tel: (+966) 3 830 1420

Al Khobar

Al-Hada Center
Tel: (+966) 3 882 0040

Al-Hada Center (Ladies)
Tel: (+966) 3 882 8848

Jubail

Jubail Industrial City Center
Tel: (+966) 3 347 1421

Qateef

Qateef Center
Tel: (+966) 3 854 5463

Qateef Center (Ladies)
Tel: (+966) 3 854 5463

Al-Ahsa

Al Hofuf Center
Tel: (+966) 3 586 3555

SOUTHERN REGION

Khamis Mushait

Khamis Mushait Center
Tel: (+966) 7 221 9580

Abha

Abha Center
Tel: (+966) 7 226 0851

Najran

Najran Center
Tel: (+966) 7 523 0421

Jizan

Jizan Center
Tel: (+966) 7 322 8594

TAKAFUL TA'AWUNI التكافل التعاوني

WESTERN REGION

Head Office

Level 4, Dahlawi Center
PO Box 6277

Jeddah 21442, KSA
Tel: (+966) 2 683 6364

Jeddah

Dahlawi Center
Tel: (+966) 2 683 6364

Dahlawi Center (Ladies)
Tel: (+966) 2 683 6364

Makkah Mukarama

Al Rajhi Center
Tel: (+966) 2 561 3990

Al Rajhi Center (Ladies)
Tel: (+966) 2 561 3980

Madinah Munawara

Hamza Ghouth Building
Tel: (+966) 4 822 1574

Hamza Ghouth Building (Ladies)
Tel: (+966) 4 822 1572

CENTRAL REGION

Riyadh

Olaya Center
Tel: (+966) 1 215 7500

Al-Mousa Building (Ladies)
Tel: (+966) 1 464 7872

EASTERN REGION

Dammam

Al Khuraiji Building
Tel: (+966) 3 831 1717

Al Khuraiji Building (Ladies)
Tel: (+966) 3 833 8330

Al Khobar

Alshaikh Center
Tel: (+966) 3 882 3804

Al Hofuf

Al Mousa Center
Tel: (+966) 3 585 4747

Independent Auditors' Report

ERNST & YOUNG

P.O. Box 1994
Jeddah 21441
Saudi Arabia

PRICEWATERHOUSECOOPERS

P. O. Box 16415
Jeddah 21464
Saudi Arabia

To the Shareholders of Bank AlJazira:
We have audited the accompanying consolidated financial statements of Bank AlJazira (the Bank) and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and explanatory notes from 1 to 38 for the year then ended. We have not audited Note 39, nor the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the 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 Articles of Association in so far as they affect the preparation and presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence Number 356

January 18, 2010
Safar 3, 1431 H

PricewaterhouseCoopers Al Juraid

Omar M. Al Sagga
Certified Public Accountant
Licence Number 369

Financial Statements

December 31, 2009 and 2008

Contents

Consolidated Statements of Financial Position

As at December 31, 2009 and 2008

	Notes	2009 SR '000	2008 SR '000
ASSETS			
Cash and balances with SAMA	3	1,405,183	2,258,459
Due from banks and other financial institutions	4	7,235,983	3,903,582
Investments	5	4,283,681	4,909,368
Loans and advances, net	6	15,504,094	15,133,153
Other real estate, net	6	691,667	75,797
Property and equipment, net	7	501,051	493,503
Other assets	8	354,945	745,843
Total assets		29,976,604	27,519,705
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	2,690,639	1,366,645
Customers' deposits	11	22,142,476	20,900,368
Other liabilities	12	449,155	514,869
Total liabilities		25,282,270	22,781,882
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	13	3,000,000	3,000,000
Statutory reserve	14	1,390,000	1,383,000
General reserve	14	68,000	68,000
Other reserve	15	-	(3,141)
Retained earnings		27,867	188,943
Total equity attributable to equity holders of the parent		4,485,867	4,636,802
Non-controlling interest		208,467	101,021
Total equity attributable to equity holders of the parent and non-controlling interest		4,694,334	4,737,823
Total liabilities and equity		29,976,604	27,519,705

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Income Statements

For the years ended December 31, 2009 and 2008

	Notes	2009 SR '000	2008 SR '000
Special commission income	17	961,241	1,114,431
Special commission expense	17	(293,460)	(483,010)
Net special commission income		667,781	631,421
Fees and commission income, net	18	376,341	537,515
Foreign exchange income, net		15,837	21,708
Trading income / (loss), net	19	36,552	(33,940)
Income from FVIS financial instruments		41,839	-
Dividend income	20	5,122	11,532
Gain / (loss) on non-trading investments, net	21	20,729	(34,498)
Other operating income	22	6,835	2,806
Total operating income		1,171,036	1,136,544
Salaries and employee-related expenses		391,994	436,340
Rent and premises-related expenses		59,043	64,048
Depreciation	7	82,896	74,940
Other general and administrative expenses		180,237	215,185
Charge for provision for credit losses, net	6	412,088	61,158
Impairment charge for other financial assets	5 &15	5,392	62,238
Other operating expenses	23	11,832	830
Total operating expenses		1,143,482	914,739
Net income		27,554	221,805
Attributable to:			
Equity holders of the parent		27,524	222,339
Non-controlling interest		30	(534)
		27,554	221,805
Earning per share (expressed in SR per share)			
Basic and diluted earnings per share	24	0.09	0.74

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2009 and 2008

	2009 SR '000	2008 SR '000
Net income for the year	27,554	221,805
Other comprehensive income:		
Net changes in fair value of available for sale investments	18,478	(242,370)
Transfer to consolidated income statement:		
(Gain) / loss on disposal of available for sale investments	(20,729)	34,498
Impairment charge for available for sale investments	5,392	62,238
Other comprehensive income for the year	3,141	(145,634)
Total comprehensive income for the year	30,695	76,171
Attributable to:		
Equity holders of the parent	30,665	76,705
Non-controlling interest	30	(534)
Total comprehensive income for the year	30,695	76,171

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2009 and 2008

2009	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 parent SR '000	Non controlling interest SR '000	Total SR '000
Balance at January 1, 2009		**3,000,000**	**1,383,000**	**68,000**	**(3,141)**	**188,943**	**-**	**4,636,802**	**101,021**	**4,737,823**
Total comprehensive income for the year		**-**	**-**	**-**	**3,141**	**27,524**	**-**	**30,665**	**30**	**30,695**
Transfer to statutory reserve	**14**	**-**	**7,000**	**-**	**-**	**(7,000)**	**-**	**-**	**-**	**-**
Proposed gross dividend for 2008	**25**	**-**	**-**	**-**	**-**	**(170,100)**	**170,100**	**-**	**-**	**-**
Gross dividend for 2008 (approved)		**-**	**-**	**-**	**-**	**-**	**(170,100)**	**(170,100)**	**-**	**(170,100)**
Zakat and income tax relating to a subsidiary for 2008		**-**	**-**	**-**	**-**	**(10,586)**	**-**	**(10,586)**	**-**	**(10,586)**
Zakat and income tax relating to a subsidiary for 2009		**-**	**-**	**-**	**-**	**(14,000)**	**-**	**(14,000)**	**-**	**(14,000)**
Zakat and income tax relating to a subsidiary reimbursed by the shareholders		**-**	**-**	**-**	**-**	**13,086**	**-**	**13,086**	**-**	**13,086**
Net changes in non-controlling interest		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**107,416**	**107,416**
Balance at December 31, 2009		**3,000,000**	**1,390,000**	**68,000**	**-**	**27,867**	**-**	**4,485,867**	**208,467**	**4,694,334**
2008										
Balance at January 1, 2008		2,250,000	1,327,000	68,000	142,493	775,104	135,000	4,697,597	91,492	4,789,089
Total comprehensive income / (loss) for the year		-	-	-	(145,634)	222,339	-	76,705	(534)	76,171
Bonus share issue	13	750,000	-	-	-	(750,000)	-	-	-	-
Transfer to statutory reserve	14	-	56,000	-	-	(56,000)	-	-	-	-
Gross dividend for 2007 (approved)		-	-	-	-	-	(135,000)	(135,000)	-	(135,000)
Zakat and income tax relating to subsidiary		-	-	-	-	(2,500)	-	(2,500)	-	(2,500)
Net changes in non-controlling interest		-	-	-	-	-	-	-	10,063	10,063
Balance at December 31, 2008		3,000,000	1,383,000	68,000	(3,141)	188,943	-	4,636,802	101,021	4,737,823

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	Notes	2009 SR '000	2008 SR '000
OPERATING ACTIVITIES			
Net income for the year attributable to equity holders of the parent		27,524	222,339
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
Trading (income) / loss, net	19	(36,552)	33,940
Income from FVIS financial instruments		(41,839)	-
(Gain) / loss on non-trading investments, net	21	(20,729)	34,498
Depreciation	7	82,896	74,940
Loss on disposal of property and equipment, net		192	20
Property and equipment written off		1,354	-
Charge for provision for credit losses, net	6	412,088	61,158
Impairment charge for other financial assets	15	5,392	62,238
		430,326	489,133
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(7,099)	(305,713)
Due from banks and other financial institutions maturing after ninety days of acquisition		(2,350,266)	(718,716)
Investments held for trading		(351,871)	137,868
Loans and advances		(1,665,343)	(5,315,075)
Other real estate, net		(8,267)	-
Other assets		390,898	286,639
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,323,994	649,955
Customers' deposits		1,242,108	5,253,281
Other liabilities		(86,735)	112,683
Net cash (used in) / from operating activities		(1,082,255)	590,055
FINANCING ACTIVITIES			
Proceeds from maturity and sale of non-trading investments		3,936,402	3,343,419
Purchase of non-trading investments		(2,593,000)	(3,708,125)
Purchase of property and equipment	7	(92,444)	(109,178)
Proceeds from sale of property and equipment		454	18
Dividend received		5,736	4,779
Net cash from / (used in) investing activities		1,257,148	(469,087)
FINANCING ACTIVITIES			
Dividends paid		(160,579)	(146,436)
Net movements in non-controlling interest		107,446	9,529
Net cash used in financing activities		(53,133)	(136,907)
Net increase / (decrease) in cash and cash equivalents		121,760	(15,939)
Cash and cash equivalents at the beginning of the year		3,876,023	3,891,962
Cash and cash equivalents at the end of the year	26	3,997,783	3,876,023
Special commission received during the year		1,089,773	1,081,097
Special commission paid during the year		355,559	418,756
SUPPLEMENTAL NON-CASH INFORMATION			
Net changes in fair values		3,141	(145,634)
Real estate acquired in settlement of loans and advances	6 (e)	607,603	-
Equity securities acquired in settlement of loans and advances	5 & 6 (e)	274,711	-

The accompanying notes 1 to 39 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 48 branches (2008: 24 branches) in the Kingdom of Saudi Arabia and employed 1,741 staff (2008: 2,003 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 banking services.

The Bank provides its customers Shari'ah compliant (non-interest 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.

During 2008, the Bank formed a new capital market company, namely, AlJazira Capital Company (the subsidiary), a Saudi Closed Joint Stock Company formed in accordance with Capital Market Authority's Resolution no. 2-38-2007 dated 8 Rajab 1428H (July 22, 2007), registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177603 dated 17 Rabi Awal 1429H (March 25, 2008). The Bank has 99.99% direct ownership interest in the subsidiary and an indirect ownership of 0.01% (the indirect ownership is held on behalf and for the beneficial interest of the Bank by minority shareholders). The activities of Brokerage Division of the Bank were taken over by AlJazira Capital Company, with effect from April 5, 2008.

In accordance with new regulatory requirements in Saudi Arabia, the Bank has transferred asset management activities to AlJazira Capital Company during the year.

The Bank's subsidiaries are as follows:

	Ownership December 31,2009	Ownership December 31,2008
Al-Mashareq Japanese Equities Fund	32.21%	42.70%
Al-Khair Global Equities Fund	23.08%	31.93%
Al-Thoraiya European Equities Fund	38.57%	48.74%
AlJazira Capital Company	100.00%	100.00%
Aman Real Estate	98.00%	98.00%

All the above subsidiaries are incorporated in the Kingdom of Saudi Arabia. The Bank has control over these funds and therefore, such funds are considered subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for as set out below.

a) Change in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Bank's consolidated financial statements for the year ended December 31, 2008 as described in the annual consolidated financial statements for the year ended December 31, 2008, except for the adoption of new standards and amendments to existing standards as set out below, effective from January 1, 2009.

i) IFRS 8 'Operating segments':

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Therefore, the segments are reported in a manner that is more consistent with the internal reporting provided to senior management. This had no impact on the classification of the segments presented.

ii) IAS 1 'Presentation of Financial Statements' (Revised):

The revised standard requires changes in equity arising from transactions with shareholders in their capacity as shareholders (i.e. shareholder changes in income) to be presented in the statement of changes in equity. All other changes in equity (i.e. non-shareholder changes in equity) are required to be presented separately in a performance statement (consolidated statement of comprehensive income).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

a) Change in accounting policies continued

iii) IFRS 7 Financial Instruments: Disclosures (Amended)

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions, if any, and assets used for liquidity management.

b) Basis of presentation

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.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held at fair value through income statement (FVIS) (including those held for trading) and available for sale investments.

These consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands.

c) 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.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies 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 income statement from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of net income (loss) and net assets not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest in excess of non-controlling interest are allocated against the interest of the parent.

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

These consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries, namely, Al-Mashareq Japanese Equities Fund, Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, AlJazira Capital Company and Aman Real Estate (the "Bank").

d) Critical accounting judgments, estimates and assumptions

The preparation of 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 Bank's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

ii) Impairment of available-for-sale equity investments

The Bank exercises judgment to consider impairment on available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

A significant or prolonged decline, below cost, is recognised in the consolidated income statement as provision for impairment for other financial assets.

iii) Classification of held-to-maturity investments

The Bank follows the guidance in IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

iv) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as going concern and is satisfied that the Bank 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 Bank's ability to continue as 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

Derivative financial instruments, if any, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at fair value. All derivatives, if any, 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.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated income statement. Derivatives held for trading also includes those derivatives, which do not qualify for hedge accounting (note 9).

g) Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the year end. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

The accounting records of the Bank's subsidiaries are maintained in US Dollars or Saudi Riyals. As the rate of exchange of the US Dollar against the Saudi Arabian Riyal was constant throughout the last two years, no exchange difference has arisen on the translation of the subsidiaries' financial statements for the purposes of consolidation.

h) Offsetting financial instrument

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

i) Revenue recognition

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated income statement on an 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 Bank 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

i) Revenue recognition continued

The calculation of the effective special commission rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

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

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down 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.

Dividend income is recognised when declared.

j) 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 and are measured in accordance with related accounting policies for investments held for trading and held at FVIS, available for sale, held to maturity and other investments held at amortised costs. The counterparty liability for amounts received under these agreements is included in “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.

k) Investments

All investment securities are financial assets which are initially recognised at cost, being the fair value of the consideration given, including incremental direct transaction cost except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts are accreted on a systematic basis to their maturity and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment is determined on the basis as set out in the following paragraphs:

i) Held for trading and held at fair value through income statement (FVIS)

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments held for trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. An investment may be designated as FVIS by the management if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of held for trading and held at FVIS investments. Dividend income received on investment held for trading and held at FVIS are reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale
Available-for-sale investments are those equity and debt securities that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments, which are classified as available for sale, are subsequently measured at fair value. For available for sale investments where the fair value has not been hedged, unrealised gain or loss arising from a change in their fair values is recognised directly in "Other reserve" under shareholders' equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated income statement for the year.

iii) Held to maturity
Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

iv) Other investments held at amortised cost
Investments securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

l) Loans and advances
Loans and advances are non-derivative financial assets originated by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. These are derecognised when either the borrower repays the obligation or the loans are sold or written off, or substantially all the risk and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held at FVIS.

Following initial recognition, loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at cost less any amount written off and provisions for impairment.

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

m) Impairment of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts as follows:

i) Impairment of financial assets held at amortised cost
A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

For financial assets at amortised cost, the carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

m) Impairment of financial assets continued

ii) Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised directly in shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated income statement when the asset is considered to be impaired.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated income statement as long as the asset continues to be recognised, i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated income statement for the period.

The Bank writes off its financial assets when the respective business units determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated income statement.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the issuer's credit rating), the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the consolidated income statement as reversal of provision for impairment for other financial assets.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of past 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.

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 income statement.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. 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 and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date.

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

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

p) Liabilities
All money market deposits and customer deposits are initially recognised at cost, which represents fair value.

Subsequently, all commission-bearing financial liabilities, other than those held for trading and held at FVIS or where fair values have been hedged, are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on a systematic basis to maturity and taken to special commission income or expense.

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

q) 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. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

r) Provisions
Provisions 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.

s) Accounting for leases
Leases entered into by the Bank as a lessee are all operating leases. Payments made under operating leases are charged to the consolidated income statement 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 is recognised as an expense in the period in which termination takes place.

t) Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of ninety days or less.

u) 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 Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank 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.

v) 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 tax, relating to the shareholders of the Bank, are not charged to the Bank's consolidated income statement 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.

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

x) 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.

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 this note.

3. CASH AND BALANCES WITH SAMA

	2009 SR '000	2008 SR '000
Cash in hand	346,032	360,407
Statutory deposit	973,151	966,052
Current account (cash management account)	86,000	932,000
Total	1,405,183	2,258,459

In accordance with 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.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2009 SR '000	2008 SR '000
Current accounts	321,029	130,120
Money market placements	6,914,954	3,773,462
Total	7,235,983	3,903,582

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

5. INVESTMENTS

a) Investments are classified as follows:

i) Held at FVIS

	Domestic		International		Total	
	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000
Equities	316,549	-	-	-	316,549	-

ii) Held for trading

	Domestic		International		Total	
	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000
Equities	2,240	1,484	307,410	172,706	309,650	174,190
Mutual fund (Murabaha funds)	597,794	350,567	-	-	597,794	350,567
	600,034	352,051	307,410	172,706	907,444	524,757

iii) Available for sale

	Domestic		International		Total	
	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000
Equities	3,250	145,172	1,318	1,319	4,568	146,491

iv) Other investments held at amortised cost

	Domestic		International		Total	
	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000	2009 SR '000	2008 SR '000
Murabaha investments	2,300,000	3,600,000	-	-	2,300,000	3,600,000
Floating rate notes	736,370	619,370	18,750	18,750	755,120	638,120
Other investments held at amortised cost	3,036,370	4,219,370	18,750	18,750	3,055,120	4,238,120
Total investments	3,956,203	4,716,593	327,478	192,775	4,283,681	4,909,368

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

	2009			2008		
	Quoted SR '000	Unquoted SR '000	Total SR '000	Quoted SR '000	Unquoted SR '000	Total SR '000
Murabaha investments	-	2,300,000	2,300,000	-	3,600,000	3,600,000
Floating rate notes	755,120	-	755,120	638,120	-	638,120
Equities	627,329	3,438	630,767	318,243	2,438	320,681
Mutual fund (Murabaha funds)	597,794	-	597,794	350,567	-	350,567
Investments	1,980,243	2,303,438	4,283,681	1,306,930	3,602,438	4,909,368

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

	2009				2008			
	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	2,300,000	-	-	2,300,000	3,600,000	-	-	3,600,000
Floating rate notes	755,120	1,463	(9,507)	747,076	638,120	1,600	(9,956)	629,764
Total	3,055,120	1,463	(9,507)	3,047,076	4,238,120	1,600	(9,956)	4,229,764

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

	2009 SR '000	2008 SR '000
Government and quasi Government	2,318,750	3,618,750
Corporate	1,047,151	931,665
Banks and other financial institutions	917,780	358,953
Total	4,283,681	4,909,368

During the year the Bank has acquired equity securities in settlement of a loan of a customer. The management has designated the equities as at fair value through income statement as it intends to hold it for a short term and evaluates the performance of this investment on a fair value basis.

Held for trading represents Shari'ah compliant equity and other investments, having a carrying value of SR 907.4 million (2008: SR 524.7 million), which have been measured at fair value.

Available-for-sale (AFS) includes Shari'ah compliant equity investments, having a carrying value of SR 4.6 million (2008: SR 146.5 million) which have been measured at fair value, except for SR 3.4 million (2008: SR 2.4 million) which have been measured at cost as their fair value cannot be reliably measured, due to the absence of an active market and non-availability of observable market prices for a similar instrument.

Other investments held at amortised costs comprise murabaha investments of SR 2,300 million (2008: SR 3,600 million) and Sukuk investments of SR 755.1 million (2008: SR 638.1 million) that are carried at amortised cost. The fair values of these investments are not significantly different from their carrying values.

e) During 2009, the Bank has recorded an impairment loss of SR 5.4 million (2008: SR 62.2 million) for available for sale equity investments.

6. LOANS AND ADVANCES, NET

a) Loans and advances, net comprise the following:

2009	Consumer SR '000	Commercial SR '000	Others SR '000	Total SR '000
Performing loans and advances – gross	2,098,529	12,908,633	73,203	15,080,365
Non-performing loans and advances – net	25,458	1,191,878	-	1,217,336
Total loans and advances	2,123,987	14,100,511	73,203	16,297,701
Provision for credit losses (specific and portfolio)	(37,332)	(756,275)	-	(793,607)
Loans and advances, net	2,086,655	13,344,236	73,203	15,504,094

2008	Consumer SR '000	Commercial SR '000	Others SR '000	Total SR '000
Performing loans and advances – gross	1,645,776	13,562,617	73,450	15,281,843
Non-performing loans and advances – net	9,449	223,409	-	232,858
Total loans and advances	1,655,225	13,786,026	73,450	15,514,701
Provision for credit losses (specific and portfolio)	(35,616)	(345,932)	-	(381,548)
Loans and advances, net	1,619,609	13,440,094	73,450	15,133,153

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

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

2009	Consumer SR '000	Commercial SR '000	Others SR '000	Total SR '000
Balance at the beginning of the year	35,616	345,932	-	381,548
Provided during the year	4,973	417,387	-	422,360
Bad debts written off	(204)	(175)	-	(379)
Recoveries of amounts previously provided	(3,053)	(6,869)	-	(9,922)
Balance at the end of the year	37,332	756,275	-	793,607

2008	Consumer SR '000	Commercial SR '000	Others SR '000	Total SR '000
Balance at the beginning of the year	26,111	294,873	-	320,984
Provided during the year	10,470	61,394	-	71,864
Bad debts written off	(620)	-	-	(620)
Recoveries of amounts previously provided	(345)	(10,335)	-	(10,680)
Balance at the end of the year	35,616	345,932	-	381,548

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

	2009 SR '000	2008 SR '000
Addition during the year	422,360	71,864
Recoveries of amounts previously provided	(9,922)	(10,680)
Recoveries of debts previously written off	(350)	(26)
Charge for provision for credit losses, net	412,088	61,158

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

2009	Performing SR '000	Non performing, net SR '000	Credit loss provision SR '000	Loans and advances, net SR '000
Banks and other financial institutions	325,073	-	-	325,073
Agriculture and fishing	37,867	-	-	37,867
Manufacturing	3,964,250	251,593	(104,161)	4,111,682
Mining and quarrying	3,260	-	-	3,260
Electricity, water, gas and health services	47,281	21,256	(21,256)	47,281
Building and construction	2,048,371	73,603	(85,493)	2,036,481
Commerce	2,152,951	751,599	(354,981)	2,549,569
Transportation and communication	267,628	-	-	267,628
Services	101,391	60,922	(32,617)	129,696
Consumer loans and credit cards	2,098,529	25,458	(12,713)	2,111,274
Share trading	631,203	6,838	(6,770)	631,271
Other	3,402,561	26,067	(24,916)	3,403,712
	15,080,365	1,217,336	(642,907)	15,654,794
Additional portfolio provision	-	-	(150,700)	(150,700)
Total	15,080,365	1,217,336	(793,607)	15,504,094

2008	Performing SR '000	Non performing, net SR '000	Credit loss provision SR '000	Loans and advances, net SR '000
Banks and other financial institutions	481,335	-	-	481,335
Agriculture and fishing	40,952	-	-	40,952
Manufacturing	3,551,431	-	-	3,551,431
Mining and quarrying	6,521	-	-	6,521
Electricity, water, gas and health services	30,146	21,928	(21,256)	30,818
Building and construction	2,139,419	85,138	(90,365)	2,134,192
Commerce	2,840,946	19,318	(25,101)	2,835,163
Transportation and communication	383,760	-	-	383,760
Services	100,211	62,617	(62,617)	100,211
Consumer loans and credit cards	1,645,776	9,449	(10,997)	1,644,228
Share trading	422,522	26,558	(23,858)	425,222
Other	3,638,824	7,850	(8,985)	3,637,689
	15,281,843	232,858	(243,179)	15,271,522
Additional portfolio provision	-	-	(138,369)	(138,369)
Total	15,281,843	232,858	(381,548)	15,133,153

6. LOANS AND ADVANCES, NET continued

e) Collateral acquired in settlement of loans and advances:

During the year, the Bank acquired land amounting to SR 607.6 million and equity securities amounting to SR 316.6 million, in settlement of loans and advances of customers. The land acquired has been classified under other Real Estate. The Bank has ascertained that the fair value of such land exceeds the value of the loan settled. The equity securities have been classified under Investments held at FVIS (note 5).

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 2009 SR '000	Total 2008 SR '000
Cost						
Balance at the beginning of the year	180,234	173,063	346,565	50,733	750,595	642,291
Additions	10,250	3,206	16,645	62,343	92,444	109,178
Transfers	-	59,638	25,278	(84,916)	-	-
Disposals	-	-	(3,759)	-	(3,759)	(874)
Write off	-	-	-	(1,354)	(1,354)	-
Balance at the end of the year	**190,484**	**235,907**	**384,729**	**26,806**	**837,926**	**750,595**
Accumulated depreciation						
Balance at the beginning of the year	4,131	58,971	193,990	-	257,092	182,988
Charge for the year	151	25,929	56,816	-	82,896	74,940
Disposals	-	-	(3,113)	-	(3,113)	(836)
Balance at the end of the year	**4,282**	**84,900**	**247,693**	-	**336,875**	**257,092**
Net book value At December 31, 2009	186,202	151,007	137,036	26,806	501,051	
At December 31, 2008	176,103	114,092	152,575	50,733		493,503

8. OTHER ASSETS

	2009 SR '000	2008 SR '000
Accrued special commission receivable:		
Banks and other financial institutions	21,897	31,737
Investments	38,267	89,885
Loans and advances	165,881	232,955
Total accrued special commission receivable	226,045	354,577
Advances and prepayments	90,529	151,400
Advance for formation of a new company	-	40,000
Other	38,371	199,866
Total	354,945	745,843

9. DERIVATIVES

The Bank stopped using derivative financial instruments after its move to Shari'ah complaint (non-interest based) banking and therefore, the Bank did not have any derivative financial instruments at December 31, 2009 and 2008. The Bank is currently evaluating Shari'ah complaint (non-interest based) derivative financial instruments for use in the future.

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2009 SR '000	2008 SR '000
Current accounts	15,939	45,036
Money market deposits from banks and other financial institutions	2,674,700	1,321,609
Total	2,690,639	1,366,645

The money market deposits from banks and other financial institutions comprise deposits received on Murabaha basis.

11. CUSTOMERS' DEPOSITS

	2009 SR '000	2008 SR '000
Demand	6,053,111	5,321,579
Time	15,532,640	15,402,313
Other	556,725	176,476
Total	22,142,476	20,900,368

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

Other customers' deposits include SR 423 million (2008: SR 127 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2009 SR '000	2008 SR '000
Demand	217,801	138,936
Time	4,489,516	1,553,439
Other	39,308	7,354
Total	4,746,625	1,699,729

12. OTHER LIABILITIES

	2009 SR '000	2008 SR '000
Accrued special commission payable:		
Banks and other financial institutions	4,606	6,309
Customers' deposits	82,039	133,089
Total accrued special commission payable	86,645	139,398
AlJazira Philanthropic Program (see note below)	89,327	95,145
Accounts payable	166,502	152,490
Provision for indirect facilities	11,245	11,245
Other	95,436	116,591
Total	449,155	514,869

12. OTHER LIABILITIES continued

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. The movement during the year is due to payments in 2009.

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.

13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (2008: 300 million shares of SR 10 each).

During 2008, a bonus issue of 75 million share of SR 10 each (one share for every three shares held) was approved by the shareholders in their extraordinary general assembly meeting held on April 16, 2008 for holders of record as of that date. The Bank obtained the regulatory approval in this respect and the bonus shares were issued on April 19, 2008.

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

	2009	2008
Saudi shareholders	94.17 %	94.17 %
National Bank of Pakistan	5.83 %	5.83 %

14. 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 7 million has been transferred from net income for 2009 (2008: SR 56 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.

15. OTHER RESERVE

	Available for sale investments 2009 SR '000	Available for sale investments 2008 SR '000
Balance at the beginning of the year	(3,141)	142,493
Net changes in fair values	18,478	(242,370)
Transfer to consolidated income statement		
(Gain) / loss on non-trading investments, net (see note 21)	(20,729)	34,498
Impairment charge for other financial assets	5,392	62,238
	(15,337)	96,736
Net movements during the year	3,141	(145,634)
Balance at the end of the year	-	(3,141)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2009, there were legal proceedings of a routine nature outstanding against the Bank. No 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, 2009, the Bank had capital commitments of SR 11.7 million (2008: SR 11.6 million) in respect of the construction of branches.

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 represent 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.

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

2009	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Letters of credit	351,021	67,484	14,603	-	433,108
Letters of guarantee	294,762	1,173,939	702,016	12,359	2,183,076
Acceptances	290,710	265,539	-	-	556,249
Irrevocable commitments to extend credit	-	878	14,286	340,670	355,834
Total	936,493	1,507,840	730,905	353,029	3,528,267

2008	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Letters of credit	456,641	161,390	-	-	618,031
Letters of guarantee	495,039	1,102,117	498,416	12,266	2,107,838
Acceptances	281,409	3,915	-	-	285,324
Irrevocable commitments to extend credit	-	-	38,978	1,197,179	1,236,157
Total	1,233,089	1,267,422	537,394	1,209,445	4,247,350

The outstanding unused portion of commitments as at December 31, 2009, which can be revoked unilaterally at any time by the Bank, amounts to SR 2.1 billion (2008: SR 3.7 billion).

16. COMMITMENTS AND CONTINGENCIES continued

c) Credit related commitments and contingencies continued

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

	2009 SR '000	2008 SR '000
Corporate	3,491,509	4,143,537
Banks and other financial institutions	36,758	103,813
Total	3,528,267	4,247,350

d) Operating lease commitments

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

	2009 SR '000	2008 SR '000
Less than 1 year	4,845	15,526
1 to 5 years	7,225	11,469
Over 5 years	1,744	225
Total	13,814	27,220

17. NET SPECIAL COMMISSION INCOME

	2009 SR '000	2008 SR '000
Special commission income		
Investments:		
Other investments held at amortised costs	124,897	168,565
Held to maturity	-	176
	124,897	168,741
Due from banks and other financial institutions	102,338	126,515
Loans and advances	734,006	819,175
Total	961,241	1,114,431
Special commission expense		
Due to banks and other financial institutions	15,158	42,475
Customers' deposits	269,429	434,111
Other	8,873	6,424
Total	293,460	483,010
Net special commission income	667,781	631,421

18. FEES AND COMMISSION INCOME, NET

	2009 SR '000	2008 SR '000
Fee and commission income		
Local share trading, net	211,148	328,815
Takaful Ta'awuni (insurance) wakala fee	52,875	112,919
Loan commitment and management fee	32,884	51,616
Trade finance	24,930	21,072
International share trading, net	11,716	3,874
Mutual funds fee	1,741	1,274
Others	50,614	42,607
Total fee and commission income	385,908	562,177
Fee and commission expense		
Takaful Ta'awuni – sales commission	(9,567)	(24,662)
Net	376,341	537,515

19. TRADING INCOME / (LOSS), NET

	2009 SR '000	2008 SR '000
Equities	25,490	(46,188)
Mutual fund (Murabaha)	5,326	7,469
Dividends on equity investments held for trading	5,736	4,779
Total	36,552	(33,940)

The trading income / (loss) relating to equities is net of non-controlling interest amounting to SR 46.5 million (2008: SR (49.3) million).

20. DIVIDEND INCOME

	2009 SR '000	2008 SR '000
Available for sale investments	5,122	11,532

21. GAIN / (LOSS) ON NON-TRADING INVESTMENTS, NET

	2009 SR '000	2008 SR '000
Available for sale	20,729	(34,498)

22. OTHER OPERATING INCOME

	2009 SR '000	2008 SR '000
Rental income	207	98
Gain on sale of other real estate	78	-
Other (see note below)	6,550	2,708
Total	6,835	2,806

Other category mainly includes SR 4 million representing accruals no longer required and therefore written back during the year.

23. OTHER OPERATING EXPENSES

	2009 SR '000	2008 SR '000
Other operating expenses	11,832	830

24. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during 2009 was 300 million (2008: 300 million).

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

25. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

On January 6, 2009, the Board of Directors approved a proposed gross dividend for the year ended December 31, 2008 of SR 170.1 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:

There was no Zakat attributable to Saudi shareholders for 2009 (2008: SR 15.3 million). The 2008 zakat of SR 15.3 million was deducted from dividend, resulting in a net dividend to Saudi shareholders of SR 0.5 per share for 2008.

b) Non-Saudi shareholder:

There was no income tax payable on the current year's share of income for Non-Saudi shareholder (2008: SR 2.2 million).

During 2007, deferred tax of SR 54.3 million relating to Non-Saudi shareholder's earlier years profits was settled in accordance with subsequent SAMA directives. The Non-Saudi shareholder is however contesting a delay fine of SR 1.6 million imposed by the Department of Zakat and Income Tax.

26. CASH AND CASH EQUIVALENTS

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

	2009 SR '000	2008 SR '000
Cash and balances with SAMA, excluding statutory deposit (note 3)	432,032	1,292,407
Due from banks and other financial institutions with an original maturity of ninety days or less	3,565,751	2,583,616
Total	3,997,783	3,876,023

27. BUSINESS SEGMENTS

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. Following the adoption of IFRS 8, the identification of the Bank's reportable segments has not changed.

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

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

For management purposes, the Bank is organized into following main business segments:

Personal banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Brokerage

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

Treasury and Other

Treasury includes money market, trading and treasury services. Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

Other operations of the Bank comprise funds management and other residual businesses, none of which constitutes a separately reportable segment.

a) **The Bank's total assets and liabilities and its income from operations and net income for the year by business segment are as follows:**

2009	Personal banking SR '000	Corporate banking SR '000	Brokerage SR '000	Treasury and other SR '000	Total SR '000
Total assets	3,384,580	13,534,044	556,712	12,501,268	29,976,604
Total liabilities	10,324,745	1,997,904	55,028	12,904,593	25,282,270
Operating income from external customers	196,868	614,821	224,577	134,770	1,171,036
Inter – segment operating income / (loss)	55,841	(107,516)	8,888	42,787	-
Total operating income	252,709	507,305	233,465	177,557	1,171,036
Fee and commission income ,net	48,717	54,710	230,687	42,227	376,341
Trading income, net	-	-	756	35,796	36,552
Operating expenses include:					
- Charge for provision for credit losses, net	1,920	410,168	-	-	412,088
- Impairment charge for other financial assets	-	-	-	5,392	5,392
- Depreciation	42,280	9,876	18,608	12,132	82,896
Total operating expenses including non-controlling interest	336,767	515,726	190,623	100,396	1,143,512
Net (loss) / income	(84,058)	(8,421)	42,842	77,161	27,524

2008	Personal banking SR '000	Corporate banking SR '000	Brokerage SR '000	Treasury and other SR '000	Total SR '000
Total assets	2,562,374	13,119,473	539,620	11,298,238	27,519,705
Total liabilities	9,447,032	2,999,789	31,135	10,303,926	22,781,882
Operating income from external customers	40,025	747,607	330,234	18,678	1,136,544
Inter – segment operating income / (loss)	271,482	(304,635)	4,333	28,820	-
Total operating income	311,507	442,972	334,567	47,498	1,136,544
Fee and commission income ,net	25,027	80,695	335,636	96,157	537,515
Trading loss, net	-	-	(1,151)	(32,789)	(33,940)
Operating expenses include:					
- Charge for provision for credit losses, net	10,125	51,033	-	-	61,158
- Impairment charge for other financial assets	-	-	-	62,238	62,238
- Depreciation	34,936	6,110	20,812	13,082	74,940
Total operating expenses including non-controlling interest	287,660	180,677	242,310	203,558	914,205
Net income / (loss)	23,847	262,295	92,257	(156,060)	222,339

27. BUSINESS SEGMENTS continued

Treasury and Other continued

b) The Bank's credit exposure by business segment is as follows:

2009	Personal banking SR '000	Corporate banking SR '000	Brokerage SR '000	Treasury and other SR '000	Total SR '000
Consolidated statement of financial position assets	2,809,053	12,837,364	15,960	10,428,749	26,091,126
Commitments and contingencies	-	1,786,559	-	194,128	1,980,687

2008	Personal banking SR '000	Corporate banking SR '000	Brokerage SR '000	Treasury and other SR '000	Total SR '000
Consolidated statement of financial position assets	2,216,639	13,112,544	2,724	8,406,517	23,738,424
Commitments and contingencies	-	2,302,945	-	52,802	2,355,747

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 and the credit equivalent values of commitments, contingencies and derivatives.

28. CREDIT RISK

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the bank assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with counterparties, the Bank uses external ratings as accessed by major rating agencies.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Bank manages the credit exposure 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. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The 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 16. The information on banks maximum credit exposure by business segment is given in note 27.

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other property and equipment. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Bank holds real estate collateral against transfer of title deed as collateral. 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, 2009 and 2008.

The Bank uses an internal credit classification and review system to manage the credit risk within its loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio (standard-low risk: risk ratings 1 to 3; standard-medium risk: risk ratings 4 to 6 and special mention; risk rating 7) and 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 Bank's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Additional portfolio provisions are created for losses, where there is objective evidence that unidentified losses are present at the consolidated statement of financial position 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 Bank's Internal Audit Division independently reviews the overall system on a regular basis.

The Bank seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes collateral as security when appropriate.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

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

The credit quality of loans and advances is managed using internal credit ratings and for due from banks and financial institutions is managed using external credit ratings of internationally recognised rating agency. The table below shows the credit quality by class of asset.

	Loans and advances				Due from Banks and Other Financial Institutions	
2009	Consumer SR '000	Commercial SR '000	Others SR '000	Sub total SR '000	SR '000	Total SR '000
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	1,904,085	-	1,904,085	7,235,983	9,140,068
Standard – medium risk	-	7,893,734	-	7,893,734	-	7,893,734
Standard – unclassified	2,032,139	919,599	73,203	3,024,941	-	3,024,941
Sub total - standard	2,032,139	10,717,418	73,203	12,822,760	7,235,983	20,058,743
Special mention	-	2,110,938	-	2,110,938	-	2,110,938
Sub total	2,032,139	12,828,356	73,203	14,933,698	7,235,983	22,169,681
Past due but not impaired						
Less than 30 days	55,867	60,698	-	116,565	-	116,565
30-60 days	6,543	1,579	-	8,122	-	8,122
60-90 days	1,109	527	-	1,636	-	1,636
Over 90 days	2,871	17,473	-	20,344	-	20,344
Total	2,098,529	12,908,633	73,203	15,080,365	7,235,983	22,316,348
Less: portfolio provision	(24,619)	(126,081)	-	(150,700)	-	(150,700)
Net performing	2,073,910	12,782,552	73,203	14,929,665	7,235,983	22,165,648
Non Performing						
Total non Performing	25,458	1,191,878	-	1,217,336	-	1,217,336
Less: Specific provision	(12,713)	(630,194)	-	(642,907)	-	(642,907)
Less: Collateral	(8,995)	(334,858)	-	(343,853)	-	(343,853)
Net non performing	3,750	226,826	-	230,576	-	230,576

28. CREDIT RISK continued

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

2008	Loans and advances Consumer	Commercial	Others	Sub total	Due from Banks and Other Financial Institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	2,142,553	-	2,142,553	3,903,582	6,046,135
Standard – medium risk	-	10,092,067	-	10,092,067	-	10,092,067
Standard – unclassified	1,616,098	492,868	73,450	2,182,416	-	2,182,416
Sub total - standard	1,616,098	12,727,488	73,450	14,417,036	3,903,582	18,320,618
Special mention	-	430,873	-	430,873	-	430,873
Sub total	1,616,098	13,158,361	73,450	14,847,909	3,903,582	18,751,491
Past due but not impaired						
Less than 30 days	18,279	235,400	-	253,679	-	253,679
30-60 days	8,198	123,143	-	131,341	-	131,341
60-90 days	2,165	43,614	-	45,779	-	45,779
Over 90 days	1,036	2,099	-	3,135	-	3,135
Total	1,645,776	13,562,617	73,450	15,281,843	3,903,582	19,185,425
Less: portfolio provision	(24,619)	(113,750)	-	(138,369)	-	(138,369)
Net performing	1,621,157	13,448,867	73,450	15,143,474	3,903,582	19,047,056
Non Performing						
Total non Performing	9,449	223,409	-	232,858	-	232,858
Less: Specific provision	(10,997)	(232,182)	-	(243,179)	-	(243,179)
Less: Collateral	(4,482)	(198,533)	-	(203,015)	-	(203,015)
Net non performing	(6,030)	(207,306)	-	(213,336)	-	(213,336)

Standard unclassified mainly comprise consumer, credit cards, small business, employee and share trading loans.

Others mainly comprise employee loans.

Performing loans as at December 31, 2009 include renegotiated loans of SR 357 million (2008: SR 719 million).

The special mention category includes loans and advances that are also 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 may, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention loans and advances would not expose the Bank to sufficient risk to warrant a worse classification.

b) Credit quality of financial assets (Investments)

The credit quality of investments (excluding investment in equities and mutual fund) is managed using external credit ratings of international rating agencies. The table below shows the credit quality by class of asset.

	2009 SR '000	2008 SR '000
Performing		
High grade (AAA – BBB)	3,036,370	4,219,370
Standard grade (BA1 – B2)	-	-
Sub-standard grade (BA3 – C)	18,750	18,750
Unrated	-	-
Sub total	3,055,120	4,238,120
Past due but not impaired (accrued special commission receivable)		
0 – 30 days	-	-
30 – 60 days	-	-
60 – 90 days	-	-
Sub total	-	-
Total performing	3,055,120	4,238,120
Less: portfolio provision	-	-
Net performing	3,055,120	4,238,120
Overall Investments (excluding equities and mutual fund), net	3,055,120	4,238,120

As at December 31, 2009 and 2008, no provision was required for the impairment in the value of investments (excluding investment in equities and mutual fund).

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

The tables below show an economic sector analysis of the Bank's loans and advances, net of specific and portfolio provisions; after taking into account total collateral held for both performing and non-performing loans and advances.

	Maximum exposure		
2009	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	321,916	134,566	456,482
Agriculture and fishing	37,499	11,359	48,858
Manufacturing	4,073,180	373,661	4,446,841
Mining and quarrying	3,228	-	3,228
Electricity, water, gas and health services	46,822	5,532	52,354
Building and construction	2,016,587	1,168,690	3,185,277
Commerce	2,528,659	585,475	3,114,134
Transportation and communication	265,029	4,271	269,300
Services	128,711	107,463	236,174
Consumer loans and credit cards	2,086,655	-	2,086,655
Share trading	625,140	-	625,140
Other	3,370,668	1,126,005	4,496,673
Maximum exposure	15,504,094	3,517,022	19,021,116
Less: collateral for performing and non performing	(6,113,917)	(1,018,004)	(7,131,921)
Net maximum exposure	9,390,177	2,499,018	11,889,195

28. CREDIT RISK continued

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

2008	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	477,320	210,521	687,841
Agriculture and fishing	40,611	23,175	63,786
Manufacturing	3,521,805	820,907	4,342,712
Mining and quarrying	6,467	676,478	682,945
Electricity, water, gas and health services	30,567	26,060	56,627
Building and construction	2,116,345	920,903	3,037,248
Commerce	2,811,464	361,826	3,173,290
Transportation and communication	380,559	47,410	427,969
Services	99,375	98,225	197,600
Consumer loans and credit cards	1,619,610	-	1,619,610
Share trading	421,697	-	421,697
Other	3,607,333	1,050,600	4,657,933
Maximum exposure	15,133,153	4,236,105	19,369,258
Less: collateral for performing and non performing	(6,134,075)	(881,431)	(7,015,506)
Net maximum exposure	8,999,078	3,354,674	12,353,752

29. GEOGRAPHICAL CONCENTRATION

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

2009	Kingdom of Saudi Arabia SR '000	Other GCC and Middle East SR '000	Europe SR '000	North America SR '000	South East Asia SR '000	Other countries SR '000	Total SR '000
Assets							
Cash and balances with SAMA	1,395,862	-	-	-	9,321	-	1,405,183
Due from banks and other financial institutions	4,115,500	2,836,312	63,886	219,800	164	321	7,235,983
Investments	3,956,203	188	138,689	49,576	105,386	33,639	4,283,681
Loans and advances, net	15,411,287	56,186	-	-	-	36,621	15,504,094
Total	24,878,852	2,892,686	202,575	269,376	114,871	70,581	28,428,941
Liabilities							
Due to banks and other financial institutions	2,589,950	77,398	22,908	33	-	350	2,690,639
Customers' deposits	22,142,476	-	-	-	-	-	22,142,476
Total	24,732,426	77,398	22,908	33	-	350	24,833,115
Commitments and Contingencies	3,490,630	32,360	4,398	-	-	879	3,528,267
Credit exposure (credit equivalent) Commitments and contingencies	1,960,869	17,180	2,199	-	-	439	1,980,687

2008	Kingdom of Saudi Arabia SR '000	Other GCC and Middle East SR '000	Europe SR '000	North America SR '000	South East Asia SR '000	Other countries SR '000	Total SR '000
Assets							
Cash and balances with SAMA	2,249,578	-	-	-	8,881	-	2,258,459
Due from banks and other financial institutions	2,439,197	1,415,296	29,402	18,929	149	609	3,903,582
Investments	4,717,912	-	72,895	33,773	63,526	21,262	4,909,368
Loans and advances, net	15,012,130	97,417	-	-	-	23,606	15,133,153
Total	24,418,817	1,512,713	102,297	52,702	72,556	45,477	26,204,562
Liabilities							
Due to banks and other financial institutions	1,245,876	89,594	5,370	25,435	-	370	1,366,645
Customers' deposits	20,900,368	-	-	-	-	-	20,900,368
Total	22,146,244	89,594	5,370	25,435	-	370	22,267,013
Commitments and contingencies	3,763,781	12,403	197,409	10,472	123,447	139,838	4,247,350
Credit exposure (credit equivalent) Commitments and contingencies	1,941,768	8,440	137,002	10,472	123,447	134,618	2,355,747

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

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

	Non performing loans, net		Provision for credit losses	
	2009 SR '000	2008 SR '000	**2009 SR '000**	2008 SR '000
Kingdom of Saudi Arabia	1,217,336	232,858	793,607	381,548

30. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank 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.

Overall authority for market risk is vested in the Board of Directors. The Bank's Board of Directors sets limits for the acceptable level of risk in trading book.

The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

30. MARKET RISK continued

a) Market risk trading book

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

i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank 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 twice daily to ensure positions are maintained within established limits.

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

	2009 SR '000	2008 SR '000
US Dollar	13,744	13,977
EURO	21,159	14,458
GBP	14,987	9,650
YEN	32,190	24,666

The table below indicates the extent to which the Bank was exposed to currency risk at December 31, 2009 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 on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Bank to mitigate the effect of such changes.

	2009		2008	
Currency	Increase in currency rate in %	Effect on profit SR '000	Increase in currency rate in %	Effect on profit SR '000
US Dollar	+0.375	52	+3.0	419
EURO	+12.5	2,645	+17.7	2,559
GBP	+14.2	2,128	+18.8	1,814
YEN	+15.0	4,829	+16.8	4,144

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 trading portfolio are equity securities held by three mutual funds that are subsidiaries of the bank, murabaha investments (mutual fund) and equity securities held by AlJazira Capital Company. The bank manages the risk relating to the murabaha investment by monitoring changes in net asset value of the murabaha investments. 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 bank on a portfolio basis for each mutual fund. The effect on the consolidated income statement as a result of a change in the fair value of equity instruments held for trading at December 31, 2009 and 2008 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2009		2008	
Portfolio	Increase /decrease in equity price %	Effect on consolidated income statement SR '000	Increase / decrease in equity price %	Effect onconsolidated income statement SR '000
Al Thoraiya	+23.64	9,867	-35.2	(10,726)
Al Khair	+15.06	3,456	-34.1	(5,877)
Al Mashareq	+20.97	6,716	-37.0	(8,913)

The effect on the consolidated income statement as a result of a change in the fair value of murabaha investments held for trading at December 31, 2009 and 2008 due to reasonably possible change in the net asset value (NAV) of the fund, with all other variables held constant, is as follows:

	2009		2008	
Portfolio	Increase / decrease in NAV %	Effect on consolidated income statement SR '000	Increase / decrease in NAV %	Effect on consolidated income statement SR '000
Murabaha investments	+0.50	2,989	+0.50	1,753
Murabaha investments	-0.25	(1,494)	-1.25	(4,382)

The effect on income statement as a result of a change in the fair value of equity instruments held at FVIS at December 31, 2009 and 2008 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2009		2008	
Market index	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR '000	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR '000
Tadawul	19.37	61,316	-	-

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 Bank'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 Bank's consolidated income statement. 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, 2009. 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 Bank to mitigate the effect of such changes.

	2009		2008	
Currency	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	7,251	+50	1,000
SR	-25	(7,251)	-125	(2,500)
USD	+25	(4,394)	+50	(4,025)
USD	-25	4,394	-125	10,061
QAR	+25	1,354	+50	-
QAR	-25	(1,354)	-125	-

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

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

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Bank 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 Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

30. MARKET RISK continued

b) Market risk – non trading or banking book continued

i) Special commission rate risk continued

2009	Within 3 Months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non commission bearing SR '000	Total SR '000	Effective commission rate
Assets							
Cash and balances with SAMA	-	-	-	-	1,405,183	1,405,183	-
Due from banks and other financial institutions	4,776,530	2,138,424	-	-	321,029	7,235,983	1.95%
Investments	2,105,120	950,000	-	-	1,228,561	4,283,681	3.63%
Loans and advances, net	6,277,699	5,666,810	2,506,321	539,920	513,344	15,504,094	4.66%
Other real estate, net	-	-	-	-	691,667	691,667	-
Property and equipment, net	-	-	-	-	501,051	501,051	-
Other assets	-	-	-	-	354,945	354,945	-
Total assets	13,159,349	8,755,234	2,506,321	539,920	5,015,780	29,976,604	-
Liabilities and equity							
Due to banks and other financial institutions	2,674,675	-	-	-	15,964	2,690,639	1.11%
Customers' deposits	10,857,957	3,949,788	724,895	-	6,609,836	22,142,476	1.88%
Other liabilities	-	-	-	-	449,155	449,155	-
Equity including non- controlling interests	-	-	-	-	4,694,334	4,694,334	-
Total liabilities and Equity	13,532,632	3,949,788	724,895	-	11,769,289	29,976,604	-
On-balance sheet gap	(373,283)	4,805,446	1,781,426	539,920	(6,753,509)	-	-
Total commission rate sensitivity gap	(373,283)	4,805,446	1,781,426	539,920	(6,753,509)	-	-
Cumulative commission rate sensitivity gap	(373,283)	4,432,163	6,213,589	6,753,509	-	-	-

2008	Within 3 Months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non commission bearing SR '000	Total SR '000	Effective commission rate
Assets							
Cash and balances with SAMA	-	-	-	-	2,258,459	2,258,459	-
Due from banks and other financial institutions	2,532,450	1,241,012	-	-	130,120	3,903,582	3.72%
Investments	1,638,120	2,350,000	250,000	-	671,248	4,909,368	4.30%
Loans and advances, net	10,153,809	3,427,969	909,234	598,494	43,647	15,133,153	5.94%
Other real estate, net	-	-	-	-	75,797	75,797	-
Property and equipment, net	-	-	-	-	493,503	493,503	-
Other assets	-	-	-	-	745,843	745,843	-
Total assets	14,324,379	7,018,981	1,159,234	598,494	4,418,617	27,519,705	-
Liabilities and equity							
Due to banks and other financial institutions	1,363,228	-	-	-	3,417	1,366,645	2.97%
Customers' deposits	11,470,671	3,849,519	79,563	-	5,500,615	20,900,368	2.52%
Other liabilities	-	-	-	-	514,869	514,869	-
Equity including non-controlling interests	-	-	-	-	4,737,823	4,737,823	-
Total liabilities and equity	12,833,899	3,849,519	79,563	-	10,756,724	27,519,705	-
On balance sheet gap	1,490,480	3,169,462	1,079,671	598,494	(6,338,107)	-	-
Total commission rate sensitivity gap	1,490,480	3,169,462	1,079,671	598,494	(6,338,107)	-	-
Cumulative commission rate sensitivity gap	1,490,480	4,659,942	5,739,613	6,338,107	-	-	-

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

ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank 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 Bank has the following significant net exposures denominated in foreign currencies as at December 31:

	2009 SR '000 Long (short)	2008 SR '000 Long (short)
US Dollar	(309,451)	17,662
Qatari Riyals	563,426	365

The table below indicates the extent to which the Bank was exposed to currency risk at December 31, 2009 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 on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Bank to mitigate the effect of such changes.

	2009		2008	
Currency	Increase in currency rate in %	Effect on profit SR '000	Increase in currency rate in %	Effect on profit SR '000
US Dollar	+0.05	(155)	+3	530
Qatari Riyals	+0.05	282	+3	11

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 held as available-for-sale at December 31, 2009 and 2008 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2009		2008	
Market index	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR '000	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR '000
Tadawul	19.37	-	24.22	34,614

31. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress 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 Bank also has committed lines of credit that it can access to meet liquidity needs.

31. LIQUIDITY RISK continued

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 75% of the value of Murabaha placements with SAMA.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. 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:

	2009 %	2008 %
As at 31 December	49	42
Average during the period	32	43
Highest	42	50
Lowest	43	36

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, 2009 and 2008 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 consolidated statement of financial position 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.

	On demand SR '000	Less than 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Financial liabilities						
As at 31 December 2009						
Due to banks and other financial institutions	15,964	2,675,850	-	-	-	2,691,814
Customers' deposits	6,104,073	11,417,720	4,005,101	782,989	-	22,309,883
Total undiscounted financial liabilities 2009	6,120,037	14,093,570	4,005,101	782,989	-	25,001,697
Financial liabilities						
As at 31 December 2008						
Due to banks and other financial institutions	45,036	1,332,616	-	-	-	1,377,652
Customers' deposits	5,500,615	11,248,813	4,131,575	318,320	-	21,199,323
Total undiscounted financial liabilities 2008	5,545,651	12,581,429	4,131,575	318,320	-	22,576,975

The contractual maturity structure of the Bank's credit-related contingencies and commitments are shown under note 16.

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.

2009	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	No fixed maturity SR '000	Total SR '000
Assets						
Cash and balances with SAMA	-	-	-	-	1,405,183	1,405,183
Due from banks and other financial institutions	2,231,641	3,721,288	1,283,054	-	-	7,235,983
Investments	1,368,750	190,000	1,496,370	-	1,228,561	4,283,681
Loans and advances, net	2,012,941	6,329,141	3,639,196	2,170,035	1,352,781	15,504,094
Other real estate, net	-	-	-	-	691,667	691,667
Property and equipment, net	-	-	-	-	501,051	501,051
Other assets	137,751	143,009	68,986	2,975	2,224	354,945
Total assets	5,751,083	10,383,438	6,487,606	2,173,010	5,181,467	29,976,604
Liabilities and equity						
Due to banks and other financial institutions	2,006,006	668,669	-	-	15,964	2,690,639
Customers' deposits	3,257,387	8,785,507	3,489,746	-	6,609,836	22,142,476
Other liabilities	46,124	30,534	640	-	371,857	449,155
Equity including non-controlling interests	-	-	-	-	4,694,334	4,694,334
Total liabilities and equity	5,309,517	9,484,710	3,490,386	-	11,691,991	29,976,604

2008	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	No fixed maturity SR '000	Total SR '000
Assets						
Cash and balances with SAMA	-	-	-	-	2,258,459	2,258,459
Due from banks and other financial institutions	1,033,446	2,078,156	791,980	-	-	3,903,582
Investments	1,000,000	470,000	2,768,120	-	671,248	4,909,368
Loans and advances, net	3,060,954	7,207,188	2,974,274	1,449,513	441,224	15,133,153
Other real estate, net	-	-	-	-	75,797	75,797
Property and equipment, net	-	-	-	-	493,503	493,503
Other assets	388,419	244,717	107,666	4,649	392	745,843
Total assets	5,482,819	10,000,061	6,642,040	1,454,162	3,940,623	27,519,705
Liabilities and equity						
Due to banks and other financial institutions	1,024,984	341,661	-	-	-	1,366,645
Customers' deposits	3,341,815	8,984,611	3,073,326	-	5,500,616	20,900,368
Other liabilities	83,180	55,064	1,154	-	375,471	514,869
Equity including non-controlling interests	-	-	-	-	4,737,823	4,737,823
Total liabilities and equity	4,449,979	9,381,336	3,074,480	-	10,613,910	27,519,705

32. 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 are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investment held at amortised costs are based on quoted market prices, when available. The fair values of these investments are disclosed in note 5.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument.

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.

2009	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets				
Held at FVIS	316,549	-	-	316,549
Held for trading	907,444	-	-	907,444
Available for sale	1,130	-	3,438	4,568
Total	1,225,123	-	3,438	1,228,561

33. 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 at market rates. 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:

	2009 SR '000	2008 SR '000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	207	203
Due to banks and other financial institutions	455	376
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	1,375,454	1,214,244
Customers' deposits	3,422,770	913,658
Commitments	26,653	21,410

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

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

	2009 SR '000	2008 SR '000
Special commission income	63,355	67,902
Special commission expense	57,378	43,791
Fees and commission income, net	166	1,615
Other expenses	1,538	4

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

	2009 SR '000	2008 SR '000
Short-term employee benefits	40,202	47,437
Termination benefits	23,551	26,011

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.

34. CAPITAL ADEQUACY

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

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

	2009		2008	
	Eligible Capital SR '000	Capital Adequacy Ratio %	Eligible Capital SR '000	Capital Adequacy Ratio %
Core capital (Tier 1)	4,485,867	17.15	4,633,827	19.34
Supplementary capital (Tier 2)	150,700		138,369	
Core and supplementary capital (Tier 1 + Tier 2)	4,636,567	17.73	4,772,196	19.92

Tier 1 capital of the Bank at the year end comprises share capital, statutory, other reserves, retained earnings, proposed dividend and non-controlling interest less other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio provisions (collective provisions) less prescribed deductions.

The Bank has implemented Basel II effective January 1, 2008 as stipulated by SAMA. The Bank uses the Standardized approach of Basel II to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and 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.

	2009 SR '000	2008 SR '000
Credit risk	23,282,507	20,865,998
Operational risk	2,156,838	2,959,409
Market risk	713,663	129,538
Total pillar-1 – risk weighted assets	26,153,008	23,954,945

35. 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 bases and management of investment funds in conjunction with professional investment advisors. Five 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 and Al-Qawafel commodities Fund. All are open-ended mutual funds for Saudi and foreign nationals. 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 financial statements of Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, and Al-Mashareq Japanese Equities Fund are consolidated with these financial statements.

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

36. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

IFRS 9 "classification and measurement of financial assets", has been published in its final form and is mandatory for compliance for the accounting year beginning January 1, 2013; though early adoption is allowed. It replaces part of IAS 39 Financial Instrument: Recognition and Measurement. It substitutes the current IAS 39 classification of financial assets (Trading, FVIS, Available for sale, Held to maturity and Held at amortised cost) with two main classifications (Held at amortised cost and Held at fair value either through profit or loss or other comprehensive income).

37. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on January 16, 2010 (Safar 1, 1431H).

38. COMPARATIVE FIGURES

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

39. BASEL II PILLAR 3 DISCLOSURES

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

SCOPE OF APPLICATION

A. The name of the top corporate entity in the group, to which these regulations apply, is Bank Al Jazira.

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

Entity Name	Consolidation	
	Accounting	Regulatory
AlJazira Capital Company	Yes	Yes
Aman Real Estate	Yes	Yes
Al-Mashareq Japanese Equity Fund	Yes	No
Al-Khair Global Equity Fund	Yes	No
Al-Thoraiya European Equity Fund	Yes	No

i. Entities that are fully consolidated for regulatory purposes are:

1. AlJazira Capital Company (JAZC):

JAZC is incorporated in Saudi Arabia as a capital market company to carryout the investment banking activities of the group including; brokerage, asset management, arranging, advisory and custody. The company commenced its operations during 2008.

2. Aman Real Estate:

Aman is incorporated in Saudi Arabia as a custodian of title deeds for real estate pledged to the Bank as collateral against credit facilities or/and mortgage lending. The company commenced its operations during 2006.

ii. Entities that are not consolidated for regulatory purposes are:

The other three entities namely Al-Mashareq, Al-Khair and Al-Thoraiya are the international mutual funds operated by the Bank; all are incorporated in Saudi Arabia. The Bank consolidates the funds for accounting purposes due to holding a significant portion of the units outstanding (seed capital) and due to being a manager of these funds thus having control.

Due to the nature of the funds business of units being subscribed to or/and redeemed on a daily basis and since the risk associated with the third parties units do not affect the financial position of the Bank; these funds are not consolidated for regulatory purposes. Furthermore, the Bank's own units held are part of the Held for Trading Investments and are considered for the purpose of calculating capital adequacy under Pillar I.

C. There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

CAPITAL STRUCTURE

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

	SR'000
Tier One Capital:	
Share capital	3,000,000
Eligible reserve	1,458,000
Retained earnings	27,867
IAS type adjustments	-
Deductions from Tier I:	
Reciprocal holding of bank capital at 50% deduction	-
Total Tier One Capital	**4,485,867**
Tier Two Capital:	
Portfolio provision	150,700
Total Tier One and Tier Two Capital	**4,636,567**

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

1. Eligible share capital

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

CAPITAL STRUCTURE continued

2. Eligible reserve

Eligible reserves are created by accumulated appropriations of profits and are maintained for future growth. In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank.

3. Eligible retained earnings

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

4. Portfolio provision

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

CAPITAL ADEQUACY

When assessing the adequacy of its capital BAJ takes the following objectives into consideration:

A Primary Capital Objectives

- Core Capital Purpose

i. The directors' objective is to expand the BAJ proposition in Saudi Arabia with a future intention of expansion in the high growth region of the Gulf for Shari'ah compliant Financial Services. The directors' present program is one of expansion and building on success for long term growth, with the majority of capital held to support the expansion.

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

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

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

   a. minimum regulatory capital requirements (Directors ICAAP); or
   b. Minimum Supervisory ICAAP Guidance (SAMA's ICAAP assessment).

   The directors hold an additional haircut cushion, the Internal Management Buffer, of 1% of the ICAAP Pillar I assessment above the 1) and 2) assessments for core capital purposes.

- External Credit Rating

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

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

ii. Support the issue of medium term, 3 – 7 year, Sukuks, Shari'ah compliant commercial paper and Musharaka programmes supporting funding and balance sheet growth strategies. Underlying portfolios for these programmes are proposed to consist of sound ring-fenced income generating assets.

B Specific Capital Objectives

- Investment Capital

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

- Trading Services

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

i. Credit Risk Capital for Shari'ah compliant financing services are:
   a. Tawaraq and Murabaha contracts. Product descriptions are Dinar, Naqa'a and Tamam;
   b. Trade financing advances – Letters of Credit/Guarantees;
   c. Istinsa'a contracts; and
   d. Ijarah transactions;

ii. Market Risk Capital for Shari'ah compliant Trading are:
    a. Treasury Trading;
    b. Musharaka.

iii. Operational Risk Capital
    The specific objective of providing payment, transaction and professional services exposing BAJ to operational risk failures.

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS

A. Risk Management

The bank's business operations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk and return ratio. The bank manages its risks in a structured, systematic and transparent manner through a risk policy that embeds risk management into the organizational structure, risk measurement and monitoring processes. The key features of the bank's comprehensive risk management policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The bank's risk appetite is determined by the senior management and approved by the Board of Directors.
- Risk management is embedded in the bank as an intrinsic process and is a core competency of all its employees.
- The bank manages its credit, market, operational and liquidity risks in a centralized manner within the organization.
- The bank risk management function is independent of the business divisions.
- The bank's internal audit function reports to the Board Audit Committee and provides independent validation of the business unit's compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a bank wide basis.

Due to their non-compliance with Shari'ah, the bank does not currently use derivatives and other similar instruments to manage exposures resulting from changes in commission rate, foreign exchange rate, equity risks and credit risks. Collateral are used to reduce the bank's credit risk. The bank is in the process of developing derivative instruments that will be Shari'ah compliant.

The risk management function assists senior management in controlling and actively managing the bank's overall risk. The function also ensures that:

- The bank's overall business strategy is consistent with its risk appetite approved by the Board of Directors and allocated by senior management.
- Risk policies, procedures and methodologies are consistent with the bank risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- The portfolio of risks and limits are monitored throughout the bank.

i. Risk Management Organization

The risk management activities are predominantly organized out of the business units' function by Group Risk Management and various committees that deal with the different risk categories. The Group Risk Management carries out the daily and monitoring activities, and also prepares and implements review and control policies on all risk portfolios. Therefore, responsibility of Group Risk Management is to identify, measure, evaluate and report on all risks to which the bank is exposed. Subsidiaries have assigned risk managers who report its risk status to Group Risk Management Head.

ii. Scope and nature of risk reporting tools

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

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

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

iii. Risk management processes

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to senior management for appropriate action.

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS continued

B. Methodology and Assumptions

i. Current Methodology and Assumptions

The current methodology adopted by the bank on the implementation of SAMA requirements for implementation of BASEL II is structured in two phases. The bank elected Internal Capital Adequacy Assessment Plan (ICAAP) methodology for the implementation program is to calculate Pillar I capital requirements and then add the Pillar 2 assessments.

The Pillar 1 risks (Credit, Market and Operational) have been assessed under the following approaches:

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

The Bank is in compliance with Basel II since January 2008.

ii. Future Methodology

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

- Credit Risk – IRB Foundation Approach, and
- Market and Operational Risk – Standardized Approach

The development and implementation of the infrastructure and resources are expected to enhance the risk management capabilities and capacity.

The key risks assumed by the bank in its daily operations are outlined below:

1. Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. Credit risk arises in the bank's normal course of business.

The bank utilizes the standardized approach for Pillar I credit risk. The parameters used for risk weighted assets represent the rates approved by the supervisory authority.

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

Credit risk management strategy

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures which guide the day to day initiation and management of the bank's credit risk exposure. This approach comprises credit limits that are established for all customers or credit and product programs after a careful assessment of their creditworthiness.

Standing procedures, outlined in the bank's credit policy manual, require that all credit proposals be subjected to detailed screening by the credit group pending submission to Management Credit Committee and/or Executive Credit Committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the bank's exposure with their risk appetite.

In addition, all credit facilities are continually monitored based on periodical review of the credit performance and obligor rating.

Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which include prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry.
- In compliance with SAMA regulations, lending to connected parties is secured as per the requirements specified in Banking Control Law and supervisory authority rules and monitored by Executive Credit Committee. Such transactions are made on substantially the same terms, including commission rates and collateral, as those prevailing at the time for comparable transactions with other parties. All such facilities are approved by the Board of Directors through Executive Credit Committee of the Board. The bank limits its exposure per connected party group to 10% of the bank's capital and reserves.
- The corporate proprietary internal-rating model has been successfully rolled out and is regularly reviewed by the bank's risk management function to enhance in line with industry credit risk management "best practices". The bank is in the process to roll out facility rating model for Corporate Banking Group. Due from banks and financial institutions is managed using external credit ratings of internationally recognized rating agencies.

- All new proposals and or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:
    1. Executive Credit Committee
    2. Management Credit Committee
    3. Commercial Credit Committee
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and legal covenants.
- Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available).
- Cross-border exposures are committed after obtaining supervisory authority prior approval and monitored by credit risk management function.

Key features of consumer credit risk management

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

Bank credit risk monitoring

The bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms that could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with formal quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance.

A specialized team handles the management and collection of problem credit facilities.

Credit Risk – Impairment

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

The bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non-performing. Each borrower is rated on an internal risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics and account conduct. An independent credit unit reviews the assigned ratings periodically. Exposures falling below a certain classification threshold (8 to 10) are considered to be impaired and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based of the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on portfolio basis for group of similar credits that are not individually identified as impaired.

Past-due and impairment provisions

Credit facilities are classified as "past due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "impaired" if the profit or principal installments are past due for more than 90 days, or if the carrying amount of the facility is greater than its estimated recoverable value. The principle of materiality should be taken into consideration when determining an event of default.

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

Category	Criteria	Grades	Provision %
Watch list	Irregular for a period up to 90 days		
Substandard	Irregular for a period between 91 and 180 days	8	25%
Doubtful	Irregular for a period between 181 days and 365 days	9	50%
Loss	Irregular for a period exceeding 365 days	10	100%

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS continued

1. Credit risk continued

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

Standardized Approach and Supervisory Risk Weights

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

Credit Risk Mitigation

The bank uses a wide variety of techniques to reduce credit risk on it is lending, one important credit risk mitigation technique is accepting guarantee and collateral with appropriate coverage. The bank ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved.

Collateral provided by the customer shall not be considered as a primary source for repayment. The bank requests collateral in order to protect its claims. The type and quality of collateral depends on the type of transaction, the counterparty and risks involved.

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

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

Risk transfer in the form of syndicated loans or risk participation arrangements with other banks is common practices to limit the banks exposures.

The bank pledge agreement give another mitigation technique through allowing the bank to net credit and debit balances in the event of default of the counter party.

All interrelated companies controlled by the same management and/or ownership structure are treated as one entity/group. The bank limits its credit concentration per entity/group to 15% of the bank's capital and reserves. In some cases, it is possible to extend an entity/group up to 25% of the bank's capital and reserves provided it enjoys outstanding credit worthiness.

As Shari'ah compliant bank, the nature of the Islamic product entitled the bank with other mitigation techniques such as the ownership of the goods in Murabaha product and the possession of the leased assets in Ijara product.

Management of credit collateral and valuation

The main types of collateral accepted by the bank are:

1. Real estate
2. Quoted shares
3. Cash
4. Bank guarantees
5. Acknowledged assignment of contracts proceeds

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

The method and frequency of revaluation depends on the nature of the collateral involved. The amount, type and valuation of collateral are based on guidelines specified in the risk management policies. The custody and revaluation of collateral are performed independent of the business units.

2. Market Risk – Standardized Approach

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as commission rates, foreign exchange rates and equity prices.

Market-risk management framework

All instruments and exposures that were subject to market risk were assessed using standardized approach for Pillar I market risk.

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

Monitoring of "market" risk from "trading" activities

The bank risk management function independently monitors the trading market risk exposure to derive quantitative measures specifically for market risk under normal market conditions.

Monitoring of non-trading market risk in the "banking" book

The bank's key non-trading market risk is the sensitivity of its net commission income to movements in commission rates. Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.

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

- Cut-loss limits;
- Commission rate sensitivity;
- Commission rate gaps;
- Maturity gaps; and
- Liquidity ratios limit.

These limits and exposures are reviewed in ALCO meetings.

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

31 December, 2009	+25bp	-25bp
31 December, 2008	+50bp	-125bp

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

Liquidity Risk

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

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

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

To address these risks, management seeks to diversify funding sources to match the growth of its assets with funding.

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

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

The market risk department is in the process of implementing an advanced financial risk management system that will enable the Bank to measure and monitor the risk more effectively and frequently. It will provide tools to enable sophisticated what-if analyses at various levels of the Bank's portfolios and its trading and banking book. Further, it will allow dynamic simulation, scenario analysis, back and stress test at various levels of granularities of portfolio.

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS continued

2. Market Risk – Standardized Approach continued

Foreign exchange risk

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

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

3. Operational Risk

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

Operational risk management framework

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

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

As per the Bank's operational risk policy, the risk profile for major entities will be reassessed annually to ensure the risk assessment is current and any changes in the products and organizational structure are taken into account.

Compliance self assessment guidelines have been developed for all key controls to check that the controls are deployed as required. All key controls are tested at least 3 times a year by the Unit Head and reports are sent to Risk Management to update CARE data base. Going forward, Internal Audit will also be required to independently verify during annual audits that all controls are working as desired.

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

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

The bank has established a frauds investigation committee to investigate any internal and external fraudulent activity, its causes and recommend preventive actions to the executive management.

Business Continuity: The bank has a business continuity management planning process under which critical activities of the bank have been identified as well as resources required to continue those activities in case of disaster. A review will be done to realign the plans to reorganization and bank's disaster recovery management to ensure plans are operational. Bank has also established a disaster recovery centre where most major IT systems have been set up as back up to the main data centre.

Equities in the Banking Book

The bank is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held as Available for Sale Investments.

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. The bank manages the risk through diversification of investments.

The bank conducts periodic scenario analysis in the banking book to gauge changes in economic value under extreme market conditions and provides timely inputs to senior management.