BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017

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REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2017, the interim condensed consolidated statements of income and other comprehensive income, changes in equity and cash flows for the three month period then ended, and notes to the condensed consolidated interim financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" and SAMA guidance on accounting for zakat and tax.

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 17 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 17 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for Ernst & Young

Hussain Saleh Asiri
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for KPMG Al Fozan & Partners
Certified Public Accountants

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17 May 2017
20 Shaban 1438H

ارنست ويونغ
ترخيص
رقم ٤٥
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ERNST & YOUNG

كي بي ام جي الفوزان وشركاه
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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2017 (Unaudited) SR'000**	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000 (Restated)
ASSETS				
Cash and balances with SAMA	11	**4,002,436**	5,196,815	3,805,671
Due from banks and other financial institutions		**2,059,088**	1,337,778	3,415,183
Investments	5	**16,253,724**	16,292,744	13,642,190
Positive fair value of derivatives	9	**128,873**	128,718	178,693
Loans and advances, net	6	**41,327,638**	42,098,695	43,322,374
Investment in an associate	7	**132,602**	129,977	130,101
Other real estate, net		**62,012**	62,012	36,031
Property and equipment, net		**701,649**	701,659	689,835
Other assets		**446,355**	370,970	402,719
Total assets		**65,114,377**	66,319,368	65,622,797
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**3,872,784**	3,545,112	6,305,280
Customers' deposits	8	**49,812,357**	51,602,354	50,655,060
Negative fair value of derivatives	9	**324,227**	333,718	447,673
Subordinated Sukuk	15	**2,027,271**	2,006,471	-
Other liabilities		**750,904**	728,187	606,393
Total liabilities		**56,787,543**	58,215,842	58,014,406
EQUITY				
Share capital	13	**4,000,000**	4,000,000	4,000,000
Statutory reserve		**1,945,105**	1,945,105	1,727,119
General reserve		**68,000**	68,000	68,000
Other reserves		**(196,806)**	(211,790)	(264,576)
Retained earnings		**2,310,535**	2,302,211	2,077,848
Proposed dividend	14	**200,000**	-	-
Total equity		**8,326,834**	8,103,526	7,608,391
Total liabilities and equity		**65,114,377**	66,319,368	65,622,797

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Note	31 March 2017 SR'000	31 March 2016 SR'000
Special commission income		**612,738**	515,667
Special commission expense		**(178,756)**	(145,570)
Net special commission income		**433,982**	370,097
Fees and commission income, net		**165,304**	166,274
Exchange income, net		**27,917**	28,771
Trading income / (loss), net		**1,217**	(3,520)
Dividend income		**27**	-
Gain on sale of other real estate		**-**	210,518
Other operating income		**1,158**	1,105
Total operating income		**629,605**	773,245
Salaries and employee-related expenses		**218,351**	215,791
Rent and premises-related expenses		**34,778**	31,024
Depreciation and amortisation		**20,548**	19,861
Other general and administrative expenses		**95,484**	98,724
Impairment charge for credit losses, net		**46,809**	27,724
Other operating expenses		**304**	662
Total operating expenses		**416,274**	393,786
Income from operating activities		**213,331**	379,459
Share in net income of an associate		**2,637**	1,850
Net income for the period		**215,968**	381,309
Basic and diluted earnings per share for the period (expressed in SR)	13	**0.42**	0.73

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

	31 March 2017 SR'000	31 March 2016 SR'000
Net income for the period	**215,968**	381,309
Other comprehensive income:		
Net other comprehensive income to be reclassified to consolidated statement of income in subsequent periods:		
Cash flow hedges:		
Fair value gain / (loss) on cash flow hedges	**13,868**	(91,734)
Net amount transferred to interim consolidated statement of income	**129**	157
Net other comprehensive income not to be reclassified to consolidated statement of income in subsequent periods:		
Net changes in fair value and gain on sale of investments classified as at Fair Value Through Other Comprehensive Income (FVTOCI)	**1,138**	(343)
Other comprehensive income / (loss) for the period	**15,135**	(91,920)
Total comprehensive income for the period	**231,103**	289,389

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017 (UNAUDITED)

	Note	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total equity SR'000
Balance at 1 January 2017 (audited)		**4,000,000**	**1,945,105**	**68,000**	**(211,790)**	**2,302,211**	**-**	**8,103,526**
Net income for the period		-	-	-	-	**215,968**	-	**215,968**
Other comprehensive income, net		-	-	-	**15,135**	-	-	**15,135**
Zakat and income tax	4(a)	-	-	-	-	**(7,632)**	-	**(7,632)**
Share in Zakat of an associate		-	-	-	-	**(12)**	-	**(12)**
Total comprehensive income for the period		-	-	-	**15,135**	**208,324**		**223,459**
Proposed dividend	14	-	-	-	-	**(200,000)**	**200,000**	-
Others	18	-	-	-	**(151)**	-	-	**(151)**
Balance at 31 March 2017 (unaudited)		**4,000,000**	**1,945,105**	**68,000**	**(196,806)**	**2,310,535**	**200,000**	**8,326,834**
Balance at 1 January 2016 (audited)		4,000,000	1,727,119	68,000	(172,656)	1,791,006	-	7,413,469
Net income for the period		-	-	-	-	381,309	-	381,309
Other comprehensive loss, net		-	-	-	(91,920)	-	-	(91,920)
Total comprehensive (loss) / income for the period		-	-	-	(91,920)	381,309	-	289,389
Balance at 31 March 2016 (unaudited), previously reported		4,000,000	1,727,119	68,000	(264,576)	2,172,315	-	7,702,858
Reclassification of zakat and income tax	19	-	-	-	-	(81,188)	-	(81,188)
Effect of changes in accounting policy	4(a)	-	-	-	-	(13,279)	-	(13,279)
Balance at 31 March 2016 (unaudited), restated		4,000,000	1,727,119	68,000	(264,576)	2,077,848	-	7,608,391

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Chairman

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017 (UNAUDITED)

	Note	31 March 2017 SR'000	31 March 2016 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		**215,968**	381,309
Adjustments to reconcile net income to net cash from operating activities:			
Trading (income) / loss, net		**(1,217)**	3,520
Impairment charge for credit losses, net		**46,809**	27,724
Share in net income of an associate		**(2,637)**	(1,850)
Depreciation and amortization		**20,548**	19,861
Dividend income		**(27)**	-
Loss on sale of property and equipment		**-**	74
		279,444	430,638
Net changes in operating assets:			
Statutory deposit with SAMA		**51,270**	20,005
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(495,000)**	343,750
Investments held at fair value through income statement		**(1)**	1,512
Positive fair value of derivatives		**(155)**	18,818
Loans and advances		**724,248**	(1,176,251)
Other real estate, net		**-**	8,095
Other assets		**(75,385)**	(147,709)
Net changes in operating liabilities:			
Due to banks and other financial institutions		**327,672**	2,247,969
Customers' deposits		**(1,789,997)**	889,867
Negative fair value of derivatives		**(9,491)**	75,720
Other liabilities		**30,097**	(148,079)
Net cash (used in) / from operating activities		**(957,298)**	2,564,335
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of non-trading investments		**66,000**	-
Acquisition of non-trading investments		**(25,762)**	(2,374,621)
Acquisition of property and equipment		**(20,538)**	(30,747)
Proceeds from sale of property and equipment		**-**	65
Dividends received		**27**	-
Net cash from / (used in) investing activities		**19,727**	(2,405,303)
CASH FLOWS FROM FINANCING ACTIVITIES			
Special commission on Subordinated Sukuk		**20,800**	-
Re-payment of Subordinated Sukuk		**-**	(1,006,936)
Dividends paid		**(28)**	-
Net cash from / (used in) financing activities		**20,772**	(1,006,936)
Net decrease in cash and cash equivalents		**(916,799)**	(847,904)
Cash and cash equivalents at the beginning of the period		**3,796,821**	4,913,830
Cash and cash equivalents at the end of the period	11	**2,880,022**	4,065,926
Special commission income received during the period		**587,143**	443,138
Special commission expense paid during the period		**151,121**	276,973
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		**13,997**	(91,577)

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL

These interim condensed financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (31 December 2016: 80 branches, 31 March 2016: 77 branches) and 45 Fawri Remittance Centers (31 December 2016: 41, 31 March 2016: 30 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

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

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

The Bank's subsidiaries and an associate are as follows:

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 31 March 2017**	Ownership (direct and indirect) 31 December 2016	Ownership (direct and indirect) 31 March 2016
Subsidiary					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage and asset management	**100%**	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%	100%
Associate					
AlJazira Takaful Ta'wuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%	35%

2. BASIS OF PREPARATION

During 2017, SAMA issued a Circular no. 381000074519 dated April 11, 2017 and subsequent amendments to the circular were made by SAMA through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments are as follows:

- The Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and tax are to be accrued on a quarterly basis and recognized in consolidated statement of changes in equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the quarter ended March 31, 2017 have been prepared in accordance with the International Accounting Standard (IAS) 34 - Interim Financial Reporting and SAMA guidance on accounting for zakat and tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards ("IFRS"). This change in framework resulted in a change in accounting policy for zakat and income tax and the effects of this change are disclosed in note 4 (a) to the interim condensed consolidated financial statements.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2016.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements. There have been no material changes in the risk management department or in any risk management policies since the year end.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands except where otherwise stated.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries as set out in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

3. BASIS OF CONSOLIDATION (continued)

a) Subsidiaries

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

i. the Bank has power over an entity;

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

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

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

b) Non-controlling interests

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

c) Transactions eliminated on consolidation

Balances between the Bank and its subsidiaries, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. BASIS OF CONSOLIDATION (continued)

d) Associates

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016, except for:

(a) Change in the accounting policy in relation to accounting for zakat and income tax

As described in note 2, the Group amended its accounting policy relating to accrual of zakat and income tax and have started to accrue zakat and income tax on a quarterly basis. For the financial year 2016, zakat and income tax were accrued at the year end.

The change in the accounting policy has been applied retrospectively and comparative information has been restated in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

As a result of the change in the accounting policy for zakat and income tax, in the Interim Consolidated Statement of Financial Position “other liabilities” and “retained earnings” as at 31 March 2016 are higher and lower, respectively, by SR 13.28 million than previously reported balances due to accrual of zakat and income tax for the period ended 31 March 2016.

The above change in accounting policy did not have an impact on the Interim Condensed Consolidated Statement of Income, Interim Condensed Consolidated Statement of Other Comprehensive Income and Interim Condensed Consolidated Statement of Cash Flows for any of the period/year presented.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Amendments to existing standards

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

  These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

(c) Accounting standards not yet applicable

- Following new accounting standards and interpretations have been published that are not mandatory for 31 March 2017 reporting periods and have not been early adopted by the Group. The Group has yet to assess the impact of these new standards and interpretations:

  - IFRS 15 – "Revenue from Contracts with Customers" - The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.
  - IFRS 9 "Financial Instruments" – the Group has already early adopted the measurement part. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.
  - IFRS 16 – "Leases" – The new Standard is based on the principal that a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

5. INVESTMENTS

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Fair Value Through Income Statement (FVTIS) - designated as at FVTIS	**93,773**	92,556	318,636
Fair Value Through Other Comprehensive Income (FVTOCI)	**12,862**	11,724	11,278
Held at amortised cost	**16,147,089**	16,188,464	13,312,276
Total	**16,253,724**	16,292,744	13,642,190

6. LOANS AND ADVANCES, NET

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Consumer loans	**17,765,928**	17,650,960	17,101,708
Commercial loans and overdrafts	**23,489,449**	24,329,749	26,135,901
Others	**393,395**	390,555	358,770
Performing loans and advances	**41,648,772**	42,371,264	43,596,379
Non- performing loans and advances	**492,873**	483,999	375,930
Total loans and advances	**42,141,645**	42,855,263	43,972,309
Impairment allowance for credit losses	**(814,007)**	(756,568)	(649,935)
Loans and advances, net	**41,327,638**	42,098,695	43,322,374

a) Movement in impairment allowance for credit losses is as follows:

	31 March 2017 (Unaudited) SR'000	**31 December 2016 (Audited) SR'000**	31 March 2016 (Unaudited) SR'000
Balance at the beginning of the period	**756,568**	614,604	614,604
Impairment charge for credit losses, net	**58,597**	224,026	37,401
Bad debts written off	**(722)**	(128,882)	(258)
Reversal / recoveries of amounts previously impaired	**(436)**	(29,536)	(1,812)
Allowance written back upon restructuring of loan	**-**	76,356	-
Balance at the end of the period	**814,007**	756,568	649,935

The "impairment charge for credit losses", net in the interim consolidated statement of income amounting to SR 46.81 million (31 March 2016: SR 27.72 million) was net of recoveries of SR 11.35 million (31 March 2016: SR 7.87 million) from the amounts previously written off.

7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company (ATT). The Group effectively holds a 35% shareholding in ATT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT. ATT is listed in the Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 31 March 2017 was SR 365.8 million (31 December 2016: SR 368.1 million; 31 March 2016: SR 414.3 million).

8. CUSTOMERS' DEPOSITS

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Demand	**25,938,743**	25,522,256	25,836,345
Time	**22,569,603**	25,167,027	23,817,473
Other	**1,304,011**	913,071	1,001,242
Total	**49,812,357**	51,602,354	50,655,060

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

9. DERIVATIVES

The table below sets out the fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	31 March 2017 (Unaudited) SR'000			31 December 2016 (Audited) SR'000			31 March 2016 (Unaudited) SR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Options	**10,484**	**10,484**	**1,535,124**	24,464	24,464	2,178,472	62,874	62,874	4,469,331
Special commission rate swaps	**75,388**	**75,388**	**5,823,057**	66,788	66,788	5,942,128	93,217	93,217	5,847,831
Foreign exchange swaps	**534**	**-**	**188,750**	-	1,392	187,500	-	-	656,250
Structured deposits	**7,543**	**7,543**	**1,650,000**	4,168	4,168	1,650,000	4,975	4,975	1,650,000
Total	**93,949**	**93,415**	**9,196,931**	95,420	96,812	9,958,100	161,066	161,066	12,623,412
Held as cash flow hedge:									
Special commission rate swaps	**-**	**185,964**	**4,255,313**	-	194,261	5,624,063	-	249,778	3,399,375
Total	**93,949**	**279,379**	**13,452,244**	95,420	291,073	15,582,163	161,066	410,844	16,022,787
Accrued special commission	**34,924**	**44,848**	**-**	33,298	42,645	-	17,627	36,829	-
Total	**128,873**	**324,227**	**13,452,244**	128,718	333,718	15,582,163	178,693	447,673	16,022,787

The negative fair values of special commission rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2016: April 2044, 31 March 2016: April 2044). The cash flow hedges of special commission rate swap were highly effective in offsetting the variability of special commission expenses. Fair value gain/(loss) on cash flow hedges amounting to SR 13.9 million (31 December 2016: 36.2 million, 31 March 2016: SR 91.7 million) included in the Interim Consolidated Statement of Comprehensive Income comprised of net unrealized gain of SR 8.3 million (31 March 2016: SR 91.73 million) and realized gain of SR 5.57 million (31 March 2016: nil). During the period, the Bank sold certain of its special commission rate swaps used for cash flows hedge. However, the gain would continue to be classified in Interim Consolidated Other Comprehensive Income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain will be reclassified to Interim Consolidated Statement of Income in the period when the cash flows pertaining to hedged items will affect the Interim Consolidated Statement of Income.

9. DERIVATIVES (continued)

During the period, an amount of SR 0.13 million (31 March 2016: 0.16 million) is transferred from Statement of Other Comprehensive Income to "special commission expense" in the interim Condensed Consolidated Statement of Income.

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

a) The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at December 31, 2016.

b) The Bank's credit related commitments and contingencies are as follows:

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Letters of credit	**1,030,180**	972,992	1,144,883
Letters of guarantee	**4,282,789**	4,144,274	4,664,960
Acceptances	**652,576**	611,960	524,087
Irrevocable commitments to extend credit	**150,000**	150,000	110,000
Total	**6,115,545**	5,879,226	6,443,930

c) The Bank has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2016 and has received the assessments for the years up to 2011 in which GAZT raised additional demands aggregating to SAR 462.2 million for the years 2006 to 2011. These additional demands include SR 392.9 million on account of disallowance of long-term investments and the addition of long term financing to the Zakat base by GAZT. The basis for the additional Zakat demand is being contested by the Bank before the Higher Appeal Committee. Management is confident of a favourable outcome on the aforementioned appeals and has therefore not made any provisions in respect of the above.

The assessments for the years 2012 to 2015 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue and disclosure of which might affect the bank's position in this matter.

11. CASH AND CASH EQUIVALENTS

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

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**1,315,934**	2,459,043	1,075,743
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	**1,564,088**	1,337,778	2,990,183
Total	**2,880,022**	3,796,821	4,065,926

The reconciliation of cash and cash equivalents to cash and balances with SAMA is as follows:

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Cash and cash equivalents as per interim consolidated Statement of Cash flows	**2,880,022**	3,796,821	4,065,926
Statutory deposit	**2,686,502**	2,737,772	2,729,928
Due from banks and other financial institutions with original maturity of 90 days or less	**(1,564,088)**	(1,337,778)	(2,990,183)
Cash and balances with SAMA at end of the period	**4,002,436**	5,196,815	3,805,671

12. OPERATING SEGMENTS

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

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

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

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

12. OPERATING SEGMENTS (continued)

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.

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

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

Takaful Ta'awuni
Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

The Group's total assets and liabilities at 31 March 2017 and 31 March 2016, its total operating income and expenses, and its net income for the three month period then ended, by operating segment, are as follows:

12. OPERATING SEGMENTS (continued)

31 March 2017 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	19,205,695	21,946,063	22,520,469	1,261,293	48,255	132,602	65,114,377
Total liabilities	35,978,613	13,594,000	6,625,290	541,385	48,255	-	56,787,543
Inter - segment operating income / (loss)	2,088	(26,794)	25,631	(925)	-	-	-
Total operating income	266,187	143,411	203,930	47,117	5,098	(36,138)	629,605
Net special commission income	160,374	95,092	174,725	6,670	201	(3,080)	433,982
Fee and commission income, net	80,123	43,853	582	39,194	4,898	(3,346)	165,304
Trading income, net	-	-	-	1,217	-	-	1,217
Share in net income of an associate	-	-	-	-	-	2,637	2,637
Impairment charge for credit losses, net	(9,476)	(37,333)	-	-	-	-	(46,809)
Depreciation and amortization	(11,280)	(2,570)	(4,627)	(1,871)	(200)	-	(20,548)
Total operating expenses	(218,815)	(91,728)	(66,750)	(35,488)	(4,490)	997	(416,274)
Net income / (loss)	47,372	51,683	137,180	11,629	608	(32,504)	215,968

12. OPERATING SEGMENTS (continued)

31 March 2016 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	20,850,665	23,287,281	20,840,453	453,146	61,128	130,124	65,622,797
Total liabilities	27,350,227	21,465,105	9,064,631	73,315	61,128	-	58,014,406
Inter - segment operating (loss) / income	(10,171)	(22,753)	31,166	1,758	-	-	-
Total operating income	251,382	120,428	166,795	53,636	4,517	176,487	773,245
Net special commission income	148,409	85,587	134,559	2,033	138	(629)	370,097
Fee and commission income, net	77,997	31,259	1,444	52,469	4,379	(1,274)	166,274
Trading loss, net	(1,269)	(727)	(51)	(909)	-	(564)	(3,520)
Share in net income of an associate	-	-	-	-	-	1,850	1,850
Impairment charge for credit losses, net	(6,303)	(21,421)	-	-	-	-	(27,724)
Depreciation and amortization	(10,232)	(4,678)	(2,874)	(1,821)	(256)	-	(19,861)
Total operating expenses	(196,986)	(111,316)	(41,776)	(37,498)	(7,207)	997	(393,786)
Net income / (loss)	54,396	9,112	125,019	16,138	(2,690)	179,334	381,309

13. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (31 December 2016: 400 million shares of SR 10 each; 31 March 2016: 400 million shares of SR 10 each). The Board of Directors had proposed a bonus issue of 3 bonus shares for every 10 shares held by the shareholders. The issue of bonus shares has been approved in the shareholders' Extra Ordinary General Assembly Meeting held on April 10, 2017 subsequent to the date of the interim condensed consolidated financial statements.

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

	31 March 2017	31 March 2016
Saudi and GCC shareholders	**93.77%**	92.47%
Foreign shareholders – National Bank of Pakistan (NBP)	**5.83%**	5.83%
Foreign shareholders – others	**0.39%**	1.69%

All the shareholders are currently subject to Zakat except for National Bank of Pakistan which is subject to income tax.

The weighted average number of shares has been retrospectively adjusted for prior period to reflect the effect of the changes in number of shares due to issue of bonus shares subsequent to period end.

The calculation of basic and diluted earnings per share is based on profit attributable to ordinary Shareholders and weighted-average number of ordinary shares outstanding, as follows:

	31 March 2017 (Unaudited) SR'000	31 March 2016 (Unaudited) SR'000
Profit attributable to ordinary share holders		
For basic and diluted earnings per share	**215,968**	381,309
	Shares	Shares (restated)
Weighted-average number of ordinary shares		
For basic and diluted earnings per share	**400,000,000**	400,000,000
Effect of bonus shares issue approved by shareholders	**120,000,000**	120,000,000
	520,000,000	520,000,000
Basic and diluted earnings per share (in SR)	**0.42**	0.73

14. PROPOSED DIVIDEND

The Board of Directors has proposed a final cash dividend of SR 200 million equal to SR 0.5 per share, net of Zakat, for distribution to the shareholders from the net income of the Group for the year ended December 31, 2016. The proposed cash dividend has been approved in the shareholders' Extra Ordinary General Assembly meeting held on April 10, 2017 subsequent to the date of the interim condensed consolidated financial statements.

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

a) Saudi shareholders

Zakat attributable to Saudi Shareholders for the year 2016 amounted to SR 20.23 million (2015: SR 31.06 million) which will be deducted from their share of gross dividend, resulting in a net dividend to Saudi Shareholders of SR 0.5 per share (2015: Nil per share).

b) Non-Saudi shareholders

Income tax payable in respect of share of income for year ended December 31, 2016 was approximately SR 10.03 million (SR 15.39 million).

The share of dividend of "Non-Saudi shareholder" will be paid after deducting the related taxes due as described above.

15. SUBORDINATED SUKUK

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

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date,

16. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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, and

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

		31 March 2017 (SR'000)		
	Carrying Value	Fair Value Level 1	Level 2	Total
Financial assets measured at fair value:				
FVTIS - Mutual Funds	**93,160**	**93,160**	**-**	**93,160**
FVTIS – Equities	**613**	**613**	**-**	**613**
FVTOCI - Equities	**9,424**	**9,424**	**-**	**9,424**
Derivatives	**128,873**	**-**	**128,873**	**128,873**
Total	**232,070**	**103,197**	**128,873**	**232,070**
Financial liabilities measured at fair value:				
Derivatives	**324,227**	**-**	**324,227**	**324,227**

		31 December 2016 (SR'000)		
	Carrying Value	Fair Value Level 1	Level 2	Total
Financial assets measured at fair value:				
FVTIS - Mutual Funds	91,933	91,933	-	91,933
FVTIS - Equities	623	623	-	623
FVTOCI - Equities	8,286	8,286	-	8,286
Derivatives	128,718	-	128,718	128,718
Total	229,560	100,842	128,718	229,560
Financial liabilities measured at fair value:				
Derivatives	333,718	-	333,718	333,718

16. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	31 March 2016 (SR'000)			
	Carrying		Fair Value	
	Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVTIS - Mutual Funds	318,636	318,636	-	318,636
FVTOCI - Equities	7,840	7,840	-	7,840
Derivatives	178,693	-	178,693	178,693
Total	505,169	326,476	178,693	505,169
Financial liabilities measured at fair value:				
Derivatives	447,673	-	447,673	447,673

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, interest rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps, options and structured deposits are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no transfers between Levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

There were no changes in valuation techniques during the period.

Investments amounting to SR 3.44 million (31 December 2016: SR 3.44 million, 31 March 2016: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

b) Following table represent fair values of financial assets and liabilities measured at amortised cost.

	31 March 2017 (SR'000)		31 December 2016 (SR'000)	
	Amortised cost	**Fair value**	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**2,059,088**	**2,060,143**	**1,337,778**	**1,338,102**
Investment held at amortised cost	**16,147,089**	**16,161,549**	**16,188,464**	**16,207,079**
Loans and advances, net	**41,327,638**	**42,902,949**	**42,098,695**	**43,467,763**
Total	**59,533,815**	**61,124,641**	**59,624,937**	**61,012,944**
Financial liabilities:				
Due to banks and other financial institutions	**3,872,784**	**3,872,203**	**3,545,112**	**3,545,375**
Customers' deposits	**49,812,357**	**49,814,944**	**51,602,354**	**51,615,457**
Total	**53,685,141**	**53,687,147**	**55,147,466**	**55,160,832**

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount.

17. CAPITAL ADEQUACY

The Group'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.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the 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.

17. CAPITAL ADEQUACY (continued)

The following table summarizes the Group's Pillar-I Risk Weighted Assets ("RWA"), Tier I and Tier II Capital and Capital Adequacy Ratios:

	31 March 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	31 March 2016 (Unaudited) SR'000
Credit Risk RWA	**47,825,216**	48,372,180	49,940,655
Operational Risk RWA	**4,754,063**	4,750,113	4,523,388
Market Risk RWA	**1,175,238**	1,129,288	1,228,751
Total Pillar-I RWA	**53,754,517**	54,251,581	55,692,794
Tier I Capital	**8,513,663**	8,304,283	7,865,183
Tier II Capital	**2,412,816**	2,470,299	451,320
Total Tier I and II Capital	**10,926,479**	10,774,582	8,316,503
Capital Adequacy Ratio (%)			
Tier I ratio	**15.84%**	15.31%	14.12%
Total Tier I and II Capital	**20.33%**	19.86%	14.93%

18. ISSUANCE OF RIGHT SHARES

With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SR 3 billion through a right issue. The increase is conditional on obtaining the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price of the shares and numbers. Included in the "other reserves" are total expenses of SR 18.27 million (31 December 2016: SR 18.12 million, 31 March 2016: SR 14.47 million) incurred in respect of the legal and professional matters for right issue.

19. ZAKAT DUE FROM SHAREHOLDERS

Until 31 December 2015, the zakat and income tax paid or accrued relating to years where dividends were not declared, were presented as receivable from shareholders with a view to recover out of future dividends. However, as zakat and tax liability ultimately impacts retained earnings of the Group and as no dividends were declared for the years 2012 through 2015, for better presentation the Bank charged the zakat and income tax amount to retained earnings as at 31 December 2016. Consistent with the presentation followed as of 31 December 2016, the cumulative amount of SR 81.19 million included in other receivables as of 31 March 2016, was charged to retained earnings in the Interim Consolidated Statement of Changes in Equity.

20. COMPARATIVE FIGURES

Certain prior period amounts in Statement of Financial Position and note 12 have been reclassified so as to align with the current period presentation.

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 15 May, 2017.