BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة

Annual Report

2016

CONTENTS

In the Name of ALLAH,
The most gracious, the most merciful

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

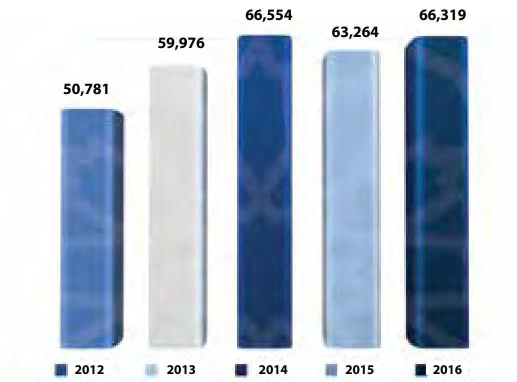
HRH Prince Mohammed Bin Naif Bin Abdulaziz Al Saud
The Crown Prince & First Deputy Prime Minister
Interior Minister

HRH Prince Mohammed Bin Salman Al Saud
The Deputy Crown Prince & Defense Minister

Financial highlights

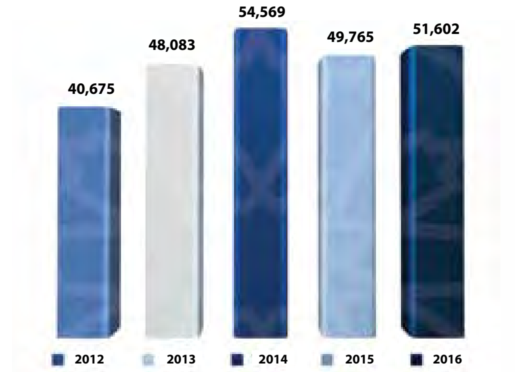
(In SAR millions, except where indicated)	2012	2013	2014	2015	2016
Loans and advances, net	29,897	34,995	41,245	42,174	42,099
Total assets	50,781	59,976	66,554	63,264	66,319
Customer deposits	40,675	48,083	54,569	49,765	51,602
Total Liabilities	45,770	54,248	60,396	55,851	58,216
Shareholders' equity	5,012	5,729	6,158	7,413	8,104
Net income	500	651	572	1,287	872
Total operating income	1,601	1,839	2,226	2,922	2,519
Net income growth (%)	65.02	30.20	(12.01)	124.84	(32.26)
Total operating income growth (%)	32.53	14.87	21.04	31.25	(13.78)
Return on average equity (%)	10.27	12.12	9.63	18.97	11.24
Return on average assets (%)	1.12	1.17	0.90	1.98	1.35
Earnings per share (SAR)	1.25	1.63	1.43	3.22	2.18

Shareholders' equity (In SAR millions)



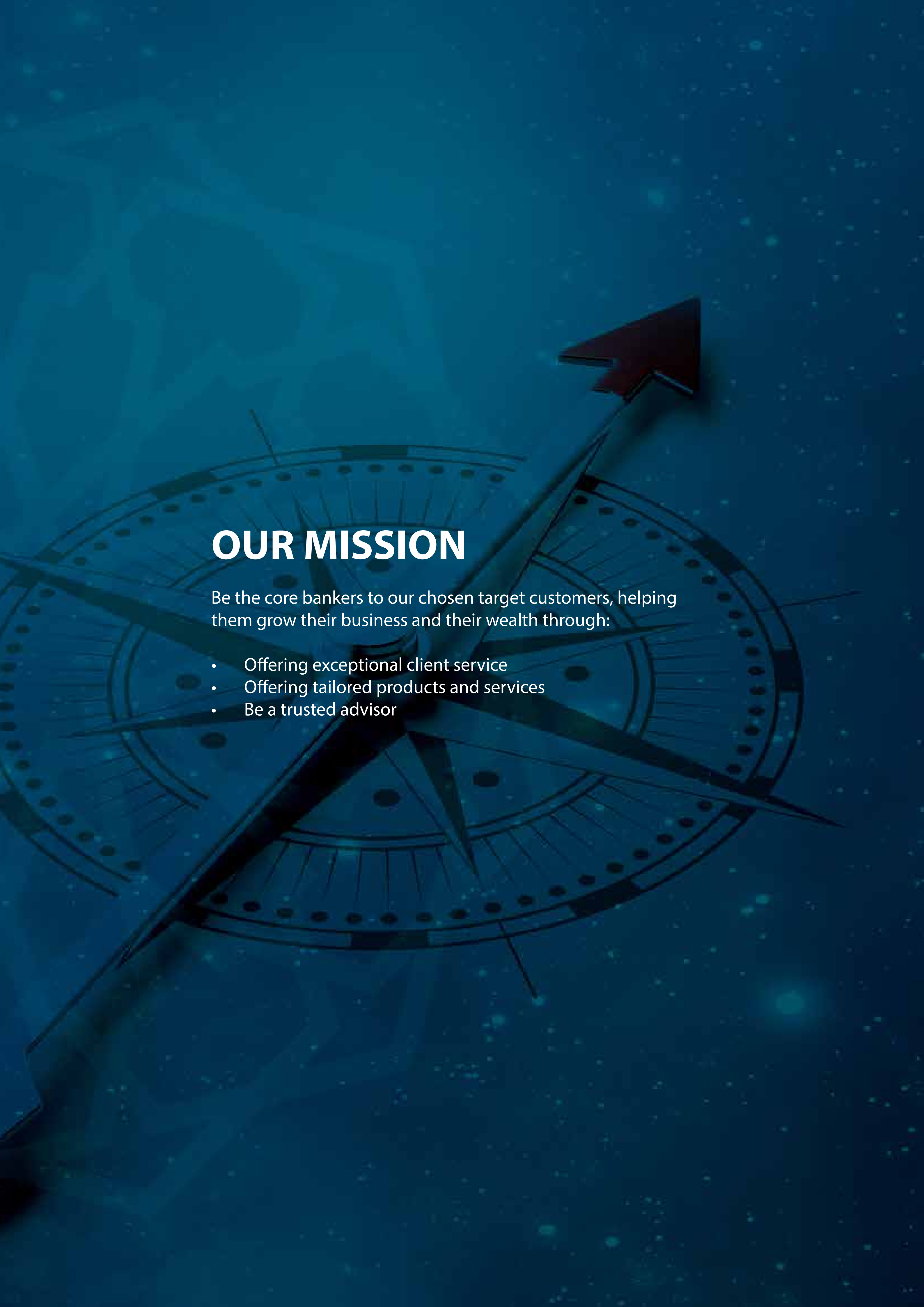
Total Assets (In SAR millions)

Return on average equity (%) (In SAR millions)



Customer deposits (In SAR millions)

Loans and advances, net (In SAR millions)



OUR MISSION

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

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

Board of Directors

Engr. Tarek Othman Al-Kasabi
Chairman of the Board

Engr. Abdulmajeed Ibrahim Al-Sultan
Member

Mr. Khalifa Abdulatif Al-Mulhem
Member

Mr. Nabil Dawood Al-Hoshan
Member

Mr. Mohamed Abdullah Al-Hagbani
Member

Mr. Abdulsalam Abdulrahman Alagil
Member

Dr. Saeed Saad Al-Martan
Member

Mr. Ibrahim Abdul-Aziz Al-Shaia
Member

Mr. Abdullah Saleh Al-Rasheed
Member

Chairman's Statement

Praises be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers

Dear Shareholders,

On behalf of the Board of Directors of Bank AlJazira, it is an honor to present to you the Annual Report for the year 2016.

2016 has been a year of change. Of the biggest changes announced, Vision 2030 and the National Transformation Program, signaled a move towards greater economic diversity and increased opportunities.

The Vision 2030 policies are witnessing rapid implementation with the support of the Custodian of the Two Holy Mosques King Salman Bin Abdulaziz Al Saud, providing the Kingdom the tools and abilities to make significant economic and social gains both regionally and internationally. Saudi Arabia remains in the limelight with a proactive approach towards economic stability, social change and regional political guidance. The economic policies implemented in 2016 are being applauded as timely measures being taken to ensure a smooth transition from an oil centric economic model to a diversified economy that is technologically driven.

Specifically for the banking sector, some of the more significant and immediate effect changes were on the regulatory front, application of the white land tax, changes to the mortgage rules and deposit protection rules which strengthen and make resilient the banking sector. We see these changes as an opportunity that we aim to capitalize upon. Bank AlJazira also transitioned to a new board of directors. Which in itself brings the ability to stay a step ahead of changing economic realities in the country, region and across the globe. As a result, the board has realized that current market scenario entails an increased emphasis on consolidation and focus on growing profitability.

At a time when markets around the globe are being challenged with geopolitical and economic uncertainty, the banking sector in Saudi Arabia continues to display stability as a result of robust policies, solid vision and proactive regulatory practices. Such policies helped to moderate the financial impact of liquidity issues in 2016 whilst helping to maintain modest balance sheet and lending growth in Bank AlJazira. Higher SAIBOR cost this year, reflects the impact on market liquidity. The Bank however maintained good revenue growth whilst the balance sheet grew at a modest pace. The base indicators remain strong, customer deposits are up, FAWRI network is expanding exponentially, our retail business is profitable and we have given a solid performance on foreign exchange growth.

Innovation, customer centricity and quality of services have always remained the cornerstones of Bank AlJazira's policies. In 2016, we continued to display these qualities by delivering innovative products and services to our customers resulting in increased shareholder value. Financially, the Bank has a stable balance sheet of SAR 66.3bn, making a profit of SAR 871.9m. This gives an earnings per share of SAR 2.18. Our return on assets is 1.32% and the return on equity is at 10.8%. These figures give a healthy picture for the bank, underlining our strength in a challenging times.

Bank AlJazira has also remained a strong contributor to corporate governance and social responsibility by being aligned with important causes impacting lives through our business and beyond. Our plans have included such diverse areas as Al Qard Al Hasan loans, training and rehabilitation for businesses, programs for people with special needs, educational and cultural programs and participation in national and Islamic events, among others. Our focus on this priority area continued in 2016 and will intensify further in coming years.

Looking ahead to 2017, we believe there will be challenges, however, through the perseverance and efforts of our human resources, and our capability in knowledge and technology, we hope to set benchmarks that others will follow. We are hopeful that liquidity and the economic environment will continue to improve when compared to 2016. As a bank, we will continue focusing on consolidation and profit maximization while at the same time, taking a more conservative approach to risk management. Whilst corporate lending remained on the cautious side in the year 2016, with new government policies coming into effect, in new areas such as tourism, retail and industrial development, we aim to expand our portfolio of corporate lending in 2017.

On Behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the continuing support of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, His Royal Highness Prince Mohammed Bin Naif Bin Abdulaziz Al Saud, Crown Prince and Deputy Prime Minister and Minister of Interior, and His Royal Highness Prince Mohammad Bin Salman Al-Saud Deputy Crown Prince and Defense Minister, The Minister of Finance, SAMA, all government ministers, the Board of Directors, the executive management team, and all staff members for their support, guidance and efforts as we continue our journey in serving needs of our customers and creating a strong and profitable bank for our shareholders.

In conclusion, we deeply extend all gratitude to Allah Almighty for this blessed success, and prayers upon our Messenger Prophet Mohammed – May peace be upon him, his descendants and all his followers.

Engr. Tarek Othman Al-Kasabi
Chairman

Executive Management

Mr. Nabil AlHoshan
CEO and Managing Director

Mr. Yasser Al Hedaithy
Senior Vice President &
Group Treasurer

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

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

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

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

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

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

Mr. Shahid Amin
Senior Vice President &
Chief Financial Officer

Mr. Robert Hadley
Senior Vice President &
Chief Operating Officer

Dr. Fahad Al-Elayan
Head of Sharia &
Social Resposibility Group

Mr. Ibrahim Al-Hurabi
Senior Vice President &
Head of Internal Audit

Mr. Fahad Al-Akeel
Senior Vice President &
Chief Strategy Officer

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

CEO Statement

Praises be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers

Dear Shareholders,

On behalf of the Management of Bank AlJazira, I am pleased to present to you the financial performance for the year 2016.

The year 2016 has been a year of significant challenges, yet despite that, Bank AlJazira has delivered a solid financial performance. This has been achieved through our focus on product innovation, strong customer centricity, high yielding customers, consolidation and profit maximization. We have also been emphasizing on the longer term delivery of solid and sustainable returns on investments for our shareholders. Our profit for the year of SAR 872 m (including capital gains of SAR 209 m) given the challenges and pressures on asset quality amongst the banking sector shows the benefit of a prudent approach to lending. We have a healthy loan coverage ratio of 156%.

Considering the fact that the year has been difficult because of the impact of reduced oil revenues and regional security situation, the Bank has been able to maintain most of its base indicators. The loans and advances in the year remained broadly flat at SAR 42.1bn, reflecting our cautious lending policies in 2016. Customer deposits grew in the year by just under SAR 2bn to SAR 51.6bn. Our earnings per share has remained one of the strongest in the Bank's previous 5 years at SAR 2.18 per share.

The bank performance was boosted by improved profitability for our retail banking division on the back of focus on better risk management and high yield products. This was also supported by product innovation and customer centricity. This resulted in a marked increase in customer deposits with the bank across the board. Overall the retail business made SAR 142m

Asset Management and Treasury continued their good performances in 2016 and recorded a net income of SAR 499 Million, an increase of 2% over the year 2015. The growth in Treasury income was boosted with an increase in investments by SAR 5bn bringing the bank's investment to SAR 16.3bn.

Corporate Banking group posted a net profit of SAR 89 Million, a decrease by 54% compared to 2015 considering the increase of credit loss provisions for 2016 of SAR 122 Million to cater for any possible losses.

The robust performance registered by the Bank is also indicative of the stronger emphasis we are placing upon risk management by carrying out identification and mitigation of risks in consideration of changing macroeconomic environment.

Our Fawri network continued in 2016 to enhance its position and succeeded in increasing its customer base to more than 800, 000 registered customers. This considerable growth reflects the confidence of Fawri customers in the group. The group has also recorded a continued progress Kingdom-wide and accordingly established Fawri Services Center making Bank Al Jazira as one of the leaders in the global remittances industry.

To ensure delivery of quality customer service at Fawri branches from day one, we have continued to focus on training and development of staff to ensure outstanding services to our ever-increasing number of clients availing the Fawri facilities.

Contributing to achieve one of our strategic objectives, Fawri is constantly expanding its reach by penetrating closer to its customers taking the tally to 41 remittance centers across all major cities in the Kingdom.

The banking sector is gearing up to diversify its corporate function by focusing upon the emerging sectors in the country. Retail is already being counted among the star performers, real estate is picking up again since the implementation of white land tax and announcement of amendments in mortgage rules, entertainment and tourism is all set to pick up pace while work is being done on the development of diverse industry in the Kingdom.

The retail Banking Group continues to redefine banking convenience and constitutes a major proportion of the local banking market, offering innovative products and smart banking solution with a nationwide network of 80 branches (men Branch) and 19 Ladies section, 621 ATMs and 8623 Merchants (point of sale). Retail Banking Group posted record profits in 2016 for the second year in a row of SAR 142 Million, an increase of

815% compared to 2015, which reflects the strength and solid position of the Retail Banking sector and its contribution to the Bank's profitability.

In its endeavour to continuously improve its services and expand its reach, Private Banking group launched another center in Mecca featuring highest standards which enhances the private banking feeling. With the new center, total Private Banking Centers stands at 4 located in Riyadh, Jeddah, Al Khobar and Mecca. These centers offer all banking products and services for high net-worth customers through Saudi staffs who hold highest professionalism and banking experience.

The year 2017 will bring its challenges. However, Bank AlJazira is geared up to meet these challenges head-on. We have a new Board in place with the focus on increased profitability. The investment during the year will be focused upon developing the Fawri network which has grown exponentially faster than our expectations with the expected quality of services being provided. We aim to retain our ratings of A- and will continue to review our capital needs, ensuring that the bank remains well capitalized.

Despite the challenges seen in 2016, Bank AlJazira has remained a strong contributor to the national and social causes through corporate social responsibility activities assumed through 'Khair Aljazira le Ahl Aljazira' program. We believe that through such valuable contributions the bank was able to provide support to a number of community segments by providing sustainable and positive-effect development projects. Our community programs have focused upon a range of training activities to refine the skills of male and female youth and to support individuals with special needs, in addition to Qard Hasan loans for productive families and enhancement of the capabilities of non-profit sector, which will continue in full force during the year 2017 as well.

Like in 2015, Human Resources Department continued its lead in 2016 by focusing on attracting Saudi cadres for "Fawri" remittance centers and "Branch development program". The two programs attracted 500 graduates over 21 separate batches in the last three years. Furthermore, the bank continued its commitment to provide various employment opportunities for holders of high secondary school certificates, diploma and university graduates which was proved to be among the most successful means for attracting new and developing Saudi skills.

The bank has accordingly maintained its high rate of effective Saudization of more than 92%. Furthermore, the training efforts in 2016 resulted in the holding of more than (300) annual training events which meet and cope with the bank's current needs and market requirements, in addition to the bank and regulatory required regulatory training such as informative security awareness Security Awareness and Anti Money Laundering as well as other compliance requirement refreshers for the entire bank population.

Bank AlJazira is well placed to take advantage of strategic shift in Kingdom's economic policies; we are confident that we will continue to set benchmarks for the banking industry in the Kingdom through our performance, innovation and ideas. We intend to partner with the private sector and the government to help fuel the growth engine for longer term development in the Kingdom.

Bank Aljazira was awarded for the second time "Best Private Bank in Saudi Arabia 2016" by Global Banking and Finance Review, one of the world's most renowned magazines, which awards and highlights the prominent and leading role of the bank in the private banking services field in the Kingdom. The Bank also won "Best Private Bank to watch in Saudi Arabia 2016" award by Private Banker International (PBI), one of the world's most renowned magazines which caters for wealth management.

At the end, I would like to thank our customers for the trust that they have placed in the bank, the Ministry of Finance, SAMA, Chairman and the Board of Directors, Senior Management and all the staff for their untiring efforts in bringing Bank AlJazira to where it stands today and looking forward to your support in strengthening and consolidating our position further in future.

May Allah almighty guide us towards success in times to come.

Nabil AlHoshan
CEO and Managing Director

Board of Directors Report

the Board of Directors is pleased to present the Bank’ s annual report and consolidated financial satements for the financial year ended 31 December 2016

Introduction

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

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

The authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each.

Five-year financial highlights

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

Financial highlights

(In SAR millions, except where indicated)	2012	2013	2014	2015	2016
Loans and advances, net	29,897	34,995	41,245	42,174	42,099
Total assets	50,781	59,976	66,554	63,264	66,319
Customer deposits	40,675	48,083	54,569	49,765	51,602
Total Liabilities	45,770	54,248	60,396	55,851	58,216
Shareholders' equity	5,012	5,729	6,158	7,413	8,104
Net income	500	651	572	1,287	872
Total operating income	1,601	1,839	2,226	2,922	2,519
Net income growth (%)	65.02	30.20	(12.01)	124.84	(32.26)
Total operating income growth (%)	32.53	14.87	21.04	31.25	(13.78)
Return on average equity (%)	10.27	12.12	9.63	18.97	11.24
Return on average assets (%)	1.12	1.17	0.90	1.98	1.35
Earnings per share (SAR)	1.25	1.63	1.43	3.22	2.18

Loans and Advances, net:

Totaled SAR 42.1 billion at the year-end, registering a slight decrease comparing to SAR 42.2 billion in 2015. The Bank continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk concentration.

Placements with Other Banks and Other Financial Institutions:

Total outstanding at the end of 2016 were SAR 1.3 billion versus SAR 4.7 billion in 2015. This is a short term activity and represents the day to day liquidity / cash flow management.

Investment Book:

The investment portfolio comprises of Sukuk, investment in equities and mutual funds. Total portfolio at the year-end was SAR 16.3 billion versus SAR 11.3 billion in 2015, increased by 44.5%. This increase in portfolio mainly represents purchase of Wakala floating rate notes.

Total Assets:

reached to SAR 66.3 billion in 2016, as compared to SAR 63.3 billion in 2015, representing a slight increase of 4.8%.

Customer Deposits:

increased by 3.7%, reaching SAR 51.6 billion in 2016, as compared to SAR 49.8 billion in 2015. The increase is associated with the increase in Demand deposits by 2.3 % from 24.9 billion to 25.5 billion and increase in Time deposits by 6.7 % from 23.6 billion to 25.2 billion.

Total Liabilities:

reached SAR 58.2 billion in 2016, as compared to SAR 55.9 billion in 2015, representing a slight increase of 4.2%.

Geographical Analysis of Income

The table below depicts region-wise analysis of the total operating income of the Bank. The operating profit of Aljazira Capital (100 % subsidiary of the Bank) for the year ended amounted to SAR 193.5 million and is included below in group's total operating income:

Regions	Central	Eastern	Western	Head office	Total
			SAR in 000's		
Total Groups Operating Income	747,707	408,719	860,386	501,825	2,518,637

Main Business Segments/Sectors

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

Personal Banking

Deposits, loans and investment products for individuals, remittance, real estate financing, credit card issuance and personal financing.

Corporate Banking

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

Brokerage and asset management

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

Treasury

Treasury is responsible for managing the assets and liabilities of the Bank. This includes profit rate risk mitigation and liquidity management to ensure that the Bank remains financially secure for customers. The other activities of Treasury include managing the Bank's investment portfolio, offering the Bank's customers Treasury products/solutions to meet their business and risk requirements.

Others

Others include investment in associate and gain on sale of property.

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

2016 (SR›000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Management	Takaful Ta'awuni	Others	Total
Total operating income	965,408	484,208	763,934	193,482	20,211	91,394	2,518,637
Total operating expenses	(823,248)	(395,506)	(265,298)	(149,557)	(25,404)	4,034	(1,654,979)
Share in profit of associates	-	-	-	-	-	8,284	8,284
Net (loss)/income	142,159	88,702	498,636	43,925	(5,193)	103,713	871,942

Subsidiaries and Associates

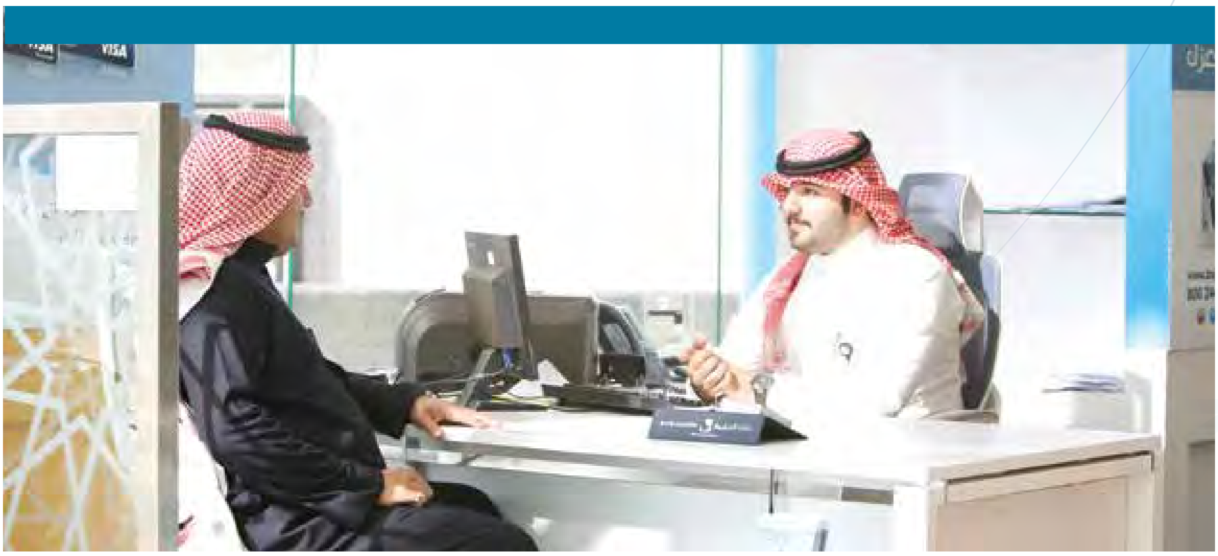
Following table summarizes the names of every subsidiary/associate, its share capital, the issuer's ownership percentage in it, its main business, its principal country of operation and its country of incorporation as at 31st December 2016:

Subsidiaries / Associates	Country of operation and incorporation	Nature of business	Share Capital (millions)	Ownership	Status
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management		100%	Subsidiary
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collateral on behalf of the Bank	SAR 1	100%	Subsidiary
Aljazira Takaful Taawuni Company	Saudi Arabia	Providing Shari'ah compliant protection and saving products	SAR 350	35%	Associate

The issued share capital of Aljazira Capital amounts to SAR 500 million comprising of 50 million shares of SAR 10 each. The issued share capital of Aman Development and Real Estate Investment Company amounts to SAR 1 million comprising of 100 shares of SAR 10,000 each. The issued share capital of Aljazira Takaful Taawuni amounts to SAR 350 million comprising of 35 million shares of SAR 10 each.

Banks Profitability and growth in Financial Assets and Liabilities

The Bank has recorded a net profit of SAR 871.9 million for the year ended December 31, 2016. This represents a decrease of SAR 415.2 million or 32.3 % compared to SAR 1,287.1 million for the same period in 2015. The decrease is mainly due to a decrease in operating income which includes gain made on sale of land amounting to SAR 208.6 million comparing to gain made on sale of land amounting to SAR 572.6 million in 2015. Earnings per share were SAR 2.18 for the year ended 31 December 2016 against SAR 3.22 for the same period last year. Total assets were SAR 66.3 billion at 31 December 2016, compared with SAR 63.3 billion at 31 December 2015, an increase of 4.8 % or SAR 3.1 billion. Loans and advances to customers amounted to SAR 42.1 billion at 31 December 2016, a nominal decrease of SAR 0.1 billion, or 0.2%, from SAR 42.2 billion at 31 December 2015. The Bank's investment portfolio totaled SAR 16.3 billion at 31 December 2016, an increase of SAR 5.0 billion or 44.5% compared with SAR 11.3 billion at 31 December 2015. Total liabilities were SAR 58.2 billion at 31 December 2016, compared with SAR 55.8 billion at 31 December 2015, an increase of 4.2 % or SAR 2.4 billion. Customer deposits totaled SAR 51.6 billion at 31 December 2016, increase of SAR 1.8 billion, or 3.7 %, compared with SAR 49.8 billion at 31 December 2015. Subordinated Sukuk totaled SAR 2.0 billion at 31 December 2016, an increase of SAR 1.0 billion compared with SAR 1.0 billion at 31 December 2015.



Borrowings and debt securities in issue

As at 31 December 2016	SAR'000
SAR 2,000 million 10 year subordinated sukuk	2,000,000
Total	**2,000,000**

SAR 2,000 million 10 year subordinated sukuk

As per the terms mentioned in the related offering circular and on meeting certain conditions, the Bank on 29 March 2016 exercised its call option for 1,000 Subordinated Sukuk Certificates of SR 1 million each issued on 29 March 2011.

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).

Borrowing from Banks

Total outstanding at the end of 2016 were SAR 3.5 billion versus SAR 4.1 billion in 2015, lower by 12.6%. This is a short term activity and represents day to day liquidity / cash flow management.

Staff Benefits and Schemes

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

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

According to the Labor Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefit is due for payment at the end of an employee's period of service. The End of service benefit outstanding at the end of December 2016 amounted to SAR 217.76 million.

Key Risks faced by the Bank

Bank Aljazira (BAJ) adopts a prudent and risk focused approach towards Risk Management and thus continues to invest into building an infrastructure that is able to pro-actively identify, assess, measure and control the risks that the Bank is faced with on an Enterprise Wide basis.

As a core risk practice, BAJ management keeps a close track of the top and emerging risks, both from an operational and regulatory perspective, that are expected to emanate and challenge not only the

International economies and financial markets but also their ripple effects on the Saudi Economy and thus the Financial Industry.

Citing the above, 2016 has been a year of some major global events, some of the most prominent ones have been:

- The sharp decline in global oil prices where the world economies saw oil prices plummeting to lowest levels in history exacerbated with a slower than expected recovery;
- Continued slowdown in Chinese economy carried throughout 2016 with global economies working towards averting a possible repeat of a global economic crisis;
- Global powers sharing a critical difference of opinion on the regional political stability of Middle East;
- The European Union (EU) witnessing a period of high uncertainty and destabilization with United Kingdom voting to opt out of the European Union;
- The most unexpected outcome of the US presidential election and its impact on the global economies.
- Global Regulators like IMF, World Bank and Bank of International Settlements (BIS) issuing new pronouncements to further tighten and discipline the capital management and liquidity management regimes.
- International and Local regulatory bodies joining forces to ensure implementation of the new International Financial Reporting Standard on impairment and provisioning.

The management has taken a pragmatic view of the prevailing and / or emerging global and local events and continued to focus on a careful assessment and management of the following key risks:

1. Maintenance of Capital Adequacy:

management ensured that the Bank continues to maintain adequate levels of quality capital, allowing it to support the envisaged growth in Risk Weighted Assets (RWA) and also meet the regulatory capital adequacy expectations. In this regard, the Bank has developed a detailed and well thought of capital enhancement plan, which takes into consideration various possible scenarios of capital enhancement and their underlying advantages, limitations, cost of capital generation and implementation timelines. The issuance of Sukuk by the Bank to the tune of SAR 2.0BN was another step towards enhancing and strengthening its capital base.

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

2. Liquidity Management:

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets.

BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a pro-active identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets.

3. Asset Quality:

The global and regional financial industry has been plagued with some substantial erosion of quality assets forcing some of the most systemically important financial institutions to either provide for Non-Performing Assets or undertaken substantive write-offs citing maximum loss given defaults.

Building on the above notion, in 2016 BAJ's management focused on ensuring that the quality of assets, across its lines of businesses remains of an acceptable quality, thus preventing any unwarranted classifications, provisioning and / or write-offs. The Bank has remained selective across all business segments and has approached its target customer segments with a well-defined approach based on:

- A clearly defined Risk Appetite.
- A defined Target Market and Wallet Share
- Identified industry segments in terms of risks, rewards, regulatory requirements and their performance trends.
- Risk Acceptance Criteria to ensure risk associated with a particular industry and / or segment are assessed and managed through specific qualifying parameters.
- Maintenance of a Target Obligor Risk Rating across its business segments and portfolios to ensure that the same supports the planned asset quality growth, probability of default and cost of credit estimates.

Furthermore, the management is cognizant of the on-going implementation and adoption of IFRS-9 and its likely implications on its portfolio. Citing the same, the management has prepared and implemented a comprehensive strategy to ensure the quality of the portfolio remains intact thus enabling the Bank to avoid unwarranted impairments and provisions.

Market Risk Management

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

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

Market Risks

Introduction

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

Management of Market Risks

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

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

Foreign Exchange Risks

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

Equity Price Risk

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

Capital Treatment for Market Risk

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

Stress Testing

The Bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios, and undertake the appropriate measures. Given the current economic environment, a broad spectrum of scenarios including liquidity and impact on sources of funding are considered. These scenarios are updated and may be redefined on an ongoing basis. The Stress Test results are reported to Senior Management, Board Risk Committee, Executive Committee, the Board and SAMA to facilitate and manage risk with more transparency.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources; assets are priced taking liquidity into consideration; the Bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Liquidity Risk Management Approach

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

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short term and long term cash flow via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained above the required levels.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the liquidity plans.

All liquidity policies and procedures are governed by the Market Risk Policy Manual which is subject to review and approval every year by the Market Risk Policy Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time deposits.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities in the form of cash and liquid assets which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

Accounting Standards

The Bank maintains proper books of accounts and records in an accurate manner. The consolidated financial statements have been prepared in accordance with the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) and also comply with the Banking Control Law, the CMA Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2016 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

Appointment of External Auditors

The External Auditors are responsible for the annual audit and quarterly review of Bank's financial statements. The Bank's Annual General Meeting held on September 21, 2016 (corresponding to 20/12/1437) approved the recommendation of the Board of Directors and the Audit Committee to re appoint Ernst & Young and KPMG Al Fozan & Partners as the external auditors of the Bank for the financial year ended 31 December 2016.

Capital Adequacy under BASEL II and BASEL III

The Basel Accord, issued by the Bank for International Settlements (BIS), is an international standard for risk and capital management practices. The objective is to provide a framework that would strengthen the soundness and stability of the international banking system.

The Saudi Arabian Monetary Authority (SAMA) has been at the forefront of ensuring that the Saudi Banking Sector adopts and implements the best practices that Bank for International Settlements proposes and has accordingly issued various guidelines to that effect.

As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework.

The Bank monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. These standards and ratios measure capital adequacy by comparing the Banks eligible capital with its consolidated statement of financial assets, commitments and notional amount of derivatives upon conversion to their equivalent risk weighted exposures.

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios.

Bank's ICAAP is a comprehensive document designed to evaluate the Banks risk profile, the process for identifying, measuring and controlling risk and its capital requirements and resources. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

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

As per Basel requirements, the bank is well positioned to pro-actively respond to any capital requirements and successfully issued a SAR 2 BN Sukuk in Q2 2016, as part of its ongoing capital planning process.

Statutory Payments

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

Type of Statutory Payments	SAR in million
Zakat paid during 2016 (against 2015)	30.73
Withholding tax	4.82
Advance Tax (for the year 2016)	10.61
Income tax (for the year 2015)	9.06
Additional Zakat, tax and withholding tax for previous years	0.09
GOSI (including Bank and the employees)	71.05
Visa, Iqama and related services etc.,	0.95

The zakat liability due for 2016 has been estimated at SAR 19.87 million that is attributable to Saudi shareholders. An amount of SAR 12.93 million has been estimated as income tax liability attributable to non-Saudi shareholders, and this will be ultimately borne by the non-Saudi shareholders themselves. The Bank has adequate provision in the books to settle the estimated zakat and Tax liability. The Bank has received zakat assessment for the years up to 2011 raising additional demand which is more fully explained in note 27 to the annual financial statements of the Bank.

Penalties and Regulatory Restrictions

SAMA, CMA, Municipalities and other government related entities have imposed fines on the Bank with a total of SAR 916.2 thousand during 2016 as specified below:

Name of the Authority	SAR in thousand
SAMA	475.0
CMA	310.0
GOSI	125.9
Jeddah municipality	4.3
General Authority of Zakat & Tax	1.0
Total	**916.2**

Related Party Transactions

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

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

	2016 SR'000	2015 SR'000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**75**	625
Due to banks and other financial institutions	**198**	340
Commitments and contingencies	**-**	600
Associate and affiliate entities with significant influence		
Investments	**129,977**	128,334
Customer deposits	**384,353**	358,361
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**48,524**	59,553
Customers' deposits	**390,992**	89,859
Commitments and contingencies	**-**	4,202
Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Bank's mutual funds and employees' post-employment benefit plan		
Investments	**91,429**	321,981
Loans and advances, net	**392,076**	343,356
Customer deposits	**2,989**	59

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

	2016 SR'000	2015 SR'000
Special commission income	**20,122**	21,979
Special commission expense	**107,937**	58,008
Fees and commission income	**166**	32
Net payment for share of expenses to associate	**9,732**	12,502
Insurance premium paid	**35,462**	33,187
Directors' remuneration	**7,409**	5,267

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

	2016 SR'000	2015 SR'000
Short-term employee benefits	**87,944**	84,803
Termination benefits	**22,869**	21,669

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

Board of Directors' Assurance

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

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

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

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

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

Dividends Policy

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

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

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

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

c) Out of the remainder of the profit after deduction of the statutory reserve and Zakat and tax, a sum of not less than 5% of the paid-up capital shall be allocated for distribution to Saudi and non-Saudi shareholders in proportion to the paid-up part of the shares of the Saudi and non-Saudi shareholders as recommended by the Board of Directors and endorsed by General Meeting. In case the remainder of the profits payable to the shareholders concerned is not sufficient for paying such dividend, shareholders may not be entitled to claim the payment thereof in the following year or years. The General Meeting may not resolve to pay a percentage of the dividends which exceeds the percentage that is recommended by the Board of Directors.

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

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

Banking Transactions with the Directors, CEO and CFO:

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

Credit Rating

The table below depicts the latest credit rating of the bank:

Credit Ratings	Islamic Int'l Rating Agency Nov-16	Moody's Oct-16	Fitch Rating Oct-16
Foreign Currency Risk - Short term			F2
Foreign Currency Risk - Long term			A-
Credit rating - International Scale	A-/A2		
Support Rating			1
Outlook Rating	Negative	Stable	Negative
Bank Deposits		Baa1 / P-2	
Credit rating- National scale	A+ / A1 SA		
Viability Rating			BB+

Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration

The Bank is not aware of information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

Arrangements for Shareholders' waiver of rights to dividends

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any of their rights to dividends.

Board of Directors and Sub-Committees Board Meetings:

A) Board of Directors:

The Board of Directors consists of 9 directors selected in the 52nd Extra- Ordinary General Meeting held on 17.03.1437H (28 Dec 2015) representing corporate and natural persons represented at the Board in their personal capacity including (5) non-executive directors, (3) independent directors and (1) executive director.

The Board held 4 meetings in 2016 (five meetings in 2015), as detailed below:

Board of Directors Meetings:

Director's name	Category	1st meeting 3/01/2016	2nd meeting 30/06/2016	3rd meeting 21/09/2016	4th meeting 14/12/2016	TOTAL
Eng. Tarek bin Othman Al-Kasabi	Non-executive	1	1	1	1	4
Mr. Khalifa bin Abdul Latif Al-Mulhem	Non-executive	1	-	1	1	3
Mr. Nabil bin Dawood Al-Hoshan Chief Executive Officer & Managing Director	Executive	1	1	1	1	4
Eng. Abdul Majeed bin Ibrahim Al-Sultan	Non-executive	1	1	1	1	4
Dr. Saeed bin Saad Almartan	Independent	1	1	1	1	4
Mr. Abdulsalam Bin Abdulrahman Alagil	Non-executive	1	-	1	1	3
Mr. Mohammed Bin Abdullah Al Hagbani	Non-executive	1	1	-	1	3
Mr. Abdullah Bin Saleh Al Rasheed	Independent	1	1	1	1	4
Mr. Ibrahim Bin Abdulaziz Al Shaia	Independent	1	1	1	1	4

In general, the Board of Directors controls the Bank' s performance and operation through periodic meetings during the year, develops policies, and ensures proper implementation thereof. In addition, the Board periodically reviews the effectiveness of existing regulations and internal controls and monitors the key sectors of the Bank to make sure that the general policies and risk management levels set by the Board are satisfactorily implemented. Through the Audit Committee, the Board also reviews the financial position of the Bank with the external auditors to ensure the integrity of its financial performance and full compliance with laws and regulations and accounting standards applicable in the Kingdom of Saudi Arabia. The Board confirms its liability for the accuracy of the financial statements of the Bank and that such statements fairly reflect the Bank›s financial status and results of its operations as well as the Bank›s compliance, in all its activities, with the Sharia controls established by the Bank›s Sharia Supervisory Committee.

Details regarding the members of the Board of Directors of the Bank who are also board members in listed and non-listed Saudi joint stock companies as at the end of December 31, 2016 are as follows:

Board Director›s name	Membership in other joint-stock companies' boards of directors
Eng. Tarek bin Othman Al-Kasabi	• Dallah Healthcare Holding Company – Chairman of the Board of Directors. • Asir Company for Trading, Tourism and Industry – Member of the Board • Ataa Educational Company - Chairman of the Board • Sarb Real State investment - Chairman of the Board
Mr. Khalifa bin Abdul Latif Al-Mulhem	• Advanced Petrochemical Company - Member of the Board • Saudi White Cement Company - Member of the Board • Al Ittefaq Steel Products Company - Member of the Board • GOSI - Member of the Board
Mr. Nabil bin Dawood AlHoshan Chief Executive Officer & Managing Director	• Aljazira Capital - Member of the Board
Eng. Abdul Majeed bin Ibrahim Al-Sultan	• Qassim Cement Company - Member of the Board • Aljazira Takaful - Chairman of the Board. • Consolidated Brothers for Development Co - Member of the Board
Dr. Saeed bin Saad Almartan	• Gulf Consultants Company – Chairman of the Board • Al Riadia Information Technology Co. – Member of the Board • Qanadel Altharwah for investment & Real Estate Development Co. Member of the Board
Mr. Abdulsalam Bin Abdulrahman Alagil	• SAGIA – Member of the Board • Al Andalus Real-Estate Company - Member of the Board • Riyadh Najd National School – Member of the Board • Harma National Company – Chairman of the Board
Mr. Mohammed Bin Abdullah Al Hagbani	• Aljazira Capital - Member of the Board – Chairman of the Board
Mr. Abdullah Bin Saleh Al Rasheed	-
Mr. Ibrahim Bin Abdulaziz Al Shaia	-

Notification Relating to Substantial Shareholdings:

During the year 2016, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the Disclosure requirements of the Listing Rules issued by the Capital Market Authority (CMA). Below are schedules of share ownership of major shareholders, directors of the Board and senior executives or their spouses and minor children in shares or equity:

1) Description of any interest in the voting shares held by persons (other than Board directors, senior executives and their relatives) who notified the Bank of such rights under Article 45 of Listing Rules and any change in such interests in the last fiscal year as required under paragraph (11) of Article 43 of the Listing Rules:

Interested Person	Beginning of 2016		During 2016		End of 2016	
	No. of shares	% Withholding	No. of shares	% Withholding	No. of shares	% Withholding
National Bank of Pakistan	23,333,333	5.83%	23,333,333	-	23,333,333	-
Sheikh Saleh Abdullah Mohammed Kamel	20,000,000	5%	20,000,000	-	20,000,000	-

2) Description of any interest, contractual securities and subscription rights of Directors of the Board and senior executives and their relatives in the shares or debt instruments of the bank or any of its subsidiaries, or any change in such interest or rights in the last fiscal year as per the requirements of paragraph (12) of Article 43 of the Listing Rules:

A) Board of Directors

Name of Interested Person	Beginning of the year 2016		During the year 2016		End of the year 2016	
	No. of shares	% ownership	No. of shares	% ownership	No. of shares	% ownership
• Eng. Tarek bin Othman Al-Kasabi	13,574	0.004%	13,574	0	13,574	0
• Mr. Khalifa bin Abdul Latif Al-Mulhem	2,220,668	0.56%	2,670,668	20.26%	2,670,668	20.26%
• Mr. Nabil bin Dawood Al- Hoshan Chief Executive Officer & Managing Director	2,666	0.001%	2,666	0	2,666	0
• Eng. Abdul Majeed bin Ibrahim Al-Sultan	1,333	0.001%	1,333	0	1,333	0
(Brothres Union Development Company)	26,375,754	6.59%	26,375,754	0	26,375,754	0
• Dr. Saeed bin Saad Almartan	2,000	0.001%	2,000	0	2,000	0
• Mr. Abdulsalam Bin Abdulrahman Alagil	1,000	0.001%	1,000	0	1,000	0
• Mr. Mohammed Bin Abdullah Al Hagbani	1,000	0.001%	1,000	0	1,000	0
• Mr. Abdullah Bin Saleh Al Rasheed	1,000	0.001%	1,000	0	1,000	0
• GOSI, represented by Mr. Ibrahim Bin Abdulaziz Al Shaia	19,915,671	4.98%	19,915,671	0	19,915,671	0

B) Board Main Committees

In line with the regulatory requirements and in order to achieve optimal performance and benefit from the expertise of the Board members, the Board formed the following main committees to assist it in its duties and assignments:

1. Board Executive Committee

The Executive Committee of the Bank AlJazira consists of members chosen by the Board of Directors and chaired by the chairman of Board of Directors at this session of the Board. The Board of Directors determines the authorities and powers of this Committee. It is the responsibility of the Executive Committee, in accordance with the delegated powers, to monitor the implementation of the strategy and policies set by the Board of Directors,

Risk management and control of the Bank's performance, recommend the balance sheet and action plan submitted for the fiscal year, and ensure proper implementation of the policies of the Board of Directors, in addition to monitoring the efficiency of internal control standards and policies implementation.

The Executive Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabi Awal 1437 H (03 January 2016). The Committee held nine meetings during 2016 (eleven meetings in 2015), attended by members of the Committee as described in the table below:

Name	Functional duties	No. of meetings attended
Eng. Tarek bin Othman Al-Kasabi	Chairman of the Executive Committee	9
Mr. Khalifa bin Abdul Latif Al-Mulhem	Member of the Executive Committee	7
Mr. Nabil bin Dawood Al-Hoshan Chief Executive Officer & Managing Director	Member of the Executive Committee	9
Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member of the Executive Committee	9
Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Executive Committee	8

2. Audit Committee

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

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

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

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

The Audit Committee was re-formed for this term at the Board of Directors Meeting No. 196 held on 23 Rabia Awal 1437H (03 Jan 2016). The Committee held four meetings during 2016 (4 meetings in 2015), attended by the Chairman and Members, as shown in the table below:

Name	Functional duties	No. of meetings attended
Mohammed bin Abdullah Al-Hagbani	Chairman of the Audit Committee	4
Mr. Fawaz bin Mohammed Al-Fawaz	Member of the Audit Committee	4
Mr. Taha Mohammed Azhari	Member of the Audit Committee	3

3. Nomination and Remuneration Committee

Following the issuance of BAJ's Governance policy, work started to form this committee as a subcommittee reporting to the Board of Directors. Annex (G) of BAJ Governance Policy specified the basis of committee's structure, its powers and responsibilities as well as anything that relates to its work, as per the requirements of the Corporate Governance Rules issued by CMA.

The functions and responsibilities of this committee focus on recommending nominations to the Board of Directors as per the approved policies and standards, performing annual review on the skills required, and reviewing the Board of Directors' structure and recommending those changes that can be carried out. The Committee is also responsible for ensuring the independence of independent members and non-existence of any conflict of interests if any director of the Board is also a member in any other company board of directors, ensuring recommended appointment is commensurate with the proper skills and required qualifications, development and review of remuneration of directors and senior executives.

The 42nd Extraordinary General Meeting ratified, in its meeting held on 10 Rabi II, 1429H corresponding to 16 April 2008, the rules for selection of the Remuneration and Nomination Committee members and the committee duties in accordance with article No. 15 issued by CMA and as per the Board of Directors' recommendation.

The Nomination and Remuneration Committee was re-formed for the current term at the Board's Meeting No. 196 held on 23 Rabia I, 1437H (corresponding to January 03, 2016). The Committee held two meetings during 2016 (4 meetings during 2015), attended by the Chairman and Members of the Committee as shown in the table below:

Name	Functional duties	No. of meetings attended
Mr. Khalifa bin Abdul Latif Al-Mulhem	Chairman of the Nomination and Remuneration Committee	2
Mr. Abdulsalam Bin Abdulrahman Alagil	Member of the Nomination and Remuneration Committee	2
Mr. Abdullah Bin Saleh Al Rasheed	Member of the Nomination and Remuneration Committee	2

4. Risk Management Committee

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

The Risk Management Committee for the current term has been re-formed at the Board of Directors' meeting (196) held on 23 Rabia I, 1437 H (corresponding to January 03, 2016). The Committee held 4 meetings during 2016 (3 meetings in 2015), attended by the chairman and members of the Committee as shown in the table below:

Name	Functional duties	No. of meetings attended
Dr. Saeed bin Saad Almartan	Chairman of the Risk Management Committee	4
Mr. Abdullah Bin Saleh Al Rasheed	Member of the Risk Management Committee	3
Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Risk Management Committee	4

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

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

The Committee of the 'Khair Aljazira le Ahl Aljazira' program for the current term was re-formed at the Board of Directors' meeting (196) held on 23 Rabi I, 1437 H (corresponding to 03 January 2016). The Committee held three meetings during 2016 (3 meetings in 2015), as below:

Name	Functional duties	No. of meetings attended
Mr. Khaled bin Omar Al-Baltan	Chairman of the 'Khair Aljazira le Ahl Aljazira' program Committee	3
Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member of the 'Khair Aljazira le Ahl Aljazira' program Committee	3
Mr. Abdul Aziz bin Ibrahim Al-Hadlaq	Member of the 'Khair Aljazira le Ahl Aljazira' program Committee	3

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

The compensation paid to members of the Board of Directors of the Bank or members from outside the Board are determined in accordance with the frameworks set by the instructions issued by the supervisory authorities, and governed by prime principles to governance of banks operating in the Kingdom and compensation regulations issued by the Saudi Arabian Monetary Agency (SAMA) and Corporate Governance Regulation issued by Capital Market Authority (CMA) of Saudi Arabia, and the provisions of the Companies Law and the Article of Association of the Bank.

The Bank shall pay to directors the expenses and remuneration for attending the meetings of the Board of Directors and subcommittee meetings. Total expenses and remunerations paid to Board members and five senior executives, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in 2016, were as follows:

Note: CMA, in their fax dated 15.11.2015 requested that the remuneration and allowances paid to independent directors should be disclosed separately – as per the requirements of paragraph (e) of Article 9 of Corporate Governance Rules.

Details of remuneration and allowances paid to directors of the board and 5 executives including the CEO and CFO

Description	Executive Members of the Board	Non-Executive Members of the Board	Independent Members of the Board	Payments to five Senior Executives, including CEO & CFO
Salaries and compensations	-	-	-	14,197
Allowances	565	2,798	1,695	1,252
Periodic and annual bonuses	-	-	-	12,533
Incentive plans	-	-	-	-
Any compensation or benefits payable on a monthly or annual basis	-	-	-	1,500
Total	**565**	**2,798**	**1,695**	**29,482**

D) Meetings of Shareholders General Assembly held in 2016:

The General Assembly held one meeting in 2016, the 53rd Extra-Ordinary General Meeting of Shareholders (Second Meeting), on 20.12.1437H (21.09.2016). The meeting endorsed the Bank›s financial statements for 2015, amendments to Articles of Association and other agenda items tabled at the meeting.

Corporate Governance

Bank Aljazira strictly abides by the rules of corporate governance and ensures strict implementation of the overall internal control systems and disclosure and transparency policies and is committed to the principles of risk management. The Bank also ensures the overall business is in compliance with laws and regulations of the Kingdom and to continuously adapt to the latest development in global governance frameworks, including the directives of Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), MOCI and all requirements and recommendations issued by the Basel Committee.

On the basis of paragraphs (c) of Article I and Para (a) of Article IX of the Rules of Corporate Governance in the Kingdom of Saudi Arabia issued by the CMA, the Bank applied all the provisions contained in the Regulations after having ensured compliance with the requirements of Article (6) – Voting Rights, Para (b) - The method of accumulative voting should be followed when voting to select the directors of the board at the General Meeting – as the 53rd Extra-Ordinary Shareholders General Meeting (Second Meeting) held on 20.12.1437 (21.09.2016) endorsed the amendment of Article 34 of the Bank's Articles of Association-Voting Rights – to provide for the accumulative voting in electing the directors of the Board, which provides that voting right of a share may not be used more than once. Also, all principles of Corporate Governance issued by the CMA are now included in the corporate governance framework of the Bank in a detailed manner to ensure continuous control of its effectiveness as well as to improve and amend the same as appropriate by the Board of Directors when needed.

Annual Review of the Effectiveness of Internal Control Procedures

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

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

Future Plans

Bank AlJazira is recognized as one of the leading Sharia compliant financial services institutions in the Kingdom of Saudi Arabia. Over the past years, Bank AlJazira has transformed into a full pledge bank with a wide range of products and services.

The bank's principal lines of business are Retail Banking, FAWRI (Remittance Business), Private Banking, Corporate Banking, Global Transaction Services and Treasury Services. These offerings are complimented by other financial services such as Takaful Insurance, Investment Banking, Asset Management, Brokerage and Securities Services from our sister companies.

Bank AlJazira continues to post strong asset growth with loans and advances growing year on year. This has been driven by building a strong customer franchise with retail and corporate customers ranging from large corporations to SMEs, applying extensive focus towards cross selling of the bank's retail, treasury, corporate, finance and investment banking franchise.

Corporate Banking continued with its strategic approach in providing banking solutions for corporate enterprises sectors and businesses through extensive packaged finance operations, trade and import operations, in addition, cash management services and e-banking have been instrumental in the overall growth of the Bank AlJazira's assets and profitability.

On the Retail Banking front, the introduction of new products and services with a focus on the quality of the provided services all aims to increase our market share, coupled with an optimized sales force have produced increased revenues and reduced expenses.

Private Banking, Global Transaction Service and Treasury Services completed yet another successful year, and are geared to achieve their ambitious targets for 2017 and beyond.

Retail Banking

The Retail Banking Group continues to redefine banking convenience and constitutes a major proportion of the local banking market, offering innovative products and smart banking solutions with a nationwide network of 80 branches(men Branches) , 621 ATMs and 8,623 Merchants (Point of Sale). Our products and facilities are designed to meet the end-to-end needs of all customers from account opening to time deposits, debit and credit cards to personal finance along with a superior range of mortgage finance products through a growing network of branches which was expanded to reach 3.91% market share with 80 branches and 19 ladies sections returning strong results in financials, retail banking managed to successfully grow the lending portfolio from SAR 18.95 billion to SAR 19.23 billion.

Overall, the Group's liabilities book grew by 5.0% closing Dec 2016 at SAR 27.79 billion from SAR 26.35 billion in 2015 (versus an estimate of 3.1% market growth of "Business & Individuals" Demand & Time Deposits, driven by attracting Time Deposits.)

For the first time in BAJ, a new market segment has also been targeted by launching Personal Finance to serve the untapped Professionals segment; mainly affiliated doctors, consultant engineers, and banking employees with non-salary transfer, in an effort to step away from the classic finance market and further diversify our portfolio into higher return segments. Furthermore, and as part of the banks role in community support, a special product has been designed and launched together with selected universities to cater to the needs of financing university education, which allows parents and higher education students to finance their educational expenses at its cash price. This service is in addition to a couple of new financing solutions which are expected to be launched in 2017 will boost the overall portfolio performance during 2017.

Despite the slowness of Real Estate finance market, the Bank's real estate finance portfolio grew by 14% in 2016, with an estimated market share of 7.1%.

In 2017, the Bank is fully focused in maintaining its Real Estate finance leadership position aided by launching new solutions and expanding its product offerings to new market sectors. The Bank has ambitious plans to expand its banking services products suite to meet clients' expectations .

Private Banking Group

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

Private Banking Group of BAJ managed to achieve record growth rates which exceeded the 2016 planned targets. Customer deposits as an example grew to SAR 10,236 Million as of the end of 2016 .

The Group cooperates closely with Al Jazira Capital to provide advisory services and investment opportunities for high net worth individual customers (HNW). This continuous cooperation has led to a significant increase in the size of our customer investment portfolios, where the total value of the Group's customer portfolios reached SAR 5,091 Million as of the end of 2016.

In its endeavors to meet the credit needs of its customers, the Group established a credit unit with an objective to meet the credit requirements of all its customers in a way that meets their finance needs and purpose of investments. Total credit facilities portfolio amounted to SAR 949 Million as of the end of 2016.

The Group won for the second time "Best Private Bank Saudi Arabia 2016" award by Global Banking and Finance Review, which is one of the most popular media publications focusing on the global banking and financial sectors, which serves as a testament of the bank's leading role in the Private Banking sector in the Kingdom.

Bank AlJazira has also won "Best Regional Private Bank to Watch in Middle East 2016" award by Private Banker International (PBI), which is a leading briefing service for the global wealth management industry. In an effort to continuously improve its services and be closer to its customers, the Group launched an additional center in Makkah featuring the highest furniture and set up standards, which promote the private banking identity feeling. With this center, the total number of private banking centers increased to 4 centers located in Riyadh, Jeddah, AlKhobar and Makkah. These centers offer all services and banking transactions needed by HNW individuals through highly qualified Saudi cadres.

Furthermore, the Group gives great attention to the enhancement of the capabilities of its human resources by offering its staff well designed training courses to develop their leadership skills and enhance their investment and technical capabilities. As a result, most of the Group's relationship managers, who are in charge of managing HNW individual accounts, hold international certifications in wealth management, thereby enabling them to provide wealth management services up to the highest international standards.

Banking Services Group - FAWRI

In 2016, Fawri continued to strengthen its foothold with a substantial increase in customer base exceeding 800,000+ registered customers. This phenomenal growth reflects the confidence and reliability entrusted by FAWRI customers which is constantly flourishing Kingdom wide and has established Fawri/BAJ amongst other pioneers of the global remittance industry.

In order to deliver higher service quality standards and safeguard both customers and banks interests, Fawri continued with overall development in terms of system development, remittance centers expansion, correspondent relations and professional development of its staff in line with regulatory guidelines thereby; recreating money transfer services to be more efficient and a reliable experience.

Keeping up pace with the Global technologies and requirements, Fawri has successfully launched DIRECT remittance services to Philippines, Pakistan, Egypt and Nepal and added strength to its product line and BAJ revenue pool. Besides, the signing of strategic partnership with "**RIA Money Transfer**" and "**iRemit**" has been striking strategic achievements in 2016, enhancing market dimensions and Fawri's brand value at international level.

Contributing to achieve one of our strategic objectives, Fawri is constantly expanding its reach by penetrating closer to its customers taking the tally to 41 remittance centers across all major cities.

In 2017, banking services group will continue to target both customer acquisition/retention and development of BAJ revenue pool by introducing new product lines, new remittance center locations, e-channels, new correspondent partners and innovative marketing initiatives thereby; exceed customer expectations and BAJ aspirations.

Corporate & Institutional Banking (CIBG)

The strategy of the Bank's Corporate and Institutional Banking Group (CIBG) continued to focus on expanding customer base and increasing the number of products used per customer, while maintaining the level of finance portfolio in 2016.

As a result of this policy, the finance portfolio has retained a marginal decay of 2% to SAR 22.4 billion and registered a total operating income of SAR 484 million for the year 2016.
Fee income from banking activities grew by 9% to 145.0 million Against SAR 132.8 million. CIBG, which offers a wide range of Sharia-compliant Islamic banking solutions to corporate entities, will continue to expand and innovate in the years to come. CIBG's activities are concentrated in Riyadh, Jeddah and Dammam, with the required expertise and resources deployed in each of the three regional offices to handle the banking needs of the customers in each region.

Commercial Banking Services (CBS)

Commercial Banking Services (CBS) was established in 2012 to provide a wide range of commercial banking services and products to small and medium enterprises in the Kingdom. CBS achieved major progress through the establishment of regional offices that tie-up all commercial banking clients around the Kingdom via its various channels. CBS has also focused on increasing its customer base, benefiting from credit demand, increasing lending volume, and growing and diversify the finance portfolio.
This trend reflects the main goals of BAJ for participation in the achievement of the Kingdom's Vision

2030 as well as the bank's endeavors to increase the contribution of small and medium enterprises sector in the Kingdom's GDP from 20% to 35%.

The bank's partnership with the Saudi Industrial Development Fund in the establishment of Kafalah Scheme for SME finance was the major factor for the achievement of many successes and contribution to the enhancement of the national economy. The establishment of the General Authority for Small and Medium Enterprises in 2016 will increase the positive opportunities for market prosperity in line with the Kingdom's Vision 2030.

Going forward, CBS will continue to provide enhanced services to play a pivotal role in delivering Sharia compliant offerings and providing services that meet customer requirements.

Global Transaction Services (GTS)

Global Transaction Services (GTS) stands as the leading business in providing banking solutions, liquidity services, and commercial and investment transactions to the customers of commercial and financial institutions in all parts of the Kingdom of Saudi Arabia. The business established itself as an effective and reliable partner to many global companies in the Kingdom including small and medium enterprises, government institutions (Public Sector), and Financial institutions. GT S also endeavors to provide local and global trading services at higher levels and in short time in addition to multi-currency accounts and integrated facilities accounts which combine payment capacity and collection, thereby enabling our customers to improve the use of financial resources and improve specialized efficiency in this field as management solutions are considered for their capacity to provide payment services in local and global currencies in addition to check payment and collection services.

Our various online corporate banking service channels, such as "Jazira Online Trade" (for trading services) and "Jazira Online Corporates" provide support to all products offered by GTS as well as to commercial finance services such as enabling the full sight of account information, and the establishment of local or foreign payments services within a secure environment around the clock; these features are in addition to salary management service offered under the name of "Rawatibukum" which simplifies the administrative procedures relating to payment of the salaries of companies employees. This service is provided with high level of IT security and protection enabling the management of salary information easily and up to the satisfaction of customers. The growth strategy of Global Transaction Services operates in line with the general guidelines, which call for change in terms of electronic transactions and introduction of updated systems in the various commercial sectors in the Kingdom of Saudi Arabia.

Specialized Finance (SFD)

The Specialized Finance Division provides innovative, customized, structured financial solutions to large corporate customers, and in order to position itself in the path of Bank's functional expansion, the Syndication Division comprise three main units namely Project and Structured Finance, Syndication, and Agency. With properly defined objectives and roles was a natural adaptation to accommodate asset growth in portfolio and achieve the objective of asset diversification and total relationship concept.

SFD continues to play its active role in the project and syndication finance arena by assuming Mandated Lead Arranger roles with other leading banks and ensuring constructive participation in major mega-deals.

SFD has distinctively positioned itself among the Islamic Banks, as it is increasingly becoming the choice of the market for various agency roles for Sharia'ah compliant syndication transactions.

Financial Institutions Unit (FIU)

Financial Institutions Unit (FIU) manages BAJ's relationship with domestic and international banks, other financial institutions, as well as supra-national entities. Services include export and import letters of credit and guarantees, collection of clean and documentary credits, and remittances. BAJ's dedicated professional correspondent banking team is well trained and highly qualified to assure quality services, innovative products, and efficient support. FIU specializes in understanding regional trade, cash management business needs, along with the intensive insight into the dynamic variables of our Correspondents' home countries.

Public Sector Unit (PSU)

Public Sector is a business unit within Corporate & Institutional Banking Group that manages Government owned and controlled entities. Our portfolio consists of industrial customers in the Power Sector, Energy, Petrochemical, Shipping and Telecommunications. The complex nature of the services required by Public Sector clients necessitates dedicated and well-established specialists team to serve the needs of public sector customers. The services range from working capital lending to specialized project finance advisory, debt advisory, and lending. They also include cash management services in traditional ways using the latest e-banking technologies. Public Sector is also a gate for other modern products and services in Treasury and Investment Banking services.

Treasury

Treasury has enjoyed another year of success. While the global economic environment did not favor growth, given the drop in oil prices and availability of liquidity, in addition to other global unfavorable conditions, Treasury has successfully managed the Bank's liquidity profile and profit rate risk. Furthermore, Treasury has delivered strong financial results, ahead of target and maintained its status as key contributor to the Bank's net income.

Customer business demands remained strong and we focused on offering Shari'ah compliant solutions to

our corporate and private banking customers for their exposure management and also supported FAWRI business by providing them with competitive FX pricing to generate positive results.

In 2016 foreign exchange markets volatility was very high, adding more difficulty to predicting movement. Consequently, the treasury took a conservative approach and reduced engagements in foreign exchange hedging products and shifted the focus to further grow FX flow business, which in turn grew by 15% over prior year. As a result, Treasury has successfully achieved its overall revenue target from customer business.

Although our investment portfolio target remained the same, with goals to improve the overall credit rating of the portfolio by dynamically switching assets to enhance liquidity and yield; we were successful to add high quality Sukuk of SAR 5.29 billion.

The incremental investments increased our investment portfolio to SAR 16.19 billion from 10.90 billion, showing a growth of 48.7% over prior year.

On the other hand, Treasury was mandated by the Board of Directors for the issuance of SAR 2.00 billion Tier II Sukuk to further support capital and our core funding. The issuance was one of the most successful and largest issuances during 2016, where we were able to issue SAR 2.00 billion at favorable profit rate.

Treasury overall continued to operate in strong adherence with all policies, procedures and risk framework. Nevertheless, we will keep updating our procedures, risk framework and modernize our technical system to provide our clients with best solutions and meet the regulatory commitments.

Human Capital Group (HCG)

Following through from the progress and goals achieved in 2015, the HCG continued its vital strategic role in 2016 as a full practical, consultative, advisory and administrative partner to all business functions, while complying with all relevant regulatory guidelines and mandates, with continued focus on recruitment, development, systems application enhancements, leading to a mix of long term top talent retention and a noticeably improved performance excellence curve for all bank staff.

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

In 2016, the HCG continued to partner with all business groups to increase proficiency and effectiveness of all available manpower resources by focusing on the direct Human Capital Relationship Management role in conveying all strategic and critically important business line staff initiatives and programs to all business areas, spearheaded by the completion and launch of the "Manager's Handbook" Program, which was designed and produced to establish and enforce a unif ied corporate culture for all management personnel in the Bank. A new e-learning training platform utilizing the latest technology was also successfully established and launched before the end of the year, as well as an upgrade of the manager's and supervisor's faculties and facilities systems on the HRMS system and pages on the bank's general "Tawasul" portal, all aimed at improving job stability across all bank disciplines and areas, and reinforcing the philosophy and efficacy of the Succession planning policy.

Additionally, the HCG assured the highest possible HC practices audit ratings by maintaining its "Zero Findings" record in all financial and regulatory compliance audits and through the continual development and update of new policy and practices enhancements and governance initiatives, especially in the innovative and noticeable Master Compensation and Benefits Policy development and it's all time high level of regulatory compliance.

As was the case in 2015, Saudi recruitment and training for the new "Fawri" remittance centers and the Branch Network Certification and Development programs took center stage again in 2016, which have thus far collectively accomplished (21) batches totaling (500) graduating candidates over the past 3 years, and they continue to be great talent attractors, along with the bank's continued commitment towards numerous new internship opportunities for high school and trade school diploma holders, undergrads & post graduate candidates.

The Bank has accordingly maintained its high success rate of effective Saudization of more than 92%. Furthermore, 2016, also reflected an optimum current bank needs and market demand training activity totals with more than)300(annual training events taking place, in addition to the administration of Bank and System wide required regulatory Compliance, Security and Anti Money Laundering and other compliance requirement refreshers for the entire bank population.

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

Enterprise Risk Management Group (ERMG)

In 2016 Bank Aljazira continued its drive to focus on strengthening the Risk Management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management remained committed to ensure that the bank adopts best in class risk practices and has the necessary infrastructure, in terms of people, processes and systems so that the practices adopted become embedded in the cultural fabric of the bank.

With the vision and tone set by the bank's top management, the priority was to strengthen the Enterprise Risk Management function with core emphasis on:

1. Building a robust architecture and risk strategy to facilitate not only the current business strategy but also to adapt to the changes in the bank's future business strategy and vision.
2. Investment and development of risk analytics capabilities and technology to lay a strong foundation for the Risk Data Mart. In this regards the bank is in advanced stages of completing the first phase of its endeavor to adopt the BCBS 239 practices. The ultimate vision of the bank is to develop a state of the art Risk Data Warehouse serving as the single source of truth for all risk data and analytics needs.
3. Delineation of the approvals and review processes, ensuring that Risk Approvers and Reviewers remain independent with an objective of strict adoption to Credit Committee Culture and minimum four eyes principle.
4. Alignment and enrichment of the Enterprise Information Security Function in line with SAMA regulations and guidelines. The bank continued its effort to strengthen its Enterprise Information Security practices

and to align the same with the best in class. Specific projects focusing on fortifying the Enterprise Information Security practices and awareness thereof have been undertaken and being initiated as well.

5. Implementation of the Basel Program, perceived as a critical opportunity to:
   a. Upgrade and align the bank's policies and procedures to ensure that the same are in line with the global best practices and local regulatory requirements.
   b. Development , institutionalization and monitoring of a detailed Risk Appetite Framework, which acts not only as a connection between the Board's strategy and Business's execution of the same, but also serves as a feedback loop to ensure alignment of the strategy with the prevailing business and regulatory environment.
   c. Review, validation and improvement of the Pillar – 2 Risk Assessment Models, on a continuing basis, aligning them to the industry's best practices and SAMA guidelines and expectations.
   d. Automation of Pillar-1 and Pillar-3 reporting to ensure that these reports are accurate, timely and remain in line with the regulatory expectations. In this respect the bank has successfully tested and implemented the automated preparation and generation of the Pillar-1 regulatory reporting. The automated reports are currently in the parallel run phase and upon completion of the same, a formal approval from SAMA will be sought before transitioning to the new system.
6. Refining and Strengthening the Stress Testing framework, prepared in light of best in class practices, SAMA, Basel, IMF And World bank guidelines, inclusive of procedures and methodology, enabling the bank to not only conduct Regulatory stress testing but also perform in-house and / or ad hoc stress testing for various business lines and their respective portfolios. Results of the stress testing are taken as a valuable feedback for business and capital planning purposes on a forward looking basis.
7. Ensuring that the bank remains one of the early adopters of IFRS-9. In this regards the bank has adopted a project centric approach to ensure that IFRS-9 implementation is given the focus and attention that it warrants. The bank is ensuring that the most appropriate scenarios and models are developed to ensure impairments and expected credit loss calculations for the bank are in full compliance with the requirements of IFRS-9 and SAMA guidelines.
8. Ensuring through validation and calibration that our credit risk rating models and score cards maintain their forecasting power to assess the risk associated with default of a prospective and / or existing customer. The bank has successfully validated and implemented the first batch of its recalibrated models and is now in advanced stages of developing, validating and recalibrating its remaining models.

Internal Audit Group

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

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

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

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

Shari'ah Group

Shariah Quality: The Group continued focusing on Sharia Quality of the bank services and products in order to achieve the aspirations of its customers and shareholders as pioneer Islamic bank, by intensifying the review and audit process of the bank's transactions so as to ensure that all activities of the Bank and its subsidiaries are compliant with the Islamic Sharia rules and submit quarterly reports to the bank's Sharia Supervisory Board. Average of review samples has reached to 28% of total executed transactions in the bank.

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

Research: The Group is aware that in order to achieve its objectives and pursuing to maintain the Bank's status as a pioneer bank in the Islamic banking field, it should collect information and prepare reports and questionnaires about Islamic banking market and its products and the extent of customers satisfaction about it. So, the Research Department of the Group has continued in collecting and analyzing data and information, preparing various reports about the banking market in the Kingdom of Saudi Arabia and the fields of competition, strengths and weaknesses and customers' expectations.

Learning and Training: Investment in human asset of the bank by way of learning and training is one of the Sharia Group priorities, particularly in respect of Islamic Banking. Hence the Group has sought through cooperation with HR Group to develop a training program to train the staff of the bank on the fundamentals of Islamic banking through online learning and also conduct a direct training sessions with the staff; which the Group has participated in the preparation and presentation of the learning materials of these courses.

These procedures had a deep effect on how the society and customers look at the bank as they have enhanced as the level of confidence in the Bank as an Islamic bank; and also have contributed to the Bank›s winning of a number of awards in the Islamic Financial Services field.

Our excellence and leadership in the Islamic banking industry is due to the Bank's commitment in all its activities to the principles and rules of Islamic Sharia and according to the decisions and recommendations of their honor the scholars; the members of the bank's Shariah Supervisory Board.

Support Groups

The Support Group continues to partner all business and functional areas so that they meet their strategic goals in terms of customers, regulation, staff, reporting and controls.

Strategy & Business Transformation Group (S & BTG)

The S & BTG supported various bank-wide implementations of regulatory and operational improvements in partnership with all business areas. Key achievements included important personal loan and credit card service enhancements, significant changes to the online functionality for the Corporate Division, Treasury system enhancements and FAWRI Remittance capabilities along with several key mandatory SAMA developments (e.g. MADA offline, Credit Card, Consumer lending requirements, etc.)

Information Technology

We continue to build technology systems to support the development of new products and services in alignment with the strategy of all business and functional areas. This year was dominated by a focus on hardware and software improvements to the core systems of the bank to support the fast growing customer base. We also made important progress in improving the recovery and resilience of all systems in the event of disaster or temporary outage.

Logistics

Logistics delivered 4 new branches and 11 Fawri locations during the year. The capacity of the archiving warehouse was significantly improved and important changes were made to archiving daily controls.

Operations

Operations made some successful customer service and systems improvements during the year and continue to focus on achieving ongoing operational efficiency while retaining key controls.

Business Continuity & Simah Management

The Business Continuity area continues to focus on important areas of business recovery in the event of disaster with successful testing throughout the year. The Simah area focused on improving the quality of our Simah credit data with daily uploads to Simah from key business areas.

Vendor & Contract Relationship Management

We continue to work closely with all of our important vendors ensuring competitive pricing and effective services.

Aljazira Capital Company

2016 was another profitable year for AlJazira Capital (AJC) despite the lower level of market trading that prevailed during the year. The Company retained its leading local brokerage market position with a market share of 14.8% (2015: 16.2%).

AJC's competitive edge in the local brokerage business was maintained through its relentless focus on serving the needs of its clients on its proprietary trading platform, Tadawulcom, and its continued commitment to invest in both the upgrade and development of its online brokerage capabilities. AJC's local brokerage business executed trades during 2016 amounting to SAR 342 billion (2015: SAR 539 billion).

The company also maintained its investment in the development of other business lines including its asset management and investment services product offerings. Assets under management by the Company for clients in public funds grew by 42% during the year from SAR 2.6 billion to SAR 3.7 billion. Management is particularly pleased to report that AJC's Al-Qawafel Fund (a Shariah compliant money market Fund) was one of the top 3 performing Funds in its category during 2016; this performance was reflected in the fact that assets under management in this particular Fund grew by 92% during 2016 from SAR 1.3 billion to SAR 2.5 billion by the end of the year. 2016 also witnessed diversification in the Company's offering of discretionary portfolio management and non-discretionary money market investment products to its clients.

The company was pleased to receive the 'Fastest Growing Islamic Brokerage House, KSA, 2016' and 'Best Brokerage CEO, KSA, 2016' awards from International Finance Magazine; both awards in recognition of the Company's successful brokerage services business.

The Company remains optimistic regarding the potential for the future development and growth of local markets. Management believes that, in spite of geopolitical uncertainties, the economic prospects for the Saudi economy are positive for the further development of capital markets in the Kingdom of Saudi Arabia.

Community Service

Bank AlJazira continued, through 'Khair Aljazira le Ahl Aljazira' program, the introduction and implementation of an array of high quality programs which contribute to social responsibility in 49 cities and regions of the Kingdom.

The Bank also continued to emphasize its role as a principal contributor to the running of sustained development wheel in the community by continuing to implement its programs and social partnerships with non-profit institutions and charities.

Training and rehabilitation of needy segments in our community are among the main targets of Khair Aljazira le Ahl Aljazira program. For this reason the bank offered support to small and micro projects by providing (interest-free loans) for needy families to enable them to establish their own commercial, industrial or service projects, thereby helping them to shift to the productive side. The bank also continued its focus on providing educational and professional rehabilitation to male and female youth by introducing training programs to prepare them to the labor market and to enable them to own life basic skills.

During the holy month of Ramadan, the Bank, in participation with the National Committee for Prisoners Relief – Tarahum, contributed to the release of 30 male and female financial-right prisoners; in addition, the Bank provided support to marketing festivals held for promotion of the commodities produced by the productive families in different cities of the Kingdom in order to help them increase their income. It also provided support the programs targeting special needs individuals (Disabled, Blind, Deaf, Down Syndrome, Hypertension, and Autism). Quality programs were also provided to the families of handicapped persons and those who deal with them.

In the endeavors to develop non-profit sector, the Bank contributed to the building of the sector's capabilities through a set of leading development programs for the social work leaders and workers, establishment of the infra-structure for charitable and community societies by introducing many computer labs and business incubators and training halls, in addition to electronic labs in a number of Koran reciting societies and others in various cities and regions of the Kingdom.

The number of male and female youth who benefited from the various activities and functions of ('Khair Aljazira le Ahl Aljazira') program in 2016 stands at 7,327 persons in different cities and regions of the Kingdom of Saudi Arabia.

Awards and Certification

Bank AlJazira has received the following awards:

- Best Private Bank Saudi Arabia 2016 awarded to BAJ by Global Banking and Finance Review.
- Best Regional Private Bank to Watch in Saudi Arabia 2016 awarded to BAJ by Private Banker International (PBI).
- Data Quality Award – awarded to BAJ by Saudi Credit Bureau - SIMAH
- Best Private Bank in Saudi Arabia 2016 – awarded to BAJ by Global Banking and Finance Review
- Best Regional Bank to Watch 2016 – awarded to BAJ by Private Banker International
- Top 100 CEO in GCC – awarded to BAJ by Trends Magazine and INSEAD Business School
- Best Arab Donor foundation 2016
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2015 – Cambridge IF Analytica

- Best Remittance Middle East 2015 – CPI Financial
- Best Donor Organization – Non Governmental Arab Grants Council
- Best Private Bank 2015 – Global Banking and Finance Review
- Contact Center Award for Best Mid-Sized Inhouse Contact Center and Best Customer Service – Mid Sized Inhouse Center in EMEA 2015 Rank Number 1 – Contact Center World
- Okaz Awards for Professional Excellence – Okaz Newspaper
- Award for Being among the Top 100 Saudi Brands for 2015 – Al Watan Newspaper
- Data Quality Award in 2015 from the Saudi Credit Bureau (SIMAH)
- Best Retail Bank 2014 – World Finance Awards
- Best Credit Card 2014 – Banker Middle East Product Awards
- Best Real Estate Financing 2014 – Banker Middle East Industry Awards
- Best Islamic Bank – World Finance Award, KSA – World Finance Magazine
- Best Mobile Banking Award – MENA region by the EUROPEAN Magazine
- Ideal Institution award for Supporting Social and Developmental Actions – Bahrain / GCC Council of Ministers of Social Affairs.
- Award for being among the TOP 100 Saudi Brands in the presence of Prince Bandar Bin Khalid Al-Faisal, Chairman of Aseer Publishing, and Large Number of Government, Private and Media Representatives.
- 7 awards in the Contact Center World Awards – EMEA region 2013 Vienna as follows:
  - Gold Medal – Best Call Center Awards
  - Gold Medal – Best Customer Service Award
  - Silver Medal – Sales Incentives Award
  - Gold Medal – Executive Leader Award
  - Gold Medal – Technical Support Award
  - Gold Medal – Supervisor Award
  - Silver Medal – Call Center Agent Award
- Best Contact Center Manager in the Middle East – Dubai Insights Middle East
- Best Contact Center in the World 2013 Rank 1 and Gold Medal, Contact Center World
- Best Customer Service in the World 2013, Rank 1 and Gold Medal, Contact Center World
- Best Executive Leader in the World 2013, Rank 3 and Bronze Medal, Contact Center World

Gratitude

The Board of Directors of Bank AlJazira would like to take this opportunity to express their thanks and gratitude to our wise government under the leadership of the Custodian of the two Holy Mosques, King Salman bin Abdulaziz Al Saud, HRH Prince Muhammad Bin Nayef bin Abdulaziz Al Saud, the Crown Prince and Deputy Prime Minister, and the Minister of Interior, HRH Prince Mohammad bin Salman Abdulaziz Al Saud, the Deputy Crown Prince, Second Deputy Prime Minister and Minister of Defense, and all Ministers.

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

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

Shariah Supervisory Board's Report

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

Dear Shareholders,

The Shariah Board has reviewed and discussed the final annual report prepared by the Shari'ah Group of the Bank that includes but not limited to examination and auditing of procedures based on random samples of each type of products and services offered by the bank.

The Shari'ah Board of Bank Aljazira also reviewed the observed principles related to the contracts, transactions and products launched by the Bank during the period ended 31/12/2016. The Shari'ah Board issued fatwas, instructions and necessary decisions for guidance of the Bank's management. The executive management of the bank is responsible to make sure that the bank operates in accordance with the rules and principles of Islamic Shariah and the guidance provided by the Bank's Shari'ah Board. Whereas the Shari'ah Board's responsibility is restricted to providing an independent opinion based on its monitoring of the operations of the Bank and presenting its report in the Annual General Assembly.

The Shari'ah Board obtained all the necessary information and explanations which it considered necessary to provide reasonable assurance that the Bank did not violate the Shari'ah rules and principles of Islamic law.

In the final opinion of the Shari'ah Board all contracts, operations and transactions executed by the Bank during the period mentioned in the report are compliant with the rules of Islamic Shari'ah. The observations related to some non- Shari'ah compliant instances reported in the annual report of Shari'ah compliance review do not materially affect in the overall operations of the Bank. Some of these instances are rectified by the management of the Bank, and the remaining will be handled during the course of the current Fiscal year.

May Allah guide us to the right path.

Assalamu'alaikum warahmatullahi wabarakatuh

Sheik Abdulla Bin Suleiman Al-Mane'e	Chairman
Dr. Abdulla Bin Mohammed Al-Mutlaq	Vice Chairman
Dr. Mohammed Bin Ali El-Gari	Member
Dr. Abdulsatar Abu-Ghuddah	Member
Dr. Fahad Bin Ali Al-Elayan	Rapporteur

Internal Control Statement

Management Responsibility

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

Scope of Internal Audit Department

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

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

Evaluation and Assessment of the Effectiveness of the Internal Controls

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

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

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

Management Response on the Evaluation of Internal Controls

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

Board of Directors Response on the Evaluation of Internal Controls

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

Shahid Amin	**Ibrahim Al-Hurabi**	**Mona Al-Shaghaa**
Chief Financial Officer	Head of Internal Audit	Head of Compliance


BANK ALJAZIRA
بنك الجزيرة

Branches Network

Western Region

Makkah

Aziziah Branch
Tel: (+966) 12 5571010
Fax: (+966) 12 5531655

Al Shawqiya Branch
Tel: (+966) 12 5391826
Fax: (+966) 12 5382493

Al-Awali Branch
Tel: (+966) 12 5501453
Fax: (+966) 12 5501453

Madinah

Madinah Branch
Tel: (+966) 14 8451111
Fax: (+966) 14 8451953

Madinah Branch (Ladies)
Tel: (+966) 14 8451956
Fax: (+966) 14 8451952

Khalidiyah Branch
Tel: (+966) 14 8491328
Fax: (+966) 14 8692579

Khalidiyah Branch (Ladies)
Tel: (+966) 14 8693381
Fax: (+966) 14 8692579

Jeddah

Jeddah Main Branch (Al Nahda; formerly)
Tel: (+966) 12 6098500
Fax: (+966) 12 2346838

Jeddah Main Branch (Ladies)
Tel: (+966) 12 6098520
Fax: (+966) 12 2347227

Tahlia St. Branch
Tel: (+966) 12 261072
Fax: (+966) 12 2610485

Tahlia St. Branch (Ladies)
Tel: (+966) 12 2610730
Fax: (+966) 12 2610731

Al Balad Branch
Tel: (+966) 12 6485533
Fax: (+966) 12 6484599

Khalid Bin Al-Waleed St Branch
Tel: (+966) 12 6518070
Fax: (+966) 12 6518070 Ext 1025

Prince Sultan St. Branch
Tel: (+966) 12 6075450
Fax: (+966) 12 6075450 Ext 208

Prince Sultan St. Branch (Ladies)
Tel: (+966) 12 6070828
Fax: (+966) 12 607012

Al Bsateen Branch (Alaya; formerly)
Tel: (+966) 12 6949224
Fax: (+966) 12 6949117

Al Salama Branch
Tel: (+966) 12 6919719
Fax: (+966) 12 6919717

Al Safa Branch
Tel: (+966) 12 6736712
Fax: (+966) 12 6736874

Al Steen King Fahad St. Branch
Tel: (+966) 12 6597749
Fax: (+966) 12 6597251

Al Samer Branch
Tel: (+966) 12 2716058
Fax: (+966) 12 2721870

Al Rabwa Branch (Almakaronah; formerly)
Tel: (+966) 12 6827683
Fax: (+966) 12 6836578

Al Naeem Branch
Tel: (+966) 12 6134333
Fax: (+966) 12 6130401

Al Rehab Branch
Tel: (+966) 12 6748585
Fax: (+966) 12 6756460

Al Rehab Branch (Ladies)
Tel: (+966) 12 6750190
Fax: (+966) 12 6731846

Makkah Road Branch
Tel: (+966) 12 6896600
Fax: (+966) 12 6874729

Al Musa'adia Branch
Tel: (+966) 12 6610112
Fax: (+966) 12 6610108

Al Musa'adia Branch (Ladies)
Tel: (+966) 12 6673700
Fax: (+966) 12 6673700 Ext 8357

Al Noor Branch
Tel: (+966) 12 6098752
Fax: (+966) 12 6098752

Sari Branch
Tel: (+966) 12 6901392
Fax: (+966) 12 6901392

Al Taif

Shehar Branch
Tel: (+966) 12 7426678
Fax: (+966) 12 7401737

Al Faisaliah Branch
Tel: (+966) 12 7600116
Fax: (+966) 12 7600116

Rabigh

Rabigh Branch
Tel: (+966) 14 4233311
Fax: (+966) 14 4233366

Tabouk

Tabouk Branch
Tel: (+966) 14 4432676
Fax: (+966) 14 4218320

Yanbu

Yanbu Branch
Tel: (+966) 14 3572953
Fax: (+966) 14 3572953

Branches Network

Central Region

Riyadh

Olaya Branch
Tel: (+966) 11 2157000
Fax: (+966) 11 2157016

King Fahad Road Branch
Tel: (+966) 11 2051870
Fax: (+966) 11 2051870 Ext 6151

King Fahad Road Branch (Ladies)
Tel: (+966) 11 2256161
Fax: (+966) 11 2256166

King Abdullah Road Branch
Tel: (+966) 11 2071460
Fax: (+966) 11 2071362

King Abdullah Road Branch (ladies)
Tel: 2696228 11 (966+)
Fax: 2693650 11 (966+)

Al Qods Branch (Uqba Bin Nafe'a; formerly)
Tel: (+966) 11 2781416
Fax: (+966) 11 2784616

Al Qods Branch (Ladies)
Tel: (+966) 11 2784387
Fax: (+966) 11 2784359

Khurais Road branch
Tel: (+966) 11 2256399
Fax: (+966) 11 2350380

Khurais Road branch (Ladies)
Tel: (+966) 11 2351999
Fax: (+966) 11 2337490

Al Nassem Branch
Tel: (+966) 11 2357813
Fax: (+966) 11 2356876

Al Ma'ather Branch
Tel: (+966) 11 8108058
Fax: (+966) 11 8108058

Al Malqa Branch
Tel: (+966) 11 4103017
Fax: (+966) 11 4103017

Al Rayyan Branch
Tel: (+966) 11 2080166
Fax: (+966) 11 2080166 Ext 210

Al Rayyan Branch (Ladies)
Tel: (+966) 11 2085366
Fax: (+966) 11 2080166 Ext 258

West Ring Road Branch (Dahrat Al-Badiah;formerly)
Tel: (+966) 11 4338441
Fax: (+966) 11 4303682

Al Takhasusi Branch
Tel: (+966) 11 2936599
Fax: (+966) 11 2936560

Al Takhasusi Branch (Ladies)
Tel: (+966) 11 2937449
Fax: (+966) 11 2937451

Al-Suwaidi Branch
Tel: (+966) 11 4289476
Fax: (+966) 11 4493064

Al-Suwaidi Branch (Ladies)
Tel: (+966) 11 4287523
Fax: (+966) 11 4288735

Al-Nafl Branch
Tel: (+966) 11 2751086
Fax: (+966) 11 274150

Al-Nafl Branch (Ladies)
Tel: (+966) 11 2751086
Fax: (+966) 11 2755681

Al Kharj Branch
Tel: (+966) 11 5476254
Fax: (+966) 11 5476273

Al Rawdah Branch
Tel: (+966) 11 2543847
Fax: (+966) 11 2543843

Al Shefa Branch
Tel: (+966) 11 2715589
Fax: (+966) 11 2715590

Sultana Branch
Tel: (+966) 11 4285096
Fax: (+966) 11 4283873

Ishbilia Branch
Tel: (+966) 16 8123689
Fax: (+966) 16 8128543

Al Sahafa Branch
Tel: (+966) 11 8102590
Fax: (+966) 11 2936560

Al Mrouj Branch
Tel: (+966) 11 4154893
Fax: (+966) 11 4154893

Al Malaz Branch
Tel: (+966) 11 2913948
Fax: (+966) 11 2913948

Huteen Branch
Tel: (+966) 11 2145324
Fax: (+966) 11 2145324

Qurtobah Branch
Tel: (+966) 11 2936599
Fax: (+966) 11 2936560

Qasim

Buraidah Branch
Tel: (+966) 16 3835310
Fax: (+966) 16 3835306

Onizah Branch
Tel: (+966) 16 3617547
Fax: (+966) 16 3618412

Hail

Hail Branch
Tel: (+966) 16 5712157
Fax: (+966) 16 5712157

Branches Network

Southern Region

Jazan

Jazan Branch
Tel: (+966) 17 3228594
Fax: (+966) 17 3228601

Abu Areesh Branch
Tel: (+966) 17 3346477
Fax: (+966) 17 3346477

Abha

Abha Branch
Tel: (+966) 17 2260798
Fax: (+966) 17 2296243

Najran

Najran Branch
Tel: (+966) 17 5236291
Fax: (+966) 17 5238267

Khamis Mushait

Khamis Mushait Branch
Tel: (+966) 17 2216465
Fax: (+966) 17 2260798

Khamis Mushait Branch (Ladies)
Tel: (+966) 17 2216465
Fax: (+966) 17 2351022

Branches Network

Eastern Region

Dammam

Dammam Main Branch
Tel: (+966) 13 8321272
Fax: (+966) 13 8343314

Jarir Branch
Tel: (+966) 13 8421961
Fax: (+966) 13 8417226

Al Jalawea Branch
Tel: (+966) 13 8153394
Fax: (+966) 13 8153379

Al Faisaliah Branch
Tel: (+966) 13 8116653
Fax: (+966) 13 8116702

Al Khaleej Branch
Tel: (+966) 13 8346928
Fax: (+966) 13 8348156

Al Khobar

Al-Hada District Branch
Tel: (+966) 13 8820040
Fax: (+966) 13 8878653

Al-Hada District Branch (Ladies)
Tel: (+966) 13 8828848
Fax: (+966) 13 8828722

Al Shatee Branch
Tel: (+966) 13 8087758
Fax: (+966) 13 8084458

Al Shatee Branch (Ladies)
Tel: (+966) 13 8089986
Fax: (+966) 13 8082283

King Khalid St. Branch
Tel: (+966) 13 8942512
Fax: (+966) 13 8985330

Al Khobar Main Branch
Tel: (+966) 13 8668012
Fax: (+966) 13 8348156

Dhahran

Al Doha Branch
Tel: (+966) 13 8916148
Fax: (+966) 13 8912059

Al Doha Branch (Ladies)
Tel: (+966) 13 8916149
Fax: (+966) 13 8912869

Tilal Al Doha Branch
Tel: (+966) 13 8309188
Fax: (+966) 13 8309188

Al-Ahsa

Al Hofuf Main branch
Tel: (+966) 13 5863555
Fax: (+966) 13 5843111

Al Shahbiyah Branch
Tel: (+966) 13 5893952
Fax: (+966) 13 5889078

Al Shahbiyah Branch (Ladies)
Tel: (+966) 13 5995560
Fax: (+966) 13 5995560

Al Mabraz Branch
Tel: (+966) 13 8084381
Fax: (+966) 13 8084381

Al Salmaniyah Branch (Al Nakheel; formerly)
Tel: (+966) 13 5754310
Fax: (+966) 13 5364987

Jubail

Jubail Industrial –AlFanateer Branch
Tel: (+966) 13 3670157
Fax: (+966) 13 3670157

Jubail Plaza Branch
Tel: (+966) 13 3471386
Fax: (+966) 13 3471426

Qateef

Qateef Branch
Tel: (+966) 13 8545463
Fax: (+966) 13 8545367

Qateef Branch (Ladies)
Tel: (+966) 13 8529900
Fax: (+966) 13 8558437

Hafer Al Baten

Hafer Al Baten Branch
Tel: (+966) 13 3471386
Fax: (+966) 13 3471426

Fawri فوري

خدمـــات تحـــويل الأمــــوال

Money Transfer Services

Central Region	Eastern Region	Western Region
Al Batha/ Gaghazali BR. 6101 Tel : (+966) 11 4068467 11 4068524	**Jubail – 6705** Tel : (+966) 13 3448685 13 3448760	**Al- Balad Br. – 6301** Tel : (+966) 12 2899757 12 2894596
AL-Balad (Manila) Br. 6102 Tel : (+966) 11 8108056 11 8108058	**Dammam Main – 6701** Tel : (+966) 13 8341347 13 8341976	**Al- Heraa Br. – 6302** Tel : (+966) 12 6826902 12 6834007
AL-Askary Br. 6105 Tel : (+966) 11 4774889 11 4776472	**Block 91– 6702** Tel : (+966) 13 8190058 13 8190049	**Al- Bawadi Br. – 6303** Tel : (+966) 12 6558167 12 6558592
AL-Morooj Br. 6106 Tel : (+966) 11 2031861 11 2033058	**Al Thouqba Br. 6711** Tel : (+966) 13 8088319 13 8089747	**Mishrifa Br. – 6306** Tel : (+966) 12 6737669 12 6736713
Al-Khaliyah Br. / 6103 Tel : (+966) 11 4469290 11 4469311	**Al Eisa Mall – Al-Khobar Br. 6710** Tel : (+966) 13 8084917 13 8088173	**Abha Br. – 6605** Tel : (+966) 17 2240401 17 2283150
Al-Kharj Br. 6120 Tel : (+966) 11 5456467 11 5456476	**Al-Jalaweyah Br. 6703** Tel : (+966) 13 8172190 13 8172623	**Taif Br. – 6330** Tel : (+966) 12 7322543 12 7327792
Al-Mountazah Br. 6107 Tel : (+966) 11 4083414 11 4083384	**Al Jubail 2 Br. - 6706** Tel : (+966) 13 3615383 13 3632256	**Bani Malik Br. – 6307** Tel : (+966) 12 6727797 12 6727727
Al-Rawdah Br. 6110 Tel : (+966) 11 2278447 11 2277506	**Industrial 2 Br. - 6709** Tel : (+966) 13 8021910 13 8021859	**Al-Hamdaniyah Br. – 6311** Tel : (+966) 12 6071194 12 6070316
Al-Sulimania Br. 6104 Tel : (+966) 11 4778350 11 4778541	**Al Akrabiah Br. 6714** Tel : (+966) 13 8984349 13 8949425	**Yanbu Br. – 6347** Tel : (+966) 14 3572748 14 3573406
Manfouha Br. 6108 Tel : (+966) 11 4571278 11 4571329	**Al Ahsa Br. 6731** Tel : (+966) 13 5732774 13 5732775	**King Abdullah Br. Al Medina Al Menwara – 6340** Tel : (+966) 14 8280357 14 8280328
Al Naseem Br. 6111 Tel : (+966) 11 2324529 11 2328366		**Najran Br. 6620** Tel : (+966) 17 5221993 17 5221846
Al Badiah Br. 6109 Tel : (+966) 11 4101878 11 4101890		**Al Kakyah Br. 6360** Tel : (+966) 12 5307034 12 5306986
Al Sulay - 6113 Tel : (+966) 11 2415523 11 2415523		**Bin Ladin Br. 6316** Tel : (+966) 12 6811358 12 6811357
Al Yasmine - 6115 Tel : (+966) 11 8120043 11 8120051		
Industrial 2 - 6119 Tel : (+966) 11 8104209 11 8109653		
Buraidah Br. Qaseem 6501 Tel : (+966) 16 3694869 16 3271294		
Haiel Br. 6510 Tel : (+966) 16 5349317 16 5314518		

Central Region

King Fahd Road Tel: (+966)11 2256000 Fax: (+966)11 2256182	**Ocbah Bin Nafee** Tel: (+966)11 2781416 Fax: (+966)11 2780486	**Al-Nafel** Tel: (+966)11 2751086 Fax: (+966)11 2742590
Al-Suwaidi Tel: (+966)11 4288749 Fax: (+966)11 4493064	**Al Olaya** Tel: (+966)11 2157111 Fax: (+966)11 2157117	**Al-Riyan** Tel: (+966)11 2083316 Fax: (+966)11 2080166 - Ext. 306
King Abdullah Tel: (+966)11 2071460 Fax: (+966)11 2071362	**Alrayan - Ladies** Tel: (+966)11 2085366 Fax: (+966)11 2085366 - Ext. 258	**King Fahd Road-Ladies** Tel: (+966)11 2256481 Fax: (+966)11 2256023

Qassem Region

Oniza Tel: (+966) 16 5712157 Fax: (+966) 16 5712157	**Buraida** Tel: (+966) 16 5712157 Fax: (+966) 16 5712157	**Buraida - Hail** Tel: (+966) 16 5712157 Fax: (+966) 16 5712157

Eastern Region

Al-Khubar Alhada Tel: (+966) 13 8820040 Fax: (+966) 13 8820040	**Dammam** Tel: (+966) 13 8321272 Fax: (+966) 13 8321272-Ext. 603	**Jubail** Tel: (+966) 13 3471422 Fax: (+966) 13 3471426
Qatif Tel: (+966) 13 8545370 Fax: (+966) 13 8529925		**Hafuf** Tel: (+966) 13 5861590 Fax: (+966) 13 5854092

Western Region

Mosaadia Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Mosaadia - Ladies** Tel: (+966) 12 6683600 Fax: (+966) 12 6692019	**Al-Nahda** Tel: (+966) 12 6098888 Fax: (+966) 12 6098560
Sari Tel: (+966) 12 6901200 Ext.4400 Fax: (+966) 12 6901200 Ext.4400	**Madina Monawara** Tel: (+966)14 8451111 Fax: (+966)14 8451959	**Taif** Tel: (+966)12 7409692 Fax: (+966)12 7431253

Southern Region

Abha Tel: (+966) 17 2260851 Fax: (+966) 17 2260851	**Khamees Mushait** Tel: (+966) 17 2219580 Fax: (+966) 17 2358385	**Najran** Tel: (+966) 17 5230421 Fax: (+966) 17 5238267

P.O.Box 20438 Riyadh 11455

الجزيرة تكافل
Aljazira Takaful

Western Region		
Jeddah (Ladies)	Jeddah Alandlus Dist Madina Rd -South (Mosaedia Center 3) & Ladies	Tel: (+966) 12 6688877 Fax: (+966) 12 6677319
Madinah (Ladies	King Abdullah Rd Sultana St Intersection – Entrepreneurship Bldg 2nd Floor & Ladies	Tel: (+966) 14 8318311
Central Region		
Riyadh (Men)	King Abdullah Rd., Al Quds Dist.	Tel.: (+966) 11 2784214 Fax: (+966) 11 2784214 Ext : 381
Eastern Region		
Khobar (Men)	King Saud Rd with Prince Faisal bin Fahad Rd. Close Abdulatif Jamil Co. Side of Mall of Dhahran	Tel: (+966) 13 8820040 Ext : 765

Takaful Ta'awuni Toll free Number

800 244 0959

FINANCIAL STATEMENT

CONTENTS

Ernst & Young & Co. (Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45

KPMG Al Fozan & Partners
Certified Public Accountant
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank Al Jazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income; comprehensive income, changes in equity and cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 43.

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

- present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and 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 Authoirty ("SAMA") and with International Financial Reporting Standards ("IFRS"); and.
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Basis for Opinion

- We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Title of risk	The key audit matter	Audit response
Loan impairment	At 31 December 2016, the gross financing balance was SR 42.86 billion against which an aggregate impairment allowance of SR 756.57 million was maintained. This includes both impairment against specific corporate financing and collective impairment recorded on a portfolio basis calculated using models based on historical defaults patterns and SAMA guidelines. We considered this as a key audit matter as the Group makes complex and subjective judgements and uses assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against financing includes: • the identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing; the use of assumptions underlying the calculation of collective impairment for financing portfolios, and the use of the models, as mentioned above to make those calculations; and • an assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to the significant accounting policies note 2(m) to the financial statements, note 2(d)(i) which contains the disclosure of significanat accounting estimates relating to impairment against loans and advances note 6 which contains the disclosure of impairment against loans and advances and note 2(d)(iii) which explains the impairment assessment methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. To form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner, we performed detailed credit assessments on a sample of loans and advances (including loans that had not been identified by management as potentially impaired) Our procedures included assessing and testing the key controls and management procedures relating to: • The credit grading process, to assess if the risk grades allocated to individual exposures were appropriate. • Identification of impairment events. • Controls over valuation of collaterals held. The timely recognition of impaired loans and advances through automated and manual controls. Where impairment was individually assessed, we obtained an understanding of the latest developments with respect to the borrowers and the basis of measuring the impairment allowances and considered whether key judgments were appropriate given the borrowers' circumstances on sample basis. We also tested on a sample basis the impairment calculation performed by the management. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, discount rates and valuation of collateral held, and challenged the management to consider that the valuations were up to date and consistent with the strategy being followed in respect of the particular borrower.

Title of risk	The key audit matter	Audit response
		For individually assessed loans, we also selected a sample of loans for industries adversely affected by the current economic conditions and compared them with our own understanding of the relevant industries and business environments to evaluate management's impairment assessment for such loans. For the collective impairment models used by the Group, we: • Tested the completeness and accuracy of the underlying loans and advances information used in the impairment models by agreeing the details to the Group's source GL system • tested the historical data used in the models from underlying systems and records on sample basis; • evaluated the assumptions used by management including those used in validation of probability of default, loss given default and delinquency days analysis etc. used in the models; and • Checked the arithmetical accuracy and formulae used within the model.
Fee from banking operations	*The Group's accounting policy related to revenue measurement and recording were described in note 2(i) to the consolidated financial statements* The Group charges loan processing fee and certain other amounts upfront to the customers on corporate and retail financing and recognizes the same within fee and commission income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be recognized as an adjustment to effective yield within special commission income. However, due to large volume of transactions with mostly insignificant fee amounts, adjustments to effective yield is made by the management based on certain thresholds and assumptions. We considered this as a key audit matter since the use of inappropriate thresholds and assumptions could result in material over/ under statement of fee and commission income and special commission income.	We performed the audit procedures in response to this risk included the following: • We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds for making the adjustments to the effective yield of financing for which the commission has been received. • We assessed the reasonableness of assumptions used and thresholds established by the Group to record the fee and commission income on financing. • We obtained the management's assessment of the impact of the use of thresholds and assumptions on fees and commission income and: o traced the historical and current year data used by the management to the source documents; o assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee and commission income and special commission income.

Title of risk	The key audit matter	Audit response
Zakat and income tax	*The Group's accounting policy related to zakat and income tax is described in note 2 (w) and the Group's zakat and tax status is disclosed in note 27 to the consolidated financial statements* As disclosed in note 27 to the consolidated financial statements, the Group received claims from the General Authority of Zakat and Tax (GAZT) for the years up to 2011 raising additional demands aggregating to Saudi Riyals 462.2 million. The additional demand arose, as GAZT considered certain earning assets including investments as non-deductible for the purpose of computation of zakat base which consequently increased the zakat liability. The interpretation by the GAZT is being challenged by the Group individually and collectively with other banks in the Kingdom of Saudi Arabia as the treatment is considered inequitable with other sectors. The matter has been escalated to the higher authorities and ultimate outcome of the matter cannot be determined at this stage. The treatment of certain items in the Zakat calculation (resulting in additional demands) is uncertain until resolved with the GAZT. Consequently, the management makes judgments about the incidence and quantum of Zakat liabilities which are subject to the future outcome of assessments by the GAZT. The Group recognizes provisions when a reliable estimate can be made 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 embodying economic benefits will be required to settle the obligation. The Group currently considers that the outflow of resources is remote and has accordingly not provided for the additional liability and have disclosed the related contingency in note 27 to the consolidated financial statements. We considered this as a key audit matter as this matter is subjective and the amounts claimed are material.	In our audit, we addressed the appropriateness and timely recognition of costs and provisions in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. • We reviewed the correspondences between the Group and the GAZT and the Group's tax advisors. • We examined the matters in dispute, used our knowledge of Zakat regulations and involved our Zakat specialists to assess available evidence, adequacy of the net exposure disclosed, in light of the fact and circumtances of the Group. • We held meetings with those charged with governance and executive management of the Group to obtain update on the Zakat matter and the results of their interactions with the Relevant Authorities and SAMA. • We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Group.

Title of risk	The key audit matter	Audit response
Hedge accounting	*The Group's accounting policy related to hedge accounting described in note 2 (f), the carrying amount of derivate designated for hedge accounting in note 10 and movement in hedging reserves in note 17 to the consolidated financial statements* The Group's hedge its exposure to cash flow risk arising from variability of profit rates associated with the forecast payment of profit on Bank's funding activities. The hedging is achieved by entering into derivative (special commission rate swaps) contracts with independent third parties. Under IFRSs in order to qualify for hedge accounting, among other criteria, the hedging transactions should be expected to be highly effective, i.e. the changes in cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. Hedge effectiveness test was significant to the audit because of strict IFRSs requirement to qualify for the hedge accounting and volume and amounts of hedged items and instruments. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically, maturity of the hedged item and instrument estimated future profit rates and fair valuation of the derivatives, which are affected by expected future market or economic conditions globally and in the Kingdom of Saudi Arabia.	Our audit procedures in response to the risk associated with the application of hedge accounting included a detailed analysis of the Group's framework for financial risk management and hedge accounting. We assessed and tested management's controls over the establishment of hedging relationships, related documentation and monitoring, including performance of prospective and retrospective effectiveness testing. Moreover, for a selected sample of hedges, we also performed the following: • Assessing the appropriateness of the assumptions used by the management when performing hedge effectiveness test; • While considering retrospective and propsetive testing, checked the historic results with regard to existing hedging relationships, and evaluated forecasted analysis based on management's best estimates keeping in view future plans and budget to date. • Assessing the appropriateness of the fair values assigned by referring to third-party data as applicable. • Assessed how effectively the changes in cash flows of the hedging instrument offsets corresponding changes in the hedged item and whether the hedge remains effective in line with the requirements of the relevant accounting standards. • Involved our hedge accounting specialists to independently reperform the hedge effectiveness test. Further, we assessed whether the financial statement disclosures appropriately reflect the Group's hedge accounting policy, as well as, it's on and off balance sheet exposures to derivatives designated under hedging relationships.

Title of risk	The key audit matter	Audit response
Valuation of derivatives financial instruments carried at fair value	*Refer to the significant accounting policies note 2 to the Group's consolidated financial statements, note 2(ii) which explains the derivative positions and note 2d (iv) which explains the valuation methodology used by the Group.* As disclosed in note 10, the Group has entered into special commission rate swaps, cross currency commission rate swaps, structure deposits, foreign exchange options (Wa'ad Fx), and Shariah compliant derivatives. Majority of these derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as the valuation are ascertained through use of various techniques, which are inherently complex and often entail the exercise of significant judgment along with the use of sensitive assumptions. This in turn gives rise to an estimation uncertainty which is particularly high for those derivaties where related valuation techniques incorporate significant unobservable inputs. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation in general and structured derivatives in particular, where complex modelling techniques are being used and the valuation inputs in certain cases are not market observable. Also, the impact of credit and debit value adjustments could be material to the consolidated financial statements.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation framework; including: • Obtaining an understanding of the management processes for identification, and mitigation of valuation risk, • Conducting an evaluation of applied judgments and significant inputs used in the valuation, • testing internal controls around reliability of the source and appropriateness of key assumptions, and • testing the controls over approval of new models or changes to existing valuation models. We carried out an independent valuation assessment for a sample of derivaties, and in respect of valuation adjustments relating to credit and funding; we assessed the valuation assumptions used, including consideration of alternative valuation methodologies used by other market participants.

Other Information included in the Bank's 2016 Annual Report

Other information consists of the information included in the Bank's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the SAMA, IFRSs, the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditors' Report

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

on the Audit of the Consolidated Financial Statements (continued)

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

For Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
Licence Number 414

For KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
Certified Public Accountant
Licence Number 371

March 06, 2017
Jumad Al-Akirah 07 1438H

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

	Notes	2016 SR'000	2015 SR'000
ASSETS			
Cash and balances with SAMA	3	**5,196,815**	3,728,044
Due from banks and other financial institutions	4	**1,337,778**	4,704,469
Investments	5	**16,292,744**	11,272,601
Positive fair value of derivatives	10	**128,718**	197,511
Loans and advances, net	6	**42,098,695**	42,173,847
Investment in an associate	7	**129,977**	128,334
Other real estate	6 (e)	**62,012**	44,126
Property and equipment, net	8	**701,659**	679,088
Other assets	9	**370,970**	336,114
Total assets		**66,319,368**	63,264,134
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**3,545,112**	4,057,311
Customers' deposits	12	**51,602,354**	49,765,193
Negative fair value of derivatives	10	**333,718**	371,953
Subordinated Sukuk	13	**2,006,471**	1,006,936
Other liabilities	14	**728,187**	649,272
Total liabilities		**58,215,842**	55,850,665
SHAREHOLDERS' EQUITY			
Share capital	15	**4,000,000**	4,000,000
Statutory reserve	16	**1,945,105**	1,727,119
General reserve	16	**68,000**	68,000
Other reserves	17	**(211,790)**	(172,656)
Retained earnings		**2,302,211**	1,791,006
Total shareholders' equity		**8,103,526**	7,413,469
Total liabilities and shareholders' equity		**66,319,368**	63,264,134

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	Notes	2016 SR'000	2015 SR'000
Special commission income	19	**2,655,823**	2,135,479
Special commission expense	19	**(1,089,341)**	(534,939)
Net special commission income		**1,566,482**	1,600,540
Fees and commission income, net	20	**632,481**	629,869
Exchange income, net		**103,157**	90,065
Trading income, net	21	**4,832**	11,171
Dividend income	22	**32**	1,874
Gain on non-trading investments	23	**-**	250
Gain on sale of other real estate	24	**210,518**	572,646
Other operating income, net	25	**1,135**	15,106
Total operating income		**2,518,637**	2,921,521
Salaries and employee-related expenses	36	**894,313**	908,901
Rent and premises-related expenses		**136,670**	136,492
Depreciation and amortisation	8	**81,108**	79,014
Other general and administrative expenses		**416,630**	457,870
Impairment charge for credit losses, net	6(c)	**125,214**	53,063
Other operating expenses, net		**1,044**	2,165
Total operating expenses		**1,654,979**	1,637,505
Operating income		**863,658**	1,284,016
Share in profit of an associate	7	**8,284**	3,103
Net income for the year		**871,942**	1,287,119
Basic and diluted earnings per share (expressed in SR per share)	26	**2.18**	3.22

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	Notes	2016 SR'000	2015 SR'000
Net income for the year		**871,942**	1,287,119
Other comprehensive income:			
Items to be reclassified to consolidated statement of income in subsequent periods:			
Cash flow hedges:			
Fair value loss on cash flow hedges	17	**(36,217)**	(18,684)
Net amount transferred to consolidated statement of income	17	**627**	627
Items not to be reclassified to consolidated statement of income in subsequent periods:			
Net changes in fair value of investments classified as at fair value through other comprehensive income (FVTOCI)		**104**	1,189
Total other comprehensive loss for the year		**(35,486)**	(16,868)
Share in zakat of an associate	7	**(516)**	(357)
Total comprehensive income for the year		**835,940**	1,269,894

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

2016	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2016		4,000,000	1,727,119	68,000	(172,656)	1,791,006	7,413,469
Net income for the year		-	-	-	-	871,942	871,942
Other comprehensive loss for the year		-	-	-	(35,486)	-	(35,486)
Zakat and income tax	27	-	-	-	-	(142,235)	(142,235)
Share in Zakat of an associate	7	-	-	-	-	(516)	(516)
Total comprehensive (loss) / income for the year		-	-	-	(35,486)	729,191	693,705
Transfer to statutory reserve	16	-	217,986	-	-	(217,986)	-
Other	17	-	-	-	(3,648)	-	(3,648)
Balance at December 31, 2016		4,000,000	1,945,105	68,000	(211,790)	2,302,211	8,103,526

2015							
Balance at January 1, 2015		4,000,000	1,405,500	68,000	(141,317)	825,863	6,158,046
Net income for the year		-	-	-	-	1,287,119	1,287,119
Other comprehensive loss for the year		-	-	-	(16,868)	-	(16,868)
Share in Zakat of an associate	7	-	-	-	-	(357)	(357)
Total comprehensive (loss) / income for the year		-	-	-	(16,868)	1,286,762	1,269,894
Transfer to statutory reserve	16	-	321,619	-	-	(321,619)	-
Other	17	-	-	-	(14,471)	-	(14,471)
Balance at December 31, 2015		4,000,000	1,727,119	68,000	(172,656)	1,791,006	7,413,469

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Notes	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Net income for the year		**871,942**	1,287,119
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net	21	**(4,832)**	(11,171)
Gain on non-trading investments	23	**-**	(250)
Depreciation and amortisation	8	**81,108**	79,014
Dividend income	22	**(32)**	(1,874)
Loss / (gain) on sale / write off of property and equipment	8 & 25	**1,424**	(3,299)
Impairment charge for credit losses, net	6 (c)	**125,214**	53,063
Share in profit of an associate	7	**(8,284)**	(3,103)
		1,066,540	1,399,499
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**12,161**	113,545
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**768,750**	900,000
Investments held at Fair Value Through Income Statement		**273,332**	48,321
Positive fair value of derivatives		**68,793**	58,686
Loans and advances		**(50,062)**	(675,568)
Other real estate, net		**(17,886)**	615,971
Other assets		**(117,610)**	192,808
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(512,199)**	320,405
Customers' deposits		**1,837,161**	(4,894,915)
Negative fair value of derivatives		**(38,235)**	(43,193)
Other liabilities		**30,727**	15,065
Net cash from / (used) in operating activities		**3,321,472**	(1,949,376)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		**8,109**	440,260
Acquisition of non-trading investments		**(5,296,752)**	(343,428)
Dividend from an associate	7	**6,125**	-
Acquisition of property and equipment	8	**(105,203)**	(163,580)
Proceeds from sale of property and equipment		**101**	7,697
Dividends received	22	**32**	1,874
Net cash used in investing activities		**(5,387,588)**	(57,177)

	Notes	2016 SR'000	2015 SR'000
FINANCING ACTIVITIES			
Proceeds from issuance of Subordinated Sukuk		**2,006,471**	(101)
Re-payment of Subordinated Sukuk		**(1,006,936)**	-
Dividends paid		**(25)**	-
Zakat and tax paid		**(50,403)**	(15,528)
Net cash from / (used in) financing activities		**949,107**	(15,629)
Net decrease in cash and cash equivalents		**(1,117,009)**	(2,022,182)
Cash and cash equivalents at the beginning of the year		**4,913,830**	6,936,012
Cash and cash equivalents at the end of the year	28	**3,796,821**	4,913,830
Special commission income received during the year		**2,574,031**	1,878,319
Special commission expense paid during the year		**1,227,513**	306,622
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		**(35,590)**	(18,057)

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

1- GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 80 branches (2015: 76 branches) and 41 Fawri Remittance Centres (2015: 30 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,219 staff (2015: 2,176 staff). 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 Kingdom of Saudi Arabia.

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

Subsidiary	Country of ncorporation	Nature of business	**Ownership (direct and indirect) December 31, 2016**	Ownership (direct and indirect) December 31, 2015
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collaterals on behalf of the Bank	**100%**	100%
Associate				
AlJazira Takaful Ta'wuni Company	Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

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

ii. Basis of measurement and presentation

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

iii. Functional and presentation currency

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of AlJazira Capital Company and Aman Development and Real Estate Investment Company is also the Saudi Arabian Riyal (SR).

b) Basis of consolidation

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

i. Subsidiaries

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

i. the Group has power over an entity;
ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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

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

ii. Non-controlling interests

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

iii. Transactions eliminated on consolidation

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

iv. Investment in an associate

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

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

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

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

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

c) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which have had no material impact on the consolidated financial statements of the Group on the current year or prior years.

i. New standards

IFRS 14 – "Regulatory Deferral Accounts", applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

i. Amendments to existing standards

- Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
- Amendments to IFRS 11 – "Joint Arrangements", applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint

operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;

  • The materiality requirements in IAS 1
  • That specific line items in the statement(s) of income and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
  • That entities have flexibility as to the order in which they present the notes to financial statements
  • That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and OCI.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets", applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 41 – "Agriculture", applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", instead of IAS 41.

- Amendments to IAS 27 – "Separate Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

- Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

  • IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
  • IFRS 7 – "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
  • IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and only future period affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Business model for managing financial assets

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

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

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

i. Contractual cash flows of financial assets

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

i. Impairment of financial assets

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

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

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

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

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

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

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

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

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, calculated using the loan's original effective yield rate.

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

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

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through statement of income (FVTIS) and fair value through other comprehensive income (FVTOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (d) and note 34 (b).

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

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

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

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

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

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

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

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

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

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

v. Impairment of non-financial assets

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

vi. Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager.

vii. Provisions for liabilities and charges

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

viii. Going concern

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

e) Settlement date accounting

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

f) Derivative financial instruments and hedge accounting

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

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

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

i. Derivatives held for trading

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

ii. Embedded derivative

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

iii. Hedge accounting

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

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

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

g) Foreign currencies

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

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

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

h) Offsetting financial instruments

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

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

i) Revenue /expense recognition

Special commission income and expenses

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

The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment allowances. The calculation of the effective yield rate takes into account all contractual terms of the financial instrument and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective yield rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

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

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred. R. Note 2(g).

Fees and commissions

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

Dividend income

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

j) Trading income / (loss), net

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

k) Sale and repurchase agreements

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

Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

l) Investments

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

i. Investments in debt instruments classified as amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

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

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

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

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

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

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

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

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

i. Financial assets classified as Fair Value Through Income Statement (FVTIS)

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

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

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

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

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

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

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

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

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

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

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

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

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

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

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

m) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value of the consideration given.

Following initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and collective allowances for impairment.

All loans and advances are carried at amortised cost calculated using the effective yield rate.

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

n) Due from banks and other financial institutions

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

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amounts written-off and specific allowance for impairment, if any, and a collective allowance for counterparty risk.

o) Derecognition of financial instruments

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

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

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

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

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

p) Other real estate and repossessed assets

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

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

q) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, Whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

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

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

r) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

s) Financial guarantees and loan commitments

In the ordinary course of business, the Group 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 Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin.

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

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The specific and collective allowance for letters of credit, guarantees and acceptances are included and presented in other liabilities.

t) Provisions

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

u) Accounting for leases

i. Where the Group is the lessee

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

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

ii. Where the Group is the lessor

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

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

v) Cash and cash equivalents

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

w) Zakat and income tax

Under Saudi Arabian Zakat and Income Tax laws, zakat and income tax are the liabilities of the 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.

As required by Accounting Standards for Financial Institutions Reporting Standards issued by SAMA, Zakat and income taxes, relating to the shareholders of the Bank, are not charged to the Group's consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is distributed, the amount is charged to retained earnings as an appropriation of net income and corresponding liability is accounted for as payable to the General Authority for Zakat and Tax (GAZT).

x) Fiduciary assets

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

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

y) Employees' benefits

Defined unfunded benefit plan

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

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

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses.

Short term benefits

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

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

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

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

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

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

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

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

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

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

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

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

3. CASH AND BALANCES WITH SAMA

	2016 SR'000	2015 SR'000
Cash in hand	**927,043**	963,111
Placement with SAMA	**1,532,000**	15,000
Cash and cash equivalents (note 28)	**2,459,043**	978,111
Statutory deposit with SAMA	**2,737,772**	2,749,933
Total	**5,196,815**	3,728,044

In accordance with article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 33). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 SR'000	2015 SR'000
Current accounts	**224,748**	736,538
Money market placements	**1,113,030**	3,967,931
Total	**1,337,778**	4,704,469

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

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The table below shows the credit quality by class

	2016 SR'000	2015 SR'000
Investment grade	**1,319,695**	4,599,254
Non-investment grade	**5,499**	79,346
Unrated	**12,584**	25,869
Total	**1,337,778**	4,704,469

5. INVESTMENTS

a) As of December 31, 2016 investments are classified as follows:

	2016 SR'000		
	Domestic	International	Total

i) Designated as FVTIS

	2016 SR'000		
	Domestic	International	Total
Mutual funds	61,881	30,052	91,933
Equities	623	-	623
	62,504	30,052	92,556

ii) FVTOCI

	2016 SR'000		
	Domestic	International	Total
Equities	3,250	8,474	11,724

iii) Amortised cost

	2016 SR'000		
	Domestic	**International**	**Total**
Sukuk investments	**11,277,741**	-	**11,277,741**
Wakala floating rate notes	**4,910,723**	-	**4,910,723**
	16,188,464	-	**16,188,464**
Grand Total	**16,254,218**	**38,526**	**16,292,744**

b) As of December 31, 2015 investments were classified as follows:

i) Designated as FVTIS

	2015 SR'000		
	Domestic	**International**	**Total**
Mutual funds	166,955	155,026	321,981
Equities	39,075	-	39,075
	206,030	155,026	361,056

	2015 SR'000		
	Domestic	**International**	**Total**

ii) FVTOCI

	2015 SR'000		
	Domestic	**International**	**Total**
Equities	3,250	8,370	11,620

iii) Amortised cost

	2015 SR'000		
	Domestic	**International**	**Total**
Sukuk investments	10,899,925	-	10,899,925
	10,899,925	-	10,899,925
Grand Total	11,109,205	163,396	11,272,601

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

	2016			2015		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	**Quoted SR'000**	**Unquoted SR'000**	**Total SR'000**
Sukuk investments	**3,251,297**	**8,026,444**	**11,277,741**	2,879,237	8,020,688	10,899,925
Wakala floating rate notes	**-**	**4,910,723**	**4,910,723**	-	-	-
Equities	**8,909**	**3,438**	**12,347**	47,257	3,438	50,695
Mutual funds	**91,933**	**-**	**91,933**	321,981	-	321,981
Total investments	**3,352,139**	**12,940,605**	**16,292,744**	3,248,475	8,024,126	11,272,601

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

	2016				2015			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**	**Carrying value SR'000**	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**
Sukuk investments	**11,277,741**	**30,096**	**(11,481)**	**11,296,356**	10,899,925	23,268	(823)	10,922,370
Wakala Floating Rate Notes	**4,910,723**	**-**	**-**	**4,910,723**	-	-	-	-
Total	**16,188,464**	**30,096**	**(11,481)**	**16,207,079**	10,899,925	23,268	(823)	10,922,370

e) The analysis of the Group's investments by nature of counterparty is as follows:

	2016 SR'000	2015 SR'000
Government and quasi Government	**13,126,017**	8,220,470
Corporate	**926,249**	1,192,289
Banks and other financial institutions	**2,240,478**	1,859,842
Total	**16,292,744**	11,272,601

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

Equities reported under FVTOCI includes unquoted shares of SR 3.4 million (2015: SR 3.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

6. LOANS AND ADVANCES, NET

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

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

Others include loans and advances to staff.

a) Loans and advances, net comprise the following:

	SR'000			
2016	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**17,650,960**	**24,329,749**	**390,555**	**42,371,264**
Non-performing loans and advances	**61,021**	**422,978**	**-**	**483,999**
Total loans and advances	**17,711,981**	**24,752,727**	**390,555**	**42,855,263**
Impairment allowance for credit losses:				
Specific allowance	**(23,987)**	**(262,282)**	**-**	**(286,269)**
Collective allowance	**(236,769)**	**(233,530)**	**-**	**(470,299)**
Total impairment allowance for credit losses	**(260,756)**	**(495,812)**	**-**	**(756,568)**
Loans and advances, net	**17,451,225**	**24,256,915**	**390,555**	**42,098,695**

	SR'000			
2015	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	16,151,645	25,930,633	350,846	42,433,124
Non-performing loans and advances	155,993	199,334	-	355,327
Total loans and advances	16,307,638	26,129,967	350,846	42,788,451
Impairment allowance for credit losses:				
Specific allowance	(97,438)	(66,193)	-	(163,631)
Collective allowance	(209,891)	(241,082)	-	(450,973)
Total impairment allowance for credit losses	(307,329)	(307,275)	-	(614,604)
Loans and advances, net	16,000,309	25,822,692	350,846	42,173,847

Loans and advances, net represents Shari'ah Compliant products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 7.48 billion (2015: SR 7.42 billion).

b) Movements in impairment allowance for credit losses are as follows:

2016	SR'000 Consumer	SR'000 Commercial	SR'000 Total
Balance at the beginning of the year	**307,329**	**307,275**	**614,604**
Impairment charge for the year	**70,610**	**153,416**	**224,026**
Bad debts written off during the year	**(89,071)**	**(39,811)**	**(128,882)**
Recoveries / reversals of amounts previously provided	**(28,112)**	**(1,424)**	**(29,536)**
Allowance written back upon restructuring of loan (note 'ii')	**-**	**76,350**	**76,350**
Balance at the end of the year	**260,756**	**495,812**	**756,568**

2015	SR'000 Consumer	SR'000 Commercial	SR'000 Total
Balance at the beginning of the year	355,502	282,995	638,497
Impairment charge for the year	121,577	25,280	146,857
Bad debts written off during the year	(126,076)	-	(126,076)
Recoveries / reversals of amounts previously provided	(43,674)	(1,000)	(44,674)
Allowance written back upon restructuring of loan (note 'ii')	-	-	-
Balance at the end of the year	307,329	307,275	614,604

i) The bad debts written off during the year included receivables against credit cards amounting to SR 28.66 million (2015: SR 13.29 million).

ii) During 2016, the Group has written back the outstanding balance and respective impairment allowance of a customer, following its restructuring.

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

	2016 SR'000	2015 SR'000
Impairment charge for credit losses for the year	**224,026**	146,857
Recoveries / reversal of amounts previously provided	**(29,536)**	(44,674)
Recoveries from debts previously written off	**(69,276)**	(49,120)
Impairment charge for credit losses, net	**125,214**	53,063

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

2016	Performing SR'000	Non performing SR'000	Specific allowance for impairment of credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	**1,065,248**	-	-	**1,065,248**
Banks and other financial institutions	**897,188**	-	-	**897,188**
Agriculture and fishing	**25,000**	-	-	**25,000**
Manufacturing	**5,334,211**	**89,010**	**(76,357)**	**5,346,864**
Building and construction	**1,546,976**	**58,578**	**(26,879)**	**1,578,675**
Commerce	**9,791,162**	**162,223**	**(105,704)**	**9,847,681**
Transportation and communication	**171,221**	**4,590**	**(4,590)**	**171,221**
Services	**1,070,159**	**67,210**	**(8,900)**	**1,128,469**
Consumer loans	**17,650,960**	**61,021**	**(23,987)**	**17,687,994**
Share trading	**1,217,291**	**1,596**	-	**1,218,887**
Others	**3,601,848**	**39,771**	**(39,852)**	**3,601,767**
	42,371,264	**483,999**	**(286,269)**	**42,568,994**
Collective allowance	-	-	**(470,299)**	**(470,299)**
Total	**42,371,264**	**483,999**	**(756,568)**	**42,098,695**

2015	Performing SR'000	Non performing SR'000	Specific allowance for impairment of credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	1,189,498	-	-	1,189,498
Banks and other financial institutions	804,508	-	-	804,508
Manufacturing	6,351,826	1,831	(458)	6,353,199
Building and construction	1,512,934	8,940	(3,605)	1,518,269
Commerce	9,321,501	111,277	(57,653)	9,375,125
Transportation and communication	174,475	-	-	174,475
Services	1,130,439	60,575	-	1,191,014
Consumer loans	16,151,645	155,993	(97,438)	16,210,200
Share trading	2,459,876	2,629	-	2,462,505
Others	3,336,422	14,082	(4,477)	3,346,027
	42,433,124	355,327	(163,631)	42,624,820
Collective allowance	-	-	(450,973)	(450,973)
Total	42,433,124	355,327	(614,604)	42,173,847

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances portfolio. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by the Group against loans and advances by each category are as follows:

	2016 SR'000	2015 SR'000
Collateral against performing loans	**17,523,750**	17,203,999
Collaterals against non-performing loans	**187,339**	94,955
Total	**17,711,089**	17,298,954

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with an intent to dispose off, after legal recourse, in case of default by the customer.

e) Other real estate, net

	Note	**2016 SR'000**	2015 SR'000
Balance at the beginning of the year		**44,126**	660,097
Additions during the year		**27,686**	-
Disposals during the year	24	**(9,800)**	(615,971)
Balance at the end of the year		**62,012**	44,126

7. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'wuni Company ("ATT"). The details related to ATT are explained in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2016 is SR 368.112 million (2015: SR 409.4 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2016 SR'000	2015 SR'000
Total shareholders assets	**373,685**	368,568
Total shareholders liabilities	**(2,321)**	(1,900)
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**129,977**	128,334

	2016 SR'000	2015 SR'000
Total profit for the year	**23,670**	10,332
The Group's share of profit for the year	**8,284**	3,103

The following table summarises the movement of the investment in associate during the year:

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	**128,334**	125,588
Share in profit for the year	**8,284**	3,103
Share of zakat	**(516)**	(357)
Dividend received	**(6,125)**	-
Balance at the end of the year	**129,977**	128,334

8. 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 2016 SR'000	Total 2015 SR'000
Cost						
Balance at the beginning of the year	**157,569**	**446,834**	**636,903**	**163,840**	**1,405,146**	1,252,373
Additions during the year	-	**1,572**	**14,424**	**89,207**	**105,203**	163,580
Transfers during the year	-	**45,722**	**22,544**	**(68,266)**	**-**	-
Disposals during the year	-	-	**(11,020)**	**(1,207)**	**(12,227)**	(10,807)
Balance at the end of the year	**157,569**	**494,128**	**662,851**	**183,574**	**1,498,122**	1,405,146
Accumulated depreciation						
Balance at the beginning of the year	**5,040**	**244,792**	**476,226**	-	**726,058**	653,453
Charge for the year	-	**22,130**	**58,978**		**81,108**	79,014
Disposals	-	-	**(10,703)**	-	**(10,703)**	(6,409)
Balance at the end of the year	**5,040**	**266,922**	**524,501**	-	**796,463**	726,058
Net book value						
At December 31, 2016	**152,529**	**227,206**	**138,350**	**183,574**	**701,659**	
At December 31, 2015	152,529	202,042	160,677	163,840		679,088

9. OTHER ASSETS

	2016 SR'000	2015 SR'000
Advances, prepayments and other receivables	**148,010**	133,151
Margin deposits against derivatives	**158,906**	153,356
Others	**64,054**	49,607
Total	**370,970**	336,114

10. DERIVATIVES

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

a) Swaps

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

a) Options (Wa'ad Fx)

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

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.1 Held for trading purposes

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

10.2 Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

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

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

The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain special commission rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges. The accounting policy for hedge relationship has been more fully explained in note 2(f) to these consolidated financial statement.

Cash flow hedges

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

2016 SR'000	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**78,684**	**149,704**	**123,154**	**189,442**
Cash out flows (liabilities)	**(218,989)**	**(468,526)**	**(481,343)**	**(2,912,221)**
Net cash outflow	**(140,305)**	**(318,822)**	**(358,189)**	**(2,722,779)**

2015 SR'000	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	-	-	-	-
Cash out flows (liabilities)	(120,898)	(277,845)	(301,083)	(3,232,000)
Net cash outflow	(120,898)	(277,845)	(301,083)	(3,232,000)

The gains / (losses) on cash flow hedges reclassified to the consolidated statement of income during the year is as follows:

	2016 SR'000	2015 SR'000
Special commission income	**704**	704
Special commission expense	**(1,331)**	(1,331)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(627)**	(627)

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	**(165,238)**	(147,181)
Losses from change in fair value recognised directly in equity, net (effective portion)	**(36,217)**	(18,684)
Losses removed from equity and transferred to consolidated statement of income	**627**	627
Balance at the end of the year	**(200,828)**	(165,238)

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

	2016 SR'000							
	Notional amounts by term to maturity							
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Options	**24,464**	**24,464**	**2,178,472**	**645,376**	**1,077,190**	**455,906**	**-**	**3,567,388**
FX swaps	**-**	**1,392**	**187,500**	**187,500**	**-**	**-**	**-**	**577,061**
Special commission rate swaps	**66,788**	**66,788**	**5,942,128**	**100,000**	**-**	**5,318,795**	**523,333**	**5,977,338**
Structured deposits	**4,168**	**4,168**	**1,650,000**		**-**	**1,650,000**	**-**	**1,650,000**
Held as cash flow hedges:								
Special commission rate swaps	**-**	**194,261**	**5,624,063**	**-**	**304,688**	**1,350,000**	**3,969,375**	**4,967,891**
Accrued Special commission	**33,298**	**42,645**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**128,718**	**333,718**	**15,582,163**	**932,876**	**1,381,878**	**8,774,701**	**4,492,708**	**16,739,678**

	2015 SR'000							
	Notional amounts by term to maturity							
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Options	75,799	75,799	4,256,960	431,156	2,039,054	1,786,750	-	5,302,113
FX swaps	-	-	187,500	-	187,500	-	-	255,682
Special commission rate swaps	93,076	93,076	5,859,548	-	-	3,729,757	2,129,791	5,983,707
Structured deposits	7,980	7,980	1,650,000	-	-	1,650,000	-	1,250,305
Held as cash flow hedges:								
Special commission rate swaps	-	158,044	3,186,563	-	-	304,688	2,881,875	3,186,563
Accrued Special commission	20,656	37,054	-	-	-	-	-	-
Total	197,511	371,953	15,140,571	431,156	2,226,554	7,471,195	5,011,666	15,978,370

During the year, December 31, 2016 and December 31, 2015, there was no ineffectiveness in the cash flow hedges.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 SR'000	2015 SR'000
Current accounts	**98,267**	35,682
Money market deposits from banks and other financial institutions	**3,446,845**	3,321,707
SAMA cash borrowing	**-**	699,922
Total	**3,545,112**	4,057,311

12. CUSTOMERS' DEPOSITS

	2016 SR'000	2015 SR'000
Demand	**25,522,256**	24,945,426
Time	**25,167,027**	23,587,187
Other	**913,071**	1,232,580
Total	**51,602,354**	49,765,193

Time deposits comprise deposits received on Shari'ah Compliant Murabaha.

Other customers' deposits include SR 730.31 million (2015: SR 753.31million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2016 SR'000	2015 SR'000
Demand	**1,585,806**	1,083,143
Time	**1,539,802**	4,164,349
Other	**21,089**	13,270
Total	**3,146,697**	5,260,762

The foreign currency deposits are mainly in US dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

13. SUBORDINATED SUKUK

As per the terms mentioned in the related offering circular and on meeting certain conditions, the Bank on 29 March 2016 exercised its call option for 1,000 Subordinated Sukuk Certificates of SR 1 million each issued on 29 March 2011.

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 semi-annually 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).

14. OTHER LIABILITIES

	2016 SR'000	2015 SR'000
Accounts payable	**264,937**	241,224
AlJazira Philanthropic Program (note below)	**34,314**	45,218
Dividend payable	**27,030**	27,055
Other	**401,906**	335,775
Total	**728,187**	649,272

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

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

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

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (2015: 400 million shares of SR 10 each).

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

	2016	2015
Saudi shareholders	**92.00%**	91.88%
Non Saudi shareholder - National Bank of Pakistan Limited	**5.83%**	5.83%
Non Saudi shareholder - others	**2.17%**	2.29%

16. STATUTORY AND GENERAL RESERVES

Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 217.99 million has been transferred from net income (2015: SR 321.62 million). The statutory reserve is not available for distribution.

General reserve

In addition, when considered appropriate, the Bank set aside its profits to cater general banking risks.

17. OTHER RESERVES

2016	**Cash flow hedges SR' 000**	**Fair value reserve SR' 000**	**Right issue costs (note 17 (a)) SR' 000**	**Total SR' 000**
Balance at beginning of the year	**(165,238)**	**7,053**	**(14,471)**	**(172,656)**
Net change in fair value	**(36,217)**	**104**	**-**	**(36,113)**
Transfer to consolidated statement of income	**627**	**-**	**-**	**627**
Other	**-**	**-**	**(3,648)**	**(3,648)**
Net movement during the year	**(35,590)**	**104**	**(3,648)**	**(39,134)**
Balance at end of the year	**(200,828)**	**7,157**	**(18,119)**	**(211,790)**

2015	Cash flow hedges SR' 000	Fair value reserve SR' 000	Right issue costs (note 17 (a)) SR' 000	Total SR' 000
Balance at beginning of the year	(147,181)	5,864	-	(141,317)
Net change in fair value	(18,684)	1,189	-	(17,495)
Transfer to consolidated statement of income	627	-	-	627
Other	-	-	(14,471)	(14,471)
Net movement during the year	(18,057)	1,189	(14,471)	(31,339)
Balance at end of the year	(165,238)	7,053	(14,471)	(172,656)

a) 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 taking 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 18.12 million (31 December 2015: SR 14.47 million) incurred in respect of the legal and professional matters for right issue.

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2016, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

a) As at December 31, 2016, the Group had capital commitments of SR 86.35 million (2015: SR 123.45 million) in respect of the construction of branches and IT related projects.

c) Credit related commitments and contingencies

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

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

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less credit riskAcceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by customers.

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

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

	(SR'000)				
2016	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**545,647**	**424,845**	**2,500**	**-**	**972,992**
Letters of guarantee	**671,477**	**2,616,230**	**806,930**	**49,637**	**4,144,274**
Acceptances	**611,960**	**-**	**-**	**-**	**611,960**
Irrevocable commitments to extend credit	**-**	**-**	**150,000**	**-**	**150,000**
Total	**1,829,084**	**3,041,075**	**959,430**	**49,637**	**5,879,226**

	(SR'000)				
2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	542,306	198,068	-	-	740,374
Letters of guarantee	658,253	2,930,021	1,014,917	81,799	4,684,990
Acceptances	447,402	-	-	-	447,402
Irrevocable commitments to extend credit	-	-	150,000	-	150,000
Total	1,647,961	3,128,089	1,164,917	81,799	6,022,766

The outstanding unused portion of commitments as at December 31, 2016, which can be revoked unilaterally at any time by the Group, amounts to SR 5.17 billion (2015: SR 4.01 billion).

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

	2016 SR'000	**2015 SR'000**
Corporate	**5,828,126**	6,008,048
Banks and other financial institutions	**51,100**	14,718
Total	**5,879,226**	6,022,766

d) Operating lease commitments

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

	2016 SR'000	2015 SR'000
Less than 1 year	**11,411**	22,479
1 to 5 years	**25,603**	35,327
Over 5 years	**7,155**	37,590
Total	**44,169**	95,396

19. NET SPECIAL COMMISSION INCOME

	2016 SR'000	2015 SR'000
Special commission income		
Investments held as amortised cost	**419,594**	291,797
Due from banks and other financial institutions	**22,231**	37,579
Derivatives	**264,029**	155,435
Loans and advances	**1,949,969**	1,650,668
Total	**2,655,823**	2,135,479
Special commission expense		
Customers' deposits	**643,096**	270,281
Derivatives	**290,913**	213,014
Due to banks and other financial institutions	**97,656**	23,990
Subordinated Sukuk	**56,161**	26,400
Others	**1,515**	1,254
Total	**1,089,341**	534,939
Net special commission income	**1,566,482**	1,600,540

20. FEES AND COMMISSION INCOME, NET

	2016 SR'000	2015 SR'000
Fees and commission income		
Local share trading	**204,728**	261,799
Takaful Ta'wuni (insurance) wakala fees	**19,794**	20,877
Loan commitment and management fees	**184,228**	171,112
Trade finance	**53,696**	56,015
International share trading	**3,856**	3,477
Mutual funds fees	**31,502**	42,918
Fees from ATM transactions	**88,433**	72,032
Fees from remittance business	**65,311**	35,885
Others	**79,962**	62,901
Total fees and commission income	**731,510**	727,016
Fees and commission expense		
Brokerage fees	**(99,024)**	(97,117)
Takaful Ta'wuni – sales commission	**(5)**	(30)
Total	**632,481**	629,869

21. TRADING INCOME, NET

	2016 SR'000	2015 SR'000
Equities	**(2,013)**	1,398
Mutual funds	**6,282**	718
Derivatives	**563**	9,055
Total	**4,832**	11,171

Trading income includes unrealized gain of SR 3.20 million (2015: Unrealised loss of SR 2.61 million).

22. DIVIDEND INCOME

	2016 SR'000	2015 SR'000
Dividend income on investments	**32**	1,874

23. GAIN ON NON-TRADING INVESTMENTS

	2016 SR'000	2015 SR'000
Held as amortised cost investments	**-**	250

24. GAIN ON SALE OF OTHER REAL ESTATE

During 2016, the Group sold a major land with a carrying value of SR 9 million (2015: SR 615.97 million) previously included under "other real estate, net". The sale proceed of land amounting to SR 217.56 million (2015: SR 1,188.62 million) resulted in gain of SR 208.56 million (2015: SR 572.65 million).

25. OTHER OPERATING INCOME, NET

	2016 SR'000	2015 SR'000
Rental income	**90**	-
(Loss) / gain on sale of property and equipment	**(217)**	3,299
Other	**1,262**	11,807
Total	**1,135**	15,106

26. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2016 and December 31, 2015 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during the year ended December 31, 2016 and December 31, 2015 were 400 million.

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

27. ZAKAT AND INCOME TAX

Until 31 December 2015, the zakat and income tax paid or accrued relating to years where dividends are not declared, were presented as receivable from shareholders as these are to be recovered from future dividends. However, as zakat and tax liability ultimately impacts retained earnings of the Group for better presentation the Bank charged the zakat and income tax amount to retained earnings. Accordingly, the total estimated zakat and tax for the year ended 31 December 2016 of SR 61.05 million was charged to retained earnings. Also since no dividends were declared since the year 2012, the cumulative amount of SR 81.19 million included in other receivables was charged to retained earnings.

The current year charge of SR 61.05 million comprise current year's Group zakat charge of SR 19.87 million (2015: SR 31.06 million), current year income tax charge of SR 12.93 million (2015: SR15.39 million) and prior year charge of SR 28.25 million relating to one of Group's subsidiaries.

Status of assessments:

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 2015 and has received the assessments for the years up to 2011 in which the 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 the GAZT. The basis for the additional Zakat demand is being contested by the Bank before the Higher Appeal Committee in respect of years 2006 to 2009 and before Preliminary Appeal Committee in respect of years 2010 to 2011. Management is confident of a favourable outcome on the aforementioned appeals and have 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.

28. CASH AND CASH EQUIVALENTS

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

	2016 SR'000	2015 SR'000
Cash and balances with SAMA, excluding statutory deposit (note 3)	**2,459,043**	978,111
Due from banks and other financial institutions with maturity of 90 days or less from the date of acquisition	**1,337,778**	3,935,719
Total	**3,796,821**	4,913,830

29. OPERATING SEGMENTS

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

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

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

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

Personal banking Deposit, credit and investment products for individuals.

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

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

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

Takaful Ta'wuni — 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.

Others — Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

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

	(SR'000)						
2016	**Personal banking**	**Corporate banking**	**Treasury**	**Brokerage and asset management**	**Takaful Ta'wuni**	**Others**	**Total**
Total assets	20,166,780	22,681,991	22,521,177	814,899	4,544	129,977	66,319,368
Total liabilities	28,108,647	19,347,976	10,569,816	98,731	90,672	-	58,215,842
Inter - segment operating income/ (loss)	4,188	(99,328)	89,531	5,609	-	-	-
Total operating income	965,408	484,208	763,934	193,482	20,211	91,394	2,518,637
Net special commission income	590,888	322,436	646,117	9,299	588	(2,846)	1,566,482
Fee and commission income, net	280,743	147,022	8,169	178,033	19,789	(1,275)	632,481
Trading income / (loss), net	(406)	150	366	5,285	-	(563)	4,832
Share of net income of an associate	-	-	-	-	-	8,284	8,284
Impairment charge for credit losses, net	(2,211)	(123,003)	-	-	-	-	(125,214)
Depreciation	(42,614)	(12,815)	(17,698)	(7,076)	(905)	-	(81,108)
Total operating expenses	(823,248)	(395,506)	(265,298)	(149,557)	(25,404)	4,034	(1,654,979)
Net income / (loss)	142,159	88,702	498,636	43,925	(5,193)	103,713	871,942

	(SR'000)						
2015	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	19,624,233	23,027,684	20,031,584	440,840	11,459	128,334	63,264,134
Total liabilities	26,115,784	21,097,564	8,492,953	74,506	69,858	-	55,850,665
Inter - segment operating (loss) / income	(47,861)	(53,832)	96,039	5,654	-	-	-
Total operating income	893,937	577,674	672,324	270,727	21,338	485,521	2,921,521
Net special commission income	616,500	427,306	550,080	7,044	489	(879)	1,600,540
Fee and commission income, net	196,060	133,512	16,306	263,323	20,847	(179)	629,869
Trading income / (loss), net	1,874	1,904	9,961	(2,614)	-	46	11,171
Share of net income of an associate	-	-	-	-	-	3,103	3,103
Impairment charge for credit losses, net	(54,296)	1,233	-	-	-	-	(53,063)
Depreciation	(41,202)	(17,761)	(10,982)	(7,194)	(1,876)	-	(79,015)
Total operating expenses	(878,406)	(384,427)	(182,832)	(161,738)	(34,091)	3,989	(1,637,505)
Net income / (loss)	15,531	193,247	489,492	108,989	(12,753)	492,613	1,287,119

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

	(SR'000)						
2016	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	**19,357,562**	**22,748,241**	-	**17,519,134**	-	-	**59,624,937**
Commitments and contingencies	-	**3,501,109**	-	-	-	-	**3,501,109**
Derivatives	-	-	-	**155,821**	-	-	**155,821**

	(SR'000)						
2015	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	19,177,942	23,090,638	-	15,509,661	-	-	57,778,241
Commitments and contingencies	-	3,456,569	-	-	-	-	3,456,569
Derivatives	-	-	-	151,406	-	-	151,406

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

30. CREDIT RISK

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

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

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

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

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

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

Majority of the debt securities included in the investment portfolio represents sovereign risk. Analysis of the Group's investments by nature of counter-party is provided in note 5(e). 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 18. Information on the Group's maximum credit exposure by operating segment is given in note 29.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks and 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, 2016 and December 31, 2015. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

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

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7
- Start-up category that represents loans to newly formed businesses/ projects.

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 allowances for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Group's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Collective allowances are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit grading allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Group's Internal Audit Division independently reviews the overall system on a regular basis.

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

a) Credit quality of financial assets

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

	SR'000					
	Loans and advances					
2016	Consumer	Commercial	Others	Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,222,724	-	5,222,724	1,337,778	6,560,502
Standard – medium risk	-	10,248,268	-	10,248,268	-	10,248,268
Standard – unclassified	16,460,498	3,753,874	390,555	20,604,927	-	20,604,927
Sub total - standard	16,460,498	19,224,866	390,555	36,075,919	1,337,778	37,413,697
Special mention	-	3,647,560	-	3,647,560	-	3,647,560
Sub total	16,460,498	22,872,426	390,555	39,723,479	1,337,778	41,061,257
Past due but not impaired						
Less than 30 days	791,922	1,249,891	-	2,041,813	-	2,041,813
30-60 days	138,454	196,340	-	334,794	-	334,794
60-90 days	104,121	170	-	104,291	-	104,291
Over 90 days	155,965	10,922	-	166,887	-	166,887
Total performing	17,650,960	24,329,749	390,555	42,371,264	1,337,778	43,709,042
Less: collective allowance	(236,769)	(233,530)	-	(470,299)	-	(470,299)
Net performing	17,414,191	24,096,219	390,555	41,900,965	1,337,778	43,238,743
Non-performing						
Total non-performing	61,021	422,978	-	483,999	-	483,999
Less: Specific allowance	(23,987)	(262,282)	-	(286,269)	-	(286,269)
Net-non performing	37,034	160,696	-	197,730	-	197,730

a) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) (continued)

	SR'000					
	Loans and advances					
2015	Consumer	Commercial	Others	Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	6,409,403	-	6,409,403	4,707,469	11,116,872
Standard – medium risk	-	12,630,806	-	12,630,806	-	12,630,806
Standard – unclassified	13,665,917	4,609,495	350,846	18,626,258	-	18,626,258
Sub total - standard	13,665,917	23,649,704	350,846	37,666,467	4,707,469	42,373,936
Special mention	-	1,791,966	-	1,791,966	-	1,791,966
Sub total	13,665,917	25,441,670	350,846	39,458,433	4,707,469	44,165,902
Past due but not impaired						
Less than 30 days	2,036,167	429,788	-	2,465,955	-	2,465,955
30-60 days	161,543	282	-	161,825	-	161,825
60-90 days	131,506	2,750	-	134,256	-	134,256
Over 90 days	156,512	56,143	-	212,655	-	212,655
Total performing	16,151,645	25,930,633	350,846	42,433,124	4,707,469	47,140,593
Less: collective allowance	(209,891)	(241,082)	-	(450,973)	-	(450,973)
Net performing	15,941,754	25,689,551	350,846	41,982,151	4,707,469	46,689,620
Non-performing						
Total non-performing	155,993	199,334	-	355,327	-	355,327
Less: Specific allowance	(97,438)	(66,193)	-	(163,631)	-	(163,631)
Net-non performing	58,555	133,141	-	191,696	-	191,696

Consumer loans are unrated and are disclosed as standard-unclassified. These consumer loans mainly comprise of loans given to individuals through Shari'ah compliant products.

Others mainly comprise employee loans.

During current year the Bank has adopted a more conservative approach and changed the methodology for determining the past due but not impaired amount for Retail Loans. The conservative approach now takes into consideration the total outstanding loan balance of the customer instead of past due amount only. Accordingly, the last year's disclosure has also been revised for comparison purpose.

Performing loans as at December 31, 2016 include renegotiated loans restructured due to deterioration in the borrower's financial position of SR 3.26 billion (2015: SR 1.73 billion).

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

b) Credit quality of investments

The credit quality of investments comprising solely of debt instruments held as amortised cost (all debt instruments are under amortised cost category) is primarily managed with reference to the independent credit ratings of the counterparties. The issuers' of debt instruments rating has been considered as rated debt instrument.

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

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

	2016	2015
Performing	**SR'000**	**SR'000**
High grade (AAA – BBB)	**15,229,219**	9,934,840
Unrated	**959,245**	965,085
Total performing and overall investments	**16,188,464**	10,899,925

As at December 31, 2016 and December 31, 2015, no impairment was required against investments held as amortised cost.

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

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

	Maximum exposure		
2016	**Loans and advances, net of allowances for impairment SR'000**	**Credit related commitments and contingencies, net of allowances for impairment SR'000**	**Total SR'000**
Government and quasi government	**1,055,250**	-	**1,055,250**
Banks and other financial institutions	**888,767**	**1,169,309**	**2,058,076**
Agriculture and fishing	**24,765**	**126,105**	**150,870**
Manufacturing	**5,296,680**	**289,842**	**5,586,522**
Mining and quarrying	-	**150,000**	**150,000**
Electricity, water, gas and health services	-	**3,570**	**3,570**
Building and construction	**1,563,858**	**2,170,711**	**3,734,569**
Commerce	**9,755,252**	**964,251**	**10,719,503**
Transportation and communication	**169,614**	**48,795**	**218,409**
Services	**1,117,877**	**223,201**	**1,341,078**
Consumer loans and credit cards	**17,451,224**	-	**17,451,224**
Share trading	**1,207,447**	-	**1,207,447**
Other	**3,567,961**	**733,442**	**4,301,403**
Maximum exposure	**42,098,695**	**5,879,226**	**47,977,921**
Less: collateral for performing and non-performing	**(17,711,089)**	**(2,447,251)**	**(20,158,340)**
Net maximum exposure	**24,387,606**	**3,431,975**	**27,819,581**

2015	Maximum exposure Loans and advances, net of allowances for impairment SR'000	Credit related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	1,178,543	2,101	1,180,644
Banks and other financial institutions	797,099	1,599,067	2,396,166
Agriculture and fishing	-	1,329	1,329
Manufacturing	6,294,690	357,876	6,652,566
Mining and quarrying	-	150,000	150,000
Electricity, water, gas and health services	-	3,151	3,151
Building and construction	1,504,287	2,515,543	4,019,830
Commerce	9,288,788	675,217	9,964,005
Transportation and communication	172,869	25,948	198,817
Services	1,180,046	204,003	1,384,049
Consumer loans and credit cards	16,000,309	-	16,000,309
Share trading	2,439,825	-	2,439,825
Other	3,317,391	488,531	3,805,922
Maximum exposure	42,173,847	6,022,766	48,196,613
Less: collateral for performing and non-performing	(17,298,954)	(2,475,084)	(19,774,038)
Net maximum exposure	24,874,893	3,547,682	28,422,575

d) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2016 SR'000	2015 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**1,337,778**	4,704,469
Investments (note 5)	**16,292,744**	11,272,601
Loans and advances, net (note 6)	**42,098,695**	42,173,847
Other assets - margin deposits against derivatives (note 9)	**158,906**	153,356
Total assets	**59,888,123**	58,304,273
Contingencies and commitments, net (note 18 & 30(c))	**3,431,975**	3,547,682
Derivatives - positive fair value, net (note 10)	**128,718**	197,511
Total maximum exposure	**63,448,816**	62,049,466

31. GEOGRAPHICAL CONCENTRATION

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

2016	(SR'000) Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	927,043	-	-	-	-	-	927,043
Balances with SAMA	4,269,772	-	-	-	-	-	4,269,772
Due from Banks and other financial institutions							
Current accounts	9,584	51,910	131,581	26,284	725	4,664	224,748
Money market placements	719,662	393,368	-	-	-	-	1,113,030
Investments							
Held as FVTIS	92,556	-	-	-	-	-	92,556
Held as FVTOCI	3,250	188	-	8,286	-	-	11,724
Held at amortised cost	16,188,464	-	-	-	-	-	16,188,464
Positive fair value of derivatives							
Held for trading	110,733	-	-	-	-	-	110,733
Held as cash flow hedges	17,985	-	-	-	-	-	17,985
Loans and advances, net							
Credit Cards	426,108	-	-	-	-	-	426,108
Consumer Loans	17,024,741	376	-	-	-	-	17,025,117
Commercial Loans	24,256,915	-	-	-	-	-	24,256,915
Others	390,555	-	-	-	-	-	390,555
Investment in an Associate	129,977	-	-	-	-	-	129,977
Other assets	370,970	-	-	-	-	-	370,970
Total	64,938,315	445,842	131,581	34,570	725	4,664	65,555,697

	(SR'000)						
2016	**Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	30,412	20,301	9,775	30,641	1,169	5,969	98,267
Money market deposits	2,626,836	471,240	-	-	348,769	-	3,446,845
SAMA cash borrowings	-	-	-	-	-	-	-
Customer deposits							
Demand	25,517,733	4,217	239	2	3	62	25,522,256
Time	25,167,027	-	-	-	-	-	25,167,027
Other	905,620	1	-	-	-	7,450	913,071
Negative fair value of derivatives							
Held for trading	112,125	-	-	-	-	-	112,125
Held as cash flow hedges	221,593	-	-	-	-	-	221,593
Subordinated Sukuk	2,006,471	-	-	-	-	-	2,006,471
Other liabilities	728,187	-	-	-	-	-	728,187
Total	57,316,004	495,759	10,014	30,643	349,941	13,481	58,215,842
Commitments and Contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	3,907,238	139,791	70,842	5,000	2,203	19,200	4,144,274
Acceptances	605,090	1,300	-	-	-	5,570	611,960
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,625,774	141,091	71,393	5,000	2,203	33,765	5,879,226
Credit exposure (credit equivalent)							
Commitments and							
contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	1,953,619	69,895	35,421	2,500	1,102	9,600	2,072,137
Acceptances	302,545	650	-	-	-	2,785	305,980
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for Trading	65,479	452	33,649	-	-	-	99,580
Held for Hedging	23,000	12,272	20,969	-	-	-	56,241
	3,458,089	83,269	90,590	2,500	1,102	21,380	3,656,930

2015	Kingdom of Saudi Arabia (SR'000)	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	963,111	-	-	-	-	-	963,111
Balances with SAMA	2,764,933	-	-	-	-	-	2,764,933
Due from Banks and other financial institutions							
Current accounts	99,692	95,666	378,934	131,568	1,569	29,109	736,538
Money market placements	3,122,794	845,137	-	-	-	-	3,967,931
Investments							
Held as FVTIS	361,056	-	-	-	-	-	361,056
Held as FVTOCI	3,249	188	-	8,183	-	-	11,620
Held at amortised cost	10,899,925	-	-	-	-	-	10,899,925
Positive fair value of derivatives							
Held for trading	187,474	-	-	-	-	-	187,474
Held as cash flow hedges	10,037	-	-	-	-	-	10,037
Loans and advances, net							
Credit Cards	348,248	-	-	-	-	-	348,248
Consumer Loans	15,652,061	-	-	-	-	-	15,652,061
Commercial Loans	25,818,766	3,797	-	-	-	129	25,822,692
Others	350,846	-	-	-	-	-	350,846
Investment in an Associate	128,334	-	-	-	-	-	128,334
Other assets	336,114	-	-	-	-	-	336,114
Total	61,046,640	944,788	378,934	139,751	1,569	29,238	62,540,920

2015	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SR'000)						
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	71	20,130	8,290	99	-	7,092	35,682
Money market deposits	2,975,369	346,338	-	-	-	-	3,321,707
SAMA cash borrowings	699,922	-	-	-	-	-	699,922
Customer deposits							
Demand	24,928,079	16,165	783	3	4	392	24,945,426
Time	23,587,187	-	-	-	-	-	23,587,187
Other	1,231,979	1	-	-	-	600	1,232,580
Negative fair value of derivatives							
Held for trading	187,474	-	-	-	-	-	187,474
Held as cash flow hedges	184,479	-	-	-	-	-	184,479
Subordinated Sukuk	1,006,936	-	-	-	-	-	1,006,936
Other liabilities	649,272	-	-	-	-	-	649,272
Total	55,450,768	382,634	9,073	102	4	8,084	55,850,665
Commitments and Contingencies							
Letters of credit	734,020	1,368	115	-	4,871	-	740,374
Letters of guarantee	4,365,212	238,393	58,476	13,932	8,377	600	4,684,990
Acceptances	441,751	1,366	-	-	4,285	-	447,402
Irrevocable commitments to extend credit	150,000		-	-	-	-	150,000
	5,690,983	**241,127**	**58,591**	**13,932**	**17,533**	**600**	**6,022,766**
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	734,020	1,368	115	-	4,871	-	740,374
Letters of guarantee	2,182,605	119,197	29,238	6,966	4,189	300	2,342,495
Acceptances	220,875	683	-	-	2,142	-	223,700
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for Trading	83,181	2,000	11,124	23,235	-	-	119,540
Held for Hedging	-	1,050	11,222	19,594	-	-	31,866
	3,370,681	124,298	51,699	49,795	11,202	300	3,607,975

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 5(a) to these financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

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

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

	Non performing loans, net		Impairment for credit losses	
	2016 SR' 000	2015 SR' 000	**2016 SR' 000**	2015 SR' 000
Kingdom of Saudi Arabia				
Credit Cards	**28,968**	23,740	**6,008**	20,158
Consumer Loans	**32,053**	132,253	**254,748**	287,171
Commercial Loans	**422,978**	199,334	**495,812**	307,275
Total	**483,999**	355,327	**756,568**	614,604

32. MARKET RISK

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

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

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

a) MARKET RISK TRADING BOOK

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

i) FOREIGN EXCHANGE RISK

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

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

	2016 SR'000	2015 SR'000
US Dollar	**5,551**	26,350
Euro	**355**	18,951
Pound Sterling	-	15,269
Japanese Yen	-	46,768
Hong Kong Dollar	**5,472**	4,718

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

	2016		2015	
Currency	**Increase/ decrease in currency rate in %**	**Effect on net income SR'000**	**Increase/ decrease in currency rate in %**	**Effect on net income SR'000**
US Dollar	± **0.37**	± **21**	± 0.40	± 105
Euro	± **8.28**	± **29**	± 12.26	± 2,323
Pound Sterling	± **14.11**	± **-**	± 8.54	± 1,304
Japanese Yen	± **12.58**	± **-**	± 8.2	± 3,835
Hong Kong Dollar	± **0.72**	± **39**	± 0.30	± 14

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

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

	2016		2015	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**
Al Thoraiya	± **1.97%**	± **-**	± 5.91%	± 2,946
Al Khair	± **9.01%**	± **-**	± 5.66%	± 1,784
Al Mashareq	± **0.42%**	± **-**	± 9.07%	± 4,086
Al Qawafel	± **4.70%**	± **-**	± 17.06%	± 17,474
Global Emerging Market	± **9.01%**	± **2,708**	± 5.66%	± 1,619
Others	± **4.70%**	± **2,908**	± 17.06%	± 11,008

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2016 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2016		2015	
Market index	Increase / decrease in index %	Effect on consolidated statement of income SR'000	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	± 4.70%	± 29	± 17.06%	± 6,666

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

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

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2016 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

	2016		2015	
Currency	Increase / decrease in basis points SR'000	Sensitivity of special commission income SR'000	Increase / decrease in basis points SR'000	Sensitivity of special commission income SR'000
SR	± 25	± 13,173	± 25	± 10,089
USD	± 25	± 1,930	± 25	± 3,260
AED	± 25	± 2	± 25	± 2

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

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

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

2016	(SR'000) Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	927,043	927,043	-
Balances with SAMA	1,531,904	-	-	-	2,737,868	4,269,772	0.75%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	224,748	224,748	-
Money market placements	1,112,000	-	-	-	1,030	1,113,030	1.13%
Investments							
Held as FVTIS	-	-	-	-	92,556	92,556	-
Held as FVTOCI	-	-	-	-	11,724	11,724	-
Held at amortised cost	8,745,106	785,517	375,000	6,190,273	92,568	16,188,464	2.89%
Positive fair value of derivatives							
Held for trading	-	-	-	-	110,733	110,733	-
Held as cash flow hedges	-	-	-	-	17,985	17,985	-
Loans and advances, net							
Credit Cards	426,108	-	-	-	-	426,108	24.82%
Consumer Loans	1,646,835	4,330,956	10,917,959	45,498	83,869	17,025,117	4.52%
Commercial Loans	11,440,974	11,474,786	1,038,972	16,414	285,769	24,256,915	5.09%
Others	-	-	-	-	390,555	390,555	-
Investment in an Associate	-	-	-	-	129,977	129,977	-
Other real estate, net					62,012	62,012	
Property and equipment, net					701,659	701,659	
Other assets	-	-	-	-	370,970	370,970	-
Total assets	24,902,927	16,591,259	12,331,931	6,252,185	6,241,066	66,319,368	

	(SR'000)						
2016	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**	**Effective commission rate**
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	98,267	98,267	-
Money market deposits	2,796,000	648,000	-	-	2,845	3,446,845	1.41%
SAMA cash borrowing	-	-	-	-	-	-	-
Customer deposits							
Demand	-	-	-	-	25,522,256	25,522,256	-
Time	17,573,782	6,449,026	984,534	-	159,685	25,167,027	2.95%
Other	-	-	-	-	913,071	913,071	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	112,125	112,125	-
Held as cash flow hedges	-	-	-	-	221,593	221,593	-
Subordinated Sukuk	-	2,000,000	-	-	6,471	2,006,471	4.23%
Other liabilities	-	-	-	-	728,187	728,187	-
Equity	-	-	-	-	8,103,526	8,103,526	-
Total liabilities and Equity	20,369,782	9,097,026	984,534	-	35,868,026	66,319,368	
On-balance sheet Gap	4,533,145	7,494,233	11,347,397	6,252,185	(29,626,960)	-	
Commission rate sensitivity – off balance sheet	2,062,500	(1,381,875)	(1,350,000)	669,375	-	-	
Total commission rate sensitivity gap	6,595,645	6,112,358	9,997,397	6,921,560	(29,626,960)		
Cumulative commission rate sensitivity gap	6,595,645	12,708,003	22,705,400	29,626,960	-	-	

	(SR'000)						
2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**	**Effective commission rate**
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	963,111	963,111	-
Balances with SAMA	14,999	-	-	-	2,749,934	2,764,933	0.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	736,538	736,538	-
Money market placements	3,186,250	768,750	-	-	12,931	3,967,931	0.49%
Investments							
Held as FVTIS	-	-	-	-	361,056	361,056	-
Held as FVTOCI	-	-	-	-	11,620	11,620	-
Held at amortised cost	3,849,347	487,243	304,846	6,187,709	70,780	10,899,925	2.68%
Positive fair value of derivatives							
Held for trading	-	-	-	-	187,474	187,474	-
Held as cash flow hedges	-	-	-	-	10,037	10,037	-
Loans and advances, net							
Credit Cards	348,248	-	-	-	-	348,248	24.78%
Consumer Loans	1,402,067	4,502,749	9,614,378	59,115	73,752	15,652,061	4.56%
Commercial Loans	11,444,546	13,072,172	1,051,191	18,243	236,540	25,822,692	3.68%
Others	-	-	-	-	350,846	350,846	-
Investment in an Associate	-	-	-	-	128,334	128,334	-
Other real estate					44,126	44,126	
Property and equipment, net					679,088	679,088	
Other assets	-	-	-	-	336,114	336,114	-
Total assets	20,245,457	18,830,914	10,970,415	6,265,067	6,952,281	63,264,134	

	(SR'000)						
2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	35,682	35,682	-
Money market deposits	3,314,250	-	-	-	7,457	3,321,707	0.61%
SAMA Cash borrowings	699,883	-	-	-	39	699,922	
Customer deposits							
Demand	-	-	-	-	24,945,426	24,945,426	-
Time	15,270,913	7,237,978	986,702	-	91,594	23,587,187	1.03%
Other	-	-	-	-	1,232,580	1,232,580	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	187,474	187,474	-
Held as cash flow hedges	-	-	-	-	184,479	184,479	-
Subordinated Sukuk	1,000,000	-	-	-	6,936	1,006,936	2.64%
Other liabilities	-	-	-	-	649,272	649,272	-
Equity	-	-	-	-	7,413,469	7,413,469	-
Total liabilities and Equity	20,285,046	7,237,978	986,702	-	34,754,408	63,264,134	
On-balance sheet Gap	(39,589)	11,592,936	9,983,713	6,265,067	(27,802,127)	-	
Commission rate sensitivity – off balance sheet	1,500,000	1,686,563	(304,688)	(2,881,875)	-	-	
Total commission rate sensitivity gap	1,460,411	13,279,499	9,679,025	3,383,192	(27,802,127)	-	
Cumulative commission rate sensitivity gap	1,460,411	14,739,910	24,418,935	27,802,127	-	-	

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

ii) CURRENCY RISK

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

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

	2016 SR' 000 Long / (Short)	2015 SR'000 Long /(Short)
USD	**912,880**	470,928
AED	**9,807**	11,480

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2016. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

	2016		2015	
Currency	Increase / decrease in currency rate in %	Effect on net income SR'000	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	**±0.05**	**±456**	±0.05	±235
AED	**±0.05**	**±5**	±0.05	±6

iii) EQUITY PRICE RISK

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

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVTOCI at December 31, 2016 and December 31, 2015 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

	2016		2015	
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
New York Stock Exchange	**± 9.01%**	**±747**	± 5.66%	±463

33. LIQUIDITY RISK

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 82% of the value of debt securities issued by SAMA or guaranteed by government.

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

The liquidity ratio during the year was as follows:

	2016 %	2015 %
As at December 31	**29**	20
Average during the year	**25**	27
Highest	**31**	35
Lowest	**18**	20

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2016 and December 31, 2015 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2016						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	98,267	98,267
Money market deposits	2,799,830	655,345	-	-	-	3,455,175
Customers' deposits						
Demand	-	-	-	-	25,522,256	25,522,256
Time	18,062,435	8,628,925	60,760	-	-	26,752,120
Other	913,071	-	-	-	-	913,071
Negative fair value of derivatives						
Held for trading	18,194	8,529	75,384	10,018	-	112,125
Held as cash flow hedges	27,332	110	6,947	187,204	-	221,593
Subordinated Sukuk	20,800	63,556	337,422	2,373,244	-	2,795,022
Other liabilities	-	-	-	-	728,187	728,187
Total undiscounted financial liabilities	21,841,662	9,356,465	480,513	2,570,466	26,348,710	60,597,816
Derivatives	581,262	946,138	5,617,337	5,158,461	-	12,303,198

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2015						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	35,682	35,682
Money market deposits	3,671,412	-	-	-	4,696	3,676,108
SAMA cash borrowing	700,000	-	-	-	-	700,000
Customers' deposits						
Demand	-	-	-	-	24,945,426	24,945,426
Time	14,840,674	8,272,398	474,115	-	-	23,587,187
Other	1,232,580	-	-	-	-	1,232,580
Negative fair value of derivatives						
Held for trading	10,619	3,900	116,513	56,442	-	187,474
Held as cash flow hedges	26,435	-	822	157,222	-	184,479
Subordinated Sukuk	1,013,503	-	-	-	-	1,013,503
Other liabilities	-	-	-	-	649,272	649,272
Total undiscounted financial liabilities	21,495,223	8,276,298	591,450	213,664	25,635,076	56,211,711
Derivatives	219,421	1,279,529	4,080,897	4,253,550	-	9,833,397

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

b) Maturity analysis of assets and liabilities

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

2016	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	927,043	927,043
Balances with SAMA	-	-	-	-	-	-	4,269,772	4,269,772
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	224,748	224,748
Money market placements	-	1,113,030	1,113,030	-	-	-	-	1,113,030
Investments								
Held as FVTIS	-	-	-	-	-	-	92,556	92,556
Held as FVTOCI	-	-	-	-	-	-	11,724	11,724
Held at amortised cost	-	147,074	147,074	2,978,812	13,062,578	16,041,390	-	16,188,464
Positive fair value of derivatives								
Held for trading	16,802	8,529	25,331	75,384	10,018	85,402	-	110,733
Held as cash flow hedges	17,985	-	17,985	-	-	-	-	17,985
Loans and advances, net								
Credit Cards	146,283	-	146,283	-	-	-	279,825	426,108
Consumer Loans	95,638	118,770	214,408	9,001,079	7,809,630	16,810,709	-	17,025,117
Commercial Loans	10,647,878	9,695,123	20,343,001	2,230,080	1,683,834	3,913,914	-	24,256,915
Others	-	389,896	389,896	659	-	659	-	390,555
Investment in an Associate	-	-	-	-	-	-	129,977	129,977
Other real estate, net	-	-	-	-	-	-	62,012	62,012
Property and equipment, net	-	-	-	-	-	-	701,659	701,659
Other assets	50,576	95,224	145,800	-	-	-	225,170	370,970
Total assets	10,975,162	11,567,646	22,542,808	14,286,014	22,566,060	36,852,074	6,924,486	66,319,368

2016	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	98,267	98,267
Money market deposits	-	2,798,076	2,798,076	648,769	-	648,769	-	3,446,845
SAMA Cash borrowings	-	-	-	-	-	-	-	-
Customer deposits								
Demand	-	-	-	-	-	-	25,522,256	25,522,256
Time	5,303,285	14,613,295	19,916,580	5,250,447	-	5,250,447	-	25,167,027
Other	-	-	-	-	-	-	913,071	913,071
Negative fair value of derivatives								
Held for trading	18,194	8,529	26,723	75,384	10,018	85,402	-	112,125
Held as cash flow hedges	27,332	110	27,442	6,947	187,204	194,151	-	221,593
Subordinated Sukuk	-	6,471	6,471	-	2,000,000	2,000,000	-	2,006,471
Other liabilities	-	-	-	-	-	-	728,187	728,187
Total liabilities	5,348,811	17,426,481	22,775,292	5,981,547	2,197,222	8,178,769	27,261,781	58,215,842

	(SR' 000)							
2015	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	963,111	963,111
Balances with SAMA	-	-	-	-	-	-	2,764,933	2,764,933
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	736,538	736,538
Money market placements	-	3,199,181	3,199,181	768,750	-	768,750	-	3,967,931
Investments								
Held as FVTIS	-	-	-	-	-	-	361,056	361,056
Held as FVTOCI	-	-	-	-	-	-	11,620	11,620
Held at amortised cost	-	111,836	111,836	2,826,456	7,961,633	10,788,089	-	10,899,925
Positive fair value of derivatives								
Held for trading	10,619	3,900	14,519	116,513	56,442	172,955	-	187,474
Held as cash flow hedges	10,037	-	10,037	-	-	-	-	10,037
Loans and advances, net								
Credit Cards	121,887	-	121,887	-	-	-	226,361	348,248
Consumer Loans	30,372	191,239	221,611	8,617,044	6,813,406	15,430,450	-	15,652,061
Commercial Loans	9,424,565	12,356,641	21,781,206	2,880,991	1,160,495	4,041,486	-	25,822,692
Others	-	349,594	349,594	1,252	-	1,252	-	350,846
Investment in an Associate	-	-	-	-	-	-	128,334	128,334
Other real estate, net	-	-	-	-	-	-	44,126	44,126
Property and equipment, net	-	-	-	-	-	-	679,088	679,088
Other assets	23,948	71,843	95,791	-	-	-	240,323	336,114
Total assets	9,621,428	16,284,234	25,905,662	15,211,006	15,991,976	31,202,982	6,155,490	63,264,134

2015	(SR' 000) Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	35,682	35,682
Money market deposits	-	3,321,707	3,321,707	-	-	-	-	3,321,707
SAMA Cash borrowings	-	699,922	699,922	-	-	-	-	699,922
Customer deposits								
Demand	-	-	-	-	-	-	24,945,426	24,945,426
Time	4,601,528	13,171,298	17,772,826	5,814,361	-	5,814,361	-	23,587,187
Other	-	-	-	-	-	-	1,232,580	1,232,580
Negative fair value of derivatives								
Held for trading	10,619	3,900	14,519	116,513	56,442	172,955	-	187,474
Held as cash flow hedges	26,435	-	26,435	822	157,222	158,044	-	184,479
Subordinated Sukuk	1,006,936	-	1,006,936	-	-	-	-	1,006,936
Other liabilities	-	-	-	-	-	-	649,272	649,272
Total liabilities	**5,645,518**	**17,196,827**	**22,842,345**	**5,931,696**	**213,664**	**6,145,360**	**26,862,960**	**55,850,665**

34. FAIR VALUE MEASUREMENT

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

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

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

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

	2016 (SR'000)		
	Level 1	**Level 2**	**Total**
Financial assets			
FVTIS			
Mutual Funds	**91,933**	**-**	**91,933**
Equities	**623**	**-**	**623**
FVTOCI			
Equities	**8,286**	**-**	**8,286**
Derivatives	**-**	**128,718**	**128,718**
Total	**100,842**	**128,718**	**229,560**
Financial liabilities			
Derivatives	**-**	**333,718**	**333,718**
Total	**-**	**333,718**	**333,718**

	2015 (SR'000)		
	Level 1	**Level 2**	**Total**
Financial assets			
FVTIS			
Mutual Funds	321,981	-	321,981
Equities	39,075	-	39,075
FVTOCI			
Equities	8,182	-	8,182
Derivatives	-	197,511	197,511
Total	369,238	197,511	566,749
Financial liabilities			
Derivatives	-	371,953	371,953
Total	-	371,953	371,953

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 changes in valuation techniques during the period.

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

Investments amounting to SR 3.44 million (2015: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

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

	31 December 2016 (SR'000)		31 December 2015 (SR'000)	
	Amortised cost	Fair value	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**1,337,778**	**1,338,102**	4,704,469	4,704,265
Investment held at amortised cost	**16,188,464**	**16,207,079**	10,899,925	10,922,370
Loans and advances, net	**42,098,695**	**43,467,763**	42,173,847	43,995,043
Total	**59,624,937**	**61,012,944**	57,778,241	59,621,678
Financial liabilities:				
Due to banks and other financial institutions	**3,545,112**	**3,545,375**	4,057,311	4,058,748
Customers' deposits	**51,602,354**	**51,615,457**	49,765,193	49,760,072
Total	**55,147,466**	**55,160,832**	53,822,504	53,818,820

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

35. RELATED PARTY TRANSACTIONS

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

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

	2016 SR' 000	2015 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**75**	625
Due to banks and other financial institutions	**198**	340
Commitments and contingencies	**-**	600
Associate and affiliate entities with significant influence		
Investments	**129,977**	128,334
Customer deposits	**384,353**	358,361
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**48,524**	59,553
Customers' deposits	**390,992**	89,859
Other receivables	**-**	-
Commitments and contingencies	**-**	4,202

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

	2016 SR' 000	2015 SR' 000
Bank's mutual funds and employees' post-employment benefit plan		
Investments	**91,429**	321,981
Loans and advances, net	**392,076**	343,356
Customer deposits	**2,989**	59

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

	2016 SR' 000	2015 SR'000
Special commission income	**20,122**	21,979
Special commission expense	**107,937**	58,008
Fees and commission income	**166**	32
Net payment for share of expenses to associate	**9,732**	12,502
Insurance premium paid	**35,462**	33,187
Directors' remuneration	**7,409**	5,267

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

	2016 SR' 000	2015 SR'000
Short-term employee benefits	**87,944**	84,803
Termination benefits	**22,869**	21,669

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

36. COMPENSATION

	2016			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no Objection	**16**	**37,758**	**21,248**	**59,006**
Employees involved in control functions	**175**	**69,317**	**5,397**	**74,714**
Employees involved in risk taking activities	**208**	**71,639**	**11,483**	**83,122**
Other employees	**2,038**	**462,976**	**46,573**	**509,549**
Outsourced employees	**609**	**96,084**	**2,957**	**99,041**
Total	**3,046**	**737,774**	**87,658**	**825,432**
Variable compensation (accrual basis) other employee related benefits		**97,870**		
Other employee related benefits		**58,669**		
Total salaries and employee-related expenses		**894,313**		

	2015			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no objection	17	42,235	14,375	56,610
Employees involved in control functions	169	70,099	6,001	76,100
Employees involved in risk taking activities	211	72,618	11,519	84,137
Other employees	2,038	458,290	53,256	511,546
Outsourced employees	518	87,613	2,085	89,698
Total	2,953	730,855	87,236	818,091
(Variable compensation (accrual basis other employee related benefits		116,174		
Other employee related benefits		61,872		
Total salaries and employee-related ex-penses		908,901		

The compensation and benefits program philosophy

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

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

According to labour law of the Kingdom of Saudi Arabic and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefit outstanding at end of December 2016 amounted to SR 217.76 million (2015: SR 195.6 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. CAPITAL ADEQUACY

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

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

The 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 has issued its final guidelines regarding implementation of Basel III Framework effective January 1, 2013. The new framework has brought significant amendments in the computation of regulatory capital and Pillar I risk weighted assets. The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2016		2015	
	Eligible capital SR '000	Capital adequacy ratio %	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**8,304,283**	**15.31%**	7,578,707	13.79%
Supplementary capital (Tier 2)	**2,470,299**	**-**	1,121,227	-
Core and supplementary capital (Tier 1 + Tier 2)	**10,774,582**	**19.86%**	8,699,934	15.83%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2016 SR '000	2015 SR '000
Credit risk	**48,372,180**	49,807,212
Operational risk	**4,750,113**	3,952,088
Market risk	**1,129,288**	1,215,251
Total pillar-1 – risk weighted assets	**54,251,581**	54,974,551

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Twelve such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel Commodities Fund, AlJazira Residential Projects Fund, AlJazira Residential Projects Fund 2, AlJazira GCC Income Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund and AlJazira Global Emerging market Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund and AlJazira Residential Projects Fund 2 which are closed-ended funds. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invests in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha.

The objective of AlJazira Global Emerging Market Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

The Group also provides investment management and other services to the policy holders of its Takaful Ta'wuni program.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 34.7 billion (2015: SR 37.4 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 3.7 billion (2015: SR 2.6 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets SR '000
Investment in funds	Mutual Funds managed by Aljazira Capital Company (Subsidiary of the Bank Al Jazira)	**% of holding**	
	AlJazira Global Emerging Markets Fund	70.49%	44,544
	AlJazira GCC Income Fund	45.51%	50,400
	AlJazira Diversified Conservative Fund	78.53%	12,996
	Aljazira Residential Projects Fund	43.34%	30,980
	Aljazira Residential Projects Fund 2	13.05%	120,782
	Aljazira Diversified Aggressive Fund	0.19%	56,750
	Aljazira Diversified Balanced Fund	0.68%	15,788

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR '000
AlJazira Global Emerging Markets Fund	30,052
AlJazira GCC Income Fund	22,807
AlJazira Diversified Conservative Fund	10,165
Aljazira Residential Projects Fund	13,208
Aljazira Residential Projects Fund 2	15,486
Aljazira Diversified Aggressive Fund	108
Aljazira Diversified Balanced Fund	107

40. TAKAFUL TA'WUNI

Takaful Ta'wuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'wuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2016. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

Following is a summary of the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2017.

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

42. COMPARATIVE FIGURES

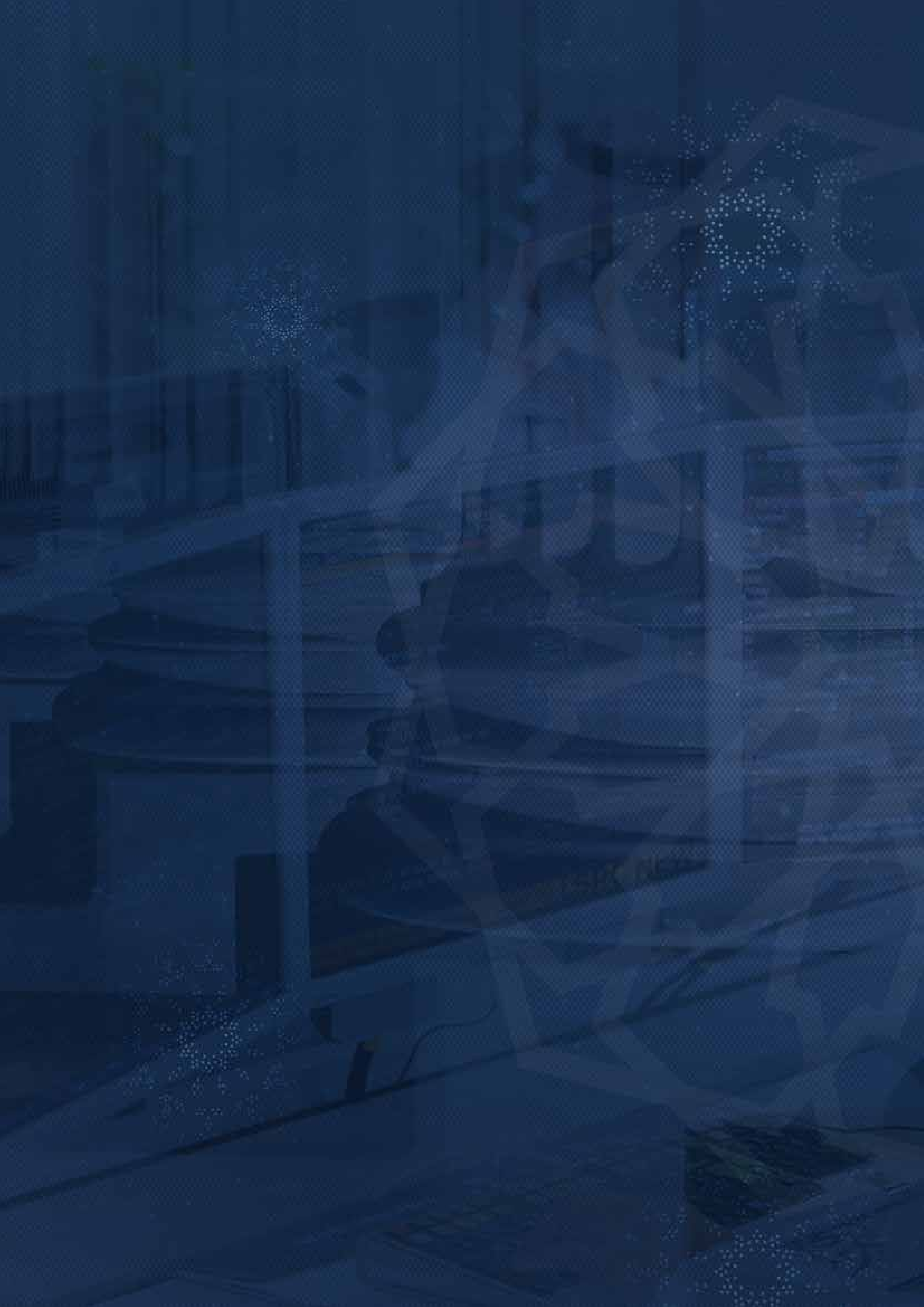
During the current year, accrued special commission income and accrued special commission expense relating to prior year have been reclassified to be included within carrying values of respective financial assets and liabilities in the consolidated statement of financial position to conform to the current year's presentation. Derivative financial instruments previously classified within other assets and other liabilities have now been disclosed separately on the consolidated statement of financial position. There is no impact of these reclassifications on the current and prior year consolidated statement of income.

The impact of these reclassifications on the consolidated statement of financial position is disclosed below.

31 December 2015	As originally reported	Reclassification	Amounts reported after reclassification
Assets			
Investments	11,201,821	70,780	**11,272,601**
Loans and advances, net	41,863,473	310,374	**42,173,847**
Due from banks and other financial institutions	4,691,538	12,931	**4,704,469**
Positive fair value derivatives	-	197,511	**197,511**
Other assets	927,710	(591,596)	**336,114**
	58,684,542	-	**58,684,542**
Liabilities			
Due to banks and other financial institutions	4,054,511	**2,800**	**4,057,311**
Customers' deposits	49,673,599	91,594	**49,765,193**
Negative fair value derivatives	-	371,953	**371,953**
Subordinated Sukuk	1,000,000	6,936	**1,006,936**
Other liabilities	1,122,555	(473,283)	**649,272**
	55,850,665	-	**55,850,665**

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 29 Jumada Al Awal 1438H (corresponding to 26 February 2017).



BASEL III Pillar 3 Disclosures
for FY 2016

1. Overview

The Pillar 3 Disclosure for financial year ending 31st December 2016 for Bank AlJazira (the Bank) complies with the Saudi Arabian Monetary Agency (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

2. Scope of Application

The report is prepared after full-consolidation of the Bank and the following fully-owned subsidiaries (the Bank):

Entity	Business	Capital [SAR]	BAJ Ownership%
Aman Real Estate Company	Collateral holder trustee Company	1 Million	100%
AlJazira Capital Company	Asset Management & Advisory	500 Million	100%

3. Medium and Location of Disclosure

The bank's Pillar 3 disclosure will be made available under the Financial Reports (Basel III section) of the bank's website at www.baj.com.sa and as a separate report in the annual financial reports, after the notes to the financial statements.

4. Basis and Frequency of Disclosure

This Pillar 3 disclosure document has been designed to be in compliance with SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ending 31st December 2016.

The Qualitative Disclosure Requirements are reported annually.

5. Capital Structure

The authorized share capital of the Bank is SAR 4 billion. As of 31st December 2016, the shareholders' equity is SAR 8.103 billion. The total Tier 1 and Tier 2 capital of the Bank is SAR 10.775 billion including Sukuk issuance of SAR 2.0 billion as on 31st December 2016.

a. Subsidiaries and Associates

AlJazira Capital Company: Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, advisory and arranging services. The company has a paid up capital of SAR 500 million wholly subscribed by the Bank.

Aman Real Estate Company: Based in Jeddah, formed as an SPV to facilitate mortgage financing and to only hold on behalf of the Bank, the title for real-estate transferred as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 1 million wholly subscribed by the Bank.

AlJazira Takaful Ta'wuni (ATT): Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The bank has acquired 35% stake in the company's capital of SAR 350 million. ATT commenced its commercial operations from January 2014.

b. Capital Transferability

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

6. Capital Adequacy

The table below illustrates the various approaches that are adopted at Bank AlJazira for capital requirements calculation under Basel III in relation to the various risk types under Pillar 1:

Credit Risk	Market Risk	Operational Risk
The Standardized Approach (TSA)	The Standardized Approach (TSA)	Basic Indicator Approach (BIA)

For Operational Risk, the Bank has the intent of migrating from BIA to TSA. Accordingly, a pilot program has been initiated to assess the impact of capital calculations based on both BIA and TSA. Based on the initial outcome of the pilot testing, the following are the key findings and observations:

- The regulatory operational risk capital using TSA is insignificantly lower than BIA
- In TSA, the capital charge is allocated per business lines (the biggest part is in CIBG)

The bank will formally seek SAMA's approval for adopting TSA in the near future, based on internal assessment of its readiness for migration from BIA to TSA. The bank will also continue to collect loss data history and compare those against the allocated capital per business lines in preparation for the Alternative Standardized Approach (ASA) that the bank is planning to implement in the long term, subject to receiving SAMA's final guidelines on the same.

The pillar 1 Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2016 stood at 15.31% (of Tier 1) and 19.86% (of Tier 1 and Tier 2).

Capital Management

A strong capital position is essential to the bank's business strategy and competitive position. The bank's capital strategy focuses on long-term stability, which aims to build and invest in core Banking activities. The bank seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans and ICAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the bank to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

7. Internal Capital Adequacy Assessment Process (ICAAP)

The bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP is also a reflection of the Bank's short to medium term strategy taking into consideration the prevailing macroeconomic scenarios and how the Bank fares against the same, whilst maintaining adequate capital buffers. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The Risk Appetite Framework and Policy, being an integral part of the ICAAP, serves as a feedback loop for the Bank to adjust its assumptions that have been used to formulate the ICAAP.

The ICAAP framework determines the level of capital required to support the group's current and projected activities for capital under normal and stressed conditions. The ICAAP report is updated on an annual basis and is approved by the Board Risk Committee (BRC) as well as the Board of Directors (BOD).

a. Comprehensive Risk Assessment under ICAAP Framework

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 of BASEL III (e.g. profit rate risk in the banking book, liquidity risk, business/strategic risk, reputational risk, macroeconomic risk and credit concentration risk);
- External factors including changes in economic environment and regulations.

b. Assessment of Pillar 1 and Pillar 2 Risks under BASEL III regime

The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's ICAAP then focuses on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

c. Stress Testing

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Framework and Policy. It is embedded in the risk and capital management process. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices. The stress testing exercise in Bank AlJazira is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank AlJazira's Stress Testing Policy and Framework, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled.

Specifically, the stress test program is designed with an objective to assess the resilience, solvency, liquidity and profitability of Bank AlJazira to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise, where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators. The Stress Test Working Group comprising various risk management teams tables the stress testing reports with CEO and Board Risk Committee before seeking approval from Board and discusses the results with regulators during annual bilateral meetings.

8. Risk Management

The risk environment in which the bank operates changes continuously, caused by a range of factors, from the transactional level to macroeconomic events. The risk environment therefore requires continuous monitoring and assessment of underlying risks and their assessment methodologies. Initiatives under the Bank's Enterprise Risk Management program have been a major catalyst and contributor to the enhancement of risk management practices within the bank.

The bank's Six Broad Principles of Risk Management

The Six Broad Principles define the key principles on accountability, independence, structure and scope.

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assume the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC) and the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management and advisory to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the BASEL regime.
4. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. Also, ERMG is responsible for the development and implementation of various risk policies and related business decisions empowered by the board.

5. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.
6. BAJ's Board, through the ALCO, BRC and EXCOM, maintains overall responsibility for risk management within the Bank.

9. Risk Appetite Framework & Policy

The Risk Appetite Framework & Policy is reviewed by BRC and the Board on a periodic basis and takes into consideration the bank's risk taking-capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the bank and periodically reports to BRC, EXCOM and to the board through specific reports.

a. Credit Risk Management

Risk appetite for credit risk is an expression of the amount of risk that the bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill his part of the agreement. In mitigating credit risk, the Bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The Bank uses internal rating tools to determine an Obligor Risk Rating (ORR) that reflects the Bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Chief Credit Officer and the Chief Risk Officer, the credit risk is controlled through continuous monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the Bank's interests. The Bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The Bank also mitigates its credit risk by requiring tangible collateral where necessary.

The Bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, risk rating etc. To mitigate these concentration risks the Bank seeks to diversify its portfolio through customer acquisition across economic sectors, diversification of type of financing in terms of short term working capital financing and longer term fixed capital financing and project financing through syndication arrangements to meet needs of its clients. Obligor and Sector Financing Concentrations are monitored by ERMG periodically or as per applicable regulatory guidelines through the CRO Dashboard and are regularly reviewed by the Chief Credit Officer, the Chief Risk Officer and the business heads. The concentration levels are also reported to the Board Risk Committee (BRC) on a periodic basis.

Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed.

The Bank continuously updates its credit polices to reflect economic, market and legal realities.

b. Market Risk Management

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

c. Operational Risk Management

The bank's operational risk appetite is defined in the Risk Appetite policy and expressed through the following measures and limits as part of semi-annual stress testing exercise:

a. Impact and materiality in terms of limits;
b. Tolerance and thresholds that reflects bank's tolerance for acceptable risks and operational losses;
c. Profile for the purpose of identifying material operational risks and losses.

To support the Bank's risk tolerance, each business / support sector is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies and procedures.

10. Credit Risk

a. Overview

Credit risk is the potential that the bank's obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions.

The principal bank units responsible for taking credit risk are:

- Corporate and Institutional Banking Group (CIBG)
- Commercial Banking Services-SME (CBS)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Private Banking (PBG)

Each credit risk taking unit has developed certain policies and guidelines governing their credit risk taking functions which are contained in the Credit Risk Policy, RBG Risk Policy and Treasury Risk Policy documents.

b. Provisions for Loans/Financing

The bank makes provisions according to guidelines set by SAMA. It therefore creates specific provisions for impaired accounts based on an assessment of the likelihood that the specific obligor will not meet his obligations. The bank also makes collective provisions on the remaining assets of the portfolio based on the assessment of the probability of default and the loss in case of default. The periodic specific and collective provisioning strategies are reviewed and agreed by the Chief Credit Officer, the Chief Risk Officer, the Heads of the Business Units, the Chief Finance Officer and by the CEO.

The Bank is on course with respect to the implementation of IFRS -9 Financial Instruments as per SAMA guidelines. The Bank has laid down a detailed plan to ensure seamless implementation of IFRS-9 with the development of relevant models that will enable estimation of Expected Credit Loss (ECL) based on life time Point In Time Probability of Default (PD).

11. Market Risk

a. Introduction

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

b. Management of Market Risk

Delegated by the Board, ALCO and MRPC (Market Risk Policy Committee) are responsible for the policies, limits and control used in managing market risk. The bank has an approved Market Risk Policy that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, BRC, ALCO, the Board of Directors and the national supervisor.

Foreign Exchange Risk

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

Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of the bank's investments in equities. The bank's portfolio of listed securities is periodically marked to market. This trading portfolio mostly relates to strategic investments of seed capital by Al Jazira Capital in various funds under their management. All these funds are listed on the Tadawul exchange. BAJ also holds a small and immaterial, legacy equity portfolio in its banking book; most of these equities are unquoted. Investments in unquoted equity instruments are measured at fair value. Any changes are taken into the bank's equity and other comprehensive income.

c. Capital Treatment for Market Risk

Bank AlJazira computes the minimum capital requirements against market risk using The Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the bank's activities.

d. Stress Testing

The bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are updated and may be redefined on an ongoing basis to reflect current market conditions. The bank carries out Stress Testing assessments based on both regulatory guidelines and also ad hoc basis based on purpose built scenarios to test the resilience of specific portfolios. The Stress Test results are reported to Senior Management, BRC, EXCOM and the Board to facilitate and manage risk with more transparency.

12. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the bank and from almost any activity. Operational risk excludes credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The bank has an independent Operational Risk Team under Enterprise Risk Management Group (ERMG) which is tasked with monitoring and controlling the Operational Risks of the bank. Functions of this unit are guided by the Operational Risk Policy and Framework. In addition, the bank has implemented Business Continuity and Disaster Recovery program, tested at regular intervals with results of testing communicated to relevant risk forums.

a. Management and Monitoring of Operational Risk

The established ORM Framework is designed to maintain dependency between the risk management and the risk owners represented by the various business groups within the bank. While keeping the responsibility of managing the business within the respective business groups, processes have been established to involve the operational risk management team to facilitate the risk identification, measurement, assessment and control.

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

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

A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that requires management attention and action on a priority basis.

The key methods used to manage and monitor operational risks are as follows:

Risk & Control Self-Assessment (RCSA).

The risk register and corresponding action plans are maintained and updated regularly. The review cycle involves discussions with the members of Operational Risk Management Committee (ORMC) to seek directions on risk acceptance and treatment including decision for taking actions to review and to improve the control environment.

The Bank has implemented a comprehensive RCSA program. Under this program RCSA workshops are facilitated by Operational Risk Management team and corresponding heat maps are produced at each business and support function level. High and medium risks are closely monitored and escalated to appropriate levels to ensure effective monitoring and risk mitigation.

The progress on risk mitigation action plans and the movement of risk measurement across the risk heat-map is also monitored and discussed with the respective management.

Key Risk Indicators (KRIs)

A special series of workshops were conducted to produce the first list of KRIs. Based on their nature, these are defined and assessed in coordination with the respective business and risk owners addressing mainly critical processes. The process includes setting means of collecting required data, analysis and management expectations for certain indicators set as acceptable threshold to create means of leading or lagging warning signals. It also involves consolidating certain common KRIs that requires actions at the Bank wide level. The Bank aims to improve on the KRI lists to create meaningful and business relevant risk indicators.

Loss Data Management (LDM)

The Operational Risk team monitors and maintains a detailed register of all operational risk losses and near-miss incidents. These are linked to the respective risk profiling and key risk register, guiding the business management to direct their efforts to improve their controls and the respective services or products. Those are classified and reported based on the Basel III loss events type.

Business Continuity Management (BCM)

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

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

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

Outsourcing

Complying with SAMA regulations on outsourcing, the Operational Risk Management team is involved in reviewing the risk assessment related to outsourcing of material banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

Anti-Fraud Management

The Bank has established an Enterprise Anti-Fraud program in coordination with several internal stakeholders, aiming to prevent and reduce to the minimum losses arising from internal and external frauds. The Bank wide anti-fraud awareness program has already been conducted and the bank is preparing for a Bank wide fraud risk assessment exercise which will be linked to the existing risk profile and control registers.

b. Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the bank. The bank aims to move towards The Standardized Approach (TSA) for Operational Risk Capital Charge Calculation in the near future. In this context, the bank will formally seek SAMA's approval for adopting the TSA accordingly. The bank will also continue to collect loss data history and compare those against the allocated capital per business lines in preparation for the Advanced Approaches that the bank is planning to implement in the long term as per revised BASEL III guidelines.

13. Sharia'h Compliance

Being an Islamic Bank, the Bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the bank established an independent Sharia'h Board and a Sharia'h Compliance Audit Unit under Sharia'h Group.

a. Sharia'h Governance

The Sharia'h Compliance Framework was formulated to enable Bank AlJazira to communicate its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Compliance Framework is the enterprise-wide Sharia'h management plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following functions:

- Sharia'h Review;
- Sharia'h Advisory & Research;
- Sharia'h Audit;

b. Sharia'h Board

The operation of the Islamic Bank is governed by Sharia'h law of Islamic Banking which stipulates that any licensed Islamic Bank is required to provide for the establishment of Sharia'h advisory body to advise the Bank on the operations of its business in order to ensure that it does not involve any element which is Sharia'h non-compliant.

The Sharia'h Board is responsible to:

- advise the Board on Sharia'h matters in its business operations;
- endorse Sharia'h Compliance Manual and Framework;
- endorse and validate relevant documentations;
- advise the bank on the computation and distribution of Zakat;
- assist related parties on Sharia'h matters and
- provide written Sharia'h opinion.

c. Rectification Process of Sharia'h Non-Compliance Income

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia'h non-compliance has already been put in place.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;

- Mitigation and control;
- Monitoring and reporting.

14. Liquidity Risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources; assets are priced taking liquidity into consideration; the bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

a. Liquidity Risk Management Approach

In terms of day-to-day liquidity management, the Treasury Business Support unit ensures sufficient funding to meet its intraday payment and settlement obligations on a timely basis.
The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short- and long-term cash flow via maturity mismatch report and various indicators;
- Monitoring depositor concentration at bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR, are maintained at the required minimum.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

All liquidity policies and procedures are covered by the Market Risk Policy which is subject to review and approval by the Market Risk Policy Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.
In addition to the statutory deposit, the bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

15. Profit Rate Risk in Banking Book

Profit rate risk arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.

a. Yield sensitivity of assets, liabilities and off balance sheet items

The bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).

Profit rate risk is measured as per industry best practices and reported on a daily basis to senior management. The bank uses behavioral models for non-maturity deposits; these models employ statistical time series data. Respective assumptions are derived from the model results in conjunction with other qualitative factors. Essentially, a small percentage of the non-maturity deposits (based on business segment) are then placed in the short term gap bucket while the remainder goes to a longer term gap bucket.

Recently revised guidelines from Basel Committee on Banking Supervision/ SAMA on Profit Rate Risk in the Banking Book are applicable from 2018 and the bank is currently implementing them. These guidelines update both the principles and methods expected to be used by Banks for measuring, managing, monitoring and controlling this risk.

16. Macroeconomic and business cycle risk

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

17. Strategic Risk

Strategic Risk of the bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the bank in the form of reduction in shareholder value, loss of earnings, etc.

The bank has assessed its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and implementation capabilities.

18. Reputational Risk

Reputational Risk refers to the potential adverse effects, which can arise from the bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc.

The bank has assessed the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score.

19. Implementation of IFRS -9:

As part of strengthening BAJ's Risk Management Framework and to ensure it remains in compliance with applicable regulatory requirements, the bank has undertaken a strategic initiative to implement IFRS-9, Financial Instruments", as per SAMA stipulated timelines.

The bank is already in compliance with IFRS-9 requirements pertaining to Hedging and is amongst the very first Banks in the Kingdom to have developed a strategic hedge for its pool of assets. The requirements laid down by IFRS-9 as regards to Classification and Measurement are now in focus with a detailed project in progress.

The Bank has devised a detailed road map with defined stakeholders and activities. To ensure timely execution and implementation of the road map, a governance structure has been put in place in terms of a "IFRS-9 Working Group" and a "Steering Committee". Key developments in the IFRS-9 project are regularly reported to the Steering Committee with updates provided to the Board Risk Management Committee on a periodic basis.

20. Enterprise Risk Management Group – The Road Ahead

The Bank remains focused on fortifying its risk management practices and culture. In this regards the Bank has managed to reengineer its risk management organization enabling it to provide assurance to both internal and external stakeholders as regards to sound risk management practices being implemented in letter and spirit. Furthermore, a detailed review to all policies and procedures has also been undertaken to ensure these remain up to date and fit for purpose.

The bank has undertaken a detailed review, validation and re-development (where necessary) of its rating models to ensure that the models remain in sync with the broad strategic objectives and are predictive of the obligor and portfolio risk profile. In this regard the Bank has developed portfolio specific models vis-à-vis Corporate, Commercial, SME and Specialized Lending Models. A separate set of score cards is under development with respect to the Retail Portfolio of the Bank to ensure that obligor's risk assessment is carried out at both application (pre-approval) and behavioral (post approval) basis.

To further refine its data mining and risk reporting capabilities, the Bank has undertaken a specific project to assess its data capabilities as per the principles laid down by BCBS 239. The project will provide the impetus for eventual development and implementation of a Risk Data Warehouse.

The bank has successfully automated its capital calculation capabilities under Basel III requirements. The new capital calculation engine has been successfully commissioned and currently undergoing parallel run. Post stabilization, the bank will formally approach SAMA to seek approval for migration to the new capital calculation engine.

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