بنك الجزيرة
BANK ALJAZIRA

RIGHTS ISSUE PROSPECTUS

Offering of [300,000,000] ordinary shares with an offer price of SAR (10) per share ("Offer Price") due to an increase in the Bank's capital from five billion two hundred million Saudi riyals (SAR 5,200,000,000) to eight billion two hundred million Saudi riyals (SAR 8,200,000,000) (an increase of 57.7%) by issuing Rights shares ("Offering")

A joint stock company incorporated pursuant to Royal Decree No. 46/M dated 12/06/1395G (corresponding to 21/06/1975G), and registered under Commercial Registration No. 4030010523 dated 29/07/1396H (corresponding to 27/07/1976G).

Trading Period starts from Sunday 08/07/1439H (corresponding to 25/03/2018G) to Sunday 15/07/1439H (corresponding to 01/04/2018G)

Offering Period From Sunday 08/07/1439H (corresponding to 25/03/2018G) to Wednesday 18/07/1439H (corresponding to 04/04/2018G)

Bank Aljazira (hereinafter referred to as "the Company," "the Bank" or "the Issuer", and the Bank and its subsidiaries and affiliates are collectively referred to as "Aljazira Group" or "the Group") was established as a Saudi joint stock company pursuant to Royal Decree No. 46/M dated 12/06/1395H (corresponding to 21/06/1975G) and registered under Commercial Registration No. 4030010523 dated 29/07/1396H (corresponding to 27/07/1976G) at Jeddah, where its head office is located. The Bank commenced its business on 16 Shawwal 1396H (corresponding to 9 October 1976G). As of the date of this Prospectus, the Bank's current capital is five billion and two hundred million Saudi riyals (SAR 5,200,000,000) divided into five hundred and twenty million (520,000,000) nominal shares (the "Shares") with a fully paid nominal value of SAR 10 per share (the "Current Shares").

On 23/03/1436H (corresponding to 14/01/2015G), the Board of Directors of the Bank recommended that the Bank's capital be increased by issuing Rights of three billion Saudi riyals (SAR 3,000,000,000) ("Capital Increase") subject to all required regulatory approvals and Shareholders' approval. In addition, the Bank has obtained the approval of the Saudi Arabian Monetary Agency (SAMA) with regards to increasing the Bank's capital pursuant to SAMA's letter No. 361000057492 dated 19/04/1436H (corresponding to 8/02/2015G). SAMA has also approved extending the deadline submission of the Capital Increase file to the Capital Market Authority pursuant to SAMA's letter No. 381000015409 dated 09/02/1438H.

On Monday 02/07/1439H (corresponding to 19/03/2018G) the Extraordinary General Meeting agreed to increase the Bank's capital by issuing Rights shares, through offering (300,000,000) new ordinary shares ("Rights shares" or "New Shares") at the offering price of ten (10) Saudi riyals per share ("Offering Price"), with a nominal value of SAR 10 per share in order to increase the Bank Capital from five billion and two hundred million Saudi riyals (SAR 5,200,000,000) to eight billion and two hundred million Saudi riyals (SAR 8,200,000,000).

As of the date of this Prospectus, the Bank's Major Shareholders (i.e. those owning 5% or more of the capital) are Mr. Saleh Bin Abdullah Bin Mohammed Kamel (5%), National Bank of Pakistan (5.83%) and Consolidated Brothers for Development Co. (6.59%).

The Rights shares will be issued as tradable securities (collectively referred to as "Rights shares" and singly referred to as "Rights Share") for the Shareholders who are owners of shares as of the date of the Extraordinary General Meeting held for the Capital Increase and who are registered in the shareholders' register of the Bank at the end of the second trading day following the date of the Extraordinary General Assembly's Meeting regarding the Capital increase dated Monday 02/07/1439H (corresponding to 19/03/2018G) ("Rights Issue Date") (and are collectively referred to as "the Registered Shareholders" and solely referred to as "the Registered Shareholder") provided that all rights shall be placed in the portfolios of Registered Shareholders after the Extraordinary General Assembly's Meeting for the Capital Increase in which (0.5769) right shall be placed for each (1) Bank share held. Each Right shall grant its holder eligibility to subscribe for one New Share at the Offer Price.

All Registered Shareholders and other general investors ("New Investors") – who have the right to trade the rights and subscribe to the new shares- may trade and subscribe to the Rights shares in Saudi Stock Exchange ("Tadawul") or ("Stock Exchange"). Trading Period and Subscription Period start on Sunday 08/07/1439H (corresponding to 25/03/2018G), while Trading Period will end on Sunday 15/07/1439H (corresponding to 01/04/2018G) ("Trading Period") and the Subscription Period will end on Wednesday 18/07/1439H (corresponding to 04/04/2018G) ("Subscription Period"). The Trading Period and Subscription Period will start on the same date however the Trading Period will cease on the 6th day of the start of the period, meanwhile the Subscription Period will end on the 9th day of the said period.

The Registered Shareholders may trade the Rights shares during the Trading Period by selling the obtained rights or part of it, or buying additional rights from the Stock Exchange. New Investors may, during the Trading Period, buy rights from the Stock Exchange and sell the rights to be bought during the Trading Period.

The New Shares could be subscribed to during the Subscription Period via a single phase as follows:

1- During such period, all Registered Shareholders and New Investors may subscribe to the New Shares.
2- The Registered Shareholder may during the Subscription Period directly subscribe for the New Shares prorated to its own shares. In case the Registered Shareholder bought new rights, he will be allowed to subscribe for them upon the cessation of the settlement period (two business days after buying the new rights).
3- The New Investors may directly subscribe for the New Shares upon settlement of such shares.
4- Subscription will be available online through the investment portfolio on Tadawul platforms and applications that are used to submit purchase and sale orders. Additionally, subscription shall be available through other media and channels available at the intermediary.

If there are any unsubscribed shares by the end of the Subscription Period (the "Rump Shares"), then such shares shall be offered to a number of institutional investors ("Institutional Investors"); such offering shall be referred to as (the "Rump Offering"). The Institutional Investors shall submit their offers for the purchase of the Rump Shares, and such offers shall be received from 10:00 a.m. on Tuesday 24/07/1439H (corresponding to 10/04/2018G) to 5:00 p.m on Wednesday 25/07/1439H (corresponding to 11/04/2018G) (the "Rump Offering Period"). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered (provided that it shall not be less than the Offer Price) with Shares being allocated on a pro rata basis, among those being the Institutional Investors that provided offers at the same price. The fractional shares will also be added to the Rump Shares and will be subject to the same. The Bank shall receive the total Offer Price obtained from the offering of the Rump Shares and fractional shares. The sale proceeds of the Rump Shares and the fractional shares (i.e. in excess of the Offer Price) shall be distributed to the eligible persons, as per entitlement, no later than 14/08/1439H (corresponding to 30/04/2018G).

In the event that the Institutional Investors do not subscribe for all of the Rump Shares and fractional shares, then these shares shall be allocated to the Underwriters who shall subscribe for them at the Offer Price (see Section 17 "Offering Terms, Conditions and Instructions").

The final allocation for the New Shares will be announced no later than 03/08/1439H (corresponding to 19/04/2018G) (the "Allocation Date") (see Section 17.4 "Offering Terms, Conditions and Instructions - Allocation").

Upon completion of the Offering, the Bank's capital will be SAR (8,200,000,000) divided into (820,000,000) ordinary shares. The net proceeds of the Offering will be used to promote the Bank's capital base, to finance the banking services for individuals and corporates and to develop its digital platforms used in the operational processes in order to improve its performance (for more details about Use of Proceeds, see Section 8 "Use of Proceeds").

The Bank has one class of shares. No Shareholder shall have any preferential rights. The New Shares will be fully paid and will equal exactly the outstanding shares. Each share grants its holder one vote, and each shareholder ("the Shareholder") has the right to attend and vote at the General Meeting (the "General Meeting"). Holders of the New Shares shall be entitled to receive any dividends declared by the Bank as of the date of the Offering (see Section 7 "Dividend Distribution Policy").

The Bank has already issued five hundred and twenty million (520,000,000) shares, all of which were listed on Tadawul. The Bank has applied to the Capital Market Authority of the Kingdom of Saudi Arabia ("CMA") for listing and admission of the New Shares. It has provided all supporting documents requested by CMA, and the Prospectus has been approved. The Bank has obtained all formal approvals required for offering of the New Shares. Trading in New Shares in Tadawul is expected to start soon after completion of New Shares and surplus transfer process (see "Key Dates for Eligible Persons"). Upon listing and admission of the shares, Saudi nationals, non-Saudi persons who reside legally in the Kingdom, GCC nationals, Saudi and GCC investment companies and funds, as well as qualified foreign investors authorized under the rules regulating the investments by qualified foreign institutional investors in the listed shares, will be permitted to trade in the shares. Furthermore, other categories of foreign investors are entitled to the economic benefits associated with the New Shares by concluding swap agreements with persons authorized by CMA (the "Licensed Person"), noting that the Licensed Person shall in such case be the registered legal owner of shares.

This Prospectus must be read in full and the "Important Notice" section and Section 2 "Risk Factors" of this Prospectus must be considered prior to making any investment decision in the New Shares or Rights.

The Financial Advisors and Lead Managers

الإنماء للاستثمار alinma investment — J.P.Morgan

Underwriters

الإنماء للاستثمار alinma investment — ميفك كابيتال MEFIC Capital — WASATAH CAPITAL وساطة كابيتال — ملكية MULKIA INVESTMENT — بيت التمويل السعودي الكويتي Saudi Kuwaiti Finance House

This Prospectus is dated 10/06/1439H (corresponding to 26/02/2018G).

بنك الجزيرة
BANK ALJAZIRA

Important Notice

This Prospectus contains detailed information on the Bank and the Offer Shares. When applying for the New Shares, investors will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Bank, the Lead Managers or by visiting the website of the Bank (www.baj.com.sa) or the website of the Lead Managers (www.alinmainvestment.com) and (www.jpmorgansaudiarabia.com) and CMA website (www.cma.org.sa).

The Bank has appointed both JP Morgan Saudi Arabia and Alinma Investment Company as Financial Advisers ("Financial Advisers") and Lead Managers ("Lead Managers"). The Bank has appointed Alinma Investment Company, Middle East Financial Investment Company (MEFIC Capital), Mulkia Investment Company, Saudi Kuwaiti Finance House and Wasata Capital as underwriters ("Underwriter") for the New Shares to be offered pursuant to this Prospectus.

This Prospectus includes information given in compliance with the Listing Rules issued by the CMA. The Members of the Board of Directors whose names appear in Section 5.2 ("Board of Directors"), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts that the omission of which would make any statement herein misleading. The CMA and the Saudi Stock Exchange (Tadawul) do not take any responsibility for the contents of this Prospectus, do not make any representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as of the date hereof, a substantial portion of the information in this Prospectus which is relevant to the market and industry is derived from external sources. While neither the Financial Advisor, Lead Manager or the Bank or any of the Bank's advisors, whose names appear on pages (vii), (viii), and (ix) of this Prospectus (the "Advisors"), has any reason to believe that any of the market and industry information is materially inaccurate, such information was not independently verified, and no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as of the date hereof is subject to change. In particular, the actual financial condition of the Company and the value of the Offer Shares may be adversely affected by future developments in inflation, interest rates, taxation or other economic, political and other factors, over which the Company has no control (see Section 2 "Risk Factors"). Neither the delivery of this Prospectus nor any oral or written information in relation to the New Shares is intended to be, should be construed, or relied upon in any way as a promise or representation of the Bank's future earnings, results of operation or events.

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors, the Major Shareholders or any of the Company's Advisers to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs. Prior to making an investment decision in the New Shares or Rights, each recipient of this Prospectus is responsible for obtaining independent professional advice from a financial advisor in relation to the Offering and must rely on its own examination of the Bank and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs.

All Registered Shareholders and other general investors ("New Investors") – who have the right to trade the Rights and subscribe for the new shares- may trade and subscribe in the Rights shares in Saudi Stock Exchange ("Tadawul") or ("Stock Exchange"). The Trading Period and Subscription Period start on Sunday 08/07/1439H (corresponding to 25/03/2018G) in which the Trading Period will cease on Sunday 15/07/1439H (corresponding to 01/04/2018G) ("Trading Period") meanwhile the Subscription Period will cease on Wednesday 18/07/1439H (corresponding to 04/04/2018G) ("Subscription Period"). It is worth noting that the Trading Period and Subscription Period will commence on the same date however the Trading Period will cease on the 6th day of the start of the same period, meanwhile the Subscription Period will end on the 9th day of the said period.

The Registered Shareholders may trade the Rights shares during the Trading Period by selling the obtained rights or part of it or buying additional rights from the Stock Exchange. New Investors may, during the Trading Period, buy rights from the Stock Exchange and sell the rights to be bought during the Trading Period.

The New Shares could be subscribed for during the Subscription Period via a single phase as follows:

- During such period, all Registered Shareholders and New Investors may subscribe for the New Shares.
- The Registered Shareholder may during the Subscription Period directly subscribe to the New Shares as per his own shares. In case the Registered Shareholder bought new rights, he may subscribe for them after the settlement period (two business days).
- New Investors may subscribe in the new shares after the rights purchase are directly settled.
- Subscription will be available online through the investment portfolio on Tadawul platforms and applications that are used to submit purchase and sale orders. Additionally, subscription shall be available through other media and channels available at the intermediary.

If there are any unsubscribed shares by the end of the Subscription Period (the "Rump Shares"), then such shares shall be offered to a number of institutional investors ("Institutional Investors"); such offering shall be referred to as (the "Rump Offering"). The Institutional Investors shall submit their offers for the purchase of the Rump Shares, and such offers shall be received from 10:00 a.m. on Tuesday 24/07/1439H (corresponding to 10/04/2018G) to 5:00 p.m. on Wednesday 25/07/1439H (corresponding to 11/04/2018G) (the "Rump Offering Period"). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered (provided that it shall not be less than the Offer Price), with Shares being allocated on a pro rata basis, among those being the Institutional Investors that provided offers at the same price. The fractional shares will also be added to the Rump Shares and will be subject to the same. The Bank shall receive the total Offer Price obtained from the offering of the Rump Shares and fractional shares. The sale proceeds of the Rump Shares and the fractional shares (i.e. in excess of the Offer Price) shall be distributed to the eligible persons, as per their entitlement, no later than 14/08/1439H (corresponding to 30/04/2018G).

In the event that the Institutional Investors do not subscribe to all of the Rump Shares and fractional shares, such shares shall be allocated to the Underwriters who shall subscribe for them at the Offer Price (see Section 17 "Offering Terms, Conditions and Instructions").

Pursuant to this Prospectus, the Rights shares issue is contingent on the Shareholders' approval. An invitation of the Extraordinary General Assembly to approve the Rights shares issuance shall be sent on 12/06/1439H (corresponding to 28/02/2018G). Investors should know that if no approval is obtained from the Shareholders, the Rights issue shall be canceled, and the Prospectus shall be considered void in which the Shareholders shall be notified thereof.

The recipient of this Prospectus is required to inform themselves of, and observe, any regulatory and legal restrictions in relation to the subscription and sale of the New Shares.

Industry and Market Data

Information and data on the banking sector in the Kingdom contained in this Prospectus have been obtained from information available to the public. While there is no reason to believe that this information is materially inaccurate, Directors, Shareholders and consultants have not independently verified the accuracy of this information and data, and there is no guarantee as to as to their accuracy or completeness. The Bank has made all reasonable efforts to ensure the accuracy of such information and data obtained from other parties.

The sources of information and data related to third parties used in this Prospectus include the following sources:

1. Saudi Arabian Monetary Agency ("SAMA")

SAMA was established in 1372H (corresponding to 1952G). Its functions include, inter alia, the following:

- Issuing and supporting Saudi currency and enhancing its value in the Kingdom and elsewhere;
- Acting as a banker to the government;
- Supervising commercial banks and exchange dealers.

With respect to monetary operations and supervision of commercial banks, SAMA has the following functions:

- Stabilizing the currency's foreign and domestic value, in addition to strengthening its coverage;
- Maintaining reserve funds held for cash purposes on the basis that they are funds that may be used only in cash-related operations;
- Minting, printing and issuing the national currency and performing all other relevant business, and
- Supervising commercial banks and exchange dealers, and setting relevant instructions.

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Agency

King Saud bin Abdul Aziz Street
P.O. Box: 2992 Riyadh 11169 Saudi Arabia
Tel: +996 11 4633000
Fax: +966 11 4662966
Website: www.sama.gov.sa

The information obtained from SAMA is publicly available and obtainable from the Internet therefore no consent has been obtained in relation to the use of such information.

2. The Ministry of Finance

The Ministry of Finance was established in 1351H (corresponding to 1933G). The most important functions of the Ministry are the following:

- Supervising implementation of the Saudi Government's fiscal policy and monitoring its implementation by the relevant agencies;
- Preparing the Saudi Government's budget, discussing it with Government agencies and monitoring its implementation;
- Controlling the current accounts between the MOF and all other Government agencies;
- Monitoring the predisbursement phase of budgetary funds for all Government agencies;
- Supervising Government revenue collection activities and ensuring that they comply with the relevant rules and regulations;
- Supervising the annual closing of the Government's accounts and expenditures;
- Supervising and protecting Government's properties;
- Representing the Government in international and regional economic and financial institutions, monitoring international financial and economic developments, and preparing the necessary studies and reports, and
- Implementing the Government's resolutions with respect to external assistance.

وزارة المالية
Ministry of Finance

King Abdul Aziz Road
11177 Riyadh, KSA
Tel: +996 11 4050000
Fax: +966 11 4033130
Website: www.mof.gov.sa

The information obtained from the Ministry of Finance is publicly available and obtainable from the Internet, therefore no consent has been obtained in relation to the use of such information.

Financial Information

Consolidated audited financial statements for the financial years ending on 31 December 2014G, 2015G and 2016G, the initial financial statements for the period ending on 30 September 2017G, and notes thereto made by Ernst & Young and KPMG (for 2014G, 2015G, 2016G and the period ending on 30 September 2017G) ("Auditors") have been prepared in accordance with the International Financial Reporting Standards IFRS as required by SAMA, and are not in accordance with Generally Accepted Accounting Principles published by the Saudi Organization for Certified Public Accountants ("SOCPA"). The Company publishes its consolidated financial statements in Saudi riyals.

The financial and statistical information contained in this Prospectus is subject to rounding. Accordingly, where numbers have been rounded up or down, percentages may not add up to 100%.

Where statistical information has been sourced for publication in this Prospectus, the Company believes that the information represents the latest information available from the relevant particular source.

Forecasts and Forward-looking Statements

Forecasts and statements were set out in this Prospectus on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used. Consequently, no affirmation, representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking statements". Such statements can generally be identified by their use of forward-looking words, such as "plans", "estimates", "believes", "expects", "anticipates", "may", "will", "should", "expected", "would be", or the negative thereof, or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events and are not a guarantee of future performance, as there are many factors that could affect the actual performance, achievements or results of the Company and cause them to be significantly different from what was expected, whether expressed or implied, in these forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see Section 2 "Risk Factors"). Should any one or more of the risks or uncertainties materialize or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary prospectus to the CMA if, at any time after the Prospectus has been approved by the CMA and before admission of the New Shares, becomes aware that:

a- There has been a significant change in material matters contained in the Prospectus or any document required subject to the Listing Rules, or

b- Any additional significant matters have become known which should have been included in the Prospectus.

Except in the aforementioned circumstances, the Bank does not intend to update or otherwise revise any information in this Prospectus, whether as a result of new information, future events or otherwise. As a result of the foregoing and other risks, and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Bank expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

Corporate Directory

Board of Directors

Name	Nationality	Age	Position	Membership Status	Date of appointment to the Board	Representing	Number of shares held			
							Directly	Indirectly*	Total	Percentage
Eng. Tarek bin Othman Al Kasabi	Saudi	69	Chairman of the Board	Non-executive/ Non-independent	01/01/2016G	-	15,913	None	15,913	0.00306%
Eng. Abdul Majeed bin Ibrahim Al Sultan	Saudi	51	Vice-Chairman of the Board	Non-executive/ Non-independent	01/01/2016G	-	1,732	6,857,696	6,859,428	1,31912%
Mr. Nabil bin Dawood Al Hoshan	Saudi	56	Chief Executive Officer and Managing Director	Executive/ Non-independent	01/01/2016G	-	3,465	None	3,465	0.00067%
Mr. Khalifa bin Abdul Latif Al Mulhem	Saudi	66	Director	Non-executive/ Non-independent	01/01/2016G	-	2,707,468	41,275	2,748,743	0.53%
Mohammed Abdulla Al Haqbani	Saudi	36	Director	Non-executive/ Non-independent	01/01/2016G	-	1,300	None	1,300	0.00025%
Abdul Salam bin Abdulrahman Al-Aqeel	Saudi	51	Director	Non-executive/ Independent	01/01/2016G	-	1,300	None	1,300	0.00025%
Saeed bin Saad Al-Murtan	Saudi	73	Director	Non-executive/ Non-independent	01/01/2016G	-	2,600	None	2,600	0.00050%
Ibrahim bin Abdul Aziz Alshaya	Saudi	35	Director	Non-executive/ Independent	01/01/2016G	General Organization for Social Insurance (GOSI)	None	None	0.00	0.00
Abdullah Saleh Al-Rasheed	Saudi	60	Director	Non-executive/ Independent	01/01/2016G	-	1,300	None	1,300	0.00025%

Source: The Bank

* Meaning the shares owned by the Board of Directors indirectly in the Bank through companies' ownership of shares in the Bank, or the shares owned by the Relatives of the Board of Directors directly or through companies' ownership of shares in the Bank.

Head Office of the Bank

Bank Aljazira
King Abdul Aziz Road
P.O 6277, Jeddah 21442
Kingdom of Saudi Arabia
Tel: +966 (12) 609 8888
Fax: +966 (12) 609 8881
Email: ri@baj.com.sa
Website: www.baj.com.sa

Representatives of the Bank

Mr. Nabil bin Dawood Al-Hoshan
Chief Executive Officer and Managing Director
Bank Aljazira
King Abdul Aziz Road
P.O. 6277, Jeddah 21442
Kingdom of Saudi Arabia
Tel: +966 (12) 609 8888
Fax: +966 (12) 609 8881
email: ri@baj.com.sa
Website: www.baj.com.sa

Mr. Yasser bin Ali Al-Hedaithy
Head of Treasury Group
Bank Aljazira
King Abdul Aziz Road
P.O. 6277, Jeddah 21442
Kingdom of Saudi Arabia
Tel: +966 (12) 609 8888
Fax: +966 (12) 609 8881
Website: ri@baj.com.sa
Website: www.baj.com.sa

Saudi Stock Exchange (Tadawul)

Abraaj Attawuneiya
700 King Fahd Road
P.O. Box 60612
Riyadh 11555
Kingdom of Saudi Arabia
Tel: +966 (11) 2189999
Fax: +966 (11) 218 9133
Email: webinfo@tadawul.com.sa
Website: www.tadawul.com.sa

The Financial Advisors and Lead Managers

JP Morgan Saudi Arabia
Al Faisaliyah Center
King Fahd Road
P.O. Box 51907, Riyadh 11553
Kingdom of Saudi Arabia
Tel: +966 (11) 2993800
Fax: +966 (11) 2993840
Email: www.jpmorgan.com/country/SA/EN/contact-us
Website: www.jpmorgansaudiarabia.com

Alinma Investment Company
Anoud Tower-2
King Fahd Road
P.O. Box 55560, Riyadh 11544
Kingdom of Saudi Arabia
Tel: +966 (11) 2185555
Fax: +966 (11) 2185970
Email: query@alinmainvest.com
Website: www.alinmainvestment.com

Underwriters

Alinma Investment Company
Anoud Tower-2
King Fahd Road
P.O. Box 55560
Riyadh 11544
Kingdom of Saudi Arabia
Tel: +966 (11) 2185555
Fax: +966 (11) 2185970
Email: query@alinmainvest.com
Website: www.alinmainvestment.com

Middle East Financial Investment Company (MEFIC Capital)
King Fahd Road, Olaya Street
Office No.1
P.O. Box 7758
Riyadh 12333
Kingdom of Saudi Arabia
Tel: +966 (11) 2186666
Fax: +966 (11) 2186668
Fax: +966 (11) 2186667
Email: info@mefic.com.sa
Website: www.mefic.com.sa

Mulkia Investment Company
Prince Mohammed bin Abdulaziz Street (Tahlia Street)
Aknaz Center – Building No: 184
Offices No. 2 and 3 – First Floor
P.O. Box 52775, Riyadh 11573
Kingdom of Saudi Arabia
Tel: +966 (11) 20003028
Fax: + 966 (11) 2932799
Email: info@mulkia.com.sa
Website: www.mulkia.sa

Saudi Kuwaiti Finance House
Riyadh, King Fahd Road 7856, Moon Tower, Floor 16
P.O. Box 50051 , Riyadh 11523
Kingdom of Saudi Arabia
Tel: +966 (11) 4845500
Fax: +966 (11) 4845501
Email: info@skfh.com.sa
Website: www.skfh.com.sa

Wasata Capital
Olaya Street
P.O. Box 50315, Riyadh 11523
Kingdom of Saudi Arabia
Tel: +966 (11) 4944067
Fax: +966 (11) 4944205
Email: info@wasatah.com.sa
Website: www.wasatah.com.sa

Legal Advisor	
Abuhimed, Alsheikh and Alhagbani Law Firm, in cooperation with Clifford Chance Building 15, Business Gate King Khaled International Airport Road P.O. Box: 90239, Riyadh 11613 Kingdom of Saudi Arabia Tel: +966 (11) 4819700 Fax: +966 (11) 4819701 Email: projectIsland@ashlawksa.com Website: www.ashlawksa.com	AS&H ABUHIMED ALSHEIKH ALHAGBANI in co-operation with CLIFFORD CHANCE
Professional Financial Diligence Advisor	
PricewaterhouseCoopers Kingdom Tower, Level 21 King Fahd Road, P.O. Box 13933, Riyadh 11414 Kingdom of Saudi Arabia Tel: +966 (11) 2110400 Fax: +966 (11) 2110401 Email: farrukh.faizi@sa.pwc.com Website: www.pwc.com/middle-east	pwc
Chartered Accountants of the Company	
Ernst & Young King Road Tower, Level 13 King Abdul Aziz Road P.O. Box 1994, Jeddah 21441 Kingdom of Saudi Arabia Tel: +966 (12) 221 8400 Fax: +966 (12) 221 8575 Email: riyadh@sa.ey.com Website: www.ey.com	EY
KPMG Al Fozan & Al Sadhan Zahran Business Center Prince Sultan Road P.O. Box 55078, Jeddah 21534 Kingdom of Saudi Arabia Tel: +966 (12) 698 9595 Fax: +966 (12) 698 9494 Email: marketingsa@kpmg.com Website: www.kpmg.com.sa	KPMG

Note: The above advisors accepted and, as of the date of this Prospectus, have not withdrawn their written consent to the publication of their names, addresses, logos and the statements in the context in which they appear in this Prospectus.

Offering Summary

This summary of the Offering is intended to provide a brief overview on the key information contained in this Prospectus. Therefore, this summary does not contain all information that may be of interest to Shareholders and other individual or Institutional Investors. Accordingly, the Recipients of this Prospectus must read them in full before making an investment decision regarding the Rights or New Shares. The "Important Notice" section and Section 2 "Risk Factors" of this Prospectus should be considered prior to making any investment decision in the Rights.

The Company	Bank Aljazira, a joint stock company incorporated pursuant to the Royal Decree No. 46/M dated 12/06/1395H (corresponding to 21/06/1975G), and registered under Commercial Registration No. 4030010523 dated 29/07/1396H (corresponding to 27/07/1976G), and based in Jeddah. The Bank commenced its business in the Kingdom of Saudi Arabia on 16/10/1396H (corresponding to 09/10/1976G) upon the acquisition of the branches of National Bank of Pakistan located in Saudi Arabia.
Activities of the Company	The Bank provides Shari'ah-compliant banking services according to the Banking Control Law and in conformity with the provisions of Islamic Shari'ah, including accepting deposits, providing Shari'ah-compliant financing models (such as Murabaha, Ististna, Ijara and Tawarruq) approved and controlled by an independent Shari'ah Board of the Bank.
Substantial Shareholders	Persons owning 5% or more of the Issuer's shares: Mr. Saleh Bin Abdullah Bin Mohammed Kamel with twenty-six million (26,000,000) shares (5%), Pakistan National Bank with thirty million, three hundred thirty-three thousand, three hundred and thirty-two (30,333,332) shares (5.83%), and Consolidated Brothers Company for Development with thirty-four million, two hundred and eighty-eight thousand, four hundred and eighty (34,288,480) shares (6.59%).
Nature of the Offer	Capital increase through Rights Issue.
Total number of shares existing and issued before the Offering	Five hundred twenty million (520,000,000) Ordinary Shares fully paid.
Nominal Value	SAR ten (10) per share.
Company's capital prior to the Offering	Five billion two hundred million Saudi riyals (SAR 5,200,000,000).
Increase of Share Capital	The Bank's capital will increase from five billion and two hundred million (SAR 5,200,000,000) Saudi riyals to eight billion and two hundred million Saudi riyals (SAR 8,200,000,000).
Total number of New Shares offered	Three hundred million (300,000,000) Ordinary Shares.
Offer Price	SAR ten (10) per share.
Total Offering Value	Three billion Saudi riyals (SAR 3,000,000,000)
Adjusted Price	The Company's share price has been amended in the Stock Exchange to SAR (11,88) per share, before the start of trading on the day following the Extraordinary General Meeting relating to the Capital Increase. This represents a price reduction of SAR (1,09) per share.
Registered Shareholders	The Shareholders who own shares in the Company as of the date of the Extraordinary General Meeting relating to the Capital Increase and who are registered in the Company's register as of the close of trading on the second day following the Extraordinary General Assembly relating to the Capital Increase.
New Investors	All individual and institutional investors who purchased Rights during the Trading Period, save as Registered Shareholders.
Targeted Investors	Registered Shareholders and New Investors

Priority Rights	Negotiable securities giving their holders the priority to subscribe for the New Shares upon approval on the Capital Increase. This is a right acquired by all Registered Shareholders, and it may be traded within the trading period. Each Right grants its holder the right to subscribe for one New Share at the Offer Price. The Rights will be deposited after the Extraordinary General Assembly relating to the Capital Increase. The Shares will appear in the portfolios of Registered Shareholders under a new symbol that designates these Rights.
New Shares	Three hundred million (300,000,000) Ordinary Shares issued as a result of the Capital Increase.
Rights Issue Ratio	Each Registered Shareholder is granted [0,5769] Rights per Share. This ratio is the result of dividing the number of New Shares by the number of the Bank's existing shares.
Number of Issued Priority Rights	Three hundred million (300,000,000) Rights.
Number of Underwritten New Shares	Three hundred million (300,000,000) Ordinary Shares.
Total Value of New Shares Underwritten	SAR three billion (3,000,000,000).
Total Number of Authorized Shares after Capital Increase	Eight hundred and twenty million (820,000,000) Ordinary Shares.
Company's Share Capital After Share Capital Increase	Eight billion and two hundred million Saudi riyals (SAR 8,200,000,000).
% of Increase in the Share Capital	The Bank's capital will increase by SAR 3,000,000,000 (three billion Saudi riyals), representing 57.7% of the Bank's capital prior to the Offering.
Offering Costs	The cost of the Offering is about eighty one million, six hundred fifty-six thousand and seven hundred Saudi riyals (SAR 81,656,700), noting that these costs are estimated and not final.
Net Offering Proceeds after Deducting the Offering Costs	Net Offering Proceeds are expected to be SAR (2,918,343,300) after deducting all Offering Costs amounting to SAR (81,656,700), taking into account that this is just an estimation.
Eligibility Date	The Shareholders who own shares in the Bank as of the date of the Extraordinary General Meeting relating to the Capital Increase and who are registered in the Company's register as of close of trading on the second trading day following the said Extraordinary General Assembly to be held on 04/07/1439H(corresponding to 21/03/2018G.
Trading Period	Starts on Sunday 08/07/1439H (corresponding to 25/03/2018G) and will continue until the end of the day of Sunday 15/07/1439H (corresponding to 01/04/2018G). During this period, all the Rights holders - whether Registered Shareholders or New Investors may trade the Rights.
Subscription Period	Starts on Sunday 08/07/1439H (corresponding to 25/03/2018G) and will continue until the end of the day of Wednesday 18/07/1439H (corresponding to 04/04/2018G). During this period, all the Rights holders - whether Registered Shareholders or New Investors may exercise their right to subscribe to the New Shares.
Rump Shares	The Rump Shares which were not subscribed for during the Offering Period.
Rump Offering	Rump Shares will be offered to a number of Institutional Investors. The Institutional Investors shall submit their offers for the purchase of the Rump Shares, and such offers shall be received from 10:00 am on Tuesday 24/07/1439H (corresponding to 10/04/2018G) to 5:00 pm on Wednesday 25/07/1439H (corresponding to 11/04/2018G). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered (provided that it may not be less than the Offer Price) with Shares being allocated on a pro rata basis among those Institutional Investors that provided offers at the same price. The fractional shares will also be added to the Rump Shares and will be subject to the same.

Payment of Compensation Amounts (if any)	Cash compensation amounts will be paid to Eligible Persons who do not subscribe wholly or partially for New Shares, as well as to the holders of fractional shares, no later than 14/08/1439H (corresponding to 30/04/2018G) (See Section 17, "Offering Terms and Instructions"). The compensation amounts represent the remaining proceeds of the sale of Rump Shares and Fractional Shares (in excess of offer price) resulting from the Rump Offering.
Eligible Persons	All the Rights holders, whether they are Registered Shareholders or New Investors who acquired Rights during the Trading Period.
Listing of/Trading in the Rights Issue	The Rights shares will be listed in Tadawul and traded during the Rights trading period. The Rights shall have a separate symbol independent from that of the shares of the Bank on the Tadawul screen. During the trading period, the Registered Shareholders have several options, including sale of the Rights or any part thereof on the Stock Exchange, purchase of additional rights through Stock Exchange or select not to exercise any of the aforesaid options. New Investors shall also, during the trading period, have the right to buy the Rights through the Stock Exchange, sell the same or a part thereof, or select not to exercise any of the aforesaid options. "Tadawul" system will remove the Bank's Rights Issue symbol from the Tadawul screen after the end of the trading period in which the Rights trading will end as a result.
How to Subscribe	Subscription applications shall be submitted online through intermediaries' websites and platforms that provide these services to subscribers or through any other means provided by intermediaries.
Offering in Rights Shares	Eligible Persons may exercise their right to subscribe to the Rights shares through e-offering through intermediaries' websites and platforms that provide these services to subscribers or through any other means provided by intermediaries. Eligible Persons may exercise their Rights as follows: 1. Registered Shareholders shall, during the Subscription Period, have the right to make use of the Rights, and any other additional rights, they have purchased during the trading period through subscription for new shares. They are also entitled not to take any action in relation to the Rights they own. 2. During the subscription period, New Investors shall have the right to make use of the Rights they have purchased during the Trading Period through subscription for new shares. They are also entitled not to take any action in relation to the Rights they own. In the event that neither the Registered Shareholders nor New Investors exercise their right to subscribe for the New Shares during the trading period, the Shares associated with such rights shall be offered in the Rump Offering Period.
Indicative value of the Right	The indicative value of a Right reflects the difference between the market value of the Bank's share during the trading period and the Offer Price. Tadawul will calculate and publish the indicative value of a Right during the Trading Period on its website with a 5 minute delay. The market information service providers will also publish this information, which will allow investors to be informed of the indicative value of a Right when entering the orders.
Right Trading Price	The price at which the Right is traded, noting that such price is set through the market offer and demand mechanism; therefore, it may differ from the Indicative Value of the Right.
Use of Proceeds	The net Offering proceeds are expected to reach SAR 2,918,343,300 after deducting the Offering expenses of SAR 81,656,700, which is an estimation. The Bank intends to use the proceeds to enhance its capital base and finance its expansion activities. For further information on the use of proceeds, see Section 8 ("Use of Proceeds").
Allocation Date	Shares shall be allocated no later than 03/08/1439H (corresponding to 19/04/2018G).

New Shares Allocation	The New Shares shall be allocated to the Eligible Persons based upon the number of Rights that they exercised. Fractional shares will be added to the Rump Shares and offered to Institutional Investors during the Rump Offering period. The Bank shall receive the total Offer Price obtained from the sale of the Rump Shares and fractional shares. The proceeds (i.e. in excess of the Offer Price) shall be distributed to the eligible persons, who did not subscribe wholly or partially for the New Shares, as well as to the holders of the fractional shares.(See Section 17 "Offering Terms, Conditions and Instructions")
Refund of Excess Funds	Any excess Offering funds will be refunded to the subscribers without any charge or withholding by the Lead Managers. Such funds will be refunded no later than 14/08/1439H (corresponding to 30/04/2018G).
Trading in New Shares	Trading in the New Shares will commence on Tadawul upon the completion of all procedures relating to the admission, allocation and listing of the New Shares.
New Share Dividends	The New Shares shall be entitled to receive any dividends declared by the Bank as of the date of the Offering (see Section 7 "Dividend Distribution Policy").
Voting Rights	The Bank shall have only one class of ordinary shares and each of the Shares entitles its holder to one vote. Each Shareholder may attend and vote at the General Assembly Meeting, and no Shareholder has any preferential rights. A Shareholder may authorize, in writing, another Shareholder (other than the members of the Board and the Bank's employees) to attend the General Assembly on his/her behalf (see Section 13.7 "Voting Rights").
Restrictions on Dealings in Shares	All of the Bank's shares are listed on Tadawul and are not subject to any restrictions that limit trading thereof, except for regulatory restrictions on listed shares in general.
Restrictions on Trading in Rights (if any)	There are currently no regulatory restrictions on trading in Rights by any of the Bank's Shareholders, except for the National Bank of Pakistan, as it is a foreign Shareholder and therefore is not entitled to purchase additional Rights without the consent of the relevant entities. It should also be noted that in order for the National Bank of Pakistan to subscribe for the New Shares, it may have to obtain approvals of the supervisory authorities under laws to which it is subject to in Pakistan.
Previously Listed Shares	The Bank has already listed five hundred and twenty million (520,000,000) shares on Tadawul.
Risk Factors	There are certain risks relating to investing in the Rights, which can be categorized into: (i) risks related to the Company's operations; (ii) risks related to the market; (iii) risks related to the New Shares. These risks are described in Section 2 "Risk Factors" and should be considered carefully prior to making a decision to invest in the New Shares or Rights.
Subscription Terms in Rights Shares	Eligible Persons willing to subscribe for New Shares shall fulfill the related subscription conditions. For more information, See Section 17 "Offering Terms, Conditions and Instructions".
Costs	The Bank will be liable for all costs associated with the Offering, which are estimated to reach around eighty-one million, six hundred fifty-six thousand and seven hundred Saudi riyals (SAR 81,656,700). This amount will be deducted from the total proceeds of the Offering, i.e., three billion Saudi riyals (SAR 3,000,000,000). The costs of the Offering include the fees of the Financial Advisors, Lead Managers, Financial Due Diligence Advisor, Legal Advisor of the Company, Legal Advisor of the Underwriter, auditors and other advisors. In addition, there are costs related to the underwriting, printing and distribution, and any other expenses or fees related to the Offering. These costs are based on estimates and therefore, they are not final.

Note: The "Important Notice" section on page (ii) of Section 2 "Risk Factors" of this Prospectus should be considered carefully prior to making any investment decision regarding the New Shares or Rights.

Table 1.1 Key Dates for Eligible Persons

Event	Date
Extraordinary General Assembly approving the Capital Increase and setting the Eligibility Date	On Monday 02/07/1439H (corresponding to 19/03/2018G)
Trading Period and Subscription Period	The trading period and subscription period start on Sunday 08/07/1439H (corresponding to 25/03/2018G), in which the trading period will end on Sunday 15/07/1439H(corresponding to 01/04/2018G), while the subscription period will end on Wednesday 18/07/1439H (corresponding to 04/04/2018G). It is worth noting that the Trading Period and subscription period will start at the same date however the trading period will end on the 6th day of the start of the period, while the subscription period will end on the 9th day of the said period.
Subscription Period End Date	The subscription period, together with the deadline for receiving subscription applications forms shall end on Wednesday 18/07/1439H (corresponding to 04/04/2018G).
Rump Offering Period	From 24/07/1439H (corresponding to 10/04/2018G) to 25/07/1439H (corresponding to 11/04/2018G)
Notification of Final Allotment	03/08/1439H (corresponding to 19/04/2018G)
Payment of Compensation Amounts (if any) for Eligible Persons who did not participate in the Offering and those entitled to fractions of the New Shares	14/08/1439H (corresponding to 30/04/2018G)
Expected date for the commencement of trading in the New Shares	After all necessary procedures have been completed, the dates will be posted on the Tadawul website.

Note: Dates set out in the table above and all stated dates are indicative. The actual dates will be posted on Tadawul website (www.tadawul.com.sa).

Table 1.2 Key Announcement Dates

Announcement	Announcing Party	Announcement Date
Announcement of invitation to Extraordinary General Assembly for approving the Capital Increase	The Company	12/06/1439H (corresponding to 28/02/2018G)
Announcement of results of Extraordinary General Assembly for approving the Capital Increase including the approval of the Capital Increase	The Company	03/07/1439H (corresponding to 20/03/2018G)
Announcement regarding the change in Company's Share Price, Rights' deposit and the Indicative Value of the Right	Tadawul	03/07/1439H (corresponding to 20/03/2018G)
Announcement of the Rights trading period and subscription period for the New Shares	The Company	03/07/1439H (corresponding to 20/03/2018G)
Reminder announcement regarding the start of the Rights trading period, along with the subscription period.	The Company	05/07/1439H (corresponding to 22/03/2018G)
Reminder announcement of the last trading day for the Rights and the importance of selling Rights for those unwilling to exercise such Rights	Tadawul	12/07/1439H (corresponding to 29/03/2018G)
Announcement regarding the end of the Subscription Period	The Company	17/07/1439H (corresponding to 03/04/2018G)
Announcement regarding: Subscription Results Details of the Rump Shares (if any) and Start of the Rump Offering Period	The Company	19/07/1439H (corresponding to 05/04/2018G)

Announcement	Announcing Party	Announcement Date
Announcement regarding the results of the Rump Offering and notification of the final allocation	The Company	03/08/1439H (corresponding to 19/04/2018G)
Announcement regarding the Deposit of New Shares in the Investors' Portfolios	Tadawul	06/08/1439H (corresponding to 22/04/2018G)
Announcement regarding distribution of the Compensation Amounts (if any) to its entitled persons	The Company	14/08/1439H (corresponding to 30/04/2018G)

Note: Dates set out in the table above and all stated dates are indicative. The actual dates will be posted on Tadawul website (www.tadawul.com.sa).

How to Apply

Subscription to the Rights shares is limited to Eligible Persons, whether they are Registered Shareholders or New Investors. In the event that Eligible Persons do not subscribe to the New Shares, all the remaining unsubscribed shares shall be offered to Institutional Investors through the Rump Offering. Eligible Persons willing to subscribe to New Shares shall apply for subscription through the means and services provided by the intermediary to investors, on the condition that an Eligible Person must have an investment account with one of the intermediaries providing these services.

Subscription applications shall be submitted through the investment portfolio in trading platforms and applications that are used for submitting purchase and sale orders. Subscription can also be made through other media and channels available at the intermediary and the custodian of the Shares. The Bank reserves the right to reject, in full or in part, any application for New Shares that does not comply with any of the Offering terms or requirements. The subscription application may not be amended or withdrawn after delivery, noting that it shall, if delivered, be binding upon the Bank and the eligible shareholder.

Questions and Answers on Priority Rights

What are Priority Rights?

Rights are issued as tradable securities giving their holders the priority to subscribe for the New Shares offered, upon approval of the capital increase. All shareholders who are owners of shares as of the date of the Extra-ordinary General Meeting held for capital increase and whole registered in the Company's Register with the Depository Center at the end of the second trading day following the Extraordinary General Assembly. Each Right shall grant its holder eligibility to subscribe for one New Share at the Offer Price.

Who is granted Rights?

Shareholders Registered in the Company's Register as of the close of the second trading day following the Extraordinary General Assembly, i.e., maturity date.

When are the Rights deposited?

After the extraordinary General Assembly's approval of the capital increase through a Rights Issue, the Rights are deposited as securities in the portfolios of the Registered Shareholders and they will appear in the Company's registers with the Depository Center under a new symbol that designates these Rights. These Rights cannot be traded or subscribed for by the Registered Shareholders until the start of the Trading and Offering Periods.

How are Registered Shareholders notified of the deposit of Rights in their portfolio?

Registered Shareholders will be notified that the Rights have been deposited into their portfolios through an announcement on Tadawul website or via Tadawulaty service provided by the Depository Center or through SMS messages sent by brokerage companies.

How many Rights can be acquired by a Registered Shareholder?

The number of shares acquired by each Registered Shareholder will depend on Rights Issue shares as per the Company Shareholders Register with the Depository Center at the end of second trading day following the Extraordinary General Assembly.

What is the Eligibility Factor?

The factor by which the Registered Shareholders could be able to know their due rights from their owned shares as per the Company Shareholders Register with the Depository Center at the end of second trading day following the Extraordinary General Assembly. It is calculated by dividing the number of New Shares by the number of the Bank's existing shares. Thus, the Eligibility Factor is (0.5769) right for each single Share owned by the Registered Shareholder at the Eligibility Date. Accordingly, if a Registered Shareholder holds one thousand (1,000) Shares at the Eligibility Date, he/she shall be allocated 576 rights in return for his/her Shares and will be compensated for the remaining fractional shares.

Will the name and code of those Rights Trading be different from the name and code of Company Shares?

Yes, the obtained rights will be added to the investors' portfolios under the name of original share, and in addition to the word "Rights shares," a new code will be added to those rights.

What is the right value when the trading starts?

The opening price of the Right is the difference between the Bank's closing share price on the day preceding the Right listing and the Offer Price (guiding Right Value). For example: If the Bank's closing share price is SAR 13.0 and the Offer Price is SAR 10.0, the opening price of the Rights will be SAR 3.0.

Who is a Registered Shareholder?

Any shareholder who appears in the Company Shareholder Register at the end of second trading day following the Extraordinary General Assembly.

Can the Registered Shareholders subscribe for additional shares?

Yes, the Registered Shareholders can subscribe for additional shares by buying new rights through the Stock Exchange during the Offering Period.

Could the Registered Shareholder lose his/her subscription right even if he/she is entitled to attend the Extraordinary General Assembly and vote about capital increase by offering Rights shares?

Yes, the shareholder loses his/her subscription right if he/she sold its shares on the same business day of the Extraordinary General Assembly.

How does the Offering take place?

Subscription Applications shall be submitted through the investment portfolio in the trading platforms and applications used to insert purchase and sale orders in addition to subscribing in other media and channels available at the intermediary and shares custodian.

Can an Eligible Person subscribe to shares exceeding his rights?

No, An Eligible Person can't subscribe to shares exceeding his rights.

If the Bank's shares are owned through more than one investment portfolio, in which portfolio the Rights will be deposited?

The Rights shares will be deposited in the same portfolio where the Bank's Rights shares are deposited. For example, if a subscriber owns one thousand (1,000) shares of the bank, (a) eight hundred (800) shares in his portfolio (b) two hundred shares (200), the total rights to be deposited are (576) in consideration of each share has (0.5769) rights. Thus, 461 Rights will be deposited in Portfolio (a), and 115 Rights will be deposited in Portfolio (b).

Are share certificate holders allowed to subscribe and trade?

Yes, they are, but after the certificates are deposited in investment portfolios by the intermediaries or the Depository Center prior to the end of Offering stage and after all needed documents are submitted. If they failed to deposit the certificates as mentioned before, they are able to subscribe in Offering Rights shares.

If the investor bought additional rights, may he/she trade them again?

Yes, he/she may sell and buy other rights only during the Trading Period.

Is it possible to sell part of Rights shares?

The investor may sell a part of these rights and use the remaining parts for subscription.

When can the Shareholder subscribe for the Rights shares he/she purchased during the Trading Period?

After the Rights purchase is settled (two business days), provided that the Rights shares shall be subscribed during the Offering Period.

May the Rights Share owner sell or waive the right after the expiry of Trading Period?

No, that is not possible. After the expiry of Trading Period, the Right owner may practice or ignore to practice his/her subscription right in Rights shares. If he/she failed to practice the right, the investor could be subject to a loss or decrease in his/her investment portfolio.

What happens to the Rights shares that not sold or subscribed during the Trading Period and Offering Stage?

If all New Shares are not subscribed during the Offering Period, the Excess unsubscribed for Shares shall be offered for a subscription arranged by the Lead Managers and the compensation value, if any, shall be calculated to the Rights owner after deducting the Offering value and any other expenses as specified in this Prospectus. Please note that the investor may not obtain any compensation if the sale was during the Rump Offering Period.

Who has the right to attend the Extraordinary General Assembly and vote for the increase of Issuer' capital by offering Rights shares?

The Registered Shareholder in the Company Shareholders Register at the Depository Center at the end of the Extraordinary General Assembly trading day shall attend the Extraordinary General Assembly and vote for the increase of Issuer' capital by offering Rights shares.

When can the share price be amended due to the increase of Issuer' capital through Rights Issue?

The Share price shall be amended by Tadawul before the trading on the following day of the Extraordinary General Assembly.

In case an investor bought shares in the company on the General Meeting day, may he/she obtain the Rights shares arising from the increase of Issuer' capital?

Yes, the Investor will be registered in the Company Shareholders Register after two business days from the Shares purchase (i.e. at the end of second trading day following the Extraordinary General Assembly meeting), noting that the Rights shares will be granted for all shares holders who are registered in the Company registers at the end of second trading day following the Extraordinary General Assembly meeting, but he/she is entitled to attend or vote during the Extraordinary General Assembly regarding the Capital Increase.

If the investor has more than one portfolio with multiple intermediaries, how are his/her rights could be calculated?

The investor share will be distributed to portfolios owned by the investor as per the ownership percentage available at each portfolio. If there is any fraction, all of those fractions will be collected, and if they formed one proper figure or more, the proper figure will be added to the portfolio in which the investor owns a bigger number of rights.

What are the Trading and Offering Periods?

The trading and offering in Rights will start at the same time, but the trading period will end on the sixth day, while the offering shall continue to the ninth day as stipulated in this Prospectus and bank publications.

Is the Offering available on the weekend?

No, that is not possible.

Can investors other than the shareholders registered subscribe to the Rights shares?

Yes, upon the completion of the Rights shares purchase by the Stock Exchange during the Trading Period.

Further Assistance

If you have any questions, please contact the Bank via e-mail: ri@baj.com.sa

For legal reasons, the Bank will only be able to provide information contained in this prospectus. It will not be able to give advice on the merits of the Rights Issue or to provide financial, tax, legal or investment advice.

For further information on the terms and conditions of the Offering, please refer to Section 17 ("Subscription Terms, Conditions and Instructions") and the rest of the information contained in this Prospectus.

Summary of Key Information

This summary is intended to provide a brief overview on the key information contained in this Prospectus. Therefore, this summary does not contain all information that may be of interest to Shareholders and other individual or Institutional Investors. Accordingly, the recipients of this Prospectus must read it in full before making any investment decision regarding the Rights or New Shares.

About the Bank

The Bank is incorporated as a joint stock company in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. 46/M of 12/06/1395H (corresponding to 21/06/1975G), and registered under commercial registration No. 4030010523 issued on 29/07/1396H. It is headquartered in Al Nahda District, King Abdulaziz and Hera'a intersection, Jeddah. The Bank's Founding Shareholders are as follows: Abdulaziz Al-Abdullah Al-Sulaiman Al-Hamdan, Ghaith Rashad Faroon, Abdul-Raouf Mohammed Saleh Abu Zanada, Abdul-Qader Mohammed Al-Fadl, Mohammed Bin Saleh Bin Sultan, Mohammed Ibrahim Al-Subaie, Abdullah Ibrahim Al-Subaie, Abdul-Mohsen Al-Abdul Mohsen Al-Suwailem, Abdul-Karim Abdulaziz Al-Khuraiji, Abdulrahman Saleh Al-Suhaimi, Mohammed Saleh Al-Suhaimi, Yusuf Al-Abdullah Al Khuraiji, Abdulaziz Al-Mojail, Saad Al Mojail, Fahd Abdullah Al-Sulaiman and National Bank of Pakistan. The Bank commenced its business in Shawwal 1396H (corresponding to October 1976G) after it acquired the branches of the National Bank of Pakistan in the Kingdom.

The objective of the Bank is to provide a full range of Shari'ah-compliant banking products by three main operational divisions, namely:

1- Retail banking services, including deposits and provision of credit and investment products for individuals, transfers, real estate finance, personal finance and issuance of credit cards.

2- Corporate banking services, including financing, credit deposits and provision of products for large, medium and small companies enterprises.

3- Treasury, including providing money market products, commodities and fixed income products for the Bank's corporate clients.

The Bank also provides investment services (including brokerage services for trading in shares, asset management and investment funds) through Aljazira Capital (a subsidiary wholly owned by the Bank). In addition, Aljazira Takaful Taawuni (an affiliate of the Bank) provides insurance services and products.

In 1998G, the Bank's Board of Directors took a strategic decision to convert the Bank's principal operations from conventional banking into Shari'ah-compliant banking. To ensure compliance with the principles of Shari'ah, the Bank established a Shari'ah department and formed a Shari'ah Board composed of a number of scholars specializing in Islamic banking to screen and monitor the Bank's operations with the aim of being confined to the principles of Shari'ah in banking services. In 2002G, the Bank succeeded in implementing the Shari'ah rules and principles in all of its branches. In 2007G, the Bank had succeeded in converting all of its businesses, activities and services to be compliant with the principles of Shari'ah. As a result, the Bank has become an Islamic banking institution.

The Bank's recent notable achievements with respect to business development include the continued expansion of its branch network and individual customer base. The most significant achievements include the expansion of the Bank's branch network from fifty (50) branches as of the end of 2010G to seventy-nine (79) branches, nineteen (19) of which offer sections for female customers, as of the date of this Prospectus. This expansion has enabled the Bank to expand its business to new areas throughout the Kingdom, and to enhance the Bank's delivery channels, including the Bank's online banking and telephone banking services.

Bank's Vision and Mission

The Bank is seeking to become the first Shari'ah-compliant Bank to provide banking services for its clients of the category targeted in retail and business banking services. The Bank's mission is to help its clients to increase their fortunes and develop their business through provision of unique services, development and provision of banking products and solutions meeting the different needs of clients.

Capital and Ownership Structure

Capital

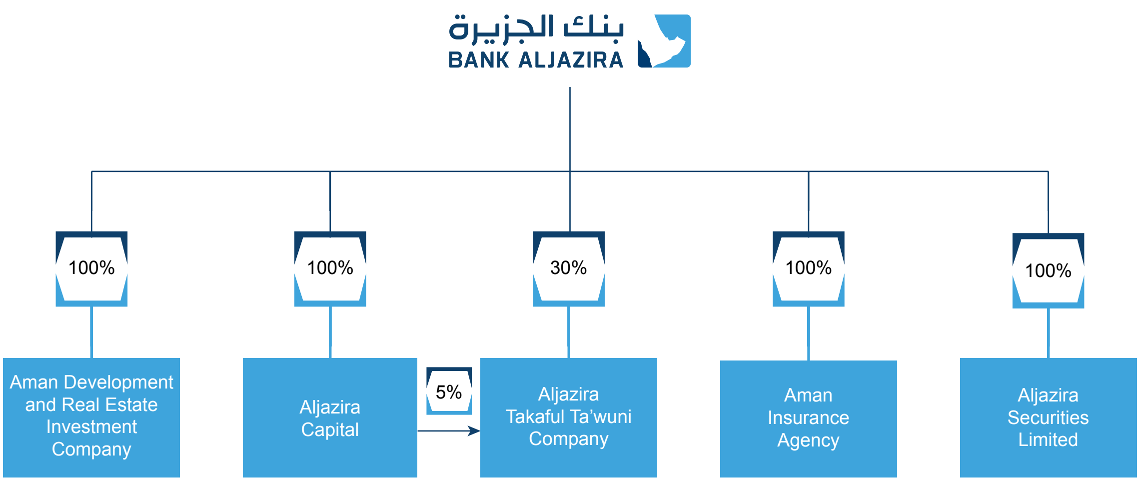
As of the date of this Prospectus, the Bank's authorized fully paid capital is five billion and two hundred million Saudi riyals (SAR 5,200,000,000) divided into five hundred and twenty million (520,000,000) Ordinary Shares with nominal value of SAR 10 per share.

The table below sets out the Bank's Substantial Shareholders and their approximate shareholdings as of the date of this Prospectus:

Table 1.3 Key Groups of Shareholders

Shareholder	Ratio	No. of Shares
Consolidated Brothers Company for Development	6.59%	34,288,480
National Bank of Pakistan	5.83%	30,333,332
Saleh Abdullah Mohammed Kamil	5.00%	26,000,000
The public (i.e. shareholders other than the aforesaid Substantial Shareholders)	82.58%	429,378,188
Total	**100%**	**520,000,000**

Figure 1.1 Aljazira Group Structure



Competitive Advantages and Strengths

The Bank competes in the Kingdom with local and foreign banks operating in the Kingdom, particularly with banks providing Shari'ah-compliant products and services. Therefore, the Bank competes with several banks and financial institutions (directly and indirectly) to obtain customers (whether individuals, private sector companies or public sector authorities) for matters related to selling products, spreading geographically and providing banking services in general. Accordingly, the Bank will be affected if it cannot keep pace with other competitors in terms of its product and service prices, which may have a negative effect on the Bank's financial performance (see Section 2 "Risk Factors").

The Bank's strengths include the following:

- The Bank's brand name is widely known throughout the Kingdom.
- Commercial banking services: the Bank has a dedicated unit for commercial banking services, which provides convenient and low-cost services to Bank customers and helps to strengthen relations between the Bank and the companies and SMEs.
- Well-established culture of risk management.
- The experienced management team consisting of individuals with a high level of experience and expertise.
- Training and comprehensive development of the team, as the Bank provides regular training services to its staff at all levels.

The Bank's competitive advantages are focused on the following:

- Islamic banking: the Bank (and its subsidiaries and affiliate) is committed to the provisions of the Islamic Shari'ah. It provides various clients with a wide range and variety of Shari'ah-compliant financial products.
- Home financing: the Bank provides its customers with innovative solutions for real estate financing.
- Technological innovation.
- Social responsibility: the Bank's philosophy has been based on building strong ties with the local community. The Bank intends to continue to promote positive community development in the Kingdom.

For further information on the Bank's competitive advantages and strengths, please refer to Section 4.4 "Bank's Competitive Advantages and Strengths").

Strategy

The Bank's strategic objective is to become a leading provider of innovative and Shari'ah-compliant financial products, excellent services with great value for its clients, Shareholders, employees and society. The Bank aims to be the bank of choice for investors, clients and employees and to outperform its competitors in the market in terms of new ideas, innovation and knowledge of products and services.

The Bank believes that the continuity of KSA's economy growth, as well as the expansion of the banking sector, will boost demand for Shari'ah-compliant financing from both public and private sectors. Thus, the Bank's main objectives include serious contribution to this continuous growth through a range of innovative products and services.

By focusing the Bank's strategy on individual and corporate segments along with committing to improve internal efficiencies, the Bank aims to achieve greater return on equity for its Shareholders.

The Bank's key strategic objectives are:

- Growth Strategy
- Diversify Customer Base
- Improving the quality of service
- Investing in People and Technology

For further information on the Bank's Strategy, please refer to Section 4-5 ("Strategy")

Summary of Market Information

The strength of the Kingdom's economy is based on an increase in per capita gross domestic product (GDP) to USD 55,331, equivalent to SAR 207,489 (per capita purchasing power) according to the International Monetary Fund. Real GDP growth averaged 5% per annum over the past five years, which is faster than most countries.

At present, there are 26 commercial banks in the Kingdom, 12 of which are established in the Kingdom ("Saudi Banks") and 14 are international bank branches. This includes the Bank of Tokyo branch, which obtained the license to carry out its business. However, it has not yet become operational as of the date of this Prospectus. All Saudi banks are listed public joint stock companies whose shares are traded on the Saudi Stock Exchange.

The future expectation of KSA banking system was rated as "stable" by Moody's. The main historical and future drivers for the banking sector in the Kingdom are:

A- An operating environment characterized by the following:

A-1 Healthy economic growth over recent years has been stimulated by large government spending, strong domestic consumption and an increase in private sector activity.

A-2 Low government debt and large government reserves.

A-3 Appropriate population characteristics, given that consumer demand is stimulated by young people and growing population numbers.

A-4 Improvement in consumer's awareness and desire for banking products and services (including Shari'ah-compliant products).

A-5 Continued regulatory approach of the Saudi Arabian Monetary Agency in supporting the stability of the banking system and its conformity with international standards.

A-6 The Kingdom faces some challenges, including high unemployment rate and exposure to a continuous decline in oil prices, which may be less than the price of production, not to mention geopolitical risks.

B- Quality of assets and capital characterized by:

B-1 Proper operating conditions leading to a decline in non-performing loans.

B-2 Strong capitalization, ensuring great capacity to absorb losses.

B-3 A great deal of transactions with third parties.

C- Finance and liquidity characterized by the following:

C-1 Low-cost deposit financing that supports the banking system.

C-2 Convenient ratio of liquid assets to total assets.

C-3 Stable public sector balances.

D- Efficiency with increased profitability is supported by: (1) Continuous business growth, (2) low cost financing structure, (3) relatively low operating cost structures.

E- Lower price returns and increased competition that will continue to place some pressure on lending margins.

For more details and information about the Kingdom's banks and banking market, see Section 3 ("Market Overview").

Summary of Financial Information

The following summary of historical financial information for the year ending on 31 December 2014G, 2015G and 2016G and the period ending on 30 September 2017G has been derived from:

- The preliminary financial statements for the period ending on 30 September 2017G are from the historical financial information for the period ending on 30 September 2017G.
- The 2016G financial statements for the historical financial information for the year ending on 31 December 2016G.
- The 2015G financial statements for the historical financial information for the year ending on 31 December 2015G.
- The 2014G financial statements for the historical financial information for the year ending on 31 December 2014G.

The financial statements have been included elsewhere herein. These Financial Statements have been prepared in accordance with accounting standards for financial institutions promulgated by SAMA and IFRS.

Prospective subscribers should read the following summary of financial information together with the information in the "Overview on Financial Information" Section, Section 2 "Risk Factors", Section 6 "Financial Information, and Management Discussion and Analysis", and Section 4 "Overview on the Bank and the Nature of its Business" of this Prospectus and Financial Statements.

Statement of Income Data

The following table shows the Company's income statement data for the financial years ending on 31 December 2014G, 2015G and 2016G, and the period ending on 30 September 2017G respectively.

Table 1.4 Company's Income Statement Data for the Financial Year ending on 31 December 2014G, 2015G and 2016G, and the Period Ending on 30 September 2017G

Income Statement	2014G	2015G	2016G	During the period of nine months ending on 30 September 2017G
	SAR million			
Special commission income	1,955.0	2,135.0	2,656.0	1,858.0
Net special commission income	**1,445.0**	**1,601.0**	**1,567.0**	**1,358.0**
Total operating income	**2,226.0**	**2,922.0**	**2,519.0**	**1,973.0**
Total operations expenses	**1,658.0**	**1,638.0**	**1,655.0**	**1,317.0**
Operations Business Income	**568.0**	**1,284.0**	**864.0**	**656.0**
Company's share from profit/ loss of an associate	4.0	3.0	8.0	8.0
Net income (for period)	**572.0**	**1,287.0**	**872.0**	**664.0**

Source: Bank's audited financial statements

Consolidated Statement of Financial Position

The following table presents the Company's consolidated statement of financial position as of 31 December 2014G, 2015G, 2016G and the period ending on 30 September 2017G, respectively:

Table 1.5 Company's Financial Position Statement Data as of 31 December 2014G, 2015G and 2016G, and the Period Ending on 30 September 2017G

Statement of Financial Position	31 December 2014G	31 December 2015G	31 December 2016G	30 September 2017G
	SAR million			
Total assets	66,554.0	63,264.0	66,319.0	67,528.0
Total liabilities	60,396.0	55,851.0	58,215.0	58,921.0
Total Shareholders' Rights	6,158.0	7,413.0	8,104.0	8,607.0
Total liabilities and Shareholders' equity	**66,554.0**	**63,264.0**	**66,319.0**	**67,528.0**

Source: Bank's audited financial statements

Statement Of Cash Flow Data

The following table shows the Company's cash flow statement data for the financial years ending on 31 December 2014G, 2015G and 2016G, and the period ending on 30 September 2017G respectively.

Table 1.6 Company's Cash Flow Statement Data for the Financial Years ending on 31 December 2014G, 2015G, 2016G and the Period Ending on 31 September 2017.

Statement of Cash Flow	2014G	2015G	2016G	During the period of nine months ending on 30 September 2017G
	SAR million			
Net income (for period)	572.0	1,287.0	872.0	664.0
Net adjustments for non-cash flow items	423.0	112.0	195.0	240.0
Changes in operating assets and liabilities	(2,435.0)	(3,370.0)	2,255.0	1,061.0
Net cash flow (used in) from operating activities	**(1,440.0)**	**(1,971.0)**	**3,321.0**	**1,965.0**
Net cash flow (used in) from investing activities	**1,155.0**	**(57.0)**	**(5,388.0)**	**(4,233.0)**
Net cash flow (used in) from financing activities	**-**	**-**	**949.0**	**(196.0)**
Net (decrease) increase in cash and cash equivalents	**(285.0)**	**(2,028.0)**	**(1,118.0)**	**(2,464.0)**
Cash and cash equivalents at the beginning of the period	7,213.0	6,928.0	4,914.0	3,797.0
Cash and cash equivalents at the end of the period	6,928.0	4,900.0	3,797.0	1,333.0

Source: Bank's audited financial statements

KPIs

The following table shows the Company's KPI's for the financial years ending on 31 December 2014G, 2015G and 2016G, and the period ending on 31 September 2017G, respectively:

Table 1.7 Company's KPI's for the Financial Years ending on 31 December 2014G, 2015G, 2016G and the Period ending on 30 September 2017.

	2014G	2015G	2016G	During the period of nine months ending on 30 September 2017G
Earnings per share	1.1	2.5	1.7	1.3
ROA	0.9%	2.0%	1.3%	1.0%
Return on average equity	9.6%	19.0%	11.2%	7.9%
Net special commission ratio to net loans and net investments	2.9%	3.0%	2.8%	2.3%
Special commission expenses ratio to average deposits	1.0%	1.0%	2.2%	1.0%
Tier 1 to capital				
Capital adequacy ratio	14.1%	15.8%	19.9%	20.3%
Investments ratio to total assets	17.0%	17.8%	24.6%	30.2%
Net loans ratio to net deposits	75.6%	84.7%	81.6%	82.4%
Ratio of provision for credit losses to total loans	0.9%	0.1%	0.3%	0.5%

	2014G	2015G	2016G	During the period of nine months ending on 30 September 2017G
Ratio of non-performing loans and advances to total loans and advances	0.9%	0.8%	1.1%	1.2%
Non-performing loans and advances (SAR thousand)	369.9	355.3	484.0	508.7

Source: Bank, Financial statements, PriceWaterhouseCoopers

* The number of Ordinary Shares outstanding for the years 2014G, 2015G, 2016G respectively was adjusted retrospectively as a result of the increase in share capital by issuing bonus shares during 2017G.

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1. Definitions and Terms

Expressions and terms set out in this Prospectus shall have the meanings ascribed to them unless the context requires otherwise.

Defined Term or Abbreviation	Definition
Bank, Issuer or Company	Bank Aljazira is a joint stock company incorporated pursuant to Royal Decree No. 46/M dated 12/06/1395G (corresponding to 21/06/1975G) with its head office located in Jeddah. It is registered under Commercial Registration No. 4030010523 dated 29/07/1396H (corresponding to 27/7/1976G) issued in Jeddah.
Aljazira Capital Company or Aljazira Capital	Aljazira Capital is a subsidiary wholly owned by the Bank. Its head office located in Riyadh. It is registered under Commercial Registration No. 1010351313 dated 13/11/1433 (corresponding to 29/9/2012G) issued in Riyadh. Its activities involve securities business, including brokerage, advice, custody, management and arrangement.
Takaful Taawuni Company or Takaful Taawuni	Aljazira Takaful Taawuni Company or Takaful Taawuni Company is an associate of the Bank, which owns 35% thereof directly and indirectly. Its Head Office is located in Jeddah, and it is registered under the Commercial Registration No. 4030251980 dated 02/09/1434H (corresponding to 10/07/2013G) issued in Jeddah. Its activities include provision of cooperative insurance services.
Aman Development and Real Estate Investment Company	Aman Development & Real Estate Investment Company is a subsidiary company wholly owned by the Bank. Its Head Office is located in Riyadh and it is registered under Commercial Registration No. 1010221387 dated 20/06/1427H (corresponding to 16/07/2006G) issued in Riyadh. Its activities are to maintain, manage, sell and purchase real estate for financing purposes.
Aman Insurance	Aman Insurance is an affiliate company and owned 100% by the bank. Its headquarter is located at Jeddah and it is registered under Commercial Register No. 4030592311 dated 14/08/1438H (corresponding to 15/05/2017G) issued in Riyadh City. Its activities include insurance works.
Aljazira Capital	Aljazira Capital is a fully owned subsidiary of the Bank and. It is established under the Cayman Islands Regulations. Its main purpose is to support the Treasury's activities in the Bank through the implementation of derivative transactions and repurchase agreements with international banks.
Subsidiaries of the Bank	Aljazira Capital, Aman Development and Real Estate Investment Company, Aman Insurance Company and Aljazira Capital are owned in whole by the Bank.
Bank's Associates	Aljazira Takaful Taawuni Company is an associate of the Bank, which owns 35% thereof directly and indirectly.
The Group	The Bank and its subsidiaries and associates
The Board or Board of Directors	The Bank's Board of Directors
Articles of Association	The Bank's Articles of Association
Increase of Share Capital	Increase of the Bank's Capital through a Rights Issue.
CEO	Bank's CEO
Chairperson	Chairman of the Bank's Board of Directors
CML	The Capital Market Law issued by Royal Decree No. M/30 dated 2 Jumada Al-Thani 1424H (corresponding to 31 July 2003G), as amended.
Banking Control Law or BCL	The Banking Control Law issued under Royal Decree M/5, on 22 Safar 1386H (corresponding to 12 June 1966G), as amended.
Companies Regulations	Companies Regulations issued under Royal Decree No. M / 3 dated 28 Muharram 1437H (10 November 2015G).
Traded Portfolio or Trading Book	The set of investment positions entered into by the Bank for trading purposes.
Non-traded portfolio	The set of investment positions in which the Bank has entered for the purpose of investment until the maturity of the obligation or the relevant financial instrument.

Defined Term or Abbreviation	Definition
Indemnity	The amount that exceeds the Offer Price out of the net proceeds of the sale of the Rump Shares and fractional shares, which will be paid to those who have not exercised their right to subscribe to the New Shares and to the holders of fractional shares.
Control	The ability to directly or indirectly influence the actions or decisions of another person, through: Holding 30% or more of the voting Rights in a company The right to appoint 30% or more of the administrative staff.
Counter Party	The counter party in a transaction or an agreement.
Corporate Governance Regulations	Corporate Governance Regulations, issued by the CMA's Board pursuant to its Resolution No. 8/16/2017, dated 16/05/1438H (corresponding to 13/02/2017G), as amended.
Current Shareholders	All current Shareholders of the Bank including major Shareholders.
Authorized Person	The entity licensed by the CMA to carry out securities business.
Directors or members of the Board	Bank's Directors
Eligibility Date	Close of trading on the second trading day following Extraordinary General Assembly on Capital Increase to be held on 04/07/1439H (corresponding to 21/03/2018G).
Registered Shareholders	The Shareholders The Shareholders who are owners of shares as of the date of the Extra-ordinary General Meeting held for capital increase and who are registered in the Bank's Register as of the close of the second trading day following Extraordinary General Assembly on Capital Increase.
New Shareholders	All individual and institutional investors who purchased Rights during the Trading Period, save as Registered Shareholders.
Major Shareholders	Those who are owners of 5% or more of the Bank's shares) are Mr. Saleh Bin Abdullah Bin Mohammed Kamel (5%), National Bank of Pakistan (5.83%) and Brothers' Union (6.59%):
Related Party	It means: 1- Issuer affiliates; 2- Major Shareholders of the Issuer; 3- Board of Directors and Key Executives of the Issuer; 4- Board of Directors and Key Executives of the Major Shareholders of the Issuer; 5- Legal and financial advisors of the Issuer; 6- Any relatives for the persons referred to in (1, 2, 3, 4 or 5) above; 7- Any company controlled by any person referred to in (1, 2, 3, 4, 5, 6 or 7) above
Affiliate	Any person who controls any other person or being controlled by such person or jointly controlled by third party whether in direct or indirect manner.
Key Executives	Any natural person managing or responsible for developing and executing the strategic decisions of Company including CEO and his deputies and the financial manager.
Euro (EUR)	Current official currency of the European region
Authority (CMA)	The Capital Market Authority
Stock Exchange (Tadawul, or Saudi Stock Exchange)	Saudi Stock Exchange (Tadawul)
Saudi Arabian Monetary Agency (SAMA)	Saudi Arabian Monetary Agency
GCC	The Cooperation Council for the Arab States of the Gulf GCC member states are: Kingdom of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.

Defined Term or Abbreviation	Definition
Saudi Banks	At present, there are 26 banks licensed to carry out banking business in the Kingdom, of which 12 are established in the Kingdom ("Saudi Banks") and 14 are international bank branches. This includes Bank of Tokyo - Mitsubishi, which obtained the license to carry out its business. However, as of the date the Prospectus, it has not yet become operational.
Basel Committee	Basel Committee is a committee established in 1974G by the central bank governors of the G-10 countries.
Basel III Framework, Basel III or Basel III Agreement	The capital framework applicable under Basel III Agreement, approved by the members of the Basel Committee on Banking Supervision in 2010G.
Financial Advisers	JP Morgan Saudi Arabia and Alinma Investment Company
Lead Managers	JP Morgan Saudi Arabia and Alinma Investment Company
Advisers	Financial Advisors, Lead Managers, Legal Advisor to the Company, Financial Due Diligence Advisor, and advisers to the Company (whose names are set out in pages (vii), (viii), and (ix) of the Prospectus)
Underwriter	Alinma Investment Company, Middle East Financial Investment Company (MEFIC Capital), Mulkia Investment Company, Saudi Kuwaiti Finance House and Wasata Capital.
Extraordinary General Assembly	The Extraordinary General Meeting of the Bank's Shareholders is held in accordance with the Bank's Articles of Association.
Ordinary General Assembly	The Ordinary General Meeting of the Bank's Shareholders is held in accordance with the Bank's Articles of Association.
Extraordinary General Assembly Meeting with regard to a Capital Increase	The Extraordinary General Meeting of the Company held on the date of 02/07/1439H (corresponding to 19/03/2018G), in which the Shareholders shall vote on the increase of the Bank's capital.
Notification of Final Allotment	The final notice for the number of Shares allocated to each Eligible Person without any charges or withholdings, which shall be made no later than 03/08/1439H (corresponding to 19/04/2018G).
Rights or Priority Rights	Negotiable securities giving their holders the priority to subscribe to the New Shares upon approval of the capital increase This is a right acquired by all Registered Shareholders and each right grants its holder the right to subscribe to one New Share at the Offer Price. The Rights are deposited after the Extraordinary General Assembly on capital increase. The Shares will appear in the accounts of Registered Shareholders under a new symbol that designates these Rights. Registered Shareholders will be informed of the deposit of the Rights in their accounts.
Trading Period or Rights Trading Period	The period from Sunday 08/07/1439H (corresponding to 25/03/2018G) to Sunday 15/07/1439H (corresponding to 01/04/2018G). During this period, the Rights are traded in the Capital Market.
Allocation Date	The date on which the final allocation of the New Shares will be announced.
Fractional Shares	The fractions of the shares to be raised and offered with the Rump Shares during the Rump Offering Period.
Rights Share Issue	Offering of excess shares, to which the Bank's Shareholders shall have the right to subscribe in proportion to their shareholding.
General Assemblies	Extraordinary General Assembly and Ordinary General Assembly Meeting. The term "General Assembly" includes any General Assembly of the Bank.
The Government	The Government of the Kingdom of Saudi Arabia.
Nominal Value	SAR ten (10) per share.
Indicative value of the Right	The difference between the market value of the Company's share during Trading Period and the Offer Price.

Defined Term or Abbreviation	Definition
Institutional Investors	Include a number of institutions, as follows: 1- Government entities and Government owned companies, whether investing directly or through a portfolio manager, or any international entity recognized by CMA, the Exchange or any other stock exchange recognized by CMA or the Depository Center; 2- Mutual funds established in the Kingdom and publicly offered besides private funds which invest in the securities listed in the Saudi Stock Exchange, if such is permitted by the fund's terms and conditions and subject to the provisions and restrictions provided in the Investment Funds Regulations; 3- Persons authorized to deal in securities as principals, provided that the financial adequacy requirements are observed. 4- Customers of a person authorized to perform the works of the management, provided that such authorized person has been appointed on terms upon which it may make decisions regarding the acceptance of the Offering subscription and investment in Tadawul on behalf of the customer without obtaining prior approval. 5- Any other legal persons may open an investment account in the Kingdom and an account with the Depository Center, taking into account the controls on investment companies listed in financial markets, provided that the participation of the company shall not cause any conflict of interests. 6- GCC Investors with Legal Personality, including companies and funds established in the GCC countries.
Kingdom or Saudi Arabia	Kingdom of Saudi Arabia
Saudi nationals	Any individual holding Saudi Arabian nationality.
Banking Control Law or BCL	The Banking Control Law issued by Royal Decree No. M/5 dated 22/2/1386H (corresponding to 12/6/1966G).
Foreign Investment Law	Foreign Investment Law issued by Royal Decree No. M/1 dated 5/1/1421H (corresponding to 10/4/2000G).
Listing Rules	The Listing and Registration Rules issued by the CMA Board pursuant to its Resolution No. 3/11/2004 dated 20/8/1425H (corresponding to 4/10/2004G) and the amendments thereto.
Ministry of Finance	The Ministry of Finance in Saudi Arabia
Ministry of Commerce and Investment	The Ministry of Commerce and Investment in Saudi Arabia
Net Proceeds	Total Offering Proceeds after deducting the aggregate expenses of the Offering
New Shares	Shares to be issued by the Bank due to capital increase, whose number is (300,000,000) Shares.
Number of Rights issued	(300,000,000) rights
Subscription or Offering Price	SAR ten (10) per New Share
Offering or Subscription	Offering New Shares for subscription Rights Issue With an offering price of SAR ten (10) per share.
Payment of Compensation Amounts (if any)	Cash compensation amounts will be paid to Eligible Persons who do not subscribe wholly or partially for New Shares, as well as to the holders of Fractional Shares, no later than 14/08/1439H (corresponding 30/04/2018G) (See Section 17, "Offering Terms and Instructions"). The compensation amounts represent the remaining proceeds of the sale of Rump Shares and Fractional Shares (in excess of offer price) resulting from the Rump Offering.
Proszpectus	This Prospectus.
Eligible Persons	Registered Shareholder/Shareholders and those who purchased the Rights during the trading period.

Defined Term or Abbreviation	Definition
Rights Issue Ratio	The Registered Shareholder owns (0,5769) for each owned share. This ratio is the result of dividing the number of New Shares by the number of the Bank's existing shares.
Rights shares	(300,000,000) New ordinary share accounting for about (57,69%) of the Bank's capital after the capital increase.
Riyal or Saudi Riyal	The current official currency of Saudi Arabia
Rump Offering	Rump shares will be offered to a number of investment institutions, provided that such investment institutions submit offers to purchase the Rump Shares. Receipt of such offers will start at 10:00 am on Tuesday 24/07/1439H (corresponding to 10/04/2018G) until 5:00 pm on Wednesday 25/07/1439H (corresponding to 11/04/2018G). The Rump Shares will be allocated to the Investment Institutions in order of priority based on the price per Share offered (provided that it will not be less than the Offering Price) with Shares being allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. Fractional Shares will be added to the Rump Shares and treated in the same manner.
Rump Offering Period	From 10:00 am on Tuesday 24/07/1439H (corresponding to 10/04/2018G) to 5:00 pm on Wednesday 25/07/1439H (corresponding to 11/04/2018G).
Rump Shares	Shares which were not subscribed for by the end of the Offering Period.
International Monetary Fund	A specialized agency formed by the Bretton Woods System and affiliated with the United Nations. It was established pursuant to an international treaty in 1945G to enhance the health of the world economy. It is headquartered in Washington D.C, and managed by members representing most countries of the world.
Shares/Current Shares	The Bank's ordinary shares with a nominal value of ten Saudi riyals (SAR 10) each.
Subscribers	Any person who subscribes to Rights shares
Offering Terms, Conditions and Instructions	The Offering terms, conditions and Instructions set out in Section 17 ("Offering Terms, Conditions and Instructions").
General Authority for Investment	General Authority for Investment in Saudi Arabia
Tadawul System	The automated securities trading system
Compound Growth Rate	Annual growth rate during a specific period of time
Underwriting Agreement	The underwriting agreement entered into between the Bank and the Underwriters
US dollar (USD)	The current lawful currency of the US
Aljazira Smart	An electronic application produced by the Bank allowing its customers to remotely access their bank accounts and execute banking processes through their smart phones
Nadeek	An exclusive bank credit card with the logo of seven leading Saudi football clubs
Muyassara	A visa card produced by the Bank for its customers
Saudization	Employment of Saudi nationals in accordance with labor laws and regulations that require companies operating in the Kingdom to employ a certain percentage of Saudi citizens
Credit Rating	A perspective issued by a credit rating agency that assesses the creditworthiness of a particular financial body or instrument. It is represented with symbols, letters, numbers, or any other form.
Fitch	Fitch Ratings, a global rating agency
Moody's	Moody's Investor Services, a global rating agency
BAA1	Stable credit rating of Moody's

Defined Term or Abbreviation	Definition
BBB+	Stable credit rating from Fitch
International Financial Reporting Standards (IFRS)	A set of accounting standards and the interpretations thereof issued by the International Accounting Standards Board (IASB) of the International Financial Reporting Standards
SOCPA	Saudi Organization for Certified Public Accountants
Real GDP	The market value of all final goods and services recognized locally and produced in a given country over a specified time
Nominal GDP	When GDP is measured based on current prices, it is called nominal GDP
"Relative" or "relatives"	Husband, wife and minor children.

2. Risk Factors

Prospective investors should carefully consider all of the information contained in this Prospectus, including the risks described below, prior to making any investment decision with respect to the Rights and the New Shares. However, the risks set out below may not include all risks that the Bank may encounter or additional risks that are not currently known by the Bank, which may have an adverse effect on the Bank's operational performance if they occur. The Board Members declare that they are not aware of any other material risks than those set out below that may have an adverse effect on the Bank's business and financial performance as of the date of this Prospectus. The Board Members also acknowledge, to the best of their knowledge and belief, that there are no material risks that may affect the decision of the prospective shareholders as of the date of this Prospectus, except for those disclosed within this Section.

If the risks set out below occur, they will have an adverse effect on the Bank's business, including, but not limited to, cash flows, financial conditions, future prospects and other matters set forth in this Prospectus. Furthermore, other risks than those disclosed below (which the Bank currently deems immaterial, but which may be material if they actually occur) may occur, which may have an adverse and material effect on the Bank's business. This in turn may lead to the price of the Bank's shares decreasing in the market and investors losing part of or all their investments in the New Shares.

A prospective investor who is doubtful about investing in the New Shares should seek advice from a specialist licensed by the CMA.

It should be noted that the risks set out below are not ordered based on their importance.

2.1 Risks Related to the Group's Business

The Group is subject to various risks including liquidity, credit, operational and regulatory risks (more details below). As these risks are affected by many factors beyond the Bank's control, they could occur at any time. These risks will (in case of occurrence) have an adverse effect on the Group's business, results of operations, financial position and future prospects.

2.1.1 Credit Risks

Credit risks are when a client or counter party fails to fulfill its obligations owed to the Bank pursuant to the agreed-upon terms and conditions and the Bank has no sufficient guarantees to cover such obligation, which causes the Bank to incur as much loss as the obligation. A wide range of the Bank's business is subject to credit risks, including particular activities related to financing, as a client's failure to repay the amount of financing is a major risk to which the Bank is subject. As of 30 September 2017G, the top 20 credit loan clients (all of whom are corporate banking customers) accounted for 23.6% of the Bank's total loans and 44.4% of total loans of the corporate banking sector.

The credit risks increase due to the general deterioration in local and international economic conditions or in the financial system in general. Any of these factors may affect the value of the Bank's assets and the possibility of their collection, which may require increasing bad and doubtful debt provisions to be made by the Bank against the value of financing assets and guarantees.

Concentration of credit risks arises (i.e. they become subject to similar factors) when a number of counterparts 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.

The more the credit risk concentrates, the more the Bank is affected by developments that affect the sector or geographic region in which credit risk concentrates. (For more details on the geographic concentration risks, refer to Section 2.1.5 below).

The Bank maintains total provisions to cover bad and doubtful debts and impaired investments. The Bank's portfolio and credit risks are managed in accordance with the relevant credit policy and customer lending classifications set by SAMA. Provisions for debts are defined based on the class of each borrower (according to specific standards such as activities, cash flows, capital structure and credit history) and adequacy of the provided collateral. However, the estimate of the provisions based on these factors may not be accurate, and credit losses may exceed the specified provisions, which will have an adverse effect on the Group's business, financial position, results of operation and future prospects.

Where the Bank fails to maintain the credit quality of its financing operations, the provisions covering the loss of financing operations would rise, along with the levels of defaults and write-offs, which, in turn, will have an adverse effect on the Bank's business, financial position, results of operations and future prospects. The Bank's financing portfolio decreased from SAR 42.2 billion at the end of 2015G to SAR 40.9 billion during the period ended 30 September 2017G, i.e., a decrease of 3.2%. The decline was mainly due to the contraction of the corporate and institutional banking loan portfolio.

When deciding whether to extend credit or enter into other transactions with customers and counter parties, the Bank may rely on information furnished to it by or on behalf of customers and counter parties, including financial statements and other financial information. The Bank may also rely, with respect to the accuracy and completeness of that information, on certain representations and, with respect to financial statements, on reports of independent auditors. In case the Bank is supplied with materially inaccurate, misleading or incomplete information as to the credit history of its borrowers, this may have an impact on the ability of the Bank to effectively manage its credit risk, which have an adverse effect on the Bank's business, financial position, results of operations or future prospects.

2.1.2 Risks Associated with the Application of (IFRS 9)

Saudi banks have applied IFRS 9 as of 1 January 2018G. The application of these standards may require additional provisions to meet the requirements of IFRS 9 and the Bank's allocation of additional provisions will adversely affect the Bank's net income and total assets.

2.1.3 Liquidity Risk

Liquidity risk to which the Bank may be subject is the Bank's maturity mismatch of assets and liabilities. These risks are affected by many factors such as reliance on a certain type of financing (such as short-term financing), in addition to change in the credit classification and general conditions of the market (for more details on risks related to asset-liability maturity gap, refer to Section 2.1.13 below). Liquidity risk also arises when the Bank fails to expect decreases or changes in financing resources and hedging, which will have negative impacts on the Bank's ability to fulfill its matured liabilities.

In case the Bank fails to manage liquidity risks, as it is unable for any reason to adequately finance its assets, this will have an adverse impact on the Bank's business, financial position, results of operations and future prospects.

The Group is affected by risks from the deterioration in financial positions of other institutions, corporations and commercial companies. This is because such deterioration may lead to tighter liquidity constraints and a higher cost of funds in the interbank lending market. In financial services sector, default of an institution on repayments may affect other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. A market perception of lack of credit worthiness or questions about certain counterparts could lead to liquidity problems at the market level, which could adversely affect financial institutions, including banks and securities firms with which the Group deals on a daily basis. Higher risks will have an adverse impact on the Group's ability to obtain funding, which may affect its business, financial position, results of operations and future prospects.

2.1.4 Risks Related to Growth Strategy

The Group currently adopts, in the various sectors in which it operates, a growth strategy prepared in cooperation with an external advisor and by using publicly available information. However, the success of this strategy depends on several factors, such as the Bank's ability to manage risks related to expanding its business and recruiting experienced staff, in addition to the general performance of the Kingdom's economy (which is currently linked with oil prices). Accordingly, a slow domestic economy will lead to difficulty for the Group to grow its business. In addition, many internal and external factors could impede growth of the Group's business, which could weaken the Group's ability to successfully implement its growth strategy and expansion plans, or a material part thereof. In order to successfully implement its growth strategy, the Bank must properly manage it and make available all tools that could help to identify these factors. Otherwise, it will be difficult for the Group to implement its strategy.

If the Bank fails to implement its growth strategy, such failure will affect the Group's business and future prospects, which, in turn, will have an adverse effect on the Bank's financial position, results of operations and future prospects.

2.1.5 Risks Related to Financing of Individual and Corporate Customers and Small and Medium-sized Enterprises

A part of the Bank's strategy is to expand the banking services it offers to SMEs and individuals. The credit history of this category is deemed to be relatively limited, and the ability of this category to fulfill its obligations is relatively low compared to larger companies, which increases the related credit risk. The Bank's strategy to increase its service to this category could lead to more write-off of the funding amounts granted to such category, along with increasing provisions for bad or doubtful debts, which will have an adverse effect on the Bank's revenues and profits. Additionally, this could result in the Bank filing proceedings and incurring costs to conduct necessary actions to recover non-performing loans and other overdue amounts. The growth strategy also requires regular monitoring to manage risks arising from this expansion. Financing extended to this category was written off at SAR 431,2 million for 2014G, SAR 126.1 million for 2015G, SAR 128,9 million for 2016G and SAR 242,4 million till September 30, 2017G.

There is no assurance that the increase in credit risks arising from dealing with the SME and individuals category will be offset by the Bank obtaining a higher return rate resulting from such dealings, any benefit from diversity of the counterparts and credit products or a higher coverage of collateral to cover financing amounts compared to the corporate financing.

2.1.6 Risks Related to Geographic Concentration

With the exception of a subsidiary of the Bank in the Cayman Islands established to support some of the Bank's external activities with external bodies and some cash deposited with external banks to meet customers' demands, the Bank conducts its business in the Kingdom. Accordingly, the Bank's Financing portfolio and most of its investments are located in the Kingdom. Therefore, any deterioration in the general economic conditions of the Kingdom will have an adverse material effect on the Bank's business, financial position, results of operations and future prospects (for more details on risks related to deterioration of the economic conditions in the Kingdom, refer to Section 2.2.3 *"Economic risks"*).

2.1.7 Risks Related to Concentration of Financing and Deposits for a Small Number of Customers

The Bank's financing portfolio and deposits are mainly concentrated on a small number of clients. The largest 20 funding amounts in the Bank's financing portfolio account for 23.6% of the Bank's total finance portfolio as of 30 September 2017G. Therefore, any default by one or more of these customers or a decrease in the credit quality thereof will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

It is worth noting that write-offs were carried out mainly for one major customer amounting to SAR 30 million in 2016G. The total write-offs for 2016G amounted to SAR 40 million, representing 0.2% of total corporate loans for the same year. During the year 2017G, write-offs were carried out mainly for four high exposure customers amounting to SAR 82 million. The total write-offs for 2017G amounted to SAR 159 million, representing 0.7% of total corporate loans for the same year. The Bank is allocating provisions equal to the value of amounts to be written off prior to the write-off of such amounts. It should be noted that no guarantees have been made with respect to the amounts of loans written off or the guarantees provided do not cover these amounts.

As of 30 September 2017G, the Bank's ten largest deposits account for 35% of the Bank's total deposit balances. Accordingly, if such deposits are withdrawn by the customers, the Bank will have to obtain alternative financing from other sources that may not be readily available, or may be significantly more expensive, which will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.1.8 Risks Related to Concentration of Investments and Financing for a Small Number of Currency

The Bank's finance and investment portfolio is mainly in Saudi riyals. The Bank's Saudi riyal assets account for 94.3% of its total assets, while the Bank's Saudi riyal liabilities account for 98.0% of its total liabilities. Therefore, any negative movement in currency rates that negatively affects the currency position of the Bank will result in a fluctuation in the value of these portfolios, which will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.1.9 Risks Related to Collateral

The majority of the financing extended by the Bank has not been issued against any collateral from the relevant customers. Collateral covers 41.4% of the Bank's financing portfolio as of 30 September 2017G. Hence, in case of default by such customers, the Bank will not have collateral to liquidate to settle the financing amounts.

As for financing for which collateral has been provided, the Bank could face difficulties in liquidating or procuring execution of such collateral in case of default by the relevant customers. Execution against collateral could be expensive and time consuming, which would make its continuation unfeasible. This will have an adverse effect on the Bank's ability to recover its losses resulting from bad debts. In some cases, execution against collateral could require recourse to judicial bodies, and there can be no assurance that such bodies will issue judgments in favor of the Bank.

In addition, the Bank's collateral is subject to market changes. Therefore, its value is variable according to market conditions. In the event of a decrease in the market value of the collateral (particularly a decrease in real estate prices), the collateral coverage for financing will be reduced, which will adversely affect the Bank's ability to recover the debt in case of default by a customer. Real estate represents the highest percentage of the total collateral.

In all cases, the Bank might not be able to obtain sufficient proceeds from the collateral to cover the bad debts, which will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.10 Risks Related to Projects Financing

The Bank's financing portfolio includes financing of long-term projects, such as infrastructure and industrial projects. This type of financing is subject to a range of risks that are slightly different from those of general financing. Such risks are related to funded projects, and the repayment depends on the success of the project in achieving expected returns. These risks include delays in obtaining necessary regulatory approvals, environmental and social issues related to funded projects, project completion risks and counter party risks, which may affect the project's ability to generate returns. There is no assurance that the performance of the funded project will be achieved as expected. Any losses in future project financing or high levels of financing restructuring will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.11 Risks Related to Real Estate Financing

As part of the Bank's financing activities, the Bank provides real estate financing services to its individual and corporate clients. For the purpose of obtaining financing, customers will pledge the property to be purchased in favor of the bank as collateral for the financing granted to them. The value of such mortgaged properties is affected by economic fluctuations or regulatory changes that may result in a decline in the value of those mortgaged properties. If the value of the properties mortgaged as collateral is reduced, it may result in the Bank being unable to recover the value of the real estate financing if the customer fails to pay, which may adversely affect the Bank's business, financial position, results of operations and future prospects.

2.1.12 Risks Related to Leverage

Important factors could contribute to increase the leverage of the banks include a low cost of funding, obtaining an advanced credit rating by credit rating agencies. In case its leverage increases due to the above or other reasons, the Bank may be unable to meet its obligations in times of financial crisis, which will adversely affect the Bank's business, financial position, results of operations, and future prospects.

The increase in the leverage can also represents a risk to the Bank's overall financial position and solvency as recorded losses could result in an increase in the Bank's liabilities compared to its assets, which would have an adverse impact on the Bank's financial position, thereby increasing the cost of financing from the counterparts and reducing credit ratings made by rating agencies.

In the event the Bank requires additional capital in the future for any purpose, such as financing the growth strategy in new business or expanding its base of operations, there is no guarantee that it will be able to obtain the necessary capital on favorable terms in a timely manner or at all. This may have an impact on the Bank's ability to achieve the purposes for which the financing will be used. If the Bank is unable to obtain sufficient funds to meet its capital requirements through financing arrangements, the Bank may seek to increase its capital, which may result in the need for shareholders to subscribe to the new capital or reduce their ownership percentage.

2.1.13 Risks Related to Increased Liabilities

Several factors contribute to the increase in the Bank's liabilities, including low financing cost and failure of risk management systems to identify and manage risks. If the Bank's liabilities increase significantly, it may be difficult for the Bank to meet its obligations. This will have an adverse and possibly material effect on the Bank's business, financial position, results of operations, and future prospects.

The increase in the Bank's liabilities can also represent a risk to the Bank's overall financial position and solvency as recorded losses could result in a greater reduction in the Bank's assets than in its liabilities, which would affect the Bank's financial position, increase in the cost of financing from the counterparts and reduce credit ratings made by rating agencies. If this is the case, it may be difficult for the Bank to meet its obligations. This will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.14 Risks Related to Asset-liability Maturity Gap

A large part of the Bank's financing requirements is secured by short-term financing sources, which are mostly customers' deposits. As of 31 September 2017G, the remaining maturity of 40.5% of the Bank's funding (which includes amounts due to banks and financial institutions, customers' deposits, Sukuks, other liabilities and equity) was one year or less, while the remaining 54.5% was payable on demand. With respect to the payment gap between the assets and liabilities of the Bank for one year or less, the total value of the liabilities exceeds the total value of the assets by SAR 10.6 billion as of 30 September 2017G, while the total value of the assets exceeds the total value of the liabilities for more than one year by SAR 41.4 billion as of 30 September 2017G.

As of 30 September 2017G, 35% of deposits held with the Bank belongs to only 10 customers. Therefore, the Bank is subject to the risk that a number of these customers (or a large number of its customers in general) may withdraw their deposits or decide to discontinue their deposits, which could lead to a discrepancy in the repayment schedule between the Bank's assets and liabilities. This discrepancy might be exacerbated by delays in finance payments and new deposits being attracted. The reasons for any of these situations may be due to global or local conditions, competition, low confidence in the Bank, changes in regulations or other factors. Many of these factors are beyond the Bank's control and cannot be predicted. If any of these situations occur, the Bank may need to seek financing sources that may be more expensive to meet its funding requirements. No assurance can be made that the Bank will be able to obtain additional funding on commercially favorable terms as required or at all. The Bank's inability to refinance or to replace such deposits with alternative funding could adversely affect its liquidity, business, financial position, results of operations, or future prospects.

2.1.15 Risks Related to Credit Ratings

Credit rating agencies classify the Bank in terms of credit to evaluate its ability to fulfill its financial obligations when due. The Bank's credit rating is an important factor in determining the cost of financing for the Bank. Interest rates paid by the Bank for the financing it obtains are affected by its credit rating. Credit rating is reviewed by the relevant rating agency from time to time. Accordingly, it may change either downward or upward, or may be fully withdrawn.

In case the Bank's credit rating decreases, this will lead to an increase in the Bank's financing costs, which will adversely affect the Bank's liquidity, business, financial position, results of operations, and future prospects.

2.1.16 Risks Related to the Bank's Investment Activities

The Bank makes limited investments by its own account through the treasury sector. These include investments in Sukuks, cash market instruments and Shari'ah-compliant funds. As of 30 September 2017G, the Bank's investment portfolio is 30.2% of its assets. The Bank has set certain limits on its investment activities based on the Bank's acceptable level of risk and market conditions. The Bank's investments may be significantly affected by market conditions. These changes can result in losses, which have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.17 Risks Related to Derivative Contracts

As part of its business, the Bank enters into Shari'ah-compliant derivative contracts to hedge against investment positions. The value of these contracts are affected by the prices of securities, indices or other assets.

If there is a gap between the hedged position and derivative contracts concluded for hedging purposes, and the prices of securities and assets move in a way that adversely affects the Bank's position in those derivatives, the Bank may be required to pay large sums of money, which would adversely affect the Bank's business, financial position, results of operations, and future prospects.

2.1.18 Risks Related to Debt Instruments Portfolio

The Bank maintains debt instruments (Sukuks) as part of its investment portfolio (debt instruments represent 98.69% of the Bank's total investment portfolio as of 30 September 2017G. Debt instruments are subject to various risks and may be impaired as a result of those risks.

In the event of higher rates of interests or returns in the market, this will result in a decline in the market value of fixed-rate debt instruments. The value of debt instruments (both fixed and variable) will be reduced as a result of lower creditworthiness of the issuer. The value of debt instruments may also be affected by general market conditions, including available liquidity.

If the value of the debt instruments in which the Bank invests decreases, this will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.19 Risks Related to the Group's Reputation

The Group's reputation is critical for attracting and retaining new customers and establishing strong relationships with counterparts. The Group's reputation could be damaged in the future by various factors, including, but not limited to, a decline, restatement, or other corrections to its financial results, legal or regulatory actions against the Group or employee misconduct which caused the Group to breach applicable legal requirements. The damage to the Group's reputation will have a negative effect on its business, financial position, results of operations, and future prospects.

2.1.20 Risks Related to Additional Financial Support

There can be no express assurance as to the Group's financial obligations owed by the Government of the Kingdom, the Bank's shareholders or any other party. Moreover, there is no assurance that the Bank will be provided with government support in case of future crises or disruption of the banking sector in the Kingdom. If an adequate financial support is not provided by the government in the event of any future economic crisis, and alternative sources of financing are not available, this will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.21 Risks Related to Risk Management Policies and Procedures

The Bank does not have an automatic system for determining and effectively monitoring pre-restructured loans, resulting in an increase in the Bank's exposure to non-performing loans. There is no assurance that risk management systems adopted by the Bank and designed to define, monitor and manage the Bank's risks will succeed. The failure of such systems may result in the Bank's exposure to unknown and unexpected risks, including risks of credit, liquidity, market and others.

In all cases, the failure of risk management systems will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.1.22 Risks Related to Information Technology Systems

The Bank's performance and operations are highly dependent on the effectiveness of its IT systems and their ability to realize the Bank's objectives and complete a significant number of transactions without delay or material errors. The Bank relies on a technical banking system for handling most of its products and operations.

Any malfunction may occur in the Bank's technical systems for several reasons, including, but not limited to, natural disasters, electronic viruses, technical errors, human errors and acts of computer hacking. There is no guarantee that the Bank's business would not be interpreted or affected in the event of partial or whole malfunction of any of its main systems, or in case the Bank comes under electronic attacks which could harm its Cyber Security. The electronic attacks or an electronic malfunction may also result in the Bank's loss of some or all of its data related to the transactions concluded by the Bank prior to such electronic attacks or such malfunction.

Therefore, any malfunction in the Bank's technical systems or an incident that exposes the Bank to electronic attacks that could harm its electronic infrastructure could have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.23 Risks Related to Regulatory Requirements

The Bank is subject to several strict legal requirements that may be changed from time to time and that may limit the Bank's ability to grow or conduct its business as expected.

The Bank falls under the supervision of SAMA, which regulates the banking and financing sector in the Kingdom. The Bank operates in accordance with SAMA's rules, regulations and requirements issued under the relevant laws. When formulating such legal requirements, SAMA takes into consideration the relevant international standards, including the Basel Committee requirements. The Bank's business may be directly affected by any change in the imposed legal requirements, particularly in the event of imposing requirements restricting the Bank from conducting specific business or activities, or imposing conditions that cannot be fulfilled by the Bank. Therefore, the Bank cannot assure that future changes in the legal requirements would not have a negative effect on the Bank's business, financial position or results of operations. The Bank cannot also provide any guarantee that it would be able to promptly adapt to all changes.

The Bank, as a listed company, is also subject to CMA's legal requirements, which are imposed on companies listed in Tadawul, including disclosure and governance requirements and other continuous obligations. Therefore, the Bank's operations may be affected by any change in these requirements. The new Companies Law and the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies have been issued and the new Corporate Governance Regulations included a number of additional requirements for listed companies, particularly with respect to disclosure and governance. Although the Bank is currently updating its policies and internal regulations in line with these new requirements, the Bank may not be able to monitor its compliance with the new requirements effectively.

Given that the Bank is subject to several legal requirements, any violation of such requirements will expose the Bank to procedures and sanctions that may be taken against it by the concerned bodies, including fines and other sanctions in specific cases, such as the suspension or withdrawal of a license, or suspension of the Bank from exercising its business. Therefore, the Bank's non-compliance with the legal requirements would have an adverse effect on the Bank's business, financial position, results of operations, and future prospects. The value of total penalties and fines imposed by the Authority and SAMA as of the beginning of 2017G till 30 September 2017G is around SAR (555,000) five hundred and fifty-five thousand (for more details, see Section 12.6 "Penalties and Fines").

It should be noted that Aljazira Capital (a company wholly owned by the Bank and licensed by and subject to CMA oversight) and Aljazira Takaful Taawuni Company (an associate company of the Bank licensed by and subject to SAMA oversight) are subject to strict legal requirements, as is the Bank. Therefore, if either of these two companies violates the imposed legal requirements, this will have an adverse effect on the Bank's business results.

2.1.24 Risks Related to Litigation

The Bank and its subsidiaries and associated companies are involved in a number of lawsuits, as well as a number of labor claims, that fall within the context of their normal business. The total number of claims filed against the Bank and its subsidiaries and associated companies is approximately 144 legal claims as of 14 November 2017G (note that some of them were given preliminary judgments for a total amount of around SAR 3,843,525). It should be noted that the plaintiffs in a significant number of these lawsuits did not specify their claim amount. Accordingly, the amounts that may be paid by the Bank as a result of such suits will be determined at the respective judge's discretion. As such, the Bank cannot provide an estimate. As to the lawsuits in which the plaintiffs had set their claimed amounts, the total claims of these lawsuits amounted to approximately SAR 61,187,633. It is worth noting that the above-mentioned information related to the lawsuits of the Bank, its subsidiaries and associates do not include any Zakat amounts for which the Bank and Aljazira Capital expressed their objections. (For more details about Zakat amounts, see Section 12.4.6 "GAZT Certificate").

The Bank and its subsidiaries and associate companies are also subject to other legal disputes with their clients, counter parties or others. Such disputes may be for substantial amounts, and there is no guarantee that the outcome of such disputes will be in the interest of the Bank. Therefore, should the Bank or its subsidiaries and associate companies lose any litigation, or fail to accurately allocate amounts resulting from the dispute, this will have a possibly material adverse effect on the Bank's business, financial position, results of operations, and future prospects. (For more details on legal disputes, please refer to Section 12.10 "Legal Claims").

2.1.25 Operational Risks

Operational risks and relevant losses result from fraud (internal or external), employees' mistakes, failure to record the transactions properly in accordance with the Bank's internal policy, failure to obtain appropriate internal authorization, non-compliance with legal requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Bank's vendors or counter parties). Any of these factors will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects. The Bank's loss of any important documents relating to customer transactions or regulatory approvals may affect the Bank's ability to comply with relevant legal requirements (specifically Anti-Money Laundering and Combating the Financing of Terrorism requirements), which will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.1.26 Risks Related to Insurance Coverage

Insurance policies do not cover all risks to which the Bank may be exposed. If an event occurs for which insurance is held by the Bank, such insurance may not adequately compensate the Bank for the actual losses suffered thereby. There can be no assurance that the Bank's insurance policies will continue to be available on commercially reasonable terms, or at all. Each of these events or circumstances, or the occurrence of an event for which the Bank is not insured, could have a material adverse effect on the Bank's business, financial condition, results of operations, and future prospects.

2.1.27 Risks Related to Employees

The Group's ability to sustain its business and to contribute to its growth is based on its ability to continue engaging experienced and qualified employees, and to retain and motivate them in all its organizational structure levels. The Group may face some challenges in employing and retaining qualified employees. There is also no assurance that the current members of the Group's management will continue to provide their services for a long time. Competition in the Saudi banking sector to obtain qualified employees in the banking and management sector is also serious, given the limited availability of qualified and/or experienced individuals compared to the level of demand. The Group may be required to offer more generous salaries and other benefits than it may have budgeted for in order to attract and retain employees. The cost of attracting and retaining employees is based on several factors beyond the Group's control, such as job offers provided by competitor banks and other companies, as well as salary rates and other benefits.

In case the Group fails to retain its qualified employees or attract qualified ones to meet its needs, this may have a material adverse effect on the Group's business, financial position, results of operations, and future prospects.

2.1.28 Risks Related to Interpreting Shari'ah Principles

The Bank currently provides all its services and products in accordance with Islamic Shari'ah principles by obtaining approval of the Bank's Shari'ah Board on all its services and products. Members of the Shari'ah Board are diligent in studying the product or service in light of the relevant Shari'ah principles according to their interpretation and understanding. It is known that many Shari'ah issues and principles are controversial, and therefore scholars may have different opinions about the same product or service. Hence, some Shari'ah scholars (including judges) may believe that some of the Bank's services and products are in violation of Shari'ah principles. If many scholars agree that a part of the Bank's services or products is not Shari'ah-compliant, it may have a possibly material adverse effect on the Bank's reputation, business, financial position, results of operations, and future prospects.

2.1.29 Risks Related to Intellectual Property Rights

The Bank's name and the trademarks registered thereby are factors supporting its business. The Senior Management believes that the identity it has developed and which is connected with the Bank's name has greatly contributed to the success of its business. The Bank's competitive position depends on various factors including its ability to use such trademarks to provide its services in the sector in which it operates, and to protect such trademarks against any unauthorized use. Accordingly, if the Bank fails to properly protect the trademarks mentioned above, or if it needs to take legal action to protect them, this may adversely affect its ability to use them, which could affect the Bank's business, financial position, results of operations, and future prospects.

2.1.30 Risks Related to the Treasury Group and Aljazira Capital Company

Income from the Treasury Group and Aljazira Capital Company formed a significant portion of the Bank's net income in the past years; the Treasury income represented 85.6%, 38.0%, 57.2% and 73.2% for the years 2014G, 2015G, 2016G, and for the period ended 30 September 2017G respectably, while the income of Aljazira Capital from the net income of the bank accounted for 34.3%, 8.5%, 5.0% and 4.3% for the years 2014G, 2015G and 2016G, and for the period ended 30 September 2017G, respectively. Aljazira Capital Company's business is based on investment volume in Tadawul. Therefore, any decision made by the Shari'ah Board concerning the unlawfulness of investing in any listed companies will adversely affect the Company's market share.

Therefore, any decrease in the performance of the Treasury Group and Aljazira Capital Company for any reason whatsoever will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.2 Risks Related to the Market and Regulatory Environment in General

2.2.1 Market Risks

The market risks arises when there is a decline in the value of financial instruments or financial centers in which the Bank invests. Such risks arise from adverse movements in market variables, such as commissions, profit rates, foreign exchange rates, Sukuks, shares, goods and other financial instruments. If such risks occur, they will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

Changes in revenue levels, profit, margin and maturity dates may affect the profit margin achieved by the Bank from financing and investment activities and financing costs, as well as may affect the value of assets and investments that are sensitive to such factors.

The risk related to profit rates and return rates arises from the effect of their fluctuation and other consequences, including the existence of a difference or gap in the amounts of financial assets, liabilities and instruments that are payable or repriced during a specific period. The increase in profit rates and returns prices may generally decrease the value of the Bank's fixed-rate financing assets, may increase the cost of Bank's finance and may also decrease the value of fixed-rate debt instruments owned by the Bank. Volatility in profit rates and return rates may result in a re-pricing gap between the Bank's assets and liabilities affected by profit rates and return rates, which will adversely affect the Bank's net financing activities income.

The continuous decrease in profit rates and return rates may limit the Bank's ability to preserve a sustainable growth of profit rates' net income. There is no guarantee that the Bank will be able to preserve sustainable growth of net income from profit rates through increasing the financing volume granted to customers in order to compensate the decrease resulting from low profit rates. If growth rate of financing volume granted to customers slows down, and profit rates and return rates remain at its current low level or decrease further, this will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

Changes in debt instruments, equity and commodity prices may also affect the values of the Bank's investment portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on the Bank's financial position, results of operations, future prospects and business.

The Bank's principal operating currency is the Saudi Riyal. However, the Bank owns assets and liabilities in foreign currencies and takes part in deals denominated in number of other currencies, including the US dollar. Therefore, the Bank is exposed to risks arising from the movement of the relative value of one currency against another in international foreign exchange markets. The Bank may be exposed to the decreased value of its assets, the increased value of its liabilities and the cost thereof when converted to the base currency, which will have a negative impact on the financial position of the Bank and the results of its operations.

There is no guarantee that the Bank will be able to protect itself from any adverse effects of future volatility in profit rates, return rates or currency exchange rates, which will have an adverse effect on its business, financial position and results of operations.

2.2.2 Risks Related to Competition

The Bank faces significant and increasing competition in the financial services sectors (whether in the banking sector, securities sector or insurance sector) in which it invests through Aljazira Capital Company and Aljazira Takaful Taawuni respectively.

The Bank competes in the Kingdom with local and foreign banks operating in the Kingdom (some of which own capital resources larger than those owned by the Bank), and competes particularly with banks providing Shari'ah-compliant products and services. According to SAMA's website, there are 26 banks and financial institutions providing banking services in the Kingdom in 2017G. Additional local and foreign banks may be licensed in the future to operate in the Kingdom, which would increase competition.

Therefore, the Bank competes with several banks and financial institutions (directly and indirectly) to obtain customers (whether individuals, private sector companies or public sector authorities) in terms of selling products, spreading geographically and providing banking services in general. Accordingly, the Bank will be affected if it cannot keep pace with other competitors in terms of the prices of its products and services, which will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

The same applies to Aljazira Capital (a company licensed to engage in the securities business and wholly-owned by the Bank) and Aljazira Takaful Taawuni Company (a Bank-associated company licensed to engage in the insurance business). The two companies operate in a competitive environment, thus any decrease in the two companies' market share may have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.2.3 Economic Risks

With the exception of a subsidiary of the Bank in the Cayman Islands established to support some of the Bank's external activities with external bodies and some money deposited with foreign banks to meet customer requests, the business and assets of the Bank, affiliate companies and supporting operations occur in the Kingdom. As a result, the Bank's business may be affected by the prevailing financial and economic conditions in the Kingdom and the Middle East and the economic activity level in the Kingdom in particular. Oil income will continue to play a pivotal role in planning and economic development in the Kingdom. Subsequently, any material decline in oil prices or a decrease in government spending could substantially slow down or disrupt the Kingdom's economy and the banking sector in particular, which would, in turn, have a negative impact on the Bank. The fluctuation in economic situations of the Kingdom may affect the sovereign rating of the Kingdom, which may have an adverse effect on the credit rating of the Bank and accordingly it may adversely affect the Bank's business and activities. (For more details about risks related to the Bank's credit rating, see Section 2.1.15 "Risks related to credit ratings")

2.2.4 Risks Related to VAT

The Kingdom issued Value-Added Tax Law, which entered into force on 1 January 2018G. This Law imposes an added value of 5% on a number of products and services, as specified in the law.

The application of VAT will increase the operational costs and expenses that the Bank will incur, which will have an adverse impact on the Bank's profitability, results of operations, and future prospects.

2.2.5 Political and Security Risks

With the exception of a subsidiary of the Bank in the Cayman Islands established to support some of the Bank's external activities with external bodies and some cash deposited with external banks to meet customers' requests, the Bank's business, assets and subsidiaries operate in the Kingdom. Accordingly, the Bank may be affected, from time to time, by the prevailing political and security condition in the Kingdom and/or the Middle East in general. Such markets may be subject to greater risks than more developed markets, including, in some cases, significant legal and political risks. Several Arab states have recently witnessed instability; therefore, the continuation or further deterioration of such conditions may have an adverse effect on the Bank's business. In general, deteriorating security or political conditions in the region may have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.2.6 Risks Related to the Global Economy

Since 2007G, global credit markets, particularly in the United States and Europe, have experienced a sharp deterioration. This deterioration has resulted in reduced liquidity, greater volatility and a lack of price transparency in credit markets. Such conditions have had an impact on investment markets globally. This impact includes adverse changes and increased currency volatility in and exchange rates and decreased returns from securities, real-estates and other investments. There is no guarantee that the continuation of the current situation or uncertainty regarding global economy in the future will not have an adverse material effect on the Kingdom's economy, which will in turn have a negative effect on the Bank's business and financial results.

2.2.7 Risks Related to De-pegging the Saudi Riyal from U.S Dollar and its Re-pegging at a Different Rate

The primary relevant exchange rate for the Bank is the Saudi riyal to the U.S. dollar. The Saudi riyal is pegged to the U.S. dollar at a fixed exchange rate (SAR 3.75/1 USD). The peg to the U.S. dollar has been maintained by SAMA at the same rate since 1986G. However, there can be no guarantee that the U.S. dollar peg will be maintained in the future, or that the peg will retain its current rate. Any de-pegging of the Saudi riyal from the U.S. dollar, or its re-pegging at a different rate, could result in significant fluctuations and revaluation of the Saudi riyal against the U.S. dollar. Such fluctuations may extend to other GCC currencies pegged to the U.S. dollar. This will affect the Bank's business, financial position, results of operations, and future prospects.

2.2.8 Risks Related to a Currency Union between some GCC States

There is a possibility that the Kingdom, Bahrain, Kuwait and Qatar may each abandon their respective national currencies in favor of a single GCC currency within the next few years. If a single GCC currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political conditions in each of the GCC states joining currency union. There has been no announcement of an official timetable for the progress of the monetary union, and there are currently no details of new legislation or policies. Any resulting change may adversely affect the Bank's business, financial position, results of operations, and future prospects.

2.2.9 Risks Related to Future Development of the Saudi Banking Sector

The growth rate of the banking sector in the Kingdom may not be as high and sustainable as currently anticipated by the Bank due to the vagueness of the economic growth pace in the Kingdom. The growth of the banking sector and its development depend on a number of factors beyond the control of the Bank. If these factors are materially negative, they will have an adverse impact on the Bank's business, financial position, results of operations, and future prospects.

2.2.10 Risks Related to Licenses

In order to implement and expand the Bank's business, the Bank (along with its subsidiaries and associates) needs to keep and obtain a diversified set of licenses, permits and approvals from regulatory, administrative and tax bodies and other authorities, etc. in the Kingdom or any other country in which the Bank would like to operate business. The process for obtaining these permits and approvals often takes an unpredictably long time. If the Bank is unable to maintain or obtain the relevant permits, its ability to achieve its strategic objectives could be impaired, with a consequent negative effect on the Bank's business, financial position, results of operations, or future prospects. In particular, if any of the licenses or permits granted to the Bank (or affiliate or associate companies) are withdrawn or revoked, this would have an adverse effect on the Bank's business, financial position, results of operations, or future prospects.

2.2.11 Risks Related to the Lack of a Foreign Investment License

The National Bank of Pakistan, as of the date of this Prospectus, owns 5,83% of the Bank's shares, and is one of the founding shareholders. As a result, according to the Foreign Investment Law and its regulations and instructions, the Banks and all companies in which the Bank own shares (including subsidiaries and associates, save as Aljazira Securities as it is established outside the Kingdom) are required to obtain a foreign investment license from the Saudi Arabian General Investment Authority. However, the Bank and its subsidiaries and associates have not obtained the aforementioned license as of the date of this Prospectus.

Failure by the Bank and its subsidiaries and associates (except for Aljazira Securities) to obtain the said license constitutes a breach of the provisions of the Foreign Investment Law, which may lead to legal penalties and procedures, including, but not limited to, a fine of no more than SAR 500,000. The Bank and its subsidiaries and associates are also subject to other laws governing foreign investment and ownership in the Kingdom (such as the Law of Real Estate Ownership and Investment by Non Saudis) since a share is owned by a foreign investor. This may result in the Bank or its subsidiaries and associates being subject to restrictions that may limit the practice of certain business (such as ownership of property in Makkah and Madinah and mortgage registration). This will specifically affect Aman Real Estate Development and Investment Company, as it is the entity responsible for keeping real estate securities on behalf of the Bank.

If sanctions are imposed against the Bank or its subsidiaries and associates as a result of a breach of the laws and regulations governing foreign investment and ownership, this will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects. Similarly, if the Bank or its subsidiaries and affiliates are subjected to the restrictions on foreign investments in the Kingdom, this may have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.2.12 Risks Related to Zakat Entitlements

The General Authority for Zakat and Tax has previously asked the Bank to pay additional Zakat entitlements for the years from 2006G to 2011G, estimated at a total amount of SAR 462.2 million. The Bank has protested these amounts, explaining that the additional amounts claimed by the General Authority of Zakat and Tax are a result of an error in the classification process of the Bank's investments and debts. Discussions are currently held between SAMA and the General Authority of Zakat and Tax on the matter, and the Bank is still waiting for their results. A guarantee amounting to SAR 284 million was issued to the General Authority of Zakat and Tax in respect of the years 2006-2009G, along with two other guarantees amounting to SAR 195 million for the years 2010-2011G.

As for Aljazira Capital, the Preliminary Objection Committee made a decision regarding the claim for Aljazira Capital to pay additional zakat payments for the years from 2008G to 2011G, estimated at SAR 29.9 million. Aljazira Capital has appealed the decision of the Preliminary Objection Committee before the Appeal Committee. Aljazira Capital had also submitted a bank guarantee equal to the additional Zakat entitlements at the request of the General Authority of Zakat and Tax. In 2016G, the Appeal Committee issued its decision in favor of the General Authority of Zakat and Tax. Aljazira Capital appealed such decision before the Administrative Court, which has annulled the decision of the Appeal Committee against Aljazira Capital on the additional Zakat entitlements for the years 2008-2011G pursuant to its judgment dated 21/4/1439H (corresponding to 8/1/2018G). In its judgment, the Administrative Court relied on the illegality of the procedures related to the decision of the Appeal Committee, noting that the judgment can be challenged by the General Authority of Zakat and Tax.

The General Authority of Zakat and Tax also required Aljazira Capital to pay additional Zakat benefits of estimated at SAR 11.9 million for the year 2012G. Aljazira Capital objected to the amount before the Preliminary Objection Committee, which issued a decision in January 2016G to reduce the additional Zakat entitlements of 2012G from SAR 11.9 million to SAR 400 thousand. Aljazira Capital has appealed the decision of the Preliminary Objection Committee before the Appeal Committee as Aljazira Capital was not convinced of some of the resolution's provisions. (For more details, please see section 12-4-6 "Certificate of the General Authority of Zakat and Tax")

In the event that the Bank or Aljazira Capital is required to pay the said amounts, this will have an adverse effect on the Group's business, financial position, results of operations and future prospects.

Moreover, the General Authority of Zakat and Tax has not completed the Bank's Zakat assessment for the years 2012G, 2013G, 2014G, 2015G and 2016G. The Zakat assessment of Aljazira Capital for the years 2013G, 2014G, 2015G and 2016G, still has not been completed by the General Authority of Zakat and Tax. Accordingly, the amount that the Bank and Aljazira Capital will be asked to pay still has not been determined. If the Bank and Aljazira Capital are required to pay more than the expected amounts, this may have an adverse effect on the Bank's and Aljazira Capital's business, financial position, results of operations, and future prospects.

It is noteworthy that the last final Zakat certificate received by the Bank was in 2005G. Aljazira Capital has not received a final Zakat certificate to date due to its objection against the Zakat assessment for the past years (as stated above). Aljazira Takaful Taawuni has not also received a final Zakat certificate given that the General Authority of Zakat and Tax has not completed the zakat evaluation of Aljazira Takaful for the last years.

2.2.13 Risks Related to Compliance with Law Requirements

The Bank is subject to the Companies Law, the Capital Market Authority Law, the Banking Control Law, the Foreign Investment Law and several others, as well as the regulations and circulars issued under such laws.

If SAMA finds that a bank has violated the provisions of the Banking Control Law or the decisions and rules issued for the implementation thereof, or has followed a policy that would seriously affect its ability to meet its obligations, or affect the liquidity of funds, it may, after obtaining the approval of the Minister of Finance, take one or more of the following measures: a) Appoint one or more advisers to advise the Bank with respect to the management of its business; (b) Suspend or dismiss any member of the Bank's Board or any of its employees; (c) Limit or prevent the Bank from granting loans or accepting deposits; and/or (d) Require the Bank to take any further steps it deems necessary. If the Bank continues to violate the Banking Control Law or the decisions and rules issued for the implementation thereof, SAMA may ask the Bank to provide the reasons therefor along with its recommendations to rectify the situation within the period it determines. If SAMA considers that such recommendations do not fulfill the purpose, or if the Bank fails to implement the procedure it has undertaken during the said period, the Minister of Finance may, with the approval of the Council of Ministers, revoke the license granted to the Bank. If SAMA takes any of these actions, including the revocation of the Bank's license, it will have an adverse material effect on the Bank's business, financial position, results of operations or future prospects. This is also the case if the Bank breaches any other laws or regulations to which it is subject.

2.2.14 Risks Related to Transactions and Agreements with Related Parties

In the ordinary course of its business, the Bank deals with related parties, such as the Bank's major shareholders, Board members, executive management members and their relatives. The Bank has also entered into a number of agreements with related parties. There is no guarantee that all transactions and agreements with related parties in the future will be purely commercial, which will have an adverse effect on the Bank's business, financial position, results of operations and future prospects. It should also be noted that the Bank's compliance procedures with respect to the disclosure and verification of agreements with related parties are weak.

The Bank is currently a party to a number of agreements and transactions in which some of the Bank's board members have an interest. The Bank has obtained the approval of the general assembly on 10/04/2017G for a number of these agreements in accordance with the requirements of article (71) of the Companies Law as described in Section 12.2 ("Agreements with Related Parties").

2.2.15 Risks Related to the Bank's Real Estate Holdings

The Bank has a number of real estate holdings that it has acquired by purchase or debt settlement. A number of these real estate are registered under the names of individuals on behalf of the Bank for regulatory or procedural reasons. The total market value of these real estate which are registered under the names of individuals on behalf of the Bank is SAR 6,586,400. Accordingly, the Bank may face risks in proving its ownership of these real estates. It also may be involved in legal disputes in this regard, which will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

It should be noted that there are legal and procedural disputes over a number of Bank's real estate holdings. The total market value of these properties is SAR 14,268,769. Due to such disputes, the Bank is unable to utilize or dispose of a number of these properties until these disputes are settled. The settlement of these disputes may not be in favour of the Bank, which may have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.2.16 Risks Related to Mortgages

As part of the Bank's financing operations, the Bank has a large number of mortgaged properties in its favor as collateral for its clients' financing. In accordance with the procedures generally followed by the banks in the kingdom, the Bank has documented the mortgage through the transfer and registration of such properties under its name or Aman Development and Real Estate Investment Company or in the name of persons representing the Bank in certain cases for regulatory reasons. The total number of mortgaged properties in favour of the Bank about is 1400 properties.

It should be noted that the SAMA recently issued a resolution No. 38100089828 dated 26/8/1438H, requiring all banks to document the mortgages in accordance with contracts thereof, and to refrain from transferring the ownership of the property instead of mortgaging it, as well as to rectify the current situation with regard to the properties currently registered on behalf of the banks or its subsidiaries within a period not exceeding three years. Accordingly, the Bank has begun the necessary procedures for transferring ownership of the mortgaged properties in its favor on behalf of its owners and then registering the mortgage in accordance with contracts thereof pursuant to SAMA's resolution in this respect. However, the Bank may not be rectify the current situation conditions of the mortgaged properties within the period set by SAMA due to the large number of the mortgaged properties or because of some procedural and regulatory obstacles, especially with respect to properties registered under the name of individuals on behalf of the Bank, which may subject the Bank to penalties by SAMA.

2.2.17 Risks Related to Saudization and Labor Laws and Regulations

The Ministry of Labor and SAMA require the Bank to recruit a specific percentage of Saudi nationals and to Saudize certain positions. According to the records of the Ministry of Labor, the Bank has achieved the Platinum level with a 91.58% Saudization rate.

The Bank is challenged with regards to recruiting and training the Saudi nationals. Therefore, it may face, from time to time, difficulties in relation to recruitment and retention of qualified Saudi nationals. If the Bank fails to recruit a sufficient number of Saudi nationals, the Bank will be accountable to the Ministry of Labor or SAMA due to lack of commitment to such requirements, which may have an adverse effect on the Bank's business, financial position, results of operations and future prospects. Moreover, if the Bank fails to comply with the Saudization rates, a restriction will be imposed on its recruitment of non-Saudi employees, which may impact the Bank's ability to engage in business as usual.

Further, the Kingdom has recently tightened labor restrictions on foreigners working in the country and made some amendments to the Labor Law and charges have been imposed on expatriates and their companions recently. There can be no assurance that such changes will not have a greater significant effect on the Bank's customers in general, or a particular industry segment thereof (such as contracting companies, which rely on a significant number of expatriate workforce to sustain their operations). If the recent changes in the labor laws adversely affect one or more of the Bank's borrowers, this will in turn affect such borrowers' ability to meet their respective payment obligations to the Bank under those borrowings which will have an adverse effect on the Bank's business, financial position, results of operations, and future prospects.

2.2.18 Risks Related to Anti-Money Laundering and Anti-Terrorism Regulations

The Bank must comply with the Anti-money Laundering and Anti-terrorism Laws and other related regulations. These laws and regulations require the Bank, inter alia, to adopt and implement certain know-your-customer ("KYC") policies and procedures and to report suspicious transactions to the relevant authorities. The Bank cannot guarantee that its systems and policies to detect and prevent the use of its banking network for money laundering activities by terrorists and terrorism-related organizations will be adequate to ensure that the Bank is always in absolute compliance with all such laws and regulations in every relevant jurisdiction. Future litigation in connection with breaches of such laws or regulations may result in the imposition of fines and other sanctions. Similarly, breaches or even allegations thereof will negatively impact the Bank's reputation. Any of these factors will have a possibly material adverse effect on the Bank's business, financial position, results of operations and future prospects.

In addition, the Bank's operations may be restricted due to limitations, bans on transactions or other sanctions imposed by the United Nations, the United States, the European Union and other states and international organizations. The Bank may be subject to liability burdens under such sanctions and limitations.

The Bank cannot give any assurance that its compliance, audit and reporting systems and procedures that it maintains in order to comply with SAMA regulations and legal requirements (which are subject to extensive oversight by regulatory authorities, including periodic examination) will at all times be fully effective. Compliance with these laws depends on the Banks ability to attract and retain qualified personnel to manage and monitor such systems and procedures (for further details on the risks associated with the Bank's employees, see Section 2.1.28, "Employee Related Risks"). In case of actual or alleged non-compliance with regulations, the Bank may be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including, but not limited to, claims by customers for damages and/or even the loss of the Bank general banking license. Any of these factors will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

2.2.19 Risks Related to Capital Adequacy

Aljazira Group is subject to a number of requirements and regulations related to solvency and capital adequacy. The Bank and Aljazira Takaful Taawuni are subject to a capital adequacy requirement imposed by SAMA, while Aljazira Capital Company is subject to capital adequacy requirements imposed by the Capital Market Authority. These solvency regulations may limit Aljazira Group's activities and increase its cost of doing business. In addition, the breach of such regulatory requirements may expose Aljazira Group to various restrictions and penalties. The Bank's inability to maintain satisfactory capital adequacy ratios may result in a reduction in its credit rating, which may increase the Bank's financing costs. Any of these factors will have an adverse effect on the Bank's business, financial position, results of operations and future prospects.

In response to the recent global financial crisis, the Basel Committee enhanced its capital measurement and capital adequacy standards by issuing a new capital framework (referred to hereinafter as the "Basel III Framework"). The Basel III Framework focuses on strengthening the quality of legal capital, increasing minimum capital requirements, strengthening risk coverage and reducing the legal capital link with the economic cycle. It also introduces new requirements for financial leverage, liquidity and legal capital reserve ratios to strengthen the capital center. These requirements will apply to Saudi banks by SAMA through a gradual approach until 2019G. However, SAMA may make future changes on how to implement these improvements in the Kingdom in a way different than the one currently conceived. Financial leverage, liquidity and capital adequacy ratios have been implemented since 2011G, 2012G and 2013G respectively. Currently, there is an observation of how Saudi banks implement financial leverage and liquidity ratios in accordance with SAMA's arrangements for the gradual implementation.

As a result of the above, the Bank may require additional capital in the future. The Bank may find it difficult to increase its regulatory capital, whether by issuing shares or obtaining financing, or it may not be able to do so at all (for further details on the risks associated with capital increase, see Section 2.1.12. "Risks related to Leverage").

In case of future changes to the Basel III Framework or the regulations and requirements implemented by SAMA, the Bank will need to improve its liquidity ratios. This may reduce the amount of capital available for other purposes while strengthening the Bank's ability to pay the short-term debts upon its maturity. It may also result in restricting the activities and flexibility of the Bank, because it will serve as an actual restriction on the daily liquidity functions at the Bank, which would limit the Bank's ability to employ the capital in profit-making banking activities.

Further, any such development may require the Bank to change how it conducts its business, including reducing the risk of a certain level of activities and level of its liabilities in case the Bank's capital ratios fall close to regulatory minimum levels or its own internal minimum levels, or otherwise have an adverse effect on its business, the products and services it offers and the value of its assets. (For further details please refer to Section 2.1.12 "Risks related to Leverage")

The Bank may become subject to mandatory guidelines and direct monitoring by SAMA if it is not able in the future to maintain the minimum required capital and liquidity position. There can be no assurance that the Bank will be successful in maintaining capital and liquidity ratios that comply with regulations that come into effect in the future. If the Bank is unable to increase its capital and liquidity ratios to the extent required, its credit ratings may drop and its cost of funding may increase, which may have an adverse effect on its business, financial position, results of operations and future prospects.

2.3 Risks Related to the Shares

2.3.1 Risks Related to Potential Fluctuation in the Share Price

The market price of the Rights during the Trading Period may not be indicative of the market price of the Bank's Shares after the Offering. In addition, the Bank's share price may not be stable and could be significantly affected by fluctuations resulting from a market conditions in connection with the Rights or the Bank's existing Shares. Such fluctuations may result from many factors including, but not limited to: Stock market conditions, regulatory changes affecting the banking sector, changes in the financial sector status, poor performance of the Bank, inability to execute future plans of the Bank, the entry of new competitors into the market, change in the vision or estimates of experts and analysts for the securities market, and announcements by the Bank or any of its competitors in relation to mergers and acquisitions transactions or strategic alliances.

It is worth noting that Tadawul will change the price of Bank's share to be SAR (11,88) per share prior to the beginning of the next trading day following the Extraordinary General Assembly on the capital increase. The change of the share price represents a decrease in the share price in an amount of SAR (1,09) per share.

The selling of substantial quantities of Shares by the shareholders, or the perception that such sale may take place, will adversely affect the Bank's share price in the market. In addition, shareholders may be unable to sell their Shares in the market without adversely affecting the share price.

There is no guarantee that the market price of the Bank's Shares will not be lower than the Offer Price. If this happens after the investors have subscribed for the New Shares, such subscription may not be canceled or amended. Therefore, the investors may suffer losses. Moreover, there is no guarantee that a Shareholder will be able to sell its Shares at a price equals to or higher than the Offer Price after subscribing to the New Shares.

2.3.2 Risks Related to Potential Fluctuations in the Price of Preemptive Rights

The market price of the Preemptive Rights may be subject to considerable fluctuations due to the change in the factors affected by the Bank's share. Such fluctuation may be considerable because of the difference between the daily fluctuation percentage allowed to the Rights compared to the daily fluctuation percentage allowed to the Bank. The trading price of the Rights depends on the trading price of the Bank's Shares and the market perception of the fair price of the Rights. These factors (in addition to the factors mentioned under the "Potential Fluctuations in the Share Price" above) may also adversely affect the trading price of the Rights.

2.3.3 Risks Related to Lack of Demand for the Bank's Shares and Rights

There is no guarantee that there will be sufficient demand for the Rights during the trading period in order to enable the holder of such Rights (whether a Registered Shareholder or a new investor) to sell the Rights with or without profit. There is also no guarantee that there will be sufficient demand for the Rump Shares by the Institutional Investors during the Rump Offering. If Institutional Investors do not subscribe for Rump shares at a price higher than the Offering Price or if they do not subscribe at all, there will not be a sufficient compensation amount to be distributed to holders of exercised Rights and holders of the Fractional Shares. Moreover, there is no guarantee that there will be sufficient market demand for the New Shares once they are traded on the Exchange.

2.3.4 Risks Related to Speculation Relating to the Preemptive Rights

Speculation relating to the Preemptive Rights may cause material losses. The scope of daily fluctuation allowed of the Preemptive Rights trading price exceeds the scope of daily fluctuation allowed of the Shares market price (10% upward or downward compared to closing price of the previous trading day). There is also a direct correlation between the Bank's Share price and the Share's indicative value. Accordingly, the daily price limits (i.e. daily fluctuation range) for the trading of a Right will be affected by the daily price limits for share trading. In case a speculator fails to sell the Rights before the end of the Trading Period, they will be forced to exercise these Rights to subscribe for New Shares and may incur some losses. Thus, the investors should review the full details of the mechanism for listing and trading Rights and New Shares and the functioning method thereof. They should also be aware of all the factors affecting them, in order to make sure that any investment decision will be based on complete awareness and understanding.

2.3.5 Risks Related to Dilution of Ownership

If the right holders do not fully exercise their Rights through subscribing to the New Shares, their ownership percentage and voting rights related to their shares will decrease. In case the registered holder of the Rights wishes to sell his/her Rights during the Trading Period, there can be no assurance that its returns will be sufficient to fully compensate the Right holder for the drop of its shareholding percentage in the Bank's capital resulting from the Bank's capital increase.

2.3.6 Risks Related to Failure to Exercise the Rights in a Timely Manner

The subscription period will start on Sunday 08/07/1439H (corresponding to 25/03/2018G) and end on 18/07/1439H (corresponding to 04/04/2018G). Right holders and financial intermediaries representing them should take the appropriate measures to comply with all required instructions prior to the expiry of the subscription period. If the Right holders and the financial intermediaries are not able to properly follow the procedures for the trading of the Rights, the Subscription Application may be rejected. (See Section 17 "Subscription Terms, Conditions and Instructions") If the Right holders are not able to exercise their subscription rights properly by the end of the Offering Period according to the Rights held thereby, there can be no assurance that a compensation amount will be distributed to those who did not participate or did not properly subscribe to the New Shares.

2.3.7 Risk of Non-exercise of Subscription to the Rights or Sale by Substantial Shareholders

None of the Substantial Shareholders has made any commitment with respect to the subscription to the Preemptive Rights Shares. In the event that the Substantial Shareholders do not exercise their right to subscribe to the Preemptive Rights Shares, or partially or wholly sold them, this would have an adverse effect on the Bank's market price.

2.3.8 Risks Related to Offering of New Shares in the Future

The Bank may in the future increase its capital through issuing new shares (after completing the legal procedures, including the approval of SAMA, CMA and the Extraordinary General Assembly) for new investors or some current investors only, which may affect the ownership of shareholders not participating in the capital increase, which in return will result in decreasing the profitability of each share due to the increase in the number of shares, which will reduce the profitability of shareholders.

2.3.9 Risks Related to Distribution of Dividends

The future distribution of dividends depends on a number of factors, including but not limited to the Bank's profitability in the coming years, its financial position, net worth requirements, distributable reserves, available financing, general economic situation and other factors that may be considered by the Board from time to time. An increase in capital may lead to a decline in the profitability of Shares, which may affect the Company's Share market price.

The Bank does not guarantee to its shareholders that dividends will be distributed to them and does not provide any guarantees regarding the amount of profit to be distributed in any given year. Dividend distribution is subject to regulatory and other restrictions set out in the Bank's Bylaws (see Section 7 "Dividend Distribution Policy")

3. Market Overview

Data and information related to the Banking section inside the Kingdom and stated in this section are derived from information available for the public. However, there is no reason to consider such information inaccurate. So, the Board of Directors, shareholders and Advisors have not independently checked the accuracy of such data and information. There is no guarantee of its accuracy or completeness.

3.1 Economic Environment in the Kingdom

In accordance with the International Monetary Fund, the Kingdom of Saudi Arabia maintained its 20th place among the biggest countries in the world in terms of the nominal GDP amounting to SAR 2.42 trillion by the end of 2016G[1]. The strength of the Kingdom's economy is reflected by the increase in per capita gross domestic product (GDP) to USD 55,331 equivalent to SAR 207,489 (per capita purchasing power) in addition to the continuous increase of population growth by 2.3% in 2016G. Moreover, the Kingdom of Saudi Arabia ranked 29th out of a total of 138 countries around the world in the most competitive countries list, as per a report issued by the World Economic Forum[2].

The Real GDP growth averaged 1.7% in the kingdom for the year ending on 31 December 2016G (on basis of 2010 fixed prices), as compared to the real GDP growth that averaged 4.1% for the year ending on 31 December 2015G. Real GDP increased from SAR 2,545.2 billion (USD 678.7 billion) for the year ending on 31 December 2015G to SAR 2,589.6 billion (USD 690.5 billion) for the year ending on 31 December 2016G. The growth of GDP in the Kingdom of Saudi Arabia depends significantly on the oil sector which grew by 3.8% in 2016G, as the Kingdom experienced improved production levels, in comparison to the non-oil GDP which grew by 0.2%[3].

Table 3.1 Nominal and Real GDP from 2012G to 2016G (SAR billion)

Year	Real GDP	Nominal GDP
2012G	2,296.7	2,759.9
2013G	2,358.1	2,799.9
2014G	2,444.8	2,836.3
2015G	2,545.2	2,453.5
2016G	2,589.6	2,424.1

Source: The International Monetary Fund

The Kingdom continues to adapt its financial policy to the reduction in oil price. The oil price reduction led to a financial deficit of SAR 311.1 billion in 2016G equaling 12.8% of the real GDP in the Kingdom[4].

The Kingdom launched a bold reform program in the framework of Vision 2030, launched in April 2016, the specific objectives of which include achieving a budget balance. The reforms aim to diversify the Kingdom's economy away from oil, to grant a bigger role to the private sector, to provide increasing job opportunities for Saudis in the private sector, to reduce the aids that were provided previously to energy and fuel sectors and to impose new taxes and administrative fees. The state's efforts were made to continue the implementation of Vision and advance economic reforms through a rise in non-oil revenues. The increase in non-oil revenues by 10.0% in 2016G and 29.3% in 2015G[5] and the decrease of government expenses by 15.1% in 2016G and 11.9% in 2015G[6] show the continuous efforts made by the state to execute the vision and to push the economic reform growth.

To eliminate the budget shortfall arising from the oil prices reduction, the Kingdom established Debt Management Office of the Ministry of Finance in 2016G to develop, finance and control the strategy for the public loans. After that, the government commenced to execute a program to finance the internal and external loans. The government intends to maintain the loan increase at global and locals markets. As per the National Transformation Program, the ratio of public loan to the Nominal GDP in the Kingdom is expected to reach 30% by 2020G.

The Kingdom of Saudi Arabia has achieved strong financial performance in 2017G to date due to improved revenues and increased efficiency of public expenditure. Recently, this has led to a reduction in the financial deficit in the Kingdom. Basically, the increase in government spending on healthcare, social development, economic resources, infrastructure, transport and municipal service sectors in 2017G, as compared to 2016G, represents the financing allocated to initiatives of national business plans 2020G.

Moody's Ratings Agency ("Moody's") and Fitch Ratings ("Fitch") classified the Kingdom of Saudi Arabia ("the Kingdom") as A1 and A+ respectively[7,8]. The credit ratings are based on the government's strong external and public financial budgets, significant reserves of external liquidity and global reserves, relative reduction of government loans and strong compliance

1 IMF, World Economic Outlook Database, October 2017
2 Global competitiveness index report issued by the World Economic Forum (2016 - 2017)
3 Experts Report for the Kingdom of Saudi Arabia with regard to consultations of Article 4 of 2017G issued by the International Monetary Fund
4 The Annual Report issued by Saudi Arabian Monetary Agency (2016 - 2017)
5 The Annual Report issued by Saudi Arabian Monetary Agency (2016 - 2017)
6 The Annual Report issued by Saudi Arabian Monetary Agency (2016 - 2017)
7 Moody's report about the credit evaluation, 21 November 2017G.
8 Fitch's report about the credit rating, 2 November 2017G.

with the agenda of ambitious reform. Both Credit Rating agencies recently downgraded the credit rating for Kingdom of Saudi Arabia. In Moody's methodology, the Kingdom moved from Aa3 to current A1 in May 2016G, while in Fitch's methodology, it moved from AA- to current A+ in March 2017G. The rating agencies stated that the main factors behind the rating downgrade are significant dependence on oil prices, uncertainty of non-oil growth, increase in unemployment rate, risks of socio-economic challenges and the geopolitical risks.

3.2 The Kingdom's Banking Sector

Presently, there are 26 banks and commercial banks in the Kingdom including 12 banks established in the Kingdom ("Saudi Banks") and 14 branches of international banks. All Saudi banks are listed public shareholding companies whose shares are traded on the Saudi Stock Market. The following table shows the Saudi banks and branches of international banks in the Kingdom:

Table 3.2 Summary of Saudi Banks and Branches of International Banks in the Kingdom

Saudi Banks	Branches of International Banks
Alinma Bank	Bank Muscat
Al-Rajhi Bank	BNP Paribas Bank
Arab National Bank	Deutsche Bank AG
Bank Al-Bilad	Emirates NDB
Bank Aljazira	Gulf International Bank
Banque Saudi Fransi	Industrial and Commercial Bank of China
The National Commercial Bank (NCB)	JP Morgan Chase Bank, the national association
Riyad Bank	National Bank of Bahrain
SAMBA Financial Group	National Bank of Kuwait
SABB	National Bank of Pakistan
Alawwal Bank	State Bank Of India
The Saudi Investment Bank	Ziraat Bank
	QNB
	Bank of Tokyo-Mitsubishi (licensed, but is not operational yet)

Source: Saudi Arabian Monetary Authority

Saudi banks offer a comprehensive range of retail and corporate banking products and services. There are only four banks that provide Shari'ah-compliant financial products and services: Alinma Bank, AlRajhi Bank, Bank Albilad and Bank Aljazira. The remaining eight Saudi banks combine traditional banking products and services with Shari'ah-compliant banking products and services.

In addition to commercial banks, there are five state-run credit institutions operating in Saudi Arabia. These institutions are: SIDF, REDF, the Agricultural Development Fund, Saudi Credit & Saving Bank, and the Public Investment Fund. A Royal Decree was issued on 3 October 2017G to establish the National Development Fund. "In accordance with the Royal Decree, this fund, at the organizational level, is associated with REDF, SIDF, the Agricultural Development Fund, Social Development Bank, Human Resources Development Fund and any other development fund or bank to be added herein under an order issued by the Prime Minister upon a proposal of the National Development Fund".

As of March 2017G, the banking sector expectations have been classified as "stable" by Moody's Agency on the basis of the sector's high capacity to absorb risks and to eliminate financing pressures. The main historical and future drivers for the banking sector in the Kingdom are:[9]

F- Characteristics of Operational Environment:

- A-1 The stable economic growth during the last years was spurred by increased government expenditure and growth of the local consumption in addition to increase the activity of private sector, whereas the real GDP increased from SAR 2.18 trillion to SAR 2.59 trillion during the period of 2011G to 2016G by a CAGR of 3.5%.[10]
- A-2 The adjusted government loans are SAR 316.6 billion in 2016G equaling 13.1% of the GDP, in addition to great government reserves from the gold and the foreign currency of USD 536.2 billion (equaling SAR 2.0 trillion) as of the end of December 2016G. This refers to the continuation of the cash expansion policy.

9 Moody's report about the credit evaluation, 14 March 2017G.
10 IMF, World Economic Outlook Database, October 2017G

A-3 The favorable demographics increasing the demand for consumer goods among the youth groups and the growing population, whereas the population increased from 28.4 million people in 2011 to 31.7 million people in 2016G by CAGR of 2.3%. The population under 25 years old represents around 39.5% of total population in 2016G.[11]

A-4 The awareness of consumers and attention regarding the banking products and services has increased (including the Shari'ah-compliant products), resulting in a growth of banking assets by CAGR of 8.0% during the period from 2011 to 2016G.

A-5 The Saudi Arabian Monetary Agency has continued its regulatory approach of supporting the stability of the banking system and its conformity with international standards. On the first of January 2013, the Capital Regulations stipulated in the Basel III Agreement were approved. The Control Authority encourages the Saudi Banks to keep high levels of credit risk provisions (more than 100% of the non-performing loans, capital more than the minimum regulatory limit and LTD less than 90%. The Control Authority also imposes restrictions on the loan burdens of retail borrowers and observes all risks at the global level.

A-6 The Kingdom faces several challenges, such as the relative increase in the unemployment rate to 5.6% in 2016G and the continuous reduction in oil prices,[12] in addition to the geopolitical risks.

G- Characteristics related to assets quality and capital

B-1 Uncertain operational situations led to the increase of the non-performing loans even though there was negative growth of 1.33% in non-performing loans at the Saudi Banks as of 30 September 2017G.

B-2 Strong capitalization, reflected in the average capital adequacy and Tier 1 Capital ratios for the banking sector of 19.57% and 17.02%, respectively, as of September 2017G. This highlights the large capacity of Saudi banks to absorb losses.

B-3 High exposure rates to individual parties. Asset quality is expected to improve as a result of tightening regulation aimed at reducing borrowers' concentration rates.

H- Characteristics of funding and liquidity:

C-1 Funding based on low cost deposits which support the higher number of customer loans to customer deposits, which amounted to 85.2% as of September 2017G.

C-2 The ratio of liquid assets as a percentage of the total assets was 16.5% in 2016G.[13]

C-3 Stable public sector balances where the average banking loans of the public sector was around 6% of the total assets of Saudi commercial banks during the period from 2011 to 2016G.[14]

I- The supporting factors of profits increase are: (1) continued growth of business activities (2) low-cost funding structure (3) relatively low operating costs.

J- Reduced price returns and increased competition that will continue to reduce lending margins.

K- The comprehensive support from relevant authorities shows its strong desire and ability to solve the banking problems without any losses incurred by the depositors and other creditors.

3.2.1 Competitive Landscape

According to the International Monetary Fund, Saudi banks account for 97% of the total assets of the banking sector in the Kingdom and more than half of the total assets of the financial services sector in the Kingdom[15]. Loan portfolios are concentrated in government institutions and large companies in the private sector, with limited lending to SMEs. These credit concentrations are mitigated by the stringent capital requirements (Basel III) imposed by the Saudi Arabian Monetary Agency (SAMA)[16].

In 2017G, the largest seven Saudi Banks accounted for 80%[17] of total assets of the Saudi Banking sector. The combined market share of the four largest Saudi banks (NCB, Al Rajhi Bank, Samba Financial Group and Riyad Bank) was 56% as of September 2017G. Government entities own the largest stake in three banks (National Commercial Bank, Samba Financial Group and Riyad Bank), while three of the remaining four banks (Saudi British Bank, Banque Saudi Fransi and Arab National Bank) are subsidiaries of large international banks. All banks including those directly/indirectly owned by the government are managed on a business basis.[18]

11 World Bank Data - Kingdom of Saudi Arabia
12 IMF, World Economic Outlook Database, October 2017G
13 Bank Al-Bilad, Saudi Banks Report 2016G.
14 The Saudi Arabian Monetary Agency.
15 IMF - Kingdom of Saudi Arabia: - Financial Sector Assessment Program, October 2017. Financial Services Sector includes banks, investment funds, insurance companies and real-estate finance companies.
16 Organization and supervision of Saudi Banks - Liquidity and Credit Risk Management.
17 Interim reports of the third quarter of 2017G.
18 IMF, Amended Saudi version of FSAP: Detailed assessment of complying with Basel Core Principles.

Table 3.3 The Ownership and Assets of Saudi Banks on 30 September 2017G

Saudi Banks	Government ownership	Ownership by foreign Banks	Total assets	
			Million riyals	Percentage of total
The National Commercial Bank (NCB)	Public investment fund (44.29%), the General Organization for Social Insurance (10.00%), and Public Pension Agency (10.04%)	N/A	444,679	20%
Al-Rajhi Bank	General Organization for Social Insurance (10.19%)	N/A	338,030	15%
SAMBA Financial Group	Public investment fund (22.91%), the General Organization for Social Insurance (11.76%), and Public Pension Agency (15.04%)	N/A	228,873	10%
Riyad Bank	Public Investment Fund (21.75%), the General Organization for Social Insurance (16.72%), and Public Pension Agency (9.18%)	N/A	218,224	10%
Banque Saudi Fransi	General Organization for Social Insurance (13.29%)	Crédit Agricole Corporate and Investment Bank (14.91%)	201,704	9%
SABB	General Organization for Social Insurance (9.74%)	Hong Kong and Shanghai Banking Holding UK (40.00%)	179,481	8%
Arab National Bank	General Organization for Social Insurance (11.28%)	Arab Bank (40.00%)	163,643	7%
Alinma Bank	Public Pension Agency (10.71%), General Organization for Social Insurance (10.00%), and Public Pension Agency (5.10%)	N/A	111,373	5%
Alawwal Bank	General Organization for Social Insurance (10.50%)	Royal Bank of Scotland (40.00%)	101,454	5%
The Saudi Investment Bank	Public Pension Agency (17.32%), General Organization for Social Insurance (17.26%),	JP Morgan International Finance (7.49%)	98,284	4%
Bank Aljazira	N/A	National Bank of Pakistan (5.83%)	67,528	3%
Bank Al-Bilad	N/A	None	62,553	3%
Total			**2,180,328**	**100%**

Source: Interim reports for the Third Quarter of 2017G

The Saudi Arabian Monetary Agency (SAMA) announced commencement of full implementation of the Financial Companies Control Law in November 2014G. The legislation allows new financing companies and leasing companies to operate and compete in the finance market.

3.2.2 Assets and Liabilities

Saudi banks witnessed low efficiency and asset quality for the nine-month period ending in September 2017G. Total assets grew by 0.4% year-on-year to SAR 2.21 trillion, while net loans fell 1.8% year-on-year to SAR 1.40 trillion.

Customer deposits fell by 0.5% year-on-year to SAR 1.65 trillion by the end of September 2017G. While the ratio of loans to customer deposits decreased from 86.3% in September 2016 to 85.2% in September 2017G.

Credit quality in Saudi banks declined slightly in September 2017G. Non-performing loans declined[19] to 1.33%, compared to 1.14% in 2016G. The ratio of non-performing loans also declined from 178% to 169% during the same period.

SAMA is the only member of the Basel Committee among the Arab States, following its guidance on capital standards. This Committee issued the guidelines of the Basel III Agreement. SAMA's internal capital adequacy assessment process allows SAMA to individually analyze the business plans and growth expectations of each local bank on a regular basis and then provide guidance on the desired capital ratios for each bank. Basel III guidelines require banks to have a minimum of Tier 1 equity of 4.5%, a Tier I capital of 6.0% and a total capital (Tier I and Tier II capital) (Capital Adequacy) of 8.0% of risk weighted assets. All these requirements are reinforced by the addition of conservative capital reserves, as well as a protective capital layer to counter cyclical fluctuations.[20] As of 31 September 2017G, all Saudi banks' rates exceed the indicative level of Tier I capital, with the average in the sector reaching 17.0%.[21] In September 2017, Saudi banks average capital adequacy ratio was 19.4% of risk weighted assets, which was also higher than the minimum capital adequacy requirement.

Table 3.4 Consolidated Corporate Placements, Retail Loans, Net Investment and Other Assets of Saudi Banks as of 30 September 2017G

Saudi Banks	Net loans	Net retail loans (2016G)	Net corporate loans (2016G)	Net investment	Other investments	Customer deposits
Million riyals						
Consolidated	1,404,702	429,105	907,496	417,809	7,569	1,649,539

Source: 2016G Annual Reports and Q3 2017 Saudi Banks' interim reports

Note: Figures for net retail and corporate loans do not include Bank Al Bilad

Retail loans represent 19.9% of the total commercial assets of banks as of 31 December 2016G and grew by 5.0% over the previous year. Growth of retail loans (excluding mortgage finance) is attributed to higher product innovation, expansion of new products and strong demand for banking products and services. The establishment of the Saudi Credit Information Company (Simah)[22] also helped banks expand their retail activity after allowing banks to share their credit information about current and potential customers.

Corporate loans consisted mainly of commercial loans, advances and overdrafts, accounting for 42.0% of the total assets of commercial banks as of 31 December 2016G. Economic growth and government spending stimulated growth of 0.9% in corporate assets over the course of 2016G.

Net investments comprise 17.6% of the total assets of commercial banks as of 31 December 2016G. In general, the Treasury's capital markets have become more sophisticated with the expansion of capital market instruments in both conventional and Islamic banking markets in the Kingdom. Following the increase in liquidity in the Kingdom, the market has also been investing increasingly in bonds and treasury bonds denominated in the US dollar.

Banks invest in public sector debt instruments, which increases the value of banks' receivables from the public sector.

Customer deposits increased by 0.6% in 2016G and consisted mainly of demand deposits which amounted to 62.0% of total customer deposits as of 31 December 2016G.[23] Because of lower interest rates, customers switched to on-demand deposits, instead of savings and term deposits. This has resulted in an increase in the liquidity of Saudi at banks.

Due to the slowdown in economic activity, low government revenues and diminished government spending, Saudi banks have experienced a decline in liquidity since 2Q of 2015G and 2016G, resulting in a total decline in the level of deposits in the sector. However, the government issues of domestic and foreign bonds mitigated this declined liquidity, on the ground that the local banks participated in about 85% of the issues of domestic government bonds, which led to the stability of the banking sector.

19 Non-performing loans divided by total loans.

20 Banks will be required to have hedging capital reserves of 2.5% of joint equities (or other fully loss-absorbing capital) to overcome future losses during periods of financial and economic crises.
Counter-cyclical capital reserves will be implemented between a range from 0% to 2.5% of joint equities (or other fully loss-absorbing capital) according to the national circumstances.

21 Q1 SAMA Report 2015G

22 The Saudi Credit Information Company (Simah) was established by commercial banks operating in the Kingdom of Saudi Arabia in the framework of current banking procedures and regulations issued by SAMA. Simah collects credit-related information between member participants to provide credit providers with information related to credit risks.

23 Q1 SAMA Report 2016G

3.2.3 Profitability

In the nine month period ending in September 2017, operating income and net income of Saudi banks increased to SAR 64.7 billion and SAR 34.3 billion, accounting for 3.1% and 3.2% respectively. As most banks in the Kingdom face a decline in margins, operating income and net income in the sector have increased at a lower rate than the growth in assets. Net special commission income amounted to SAR 47.2 billion for the nine month period ending on September 2017G, representing 73% of the operating income of Saudi banks during the same period.[24] Net income of Saudi banks increased by 8.0% in the nine-month period ending on September 2017G as a result of the increase in net special commission income, while revenues from bank fees, charges and other investments decreased by 8.2% on an annual basis.

Table 3.5 Consolidated Operating Income, Operating Expenses and Net Income of Saudi Banks for the Nine-Month Period ending on 30 September 2017

Saudi Banks	Operating income	Operating expenses	Other expenses/ other income sources	Net income
Million riyals				
Consolidated	64,722	30,393	113	34,343

Source: Q3 Saudi Banks' Interim Report of 2017G

In the nine-month period ending in September 2017G, net retail income increased by 11.6% year-to-year to SAR 11.4 billion from SAR 10.2 billion during the same period last year, contributing 33.3% to total net banking income. This resulted from the application of the new consumer finance rules including fees and charges that banks may collect from individual customers, which affect institutions that are more active in the retail sector than among banking sectors.

The corporate sector is the largest contributor to net income, representing 35.8% of total net income for the nine-month period ending in September 2017G, compared to 38.3% for the nine-month period ending in September 2016G. Net corporate income decreased by 3.7% to SAR 12.3 billion from SAR 12.8 billion in the nine-month period ending in September 2016G. Net treasury income sector increased by 12.7% for the nine-month period ending on September 2017G to reach SAR 10.2 billion, compared to SAR 9.0 billion for the nine-month period ending in September 2016G.

Saudi banks improved their efficiency and reduced their operating expenses for the nine-month period ending in September 2017G. As a result, the ratio of operating expenses to operating income improved to 47.0%, compared to 47.2% last year.

3.2.4 Distribution

The banking sector has developed a modern distribution network throughout the Kingdom. As of 30 September 2017G, there were 2050 banking branches, 18,171 ATMs and 293,932 POSs.[25]

The Kingdom has also witnessed a migration from traditional payment channels to electronic payment channels. The value of electronic transactions through ATMs decreased by 4.5% and increased through POSs by 7.0% for the nine-month period ending in 30 September 2017G.

3.2.5 Overview

Despite the strong growth in credit and deposits, the banking sector in the Kingdom continues to enjoy a low level of financial participation and banking involvement, with a relatively limited number of banks operating in the Kingdom. Saudi Arabia ranks lowest among GCC countries in terms of loans as a percentage of GDP. The ratio of loans to GDP of the Kingdom reached 54.4% in 2016G compared to the average ratio of loans to GDP which reached 94.9% for GCC countries (save for the Kingdom).[26]

LTD ratio of Saudi banks is low compared to their regional counterparts. The average ratio of loans to deposits reached 100.3% for GCC banks (except Saudi Arabia), compared to loans to deposits ratio amounting to 86.9% for Saudi banks.

The aforementioned factors indicate significant growth potential for banking services in KSA in the future.

Table 3.6 GCC Bank Loans Analysis

GCC Countries	Ratio of loans to GDP for 2016G	Ratio of loans to deposits for 2016G
	%	%
Bahrain	73.6%	90.4%
Kuwait	88.5%	89.1%
Oman	66.7%	105.9%

24 Bank Albilad, Saudi Banks' Report, Q3 of 2017G Interim Reports
25 October 2017G SAMA Report
26 BMI

GCC Countries	Ratio of loans to GDP for 2016G	Ratio of loans to deposits for 2016G
	%	%
Qatar	132.6%	115.5%
UAE	113.2%	100.8%
Average Rate (except KSA)	94.9%	100.3%

Source: BMI

3.3 Bank Aljazira Competitive Position

Bank Aljazira seeks to be a Shari'ah compliant financial leader in Saudi Arabia and become the preferred bank for target customers. The Bank launched several initiatives in the past.

- The Bank announced its new strategy entitled "Journey to Success-2018";
- New gold and diamond products, as well as special services for clients with high solvency;
- Operationally, Bank Aljazira took necessary measures to simplify operations and improve services to its card holders and loan clients;
- Focus on the growth of Fawri Money Transfer Services (a remittance service provide with international partners, MoneyGram and IME);
- Development of finance, deposit and credit products for SMEs;
- Launch of "Aljazira Smart" (an online banking channel) with a new graphical user interface, as well as advanced functionality;
- Investing in Bank Aljazira's Infrastructure;
- Continuous attention to Saudization, as well as training and professional development programs for its employees.

Bank AlJazira recognized a 2.3% year-on-year increase in its operating income for the nine-month period ending in September 2017G. Customer deposits decreased by 1.3% on a YOY basis compared to the same period last year to reach SAR 49.7 billion as of 30 September 2017G. In addition, there has been a contraction in the scope of lending operations, with net loans and advances reaching SAR 40.9 billion as of September 2017G, a decrease of 5.3% on a YOY basis. During the period, net income decreased by 7.7% on a YOY basis to SAR 0.7 billion.

Table 3.7 Bank Aljazira's Market Share compared to Saudi Banks in the Nine-month Period ending in September 2016G and September 2017G

Saudi Banks	Operating income		Net income		Customer deposits		Net loans and advances	
Million riyals	2016G per million	2017G per million	2016G per million	2017G per million	September 2016G	September 2017G	September 2016G	September 2017G
Bank Aljazira	1,928	1,973	720	664	50,335	49,676	43,195	40,926
Other Saudi Banks	60,860	62,749	32,548	33,679	1,607,422	1,599,863	1,387,723	1,363,776
Total	**622,788**	**64,722**	**33,267**	**34,343**	**1,657,757**	**1,649,539**	**1,430,918**	**1,404,702**
Bank Aljazira's Market Share (%)	**3.1%**	**3.0%**	**2.2%**	**1.9%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**

Source: Q3 Saudi Banks' Interim Report of 2017G.

3.3.1 Retail Banking

In 2015G and 2016G, Bank Aljazira was ranked seventh and eighth, respectively, in retail banking in terms of net retail loans. The table below shows Bank Aljazira's market share in proportion to other Saudi banks in terms of retail banking in 2015G and 2016G.

Table 3.8 Bank Aljazira's Market Share in Proportion to Saudi Banks in Terms of Retail Banking in 2015G and 2016G

Saudi Banks	Net customer loans				Net income of retail segment			
	2015G		2016G		2015G		2016G	
	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)
Shari'ah-Compliant Banks								
Al-Rajhi Bank	153,122	38%	159,380	37%	5,234	45%	5,304	40%
Bank Aljazira	**16,000**	**4%**	**17,451**	**4%**	**16**	**0%**	**142**	**1%**
Alinma Bank	13,254	3%	14,311	3%	288	2%	261	2%
Bank Al-Bilad	N/A	None	None	None	137	1%	91	1%
Banks offering traditional as well as Shari'ah-compliant products								
The National Commercial Bank (NCB)	78,844	19%	85,793	20%	2,047	18%	3,152	24%
Riyadh Bank	37,988	9%	38,165	9%	568	5%	1,200	9%
Arab National Bank	26,957	7%	25,436	6%	611	5%	499	4%
SABB	25,263	6%	24,145	6%	847	7%	741	6%
SAMBA Financial Group	19,041	5%	18,055	4%	660	6%	1,015	8%
Alawwal Bank	15,000	4%	19,092	4%	397	3%	394	3%
The Saudi Investment Bank	13,338	3%	16,400	4%	339	3%	234	2%
Banque Saudi Fransi	9,706	2%	10,877	3%	419	4%	302	2%
Total	**408,513**		**429,105**		**11,562**		**13,335**	

Source: Saudi Banks' Annual reports for 2016G

The Retail Banking Group offers Shari'ah compliant products including current accounts, Murabaha deposits, personal finance, credit cards and real estate products such as housing finance "Baity", real estate investment finance and finance solutions for collaterals. Bank Aljazira has been focusing on the development of retail banking services activity for the last 7 years, taking the following measures to increase its market share over the years:

- Since 2008G, the Bank's branch network has grown from 24 branches to 79 branches as of September 2017G.
- More attention to real estate finance products.
- Full stable functional operations through launching "Aljazira Smart" app, an online banking channel.
- Growth of ATMs from 369 in 2013G to 624 in September 2017G.
- Increase of POS terminals from 1,378 to 8,627 as of September 2017G.

As a result, since the loan-to-deposit ratio was 72% in 2008, the Bank significantly increased its loan book volume to 82% as at September 2017G. The Bank increased its current account balances by threefold in six years, as the compound annual growth rate increased by 27%. Mortgage was the main driver of retail banking growth at Bank Aljazira, as the bank's portfolio increased by 25% in 2014G.

3.3.2 Corporate Banking

Table 3.9 Corporate Banking Market Share of Saudi Banks for 2015G and 2016G

Saudi Banks	Net corporate sector loans				Net corporate income			
	2015G		2016G		2015G		2016G	
	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)
Shari'ah-Compliant Banks								
Al-Rajhi Bank	57,096	6%	65,614	7%	407	2%	768	5%
Alinma Bank	44,233	5%	56,575	6%	953	5%	900	6%
Bank Aljazira	**25,825**	**3%**	**24,257**	**3%**	**193**	**1%**	**89**	**1%**
Bank Al-Bilad	N/A	None	None	None	None	None	None	None
Banks offering traditional as well as Shari'ah-compliant products								
The National Commercial Bank (NCB)	161,638	18%	156,042	17%	3,145	17%	2,682	18%
Banque Saudi Fransi	113,528	13%	118,089	13%	2,338	12%	1,816	12%
SAMBA Financial Group	108,419	12%	105,408	12%	2,415	13%	2,109	14%
Riyadh Bank	106,097	12%	104,854	12%	3,243	17%	1,523	10%
SABB	98,599	11%	94,610	10%	2,141	11%	1,871	13%
Arab National Bank	83,358	9%	85,218	9%	1,353	7%	1,137	8%
Alawwal Bank	61,099	7%	53,282	6%	1,426	8%	733	5%
The Saudi Investment Bank	46,656	5%	43,548	5%	674	4%	723	5%
Total	**906,546**		**907,496**		**18,738**		**14,741**	

Source: Saudi Banks' Annual Reports for 2016G

*Corporate loans include other loans and advances that are not classified as individual loans.

The Group witnessed a decline of 6.1% in the corporate loan portfolio in 2016G. In this year, Bank Aljazira launched Commercial Banking Services, a division dedicated to providing a range of commercial banking services and products to small and medium enterprises. Growth of this area is attributed to launching new products by the Commercial Banking Services.

3.3.3 Treasury Segment

The table below shows the market share of Bank Aljazira in proportion to other Saudi Banks based on the Treasury Segment for the period ending on 30 September 2016G and 30 September 2017G.

Table 3.10 Bank Aljazira's Market Share in Proportion to Other Saudi Banks in Terms of Treasury for the Nine-month Period ending on September 2016G and September 2017G

Saudi Banks	Net investment				Net Income from Treasury Segment			
	September 2016G		September 2017G		2016G per million		2017G per million	
	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)	Million riyals	Segment (%)
Shari'ah-Compliant Banks								
Al-Rajhi Bank	33,753	9%	35,692	9%	1,104	12%	1,055	7%
Bank Aljazira	16,474	4%	20,401	9%	380	4%	486	3%
Alinma Bank	6,326	2%	13,293	3%	103	1%	320	2%
Bank Al-Bilad	**3,042**	**1%**	**5,872**	**1%**	**141**	**2%**	**104**	**1%**
Banks offering traditional as well as Shari'ah-compliant products								
The National Commercial Bank (NCB)	111,487	29%	116,900	28%	2,644	29%	2,824	19%
SAMBA Financial Group	53,271	14%	63,411	15%	1,169	13%	1,150	8%
Riyadh Bank	44,009	11%	46,884	11%	820	9%	975	7%
SABB	29,034	7%	25,252	6%	952	10%	882	6%
Arab National Bank	25,666	7%	25,759	6%	685	8%	819	6%
Banque Saudi Fransi	24,936	6%	26,115	6%	970	11%	1,080	7%
Alawwal Bank	20,858	5%	16,390	4%	(73)	N/A	281	2%
The Saudi Investment Bank	20,550	5%	21,840	5%	133	1%	199	1%
Total	**389,856**		**417,809**		**9,029**		**10,174**	

Source: Q3 Saudi Banks' Interim Report of 2017G

The Treasury is responsible for the management of Bank's assets and liabilities. This includes profit rate risk mitigation, as well as liquidity management, in order to ensure that the Bank remains financially secure. Other activities include managing Bank's investment portfolio and providing treasury products/solutions to clients in order to meet their business and risk requirements. As a result of the Bank seeking to provide its clients with Shari'ah-compliant solutions and promote joint sales culture within the Bank, client revenues from treasury operations has achieved a significant growth by 27.8% on an annual basis in nine months ending on September 2017G.

3.4 Key BAJ Operating Metrics Relative to Saudi Banks

3.4.1 LTD Ratio

As of September 2017G, the Bank's LTD is the second-lowest ratio among the Saudi banks and lowest ratio at all among Shari'ah-compliant Saudi banks, showing large area for future growth.

Table 3.11 total LTD of Saudi Banks as of September 2016G and 2017G

Saudi Banks	Loans and advances, net				Customer deposits				LTD Ratio	
	September 2016G		September 2017G		September 2016G		September 2017G		Sept. 2016G	Sept. 2017G
	Million Riyals	Segment (%)	Million Riyals	Segment (%)	Million Riyals	Segment (%)	Million Riyals	Segment (%)	%	%
Shari'ah-Compliant Banks										
Bank Al-Bilad	36,247	3%	41,815	3%	41,244	2%	46,402	3%	88%	90%
Alinma Bank	69,275	5%	77,812	6%	77,319	5%	87,229	5%	90%	89%
Al-Rajhi Bank	225,863	16%	233,181	17%	272,600	16%	270,102	16%	83%	86%
Bank Aljazira	**43,195**	**3%**	**40,926**	**3%**	**50,335**	**3%**	**49,676**	**3%**	**86%**	**82%**
Banks offering traditional as well as Shari'ah-compliant products										
Riyadh Bank	152,631	11%	142,068	10%	160,821	10%	156,051	9%	95%	91%
Arab National Bank	115,625	8%	115,932	8%	128,236	8%	128,547	8%	90%	90%
SABB	125,875	9%	116,686	8%	144,084	9%	155,472	9%	91%	87%
The Saudi Investment Bank	61,288	4%	61,069	4%	66,4471	4%	71,065	4%	92%	86%
Alawwal Bank	77,264	5%	68,736	5%	84,204	5%	81,101	5%	92%	85%
Banque Saudi Fransi	133,937	9%	128,948	9%	147,277	9%	155,472	9%	91%	83%
The National Commercial Bank (NCB)	259,915	18%	256,852	18%	311,2255	19%	302,593	18%	84%	85%
SAMBA Financial Group	129,803	9%	120,678	9%	173,964	10%	166,736	10%	75%	72%
Total	**1,430,918**		**1,404,702**		**1,657,757**		**1,649,539**		**88%**	**86%**

Source: Interim Report of Saudi Banks for Q3 of 2017G.

3.4.2 Operating Income and Profitability

Table 3.12 Bank Aljazira Operating Income, Net Income and Return on Equity in the Nine Months ending in September 2017G

Saudi Banks	Operating income		Net income		Return on equity (annual)
	Million riyals	Segment (%)	Million riyals	Segment (%)	%
Shari'ah-Compliant Banks					
Bank Al-Bilad	2,175	3%	716	2%	17.9%
Al-Rajhi Bank	11,706	18%	6,668	19%	16.9%
Bank Aljazira	**1,973**	**3%**	**664**	**2%**	**10.6%**
Alinma Bank	3,074	5%	1,451	4%	9.9%

Saudi Banks	Operating income		Net income		Return on equity (annual)
	Million riyals	Segment (%)	Million riyals	Segment (%)	%
Banks offering traditional as well as Shari'ah-compliant products					
The National Commercial Bank (NCB)	13,830	21%	7,246	21%	18.0%
Arab National Bank	4,793	7%	2,393	7%	14.8%
Banque Saudi Fransi	4,957	8%	3,109	9%	13.5%
SABB	5,389	8%	3,248	9%	13.5%
SAMBA Financial Group	5,989	9%	7,246	21%	18.0%
The Saudi Investment Bank	1,982	3%	1,059	3%	10.8%
Riyadh Bank	6,0687	9%	3,808	11%	11.8%
Alawwal Bank	2,787	4%	1,009	3%	10.4%
Total	**80,150**		**43,762**		

Source: Interim Report of Saudi Banks for Q3 of 2017G

3.5 Banking Regulation and Supervision in KSA

The banking sector is regulated, monitored and controlled by SAMA, which exercises its powers under a number of laws, including the Banking Control Law, the Saudi Arabian Monetary Agency Law and the Saudi Currency Law. In addition, SAMA supervises the finance sector under the Finance Companies Control Law, the Real Estate Finance Law and the Finance Leasing Law.

The banking sector is subject to a high degree of regulation and oversight. SAMA regulates the financial sector through issuing the necessary regulations to implement the above-mentioned laws, as well as circulars and guidelines provided to the banks from time to time. Thus, SAMA considers relevant international standards and guidelines, particularly those associated with Basel Conventions.

SAMA regulates bank activities in all its aspects, including financial adequacy standards, consumer protection, anti-money laundering and terrorist financing, liquidity and risk-management requirements, and procedures of financial reports' preparation and revision.

4. Background about the Bank and the Nature of its Business

4.1 Overview

The Bank is incorporated as a joint stock company in the Kingdom of Saudi Arabia and was established pursuant to Royal Decree No. 46/M of 12/06/1395H (corresponding to 21/06/1975G), and registered in commercial registration No. 4030010523 issued on 29/07/1396H (corresponding to (27/7/1976G). It is headquartered in Al Nahda neighborhood, at the intersection of King Abdulaziz Road and Hera'a Street in Jeddah. The Bank commenced its business in Shawwal 1396H (corresponding to October 1976G) after it acquired the branches of the National Bank of Pakistan in the Kingdom.

The objective of the Bank is to provide a full range of Shari'ah-compliant banking products by through three main operational divisions, namely:

1- Individual banking services, including credit and investment deposits and products for individuals, transfers, real estate finance, personal finance and issuance of credit cards (for more details, see Section 4.6.2 "Individuals banking services").
2- Corporate banking services, including financing, credit deposits and products for large, medium and small companies and institutions (for more details, see Section 3.6.4 "Companies and financial institutions banking services").
3- Treasury, including providing money market products, commodities and fixed income products for the Bank's corporate customers (for more details, see Section 4.6.4 "Treasury").

To view the Bank's organizational structure, see Figure 1.5 "The Bank's organizational structure" in Section 5 "Management and Governance of the Bank".

The Bank also provides investment services (including intermediation services for shares trading, assets management and investment funds) through Aljazira Capital (a subsidiary wholly-owned by the Bank), as well as insurance products and services provided by Aljazira Takaful Taawuni (Bank Associate, wherein the Bank ownership is 35% of its capital).

The Bank has undergone a number of capital increases beginning in 1976G until 2017G. The capital was SAR 10,000,000 (ten million) and reached SAR 5,200,000,000 (five billion and two hundred millions) in 2017G (for more details about changes to the Bank's capital, see Section 2.3.4 "Historic changes in Capital") In 1992G, the Bank began a restructuring process and appointed a new management team in 1993G. It also introduced state of the art technology and modern banking products and services.

In 1998G, the Bank's Board of Directors took a strategic decision to convert the Bank's principal operations from conventional banking into Shari'ah-compliant banking. To ensure compliance with the principles of Shari'ah, the Bank established a Shari'ah department and formed a Shari'ah Board composed of a number of scholars specializing in Islamic banking to screen and monitor the Bank's operations with the aim of being confined to the principles of Shari'ah in banking services. The Bank succeeded in its implementation of Shari'ah rules and principles throughout its branches in 2002G. In 2007G, it had converted all business and services into one company compliant with the principles of Shari'ah. As a result, the Bank has become an Islamic banking institution.

As of the date of this Prospectus, the Bank's Shari'ah Board (SB) consists of: Sheikh Abdullah Bin Sulaiman Al-Manea, Chairman; Dr. Abdullah Bin Mohammed Al-Mutlaq, Vice-Chairman; Dr. Fahad bin Ali al-Olayan, SB Acting Rapporteur; and Dr. Mohammed Ali Al-Qari and Dr. Abdulsattar Abu-Ghoddah.

The Bank is regarded within the Saudi banking community as one of the fast-growing Shari'ah compliant financial institutions in the Kingdom that provides individuals, businesses and institutions with innovative Shari'ah-compliant financial services.

The Bank's recent notable achievements with respect to business development include the continued expansion of its branch network and individual customer base. The most significant achievements include the expansion of the Bank's branch network from fifty (50) branches as of the end of 2010G to seventy-nine (79) branches, nineteen (19) of which offer sections for women, as of the date of this Prospectus. This expansion has enabled the Bank to expand its business to new areas throughout the Kingdom, and to enhance the Bank's delivery channels, including the Bank's online banking and telephone banking services.

With respect to its human resources, the Bank has made significant investments in recent years in order to ensure that its potential grows in line with the development of its product and services, channels of distribution and infrastructure. The Bank has maintained an efficient working environment with long-term recruitment programs, which has resulted in increasing the Bank's Saudisation level from 33% in 1994G to 91.58% as of the date of this Prospectus. The Bank is ranked by the Ministry of Labor at the Platinum level, and it also continues to encourage Saudisation across all levels. This is achieved through the introduction of intensive development and training programs for local staff.

The table below sets out a summary of the most notable achievements and phases through which the Bank has passed, including the Awards received:

Table 4.1 Most Significant Achievements and Awards

Most notable Achievements and Awards	Year
Conversion of the Bank's principal operations services into Shari'ah-compliant banking services	1998G
Implementation of Shari'ah rules and principles throughout all branches	2002G
Euromoney Award for Best Takaful Operator	2006G and 2008G
Conversion of the Bank into an Islamic banking institution through the conversion of all of the Bank's products and services into ones compliant with the principles and rules of Shari'ah	2007G
Policy Middle East Insurex Award for Life Insurer of the Year	2007G, 2008G and 2009G
The first Islamic bank in the Kingdom to achieve ISO 9001 certification for its trade operations and automated teller machines (ATM)	2009G
Best Takaful Company at the International Takaful Summit in London	2010G
Best Islamic Bank in the Kingdom from the World Finance Magazine	2013G
Best Mobile Banking Award in MENA from (The European Magazine)	2013G
Top 100 Saudi Brands Award	2014G
The Banker Middle East Award - Best Real Estate Financing	2014G
Best Donor Organization Award "Maneh"	2015G
Best Private Bank 2015 from "Global Banking and Finance Review 2015G"	2015G
Okaz Award for Professional Excellence (Itqan)	2015G
Top 100 Saudi Brands Award	2015G
Best Remittance Middle East (Fawri) from CPI Financial Group, an entity specialized in financial and economic affairs	2015G
Critics Choice Best Islamic Retail Bank form Cambridge Analytica, an entity specialized in Islamic financial investments in the UK	2015G
Contact Center Award for Best Mid-Sized In-house Contact Center and Best Customer Service	2015G
Best Private Bank in Saudi Arabia – 2016G Awarded to Bank Aljazira Global Banking and Finance Review	2016G
Best Regional Private Bank to Watch – 2016G Awarded to Bank Aljazira by Private Banker International	2016G
Best Donor Organization Award "Maneh"	2016G
TOP 100 CEOs in GCC Award	2016G
The Data Quality Award granted by the Saudi Credit Bureau (SIMAH)	2016G
The bank's branches increased to 79 branches, 19 of which have sections for women	2017G
Fawri centers for remittance services increased to 48 centers	2017G
ATMs increased to 624 machines throughout the Kingdom.	2017G

Source: The Bank

4.2 Bank's Vision and Mission

The Bank seeks to become the leading choice Bank for Shari'ah-compliant banking solutions to its clients in Retail and corporate banking. The Bank's mission aims to assist its clients in increasing their wealth and developing their businesses by providing them with unique services, banking products and solutions

4.3 Capital and Ownership Structure

4.3.1 Capital

The Bank's authorized and fully paid capital is SAR 5,200,000,000 (five billion and two hundred million) divided into 520,000,000 (five hundred and twenty million) fully paid ordinary shares with a nominal value of SAR 10 (ten) per share. On 23/03/1436H (corresponding to 14/01/2015G), the Bank Board recommended to increase the Bank's capital through offering Rights Shares in an amount of SAR (3,000,000,000) three billion Saudi Riyals, provided that it shall obtain all required regulatory approvals and the Extraordinary General Assembly approval. This Prospectus is published for the purposes of a proposed capital increase as per the related regulatory requirements.

4.3.2 Historical Changes in Capital

The following table sets out the changes in the Bank's capital since its establishment:

Table 4.2 Capital Changes

Date	Change
10/11/1396H (corresponding to 02/11/1976G)	The capital was increased from SAR 10,000,000 (ten million) to SAR 50,000,000 (fifty million) through the issuance of new cash shares.
06/04/1398H (corresponding to 15/03/1978G)	The capital was increased from SAR 50,000,000 (fifty million) to SAR 100,000,000 (one hundred million) through the issuance of new cash shares.
29/01/1413H (corresponding to 29/07/1992G)	The capital was increased from SAR 100,000,000 (six hundred million) to SAR 400,000,000 (seven hundred and fifty million) through the issuance of new cash shares.
06/05/1415H (corresponding to 11/10/1994G)	The capital was increased from SAR 400,000,000 (six hundred million) to SAR 600,000,000 (seven hundred and fifty million) through the issuance of new cash shares.
16/11/1418H (corresponding to 14/03/1998G)	The nominal per-share value was split from SAR 100 (one hundred) to SAR 50 (fifty).
19/08/1425H (corresponding to 03/10/2004G)	The capital was increased from SAR 600,000,000 (six hundred million) to SAR 750,000,000 (seven hundred and fifty million) through the issuance of new cash shares.
27/02/1427H (corresponding to 27/03/2006G)	The nominal per-share value was split from SAR 50 (fifty) to SAR 10 (ten) under Council of Ministers Resolution No. (41) dated 27/02/1427H (corresponding to 27/03/2006G).
24/05/1427H (corresponding to 20/06/2006G)	The capital was increased from SAR 750,000,000 (three billion) to SAR 1.125.000.000 (four billion) through capitalizing retained and reserve earnings.
13/04/1428H (corresponding to 30/04/2007G)	The capital was increased from SAR 1.125.000.000 (three billion) to SAR 2.250.000.000 (four billion) through capitalizing retained and reserve earnings.
10/04/1429H (corresponding to 16/04/2008G)	The capital was increased from SAR 2.250.000.000 (three billion) to SAR 3.000.000.000 (four billion) through capitalizing retained and reserve earnings.
21/07/1435H (corresponding to 20/05/2014G)	The capital was increased from SAR 3,000,000,000 (three billion) to SAR 4.000.000.000 (four billion) through capitalizing retained and reserve earnings.
13/07/1438H (corresponding to 10/04/2017G)	The capital was increased from SAR 4,000,000,000 (four billion) to SAR 5,200,000,000 (five billion and two hundred million) through capitalizing retained and reserve earnings.

It should be noted that none of the Bank's subsidiaries has made any change in its capital since incorporation.

4.3.3 Major Shareholder Groups

The table below sets out the Bank's major Shareholder groups and their approximate shareholdings as of the date of this Prospectus:

Table 4.3 Key Groups of Shareholders

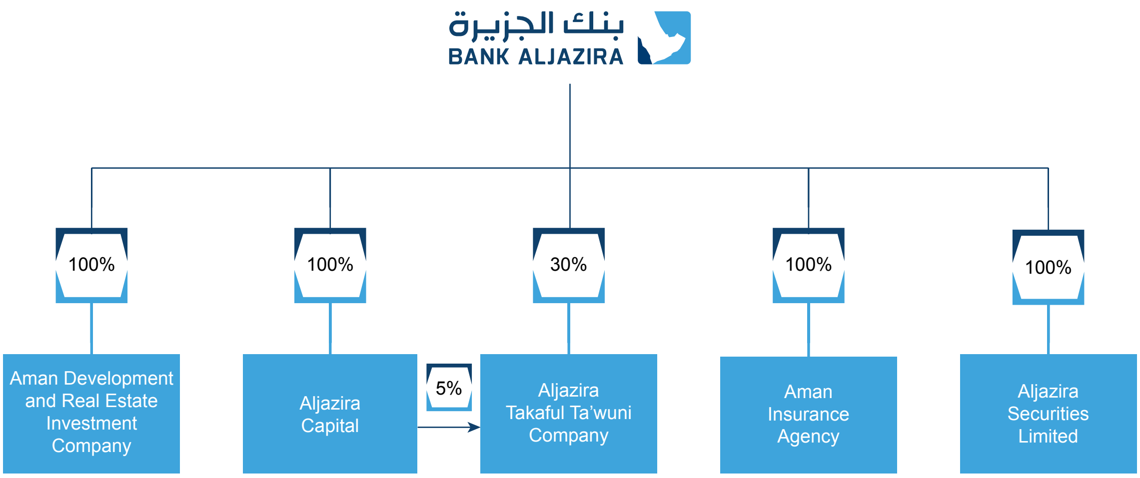
Shareholder	Number of shares held	Holding (%)
Etihad Brothers Develop. Co.	34,288,480	6.59%
National Bank of Pakistan	30,333,332	5.83%
Saleh Abdullah Mohammed Kamil	26,000,000	5.00%
The Public*	429,378,188	82.58%
Total	**520,000,000**	**100%**

*None of these shareholders individually owns 5% or more of the Bank's shares.

4.3.4 Organizational Structure of the Group

The following chart sets out the Group's organizational structure:

Figure 4.1 Aljazira Group



The table below sets out the Bank's Subsidiaries and Associates:

Table 4.4 Subsidiaries and Affiliates

The Company	About the Company	Ownership (direct and indirect)
Aljazira Capital	Aljazira Capital was incorporated in 2008G as a Saudi closed joint stock company licensed by the Capital Market Authority (CMA) to engage in the securities business. It provides intermediation and investment services in compliance with the principles of Shari'ah (for more details, see Section 1.18.6.4 "Aljazira Capital Company")	100%
Aman Development and Real Estate Investment Company	A limited liability Company incorporated in Kingdom of Saudi Arabia that commenced its business in 2007G as a custodian of real estate pledged to the Bank as collateral against credit facilities and real estate finance (for more details, see Section 2.18.6.4 "Aman Development and Real Estate Investment Company")	100%
Aljazira Takaful Ta'wuni Company	A Joint Stock Company listed on the Saudi Stock Exchange incorporated on 27/4/1431H (corresponding to 4/12/2010G). It provides insurance services to individuals and companies (for more details, see Section 3.18.6.4 "Aljazira Takaful Taawuni Company")	35% (Directly 30% and 5% through Aljazira Capital Company)

The Company	About the Company	Ownership (direct and indirect)
Aman Insurance	A limited liability One Person Co. and subsidiary of the Bank incorporated in the Kingdom of Saudi Arabia on 14/8/1438H (corresponding to 10/5/2017G), and it is intended to practice insurance businesses by virtue of SAMA's approval No. 381000004468 dated 11/1/1438H (For more details, see Section 4.18.6.4 "Aman Insurance")	100%
Aljazira Capital	Aljazira Capital is established by virtue of Cayman Islands Regulations on 24/4/2017G. The Company's main purpose is to support the Treasury's activities in the Bank through the implementation of derivative transactions and repurchase agreements with international banks. (For more details, see Section 4.6.18.5 "Aljazira Capital")	100%

4.3.5 Sukuks

On 26/08/1437H (corresponding to 02/06/2016G), the Bank has made a special issuance and offering of secondary Sukuks in SAR with a total nominal value of SAR 2 billion Saudi riyals (SAR 2,000,000,000) with a 10-year maturity period. The Bank has the right to recover these Sukuks after five years. It should be noted that the issuance of these Sukuks is aimed at strengthening the Bank's capital base as well as supporting the Bank's legal capital.

4.4 Bank's Competitive Advantages and Strengths

The Bank competes in the Kingdom with local and foreign banks operating in the Kingdom, particularly with banks providing Shari'ah-compliant products and services. According to SAMA's website, there are 26 banks and financial institutions providing banking services in the Kingdom as of the date of this Prospectus. Therefore, the Bank competes with several banks and financial institutions (directly and indirectly) to obtain customers (whether individuals, private sector companies or public sector authorities) for matters related to selling products, spreading geographically and providing banking services in general. Accordingly, the Bank will be affected if it cannot keep pace with its competitors in the prices and quality of its products and services, which may have an adverse effect on the Bank's financial performance (see Section 2 "Risk Factors").

The Bank's strengths include the following:

4.4.1 Bank's Commercial Name

The Bank's brand is spread across the Kingdom. It also has the advantage of being associated with the Bank's approximately 40-year history, which makes it a symbol of the good quality of services provided by the Bank.

4.4.2 Commercial Banking Service

The Bank has a dedicated unit for commercial banking services that provides convenient and low-cost services to the Bank's customers and helps to strengthen relations between the Bank and corporations and SMEs. The Bank was among the first KSA banks to develop an independent commercial banking services unit dedicated to serve corporations and SMEs. The Bank developed this unit to become one of the most successful commercial units within the corporate banking group (for more details, see Section 4.6.3.1.a "Unit of Commercial Banking"). The Bank believes that this unit gives it a leading position in the Islamic finance sector in the Kingdom.

4.4.3 Culture of Risk Management

The Bank adopts a constantly-evolving policy for risk management, where it has been investing consistently to improve risk management procedures. In addition, it performs risk management functions through a number of support units and Board Committees (see section 5.7 "Board Committees"). The Bank also approved a conservative policy to determine allocations, resulting in total allocation ratio decreasing to 156.3% of non-performing loans as of the financial year ending on 31 December 2016G compared to 173.0% and 172.6% for the two financial years ending on 31 December 2015G and 2014G respectively. The Bank has limited exposure to the risks of currency fluctuation, special investment instruments and collateralized debt obligations (CDOs) (for more details on these risks, see Section 2 "Risk Factors")

4.4.4 Seasoned Administrative Team

The administrative team brings together a high-level experience in the sector and significant knowledge of the KSA market (see also Section 5 "Management and Governance of the Bank"). To transfer the bank to a Shari'ah-compliant bank, the Bank's administrative team has gathered considerable understanding and know-how related to operational issues required for an Islamic bank. The Bank believes that this experience will put its administrative team in a strong position to face potential challenges.

4.4.5 Comprehensive Training and Development of the Work Team

The Bank provides regular training services to its staff at all levels through a dedicated training department inside the human resources group at the Bank. New staff is required to attend a training program that provides them with a comprehensive introduction to the Bank's products and services. The Bank, through innovative programs, aims to develop the careers of employees and increase the staff's knowledge of all of its banking services. The Bank believes that training and development programs have contributed to development of the skills of its staff. This is evidenced through how they serve customers and perform their duties. As a result, the Bank is seen as a leading bank in the Islamic banking sector. In September 2017G the Bank provided more than 272 training courses to its employees, representing approximately 2.5 training days per employee.

4.4.6 Islamic Banking

The Bank (and its subsidiaries and associates) is fully committed to the provisions of Islamic Shari'ah. It provides its different customers with a wide range and variety of Shari'ah-compliant financial products. The Bank's most important products are based on Murabaha, Musharaka, Tawarruq, and Ijarah. The Bank works constantly to simplify its products and services to meet the changing requirements of the market. Such products and services are tailored according to the specific needs of each customer. The Bank demonstrates a strong commitment to developing new products to expand the offerings to its customers. The Bank allocated many financial and human resources to develop innovative and sophisticated financing solutions in a manner compliant with the provisions of Islamic Shari'ah. The Bank's products include credit cards, housing finance products, trade finance products, cash management products services and savings and deposit products.

The Bank believes that the Aljazira Group has a leading position in the Islamic financial sector in providing outstanding products and services. It also believes that Aljazira Group has successfully established a strong customer base, as well as a solid reputation in the market, which will contribute to enabling the Group to attract more customers and increasing its market share in the future.

To ensure that all transactions and services are provided in a manner compliant with the provisions of Islamic Shari'ah, the Bank has established the Shari'ah Group to raise awareness about the principles of Shari'ah at the bank level, conduct research and studies on the latest developments in the sector, coordinate the approval of products and services by the Shari'ah Board, and to monitor and observe the Bank's implementation of the decisions of the Shari'ah Board to ensure the Bank's compliance with the same (For more details, see Section 4.6.17 "Shari'ah Group")

4.4.7 Housing Finance

The Bank provides its customers with innovative solutions for real estate finance. The Bank aims to provide flexible and innovative products designed to meet the funding needs of each customer, which are often accompanied by promotional offers, such as inclusion of home furnishings, as part of a comprehensive package provided to the customer. The Bank benefits from its strong relationships with real estate developers and agents in order to promote housing finance products for new potential customers. In addition, innovative products and distribution channels developed by the Bank in this sector give the Bank competitive advantages over other banks and financial institutions, which recently began providing similar products, and put the Bank in a leading position to take advantage of potential strong growth opportunities in the future of real estate finance sector within the Kingdom for both businesses and individuals (for more details, see Section 4.6.2.3.C "Real Estate Products").

4.4.8 Innovation in Technology

The Bank strongly depends on technical and digital systems for the purposes of monitoring financial performance and collecting information enabling it to manage business in an effective and low cost way and provide customers with fast, efficient and safe services. Aljazira Capital was one of the first financial services institutions in the Kingdom to establish an online trading platform on the Internet (Tadawulcom) for the purpose of providing brokerage services to its customers, which it expanded in 2010 to become a global trading platform enabling customers to trade in a number of regional and international stock markets.

In 2011, the Bank began to provide banking services on the Internet (Aljazira ONLINE), enabling the provision of a number of innovative products and services on the Internet, as well as continuous diversification of its distribution channels. The Bank was one of the first Islamic banks in the Kingdom to allow payment of utility bills and credit cards through electronic channels, such as ATMs. The Bank seeks to promote and market its technical capabilities and banking services on the Internet for both existing and new customers.

On Muharram 1432H, (corresponding to January 2011G) the bank launched "Aljazira Cash Online", a cash management tool intended for corporate customers. It aims to increase efficiency and reduce the risks associated with depositing or withdrawing large amounts of cash.

In 2013, the Bank underwent major investments to upgrade its basic banking services practice and update ATM technology in order to support the expansion of retail banking. In 2014, the Bank made significant investments in improving credit card users' experience, including issuing MasterCard and Visa cards. In addition, the Bank has established an electronic payment service, which enables online purchases using current accounts in cooperation with the Saudi Arabian Monetary Authority. The Bank was one of the first banks selected to activate this service.

As part of the Bank's commitment to improving the experience of its customers, it launched the second phase of its online banking services channel in 2013G, including the "Aljazira Smart" app, which is available on Android, iOS and Microsoft mobile platforms. Through the Aljazira Smart app, customers can access their bank accounts and conduct banking activities remotely on their smartphones. Aljazira Smart was the first banking app to be launched on Microsoft mobile platform in the Kingdom.

The Bank believes that its focus on technical innovation and promoting products and services through electronic distribution channels and remotely operated systems will enable it to provide customers with excellent and high quality services, which will allow the Bank to continue responding to customer needs and being flexible while facing competitive and dynamic factors in the environment in which it conducts business. This flexibility has positioned it to increase its market share of key products in the near future. The Bank's technical innovations allow it to more efficiently manage and control costs.

4.4.9 Social Responsibility

The Bank is an institution with tightly-knit community relations in the Kingdom. The Bank's philosophy is based on building strong ties with the local community. The Bank intends to continue to promote positive community development in the Kingdom. In the Bank's view, maintaining its leading position as a Shari'ah-compliant bank is an essential requirement. Under this philosophy, the Bank launched "Khair Aljazira Le Ahl Aljazira", program on Jumada Al-Awwal1427H (corresponding to June 2006G). The Bank dedicated SAR100 million (one hundred million) to provide private charity and community programs in the Kingdom based on the teachings of Islam. Since 2006, the Bank has continued to implement a range of activities aimed at supporting and helping the community, such as providing financial assistance to various charitable organizations, launching vocational training programs for Saudi youth, sponsoring training programs for people with disabilities and visually and speech impaired people, and developing programs aimed at promoting family welfare and cultural awareness.

During the first six months of 2017G, the number of beneficiaries of the various activities and programs launched as part of "Khair Aljazira Le Ahl Aljazira" program in various cities and provinces in KSA reached 3,887 young people (three thousand, eight hundred and eighty seven), while the total amount spent on the program was SAR 15,618,790 million (fifteen million, six hundred and eighteen thousand, seven hundred and ninety Saudi riyals).

4.5 Strategy

The Bank's strategic objective is to become a leading provider of innovative and Shari'ah-compliant financial products, excellent services and great value for its clients, Shareholders, employees and society. The Bank aims to be the bank of choice for investors, clients and employees and to outperform its competitors in the market in terms of new ideas, innovation and knowledge of products and services.

The Bank believes that the continuity of KSA's economy growth and the expansion of the banking sector will boost demand for Shari'ah-compliant financing from both the public and private sectors. Accordingly, the Bank's main objectives include serious contributions to this continuous growth through a range of innovative products and services.

By focusing the Bank's strategy on individual and corporate segments and committing to improve internal efficiencies, the Bank aims to achieve greater return on equity for its shareholders.

The broadest strategic objectives of the Group are illustrated below:

4.5.1 Growth Strategy

The Bank has identified the retail banking segment as a key contributor to future growth. The Bank's retail banking objective is to achieve maximum profit growth by growing its market share amongst the key target segments while addressing the needs of all segments: from low to middle and high income segments, priority banking, home finance, and credit cards.

To achieve this, it aims to be a full-service bank for its target segments by continuing to offer a wide range of Shari'ah-compliant products and services supported by high quality sales, and a service infrastructure built around and on a well-qualified, trained and motivated workforce. The Bank also aims to ensure effective cost control to be competitive with other banks in the Shari'ah-compliant banking market. This will be achieved by using state of the art technology (including automated management systems) and effective risk management.

In corporate banking, the Bank aims to optimize its investment opportunities, provide customer-oriented and innovative Shari'ah products, and strike an optimal balance between profit-based and fee-based income with the ultimate goal of improving its profitability and asset base. The Bank's objective is to diversify its portfolio amongst various industries while continuing to emphasize the delivery of high quality service supported by effective relationship management and competitive pricing policy. In particular, the Bank aims to diversify its customer base by reducing the focus level on the biggest corporates in the loans portfolio, while it will focus on the mid-size corporate segment and entrench its competitive advantage in this area by providing high quality products and services to this market. Dealing with SMEs may theoretically expose the Bank to higher risks in comparison to the risks associated when dealing with major enterprises. However, dealing with SMEs is more profitable for the group. Lending policies are backed by a reservation rate that enables the Bank to expand lending and cope with economic growth in an acceptable risk framework allowing the Bank to identify companies with an acceptable credit risk level. The bank also believes that work relations it develops with such customers enable it to achieve successful control of possible delinquency and credit deterioration.

The Bank aims to expand its capability and customer base in corporate banking sector, particularly amongst financial institutions and the public sector, and in transaction banking. The Bank believes it can achieve this by utilizing relationships developed in other areas of the Bank, evaluating the profitability of existing customer relationships within its corporate banking business and cross-selling products and services throughout the Group. It also provides competitive products and quality services to customers and strengthens relationships with correspondent banks. The Bank will continue to develop its ties with other banks across the African and Asian continents in order to enhance its capabilities, particularly on project finance initiatives, and to pair up with supranational institutions (such as the Islamic Development Bank) in order to benefit from their activities in the Kingdom and abroad.

In the treasury segment, the Bank intends to focus on expanding the range of products (including structured products) and its customer base by leveraging the Bank's existing corporate banking relationships and unifying its commercial services, including targeting the high net worth individuals who form part of that customer base apart from financing the Bank's liquidity position and diversifying its investment base, in compliance with the investment policy and within a reserved risk.

In relation to its brokerage services, Aljazira Capital (fully owned by the Bank) aims to continue to provide customers with the highest standards of brokerage services. Aljazira Capital's strategic priorities include: Diversifying its revenue sources further by developing its asset management capability, which Aljazira Capital considers to have significant potential for future growth in the Kingdom, and to collaborate with the Bank with regards to margin-lending activities. Aljazira Capital also intends to continue to invest in its investment banking services business in order to increase its revenue from fee-based activities, including offering corporate finance and advisory services to capital markets transactions within the Kingdom.

In relation to its insurance activities, Aljazira Takaful Taawuni Company (Bank Associate) aims to continue providing customers with a range of insurance services (for more information, see Section 4.6.18.3 "Aljazira Takaful Taawuni Company").

4.5.2 Diversify Customer Base

The Bank intends to improve its funding base by increasing its share of the domestic deposits market through its retail branch network, its Corporate Regional Offices and its customer-focused products. In line with this approach, the Bank has increased its branches in the Kingdom to 79 branches, 19 of which have sections for women, as of the date of this Prospectus. In addition, the Bank intends to diversify its corporate exposure by lending to a greater and more diverse number of corporate customers within the mid-corporate segment. The Bank also plans to grow its distribution network by continuing to invest in new ATMs and alternative distribution channels, such as its online and telephone banking services. The Bank expects that wider branch and ATM networks will provide the platform for the launch of new products and services, and will enable the Bank to service its increasing customer base efficiently.

4.5.3 Service Quality

The Bank seeks to differentiate itself from its competitors through its focus on providing timely, efficient, personable and high quality services that meet customers' needs at any given time. The Bank regularly reviews all points of contact with its customers to make improvements across all levels of service provided to customers. The Bank will continue to position itself as a premier Shari'ah-compliant financial services provider for both businesses and individuals in the Saudi market.

4.5.4 Investing in People and Technology

The Bank is making significant investments in identifying and developing future talent (through training) to ensure that the Bank has high-quality managerial, business and support staff, which will enable it to increase and develop expertise and service delivery standards in the near and longer-term future. The Bank has introduced initiatives aimed at achieving high levels of employee engagement and motivation and providing its staff with the best possible working environment. Similarly, the Bank aims to continue its significant investments in its technology and automated systems, which will enable it to steadily improve its internal management and financial monitoring processes and provide a prompt and efficient service to customers.

4.6 Bank Business Activities

4.6.1 Overview

The Bank's objective is to provide a full range of Shari'ah-compliant banking services. The Bank's operations are conducted through its multiple branches and main headquarters in Jeddah, as well as and two regional departments in Riyadh and Al Khobar.

The Bank's business activities are included under the following business segments:

- **Retail Banking:** This segment provides deposit facilities and current accounts (including through providing e-banking services), personal loans and overdrafts (through the "Dinar Personal Finance Program"), credit cards, mortgage products, funds transfer and utilities payment.

  The segment also offers private services to the highest tier segment of high net worth relationships. The Bank aims to be the private bank of choice for Saudi high net worth individuals and family offices by delivering a market-leading wealth management, credit facilities and private account services.

- **Corporate Banking:** This segment provides a range of corporate banking services, including loans and other credit facilities (through providing syndication finance) and deposit and current accounts, as well as cash management services. The Corporate Banking segment's business is conducted through five business units: Commercial Banking Services; Global Transaction Services; Specialized Finance Division; Financial Institutions Unit; and Public Sector Unit.
- **Treasury:** The Treasury manages the Bank's liquidity and funding requirements and provides a range of financial services and products, hedging products, and other treasury products and services to the Bank's customers. The Treasury is also responsible for managing the Bank's investment portfolio.

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

The Bank's core activities are supported by a number of other support divisions including the Shari'ah group, Risk Management group, Internal Audit group and Support group. Unless otherwise stated in this section, the Bank has no intention to make any critical change to the nature of its activities. There are also no critical new activities or products to be provided or practiced by the Bank. The Bank has no policies in regards to research and development of new products and specific production methods.

4.6.2 Retail Banking

4.6.2.1 Principal Features

The Bank's retail banking segment focuses on offering customer deposit facilities in the form of various accounts, as well as other retail products and services, including personal loans and overdrafts. The Bank aims to provide an efficient service, supported by robust technological systems, flexibility and swift provision of the product. The Bank applies a multitude of eligibility criteria with respect to the products it offers to retail customers. Some of the factors which the Bank considers include: the creditworthiness of the individual involved, whether his/her salary is directly deposited to an account at the Bank, his/her position, how long he/she has been with the Bank, and the age and average monthly income of the individual. The Bank provides its wide range of products and services to these customers through the branch network, ATMs, smart cards, telephone banking and internet banking.

The Bank's retail banking business has grown significantly and remains a focal point of the Bank's future strategy with respect to revenue generation and net income growth. With respect to of acquiring existing retail loans by other banks, the Bank Aljazira market share amounted to 4.0% of net retail loans provided by banks as of the end of December 2016G.

While continuing to build market share in personal finance, retail banking has diversified into new streams of revenue, with a strong focus on mortgage products and credit cards. This has enabled the Bank to increase its customer base to include Riyadh, Jeddah, Dammam, Taif, Jizan, and Abha. The branch network consists of small, cost efficient "points of sale" terminals, which are used as a "base" from which the Bank's retail sales agents are able to approach prospective customers and market new products to existing customers. As such, the costs associated with the Bank's expansion are effectively managed.

The Bank also has 19 branches that offer banking services exclusively to women. The women's segment employs a distinct sales approach that seeks to market tailored products and lifestyle offers to its customers.

The Bank has developed the concept of priority banking, which is an integral part of the Bank's services to its high net worth customers. The Bank offers such customers overall wealth management and investment advice and preferential access to savings and structured investment products with higher earning potential, various electronic banking channels and relationship reward points, discounted transactional banking services and discounts on international transfers and investment products subscription fees.

The total bank assets in the retail banking sector are SAR (20.0) billion (29.7% of total bank assets) as of the end of third quarter of 2017G, as compared to SAR (20.2) billion (30.4% of the total bank assets) as of the end of 2016G, SAR (19.6) billion (31.0% of the total bank assets) as of the end of 2015G, and SAR (18.9) billion (28.5% of the total bank assets) as of the end of 2014G. The retail banking sector represented 42.9% of the Group's total operating income for the third quarter of 2017G, as compared to 38.3%, 30.6% and 33.2% for the financial years ending on 31 December 2016G, 2015G and 2014G respectively.

The Bank's Retail Banking sector benefits from corporate banking customers' longstanding relationship. As a consequence, many of the Bank's retail banking customers are employees of the Bank's corporate customers. However, by the end of September 2017G, approximately 64.4% of retail loan customers (by number) were government employees, in particular Ministry of Health and Ministry of Education employees, with their salaries being paid through the Bank.

All retail products offered by the Bank are Shari'ah compliant products and are carried out in full compliance with the SAB's pronouncements.

4.6.2.2 Private Banking Services

Retail Banking Sector offers a range of private services to the Bank's high net worth customers, such as deposits and credit facility services for major customers, in addition to other services focusing on their wealth management. The total deposits and current accounts of banking customers are SAR 13.026 billion as of the end of September 2017G. Aljazira Group offers a wide selection of local and international investment products available through Aljazira Capital. For Bank centers designated to offer this kind of services, the Bank redesigned its center in Jeddah in terms of public administration to fit with the new identity of the Bank. There is also an additional center established in the city of Khobar inside the regional administration building with state-of-the-art equipment enhancing its special identity. Such centers provide banking services and operations to major customers through qualified Saudi cadres in each center of the Private Banking Sector. Those cadres have vast experience in banking, and most of them hold an international certificate in wealth management. This allows them to manage wealth according to the highest international standards.

4.6.2.3 Products and Services

The principal products and services offered by the Bank to its retail customers include:

A. Personal Finance

The Bank offers personal finance services to its customers in order to satisfy a wide range of their financing requirements. The personal finance program is administered by the Bank's fully Shari'ah-compliant Dinar Personal Finance Program, which is based on Murabaha or Tawarruq structuring. The Bank seeks to offer competitive pricing and applies a number of eligibility criteria to applicants (including credit history, employment and age). The Bank accepts personal loans transfers by prospective customers from other banks and seeks to assist customers in meeting their refinancing needs in this respect. The Bank also offers ancillary products in connection with personal financing products, such as life insurance (through Aljazira Takaful Taawuni) to cover the finance amount in case of death.

B. Deposit Products

An important part of the Bank's retail offering is its deposit products. The Bank offers a wide range of deposit products in local and foreign currencies, including savings accounts, current accounts and corporate salary accounts. Generally, deposit accounts include term deposit accounts and call accounts, which are offered with various maturities and yields to suit the customer's savings or investment requirements, and in return customers may take loans and/or overdrafts.

The Bank divides its deposit accounts into separate categories, each offers customers various features, and each has its own eligibility criteria. Such categories include the "Diamond" account program and the current account program. Features that might be provided under these programs include: Total or partial waivers of banking product and service fees, complimentary provision of meeting rooms, special offers for real estate finance, insurance services; credit cards, fund transfer services, short messages alert services that notify customers of their latest banking transactions, and Naqa' deposits (a long-term deposit and a safe developmental financial instrument that maintains capital with competitive profits as compared to other similar instruments in capital markets). Naqa' deposit is the appropriate Islamic alternative to long-term traditional deposits, as it is based on the sale of commodities by Murabaha to make profits instead of returns paid on deposits.

C. Real Estate Finance Products

The Bank provides its customer base with innovative solutions for home financing via leading real estate financing programs.

The Bank strives to provide flexible and innovative products designed to meet the financing needs of each customer. These products are often accompanied by promotional offers, such as inclusion of home furnishing, as part of a comprehensive package provided to the customer. In order to promote the real estate finance products, the Bank seeks to utilize its distribution channels and market relationships with real estate developers and dealers.

The Bank provides a number of real estate products under the umbrella of house financing, which enables customers to purchase residential properties (such as villas, housing units or lands) under lease-to-own agreements. These products target employees across all sectors, as well as artisans, with a financing ceiling up to SAR 5 million. They include options of early settlement and Takaful (life insurance) that exempts the debtor from payment in case of death or total disability, God forbid, as well as insurance of property and damage throughout the financing period.

D. Credit Cards and ATMs

The Bank provides a wide range of credit cards tailored according to customer needs and repayment capacity.

The Bank provides the Visa Muyassara card to meet the growing demand for Shari'ah-compliant solutions in the consumer credit sector. This product comes in three forms: Classic, Gold and Platinum Visa cards. Each of these cards has a set of conditions and advantages. As of the date of this Prospectus, the main distinguishing features between Gold and Platinum Visa Cards and Classic Visa Cards are that Gold and Platinum Visa holders have the added advantage of a variety of deals offered by the Bank. They also receive rewards and prizes upon using these cards. The point rewards program promotes loyalty by awarding points for each purchase transaction. These points can be redeemed in purchases from a large number of trading partners, including airlines, electronics stores, restaurants and fashion shops. By the end of 2013, the Bank launched the "Nadeek" credit card with the logos of seven leading Saudi football clubs sponsored by the Bank. The card allows customers to encourage their favorites clubs by using the appropriate credit card and also offers additional advantages for customers, including redeeming a percentage of the purchases' value. Recently, the Bank also introduced the "Ajwaa" Credit Card. The total number of credit cards issued by the Bank is approximately 281,134 cards as of the date of this Prospectus, as compared to approximately 263,111 and 134,400 credit cards as of the ends of 2016G and 2015G respectively.

The Bank considers its ATM network to be an integral part of its reliable, flexible, effective and secure services provided to its general customer base. The Bank's ATMs number is six hundred and twenty-four(624) ATMs as of the date of this Prospectus, as compared to six hundred and twenty-one (621) ATMs as of the end of 2016G, and six hundred and eleven (611) ATMs as of the end of 2015G installed at the Bank's branches within strategic locations across the Kingdom except for regions without bank Branches. Cash withdrawal and balance inquiry are traditional services offered by ATMs. Services also include paying bills through the Sadad payment system, as well as providing bank statements, check books and money transfer services.

E. Investment Real Estate Finance Program

The Bank offers a number of real estate products under the investment finance umbrella, which provides customers with opportunities to acquire investment properties (such as residential or commercial buildings or malls) or obtain cash for purchase of properties already owned by customers under lease-to-own agreements. These products target employees from all sectors, as well as freelancers, with a financing ceiling of up to SAR 20 million subject to the customer's solvency. They also aim at providing a competitive profit margin and fixed or variable profit rates according to customer needs and ability to settle installments from the income of the financed property. They also aim to provide options for payment and a number of installments (quarterly, semi-annual, or annual) based on the customer's cash flows or personal or business needs. The Bank normally allows the customer to manage the property in order to increase income from the use thereof. It also offers a program that includes insurance products (general insurance and life insurance) to reduce risks of non-payment. This program is available to private and public sector employees, entrepreneurs and customers with high solvency aged between 21-60 (at the time of paying the final installment).

F. Innovative Products Targeting the Youth Market

The Bank provides a range of innovative products to customers between the ages of 15-24 who wish to take advantage of Shari'ah-compliant banking services provided by the Bank. These products include the "Tomouh" program, which provides customers with a savings feature. The product also includes obtaining the Bank's Tomouh credit card and other related services, such as the transfer of funds between accounts and banks.

G. Bank Account

The Bank provides customers with several methods to open a bank account in addition to opening an account by visiting several branches of the Bank. It provides customers with a feature for opening a bank account via the Bank's website. This feature is an online service provided by the Bank (for more details on online banking services, see Section 4.6.2.3 "Online Banking Services").

H. Online Banking Services

The Bank pays great attention to technical systems and services provided to customers through technological platforms in order to provide reliable and effective services for its current customers, meet their personal needs and attract new customers. At all times, the online banking service platform "Aljazira Online" allows the Bank's customers to access their accounts conveniently and securely. It also allows them to open new accounts via the Bank's website, as well as remit funds between their accounts and beneficiaries from other banks and pay bills, including credit card bills. Moreover, these services are available around the clock. It is also worth noting that the second phase of the online banking service platform was launched in 2013G. It provides customers with enhanced features, including redesigned interfaces and the "Aljazira Smart" application, which allows customers to access and manage their bank accounts via their smart phones.

I. Phone Banking Services

The Bank currently provides phone banking services through an automated response system, including services related to balance inquiry, possibly ordering a checkbook or bank statement, and paying via the Sadad program, as well as obtaining information on products, loan applications and cash transfers. In addition, the Bank has established a 24-hour call center designed specifically to support the Bank's branches, which acts as an alternative distribution channel and provides direct services to customers. The staff of the call center have been trained and qualified to be able to respond to the customers' various inquiries ranging from inquiries about loan applications to information on products and technical assistance. The Bank also offers its customers a simple text messaging service to enable them to identify all their account updates by providing notification and confirmation of any withdrawal or deposit related to their accounts or credit cards.

J. Payment Services (Sadad)

The Bank facilitates the payment of government fees and utility bills via phones and the Internet, as well as the network of its branches and ATMs across the Kingdom.

K. Money Remittance

The Bank's branches offer fast money remittance services to all countries of the world in all major currencies. The transfer of money outside the Kingdom is conducted through the message network of the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The Bank's messaging services are subject to SWIFT's control and approval to ensure compliance with SWIFT's standards. The transfer of money within the Kingdom is conducted through the fast and reliable "Sarie" service, whereby the Bank's customers can transfer money to any other bank in the Kingdom while the value is deducted from their accounts. Customers can also use credit cards issued by the Bank for payment or transfer of money. The Bank has also launched instant banking service centers (Fawry Centers) in the last quarter of 2013G. The first center was opened in the Sulaymaniyah District, Riyadh. As of the date of this Prospectus, there were 48 centers distributed among the regions of the Kingdom. The Fawri Centers provide money transfer services to the expatriate workers within the Kingdom. The Bank has entered into a strategic partnership with MoneyGram to provide immediate international money transfer services. In addition to these services, Fawri Centers also provide foreign exchange services, account to account transfers and local and international transfers.

L. Safety Deposit

Many of the Bank's branches have safety deposit boxes so customers can keep their valuables, such as gold, jewelry and important contracts. The Bank's safety deposit boxes are of different sizes to suit to the customers' needs and are available to them with privacy protection.

4.6.3 Corporate and Financial Institutional Banking Services

4.6.3.1 Principal Features

The Corporate Banking Service Division provides a wide range of products and services to the Bank's corporate and financial institutional customers, focusing on customers' business requirements integrated through a vision of industrial and technological innovation and compliance with the highest standards of service delivery. The Bank focuses on attracting large companies and small and medium-sized enterprises with revenues of at least SAR fifty (50) million, an effective business model and a good credit history. It also focuses on attracting governmental or semi-governmental bodies and financial institutions. Most of the Bank's corporate banking activities are to provide appropriate financing and deposit products for large companies and small and medium-sized enterprises. The Corporate Banking Service Division operates through five business units: the Commercial Banking Unit, International Banking Transaction Management Unit, Specialized Finance Unit, Financial Institutions Unit and Public Sector Unit.

At the end of period ending on 30 September 2017G, the total assets of Corporate Banking Service Division were SAR (20.9) billion (30.9% of total bank assets) as compared to SAR (22.7) billion (34.2% of the total bank assets), (23.0) billion (36.4% of the total bank assets) and SAR (23.6) billion (35.4% of the total bank assets) at the end of years 2016G, 2015G and 2014G respectively. As of the end of 30 September 2017G, the Corporate Banking Service Division accounted for 21.4% of the Bank's total operating income, compared to 19.2%, 19.8% and 25.1% at the ends of 2016G, 2015G and 2014G respectively.

One of the important aspects of the strategy followed by the Corporate Banking Service Division is the use of cross selling conducted within the Bank to increase revenues. To this end, the Bank is focused on establishing strong relationships with corporate, commercial and private customers, assessing the profitability of each relationship and looking for ways to enhance its capabilities to achieve revenues through these customers. In addition, the Corporate Banking Service Division always provides corporate customers with solutions to manage treasury and cash accounts, along with providing retail banking services. By providing payroll services to companies, the Bank can establish firm relationships with the employees of these companies by offering a variety of retail banking products, such as deposits and credit cards.

With respect to credit control, the Corporate Banking Service Division has invested in both human and financial resources to improve credit approval processes and customer eligibility so as to reduce the possibility of future significant allocation of funds to companies and other facilities. Credit approval is subject to the necessary internal permits and approvals (either of the branch or otherwise) prior to approval of the financing. It is also associated with the risk assessment and management. The creditworthiness of the customer is assessed regularly. The inclusion of financial commitments within the financing conditions allows the Bank to monitor the performance of the customer's business on a regular basis. Such valuations enable the Bank to assess the possibility of managing risks related to some corporate financing by maintaining appropriate collateral. By taking these credit control measures, the Bank aims to continue enhancing its management and recovery capacities.

As for service quality, the corporate banking services sector of the Bank follows a concept of relation management, by which corporate relations managers are assigned to serve every customer. They devote their efforts to provide banking services to customers and work as a point of contact to meet all customer needs related to finance. Corporate relations managers are also responsible for managing and marketing relations of high-value corporate deposits.

The Bank provides banking services to corporations through its main office in Jeddah and its regional branches in Riyadh and Dammam. These offices provide complete services to customers through a specialized team of experts. It should be noted that all corporates products and services provided by the Bank are Shari'ah-compliant and are approved by the Shari'ah Board; as such products are mainly based on Murabaha, participation, Tawarruq and Ijara finance.

The banking services group for financial corporations and institutions include the following business units:

A. Commercial Banking Services Unit

The Commercial Banking Services Unit provides services to small and medium companies with revenues of not less than SAR 50 million. The unit provides simple finance products and working capital finance, such as bank overdrafts, short-term finance and letters of credit, along with financing long-term capital expenses of small and medium companies. The unit seeks to establish close working relationship with customers to enable it to recognize and determine their financial needs and provide trusted and quick services at competitive prices. Thanks to the close working relationships with customers, the Commercial Banking Services Unit can enhance selling other services provided by the Bank's Commercial Banking Services Unit to individuals, including banking services products. The Commercial Banking Services Unit also provides financial support through several financing programs designed for small and medium corporations. The Bank is considered one of the most active partners in the Kafalah program.

Commercial businesses conducted by the Commercial Banking Services Unit include accepting customers' deposits and providing finance solutions to corporate customers according to the corporation/institution's sales volume in all regions in which the Bank operates (particularly the Central, Western and Eastern regions). Such solutions include limited-time finance, as required, bank overdrafts and syndication finance. The services provided by the Bank to corporate customers include mobile and Internet banking services, transactions banking services, commercial finance services and cash management. The unit also includes the Cash and Trade Finance and Electronic Banking sections, which aim to expand and diversify the range of corporate and commercial products offered by the Bank, as well as the distribution methods of these services to customers. "Aljazira Cash Online" is a cash management tool intended for corporate customers, as it aims to increase efficiency and reduce the risks associated with depositing or withdrawing large amounts of cash.

B. Global Transaction Services Unit

The Global Transaction Services Unit emerged as an important component for the management of cash and commercial finance in accordance with Islamic Shari'ah. Over the years, it has proved its efficiency and reliability among many companies within the Kingdom. The growth strategy followed by the Global Transaction Services Unit is in line with the key drivers of change related to digitalization and keeps pace with the latest developments and technologies in all business sectors within the Kingdom of Saudi Arabia.

C. Specialized Financing Unit

The Specialized Financing Unit consists of: 1) Project financing and structured financing; 2) joint financing; and 3) Wakala. The unit adopts an operational model with specific objectives and roles that management believes have enhanced the Bank's ability in specialized financing. The Unit plays a key role as one of key participants in the project financing and co-financing fields by participating in a number of important transactions.

D. Financial Institutions Unit

The Financial Institutions Unit aims to monitor and benefit from foreign exposure by establishing a network of banking relationships around the world to ensure the timely and effective implementation of customer transactions worldwide. The Bank's correspondent banks provide the Bank's customers with a variety of products, including issuing letters of credit, issuing guarantees, participating in risk management and capturing opportunities for joint transactions. The Financial Institutions Unit also maintains strong relationships with banks, financial institutions, investment companies, financial intermediaries, insurance companies and export credit insurance companies. The Bank intends to further develop this business unit to enable it to offer a variety of products and services to correspondent banks and customers who are present and/or operate in the Kingdom, including advising, confirming letters of credit for Saudi exporters on behalf of foreign banks, issuing correspondent guarantees on behalf of customers, and handling internal payments received from correspondent banks.

E. Public Sector Unit

The Public Sector Unit aims to provide Shari'ah-compliant solutions to meet the growing needs of a wide range of public sector entities, such as corporate and real estate financing products and solutions, investment banking solutions, construction financing cash management and e-banking services. The Public Sector Unit also provides commercial financing services, treasury products and international banking services to public sector customers at the Bank.

4.6.3.2 Products and Services

Key products and services provided by the Bank to customers through banking services to financial corporates and institutions include the following:

a- **Corporate deposits and financing services account:** Deposit and corporate financing services represent the largest portion of the Bank's corporate activities, as corporate finance formed 55.0% of the Bank's total financing as of the end of September 2017G. The Bank's product portfolio includes working capital financing, overdrafts, treasury services and short and long-term financing. The Bank also provides corporate financing in Saudi riyals or any other transferable currency with fixed or floating interest rates according to the customers' requirements in order for most financing products to be based on Murabaha. The Bank's corporate financing portfolio consists of short-term financing with average maturity of less than one year. Most facilities provided by the Bank to its corporate customers are not secured. When the Bank obtains collateral, such collateral is usually cash deposits, guarantees provided by third parties, shares, properties, or equipment.

   The Bank offers its customers a variety of deposit products ranging from current account services, term deposit accounts, call accounts and additional deposit services, as well as foreign exchange services. Most of the deposit accounts are classified as profit-bearing accounts. The vast majority of these accounts are denominated in Saudi Riyals except for non-local currency accounts, the majority of which are denominated in US dollars. Deposit accounts can be denominated in a variety of currencies. Term deposits are usually made on a short term basis with their maturity ranging from one week to one year.

b- **Co-financing/project financing:** The co-financing Unit plays an important role in enhancing the corporate banking portfolio through the co-financing that it provides. The Bank is an active bank in the project financing and co-financing market, and maintains strong relationships with regional and international banks offering Shari'ah-compliant services. The Bank works with these banks to develop, structure and manage innovative Shari'ah-compliant transactions to be made for its customers. To date, the co-financing Unit of the Bank has prepared and financed transactions including major projects in the field of petrochemical industry, communications, infrastructure, and oil and gas. Through its Specialized Financing Division, the Bank also offers its customers agency services with respect to transactions of financing strategic projects in the Kingdom and GCC countries.

   While the government maintains plans of large cap investments in the Kingdom's infrastructure, the Bank expects that project finance and co-financing will be main growth drivers for the Bank.

c- **Commercial financing and cash management and electronic banking services:** Services provided by the commercial financing and cash management of the Bank aims to support corporate banking business. With regard to commercial financing, the unit is responsible for promoting and developing commercial businesses through development, management and delivery of distinctive business products and services. The unit also provides customers with advisory services and advice on issues related to commercial financing, including structuring business transactions, mitigating risks and identifying products. The following are the key commercial financing products:

   - "Aljazira Online" is an online banking service that offers a variety of commercial financing services to the Bank's corporate and institutional customers (the portal allows customers to conduct remote international and local commercial financing transactions safely and effectively).
   - Export and import letters of credit.
   - Letters of guarantee, which include a variety of issue or reissue of products (such as tender bonds, performance bonds, prepayments and retention bond).
   - Shipping guarantees.
   - Expected letters of guarantee.
   - Bill collection.
   - Import financing (post-shipment finance in accordance with Islamic Shari'ah, mainly Murabaha-based products).
   - Export Financing, which includes pre- and post-shipment financing under a variety of Shari'ah-compliant financing methods (such as Murabaha, Tawarruq and Musharakah).
   - Export credit through close coordination with export credit agencies.

By using state-of-the-art technological platforms, the Bank seeks to provide cash administrative services and transaction services for customers in an effective way in terms of cost and time. The Bank also seeks to enable its corporate customers to effectively manage and effect banking transactions and achieve sustainable business growth. Cash administrative services and related major products provided by the Bank include:

- The corporate payroll services program, "Rawatebcom", a service dedicated for corporate customers to simplify payroll administrative activities for their employees.
- "Aljazira Online (E-corporate)", a 24-hour online banking service that allows customers, among other things, to track the current status of their financial statements (such as account balances), transactions, internal and international transfers, payment of bills and banking transactions, such as account opening and ordering checkbooks;
- Swift 940 or "MT940" Messages, a service that enables corporate customers to track transactions entered into between the customer's account with Bank Aljazira and its accounts with other local and international banks;

- Money Transfer Services, a service that provides customers with a secure way to deposit or withdraw money from and to their bank accounts;
- Corporate ATMs, enabling customers and their employees to make cash withdrawals and allow them to access other financial transactions within ATMs at the customer's offices;
- Account and cash collection services;
- Direct debit services; and

d- **EMV Points of Sale:** The Bank is expanding its EMV POS terminals across the Kingdom for both its retail and corporate customers. EMV terminals allow customers to enter into transactions by using ATM cards and credit cards protected by a chip and PIN. During 2017G, the Bank added one thousand six hundred and sixty (1,660) units, and the total number of smart cards units reached eight thousand six hundred and twenty four (8,624) as of the end of September 2017G.

4.6.4 Treasury Segment

4.6.4.1 Principal Features

The main function of the Treasury Group is to manage the Bank's assets and liabilities, manage liquidity risk and measure profit risk or sensitivity to changes in prevailing profit rates. The Treasury also ensures that the profit rate risk remains within the limits set by the Bank's Asset and Liability Committee ("ALC"). The Treasury also manages the Bank's investment portfolio.

Majority of the Bank's funding is generated from (retail and corporate) customers' deposits, while the banks market is used to finance the remaining portion only. The Treasury Department is responsible for overseeing and ensuring that the Bank maintains the regulatory financial indicators which the Bank is required to follow.

The Treasury Group provides its services for all major business units within the Bank. Treasury Group's operations include Riyadh, Jeddah and Al Khobar, offering a variety of the Treasury's products and services to the Bank's customers. The products and services offered by the Treasury Group are compliant with Shari'ah and provided according to directions of the Shari'ah Board. The services offered include a full range of Shari'ah-compliant derivative products and hedging solutions associated with profit rates (swaps and options) and foreign currency hedging products (futures and option contracts). As of the date of this Prospectus, the Bank provides various Shari'ah-compliant treasury products that provide multiple options to the customers.

As of 30 September 2017G, the total treasury assets were SAR (24.9) billion (by 36.9% of total bank assets) as compared to SAR (22.5) billion (34.0% of the total bank assets), (20.0) billion (31.7% of the total bank assets) and SAR (23.1) billion (34.8% of the total bank assets) as of the end of years 2016G, 2015G and 2014G respectively. As of the end of September 2017G, the Treasury accounted for 35.1% of the Bank's total operating income, compared to 30.3%, 23.0% and 27.6% as of the end of 2016G, 2015G and 2014G respectively.

4.6.4.2 Products and Services

Services provided by the Treasury include money market products, profit rate, currencies and commodity products, which are offered to companies, public sector entities and government entities, as well as customers, investors and financial institutions with high solvency. The Treasury also provides fixed-income products to the Bank's corporate customers. The Bank's fixed-income portfolio is mainly focused on the Kingdom of Saudi Arabia. The Treasury also offers a range of foreign exchange products, currencies and commodities including short and long term fixed deposits of the Naqa' Program, savings programs, interest rate swaps, currency exchange and joint products.

The Treasury Group has also encouraged the Bank's mutual selling culture, with other groups working with the Treasury as partners to sell the Treasury's products, as well as other banking products. In order to increase the income of foreign exchange transactions and associated fees, the Treasury's sales team trains corporate and retail banking managers and sales staff on the Treasury's products.

The Bank's Shari'ah-compliant hedging products form an important part of the financing solutions offered to retail and corporate customers with high solvency.

4.6.5 Risk Management Department

The Bank's risk management infrastructure is designed to identify, analyze, evaluate and manage factors that could negatively affect the Bank's portfolio, operations and financial results. The risk management infrastructure aims to develop and recommend appropriate policies and procedures with respect to risk management. Risk Management provides guidance and directions on risk philosophy and total risk tolerance of the Bank (which include considering whether new business proposals are acceptable by the risk management) in addition to overseeing internal commitment with risk management policies and their procedures.

The Bank's risk management structure is headed by the President of Risk Management. Risk Management monitors and manages (corporate and retail) credit risk, liquidity risk, market risk and operational risk, as well as credit management and risk structuring. Each type of risk is managed by an independent manager. The Bank's overall risk management responsibility is assumed by the Board of Directors with the assistance of the Risk Management Committee, which monitors the risks related to the Bank's business and operations, along with reviewing the Bank's risk management and risk tolerance based on the risk management analysis and the formulation of appropriate policies to be implemented. The Bank also follows SAMA's regulations as a minimum and, in some cases, applies more stringent policies.

It is worth mentioning that the Treasury sector retains certain responsibilities related to the management of liquidity and profit rate risks. A number of Board Committees (in particular, the Risk Management Committee and the Audit Committee) conduct certain risk management activities and generally supervise certain risks. The Risk Management Committee reviews the Bank's risk management and risk tolerance based on the analysis provided by the Risk Management. The Audit Committee supervises risk management activities (for further details on Board Committees, see Section 5.7 "Board Committees").

4.6.6 Credit Risks

The Bank is subject to credit risk, which is the possibility of a party failing to meet its financial obligations toward the Bank, resulting in a financial loss. Credit risk exposures arise in various types of financing products and facilities. There is also credit risk in certain items that are not recorded in the financial statements, such as financing commitments, guarantees and letters of credit.

The Bank assesses credit risk by examining potential defaults by the parties through using internal rating models. The Bank also reviews the relevant person's credit ratings issued by the international rating agencies (if any).

The Bank attempts to control credit risk by monitoring overall credit exposure and concentration risk by reducing transactions with certain parties and continually assessing the creditworthiness of counter parties. It also develops risk management policies to identify and set appropriate risk limits, control risks and comply with these limits.

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

In the ordinary course of financing activities, the Bank may obtain collateral to reduce credit risk. Collateral includes term deposits, other cash deposits, financial guarantees from other banks, local shares, real estate and other properties and equipment, and guarantees provided by third parties (including individuals and companies), as well as waivers and/or acknowledgment of the proceeds resulting from the financing contract (if any). The Bank maintains collateral against commercial and retail financing. Collateral is monitored and managed to meet exposure risk related to its net realizable value. The Bank maintains real estate collateral by transferring the title deed to a subsidiary of the Bank.

In general, no collateral is given against the financing owed by other banks and other financial institutions, except in the case of repurchase agreements.

The Bank uses the Digital Risk Assessment System (ORR), an internal credit rating system to identify and manage credit risk within its own financing portfolio. The rating system includes 10 grades, seven of which relate to performing loans and three to non-performing loans. Specific provisions for impairment are also made in respect of the default portfolio according to each borrower's rank (to be determined by the Bank's Risk Management Group by using specific criteria such as activities, cash flows and capital structure) and in accordance with the collateral provided. Additional provisions are also made at the overall portfolio level in line with local regulatory requirements. The Bank's Internal Audit Group independently reviews the overall risk management system on a regular basis.

The Bank seeks to manage credit risk by diversifying its financing activities to ensure that there are no concentrations of credit risk on individuals or groups of customers in certain geographical areas or sectors. As mentioned above, the Bank also takes collateral where appropriate. The Management monitors the market value of the collateral and requests additional collateral in accordance with the relevant agreements. It also monitors the market value of the provided collateral by considering the adequacy of the provisions for impairment losses.

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

4.6.7 Market Risks

4.6.7.1 Overview

Market risks arise out of fluctuations in market prices, such as commission prices, profit rates, share prices, and foreign exchange prices, which impact the Bank's income or assets value. Market risk management aims at managing and controlling market risk exposure within acceptable limits, while achieving return on risks.

The Bank distributes market risk exposure between traded portfolios and non-traded portfolios. The Bank preserves the traded portfolios primarily through the Treasury Group, and such portfolios include investment in bonds, shares and investment funds, which are managed on a fair value basis.

The Board of Directors is competent to deal with market risks. The Board of Directors sets out the acceptable level of risks in the Bank's trading book. Special market risks are managed through the trading book and non-trading book, and through monitoring such book using the sensitivity analysis.

4.6.7.2 Trading Book

Currency Risk

Currency risks consist of the risk of change in the currency exchange rate due to changes in foreign exchange prices. The Bank manages exposure to the impact of fluctuations in foreign currency exchange prevailing prices, based on its financial position and cash flows.

The Board has imposed restrictions on positions by currency. Such positions are monitored twice per day to ensure the maintenance of such positions within their prescribed limits.

Share Price Risks

Share price risks are the risk of a decline in the fair value of the shares due to changes in market circumstances.

4.6.7.3 Non-trading Book and the Banking Book

Liquidity Risk

Liquidity risk is the risk of the Bank's failure to fulfill its payment obligations when they are due. Liquidity risks may arise out of market distortions or credit rating decline, which could result in decreased sources of funding. To mitigate such risk, the Treasury Department has various sources of funding along with its primary deposit base, it manages assets, takes liquidity into account, maintains a sufficient balance of cash/cash equivalent and securities that are easily liquefied, and monitors future cash flows and liquidity gaps on a daily basis. The Bank has available credit lines to which it has access to meet liquidity needs.

In accordance with the Banks Monitoring Law and the regulations issued by the SAMA, the Bank has a statutory deposit of 7% of the total call deposits and 4% of saving and time deposits. In addition to the statutory deposits, the Bank maintains a liquidity reserve of no less than 20% of deposits. Such reserve come in the form of cash or assets convertible to cash within a period not exceeding thirty (30) days. The Bank can obtain liquidity through repurchase deals available at SAMA for up to 75% of the Murabaha deposits at SAMA.

4.6.8 Internal Audit

The Internal Audit Group closely monitors all activities carried out by the Bank evaluating the efficiency, quality and effectiveness of the internal audit systems, in order to address any risk relating to failure by the bank and its subsidiaries to provide banking services. The Internal Audit Group is directly supervised by the Board of Directors.

The Internal Audit Group undergoes a semiannual evaluation, monitors compliance by the Bank and its subsidiaries' departments (all relevant business groups and operational support units) with the commitment self-evaluation guidelines and reports the results to the head of operation department to ensure that such guidelines are used as required. The Internal Audit Group periodically develops and submits to the Board of Directors a brief risk report providing information about the progress achieved with respect to the evaluation of risks, shortcomings in the control environment, and the control systems not working as required, risks that cannot be totally mitigated and recommendations related to the enhancement of risk management laws and controls. The management uses such report to evaluate operational risk management and provide guidelines with respect to conduct-related strategy and methodology in the future.

The Bank's computer software and IT systems undergo auditing conducted by auditors specialized in information systems at the Bank's IT Group to ensure efficiency and effectiveness of controls related to integrity, confidentiality, the availability of application and component systems, and the relevant data.

All internal audit officers have the required professional qualifications and expertise.

4.6.9 Compliance

The role played by the Compliance Group is to: (1) Identify, assess and monitor the Bank's compliance risks and report these risks to senior management; and (2) Ensure that the various activities, policies and procedures of the Bank comply with the applicable standards, rules and regulations issued by the regulatory and control bodies, such as the Saudi Arabian Monetary Authority and the Capital Market Authority, as well as the Bank's controls, in order to identify and mitigate compliance risks. The Compliance Group acts as a liaison between the Bank, the Saudi Arabian Monetary Authority and the Capital Market Authority. The Compliance Group has the independence and power necessary to carry out its duties. It reports directly to the CEO and the Bank's Board of Directors. The Compliance Group also includes a Compliance Committee that supports the work of the Audit Committee on Compliance.

4.6.10 Combating Money Laundering and the Financing of Terrorism

The Combating Money Laundering and the Financing of Terrorism Group monitors policies and procedures concerning money laundering, the financing of terrorism and customer knowledge. The Combating Money Laundering and the Financing of Terrorism Group uses automated systems to monitor and report, if necessary, on the Bank's business operations, in order to identify, assess, monitor and prevent the illegal use of the Bank's services for money laundering, terrorist financing and/or other serious crimes. All policies and procedures of the Combating Money Laundering and the Financing of Terrorism Group are reviewed annually to ensure compliance with local regulatory requirements and best international practices.

The Combating Money Laundering and the Financing of Terrorism Group is headed by the Bank's Money Laundering Reporting Officer, who directly reports to the Chief Executive Officer. The Money Laundering Reporting Officer is responsible for policy development, detecting and reporting suspicious transactions, responding to staff inquiries regarding anti-money-laundering issues and applying an automated anti-money laundering system. The Money Laundering Reporting Officer acts as a liaison between the Bank, the Saudi Arabian Monetary Authority, the Capital Market Authority and other government bodies for matters related to Combating Money Laundering and Financing Terrorism.

The Bank has also introduced a "sanctions policy" covering business with countries subject to all penalties imposed by the Saudi Arabian Monetary Authority, the Capital Market Authority and the United Nations. In addition, the Bank adopts a "high-risk accounts policy" covering the promotion of due diligence and increased approval processes of corporate relationships and high risk customer segments as defined by SAMA regulations and in accordance with the Bank's internal risk-based approach to money laundering.

All employees must familiarize themselves with the Bank's anti-money laundering policies and procedures. In addition, the Bank conducts specific training programs for its employees who work with customers to enhance compliance levels at the Bank and its subsidiaries.

4.6.11 Support Group

The support group is responsible for providing overall administrative and operational support and developing the strategies and project management related to the Bank in particular and to the Aljazira Group in general. It consists of subgroups specialized in operations, IT, logistics, corporate security, procurement, strategies development and project management. The operational and IT groups are particularly important for the Bank's daily operational efficiency:

- **Operations:** This sub-group is responsible for meeting a wide range of general administrative and operational requirements related to Aljazira Group to support all business divisions. However, it mainly supports the retail, corporate and treasury sectors. As part of the Bank's strategy to enhance its services, products and operations, the level of service is determined and utilized to improve performance through this group. One of the strategic objectives of the Operational Group is to improve the direct payment processing rate (hereinafter referred to as "direct payment processing") through re-engineering and a strong IT infrastructure.
- **IT:** This subgroup is responsible for maintaining Aljazira's IT infrastructure, providing secure and reliable information systems, providing technical support to the Group's operations, and developing business and operational software packages for the Group (including banking and online trading services such as "Aljazira Online" and "Tadawulcom").
- **Logistics Services:** This sub-group provides necessary logistics services to support the Bank's other departments and effectively contributes to the growth of the retail sector. The Group has supported the retail banking sector with the opening of new retail branches and branches for remittance services (Fawry) as of the date of this Prospectus.
- **Strategy Development and Project Management:** The main function of this group is to provide suggestions with respect to the Bank's (current and future) strategic projects and the study, monitoring and management thereof in terms of cost, time frame, and priorities. It also submit relevant reports to the senior management. Recently, the focus of the Group has been the effective implementation of important projects at the Bank (as well as Aljazira Capital and Aljazira Takaful Taawuni Company), such as attracting new customers, developing new products and creating new business lines, as well as re-engineering existing business processes. This Group is also responsible for several other liabilities including responsiblity for implementing consistent and recognized quality standards (including Six-Sigma) across all business units to achieve more efffictive operations, the responsibility for determining quality standards in all aspects of the Bank's activities, responsibility for business development, operational, functional and technical requirements, as well as coordination between the business team, the technical team on the Bank's infrastructure and the implementation team to ensure smooth transition between procurement and delivery.

It is worth noting that the responsibility of Business and project management is assigned to an independent team in the Bank, i.e. Strategy Development and Project Management. This group was introduced in 2016G. At the beginning of 2018G, this group was removed as independent group and its business was integrated with the Support Group, and was considered as a sub-group of the Support Group.

4.6.12 Legal Group

The Legal Group is responsible for providing legal advisory services to the Bank as well as litigation services. The Legal Group, through its legal services, aims to optimally protect the Bank's interests by dealing with legal problems and providing legal advice whenever necessary.

4.6.13 HR Group

The Human Resources Group is a strategic partner for all business departments within the Bank, and includes within its functions the full range of human resources and strategic related operations. It is also responsible for identifying, managing, organizing, directing and monitoring all human resource requirements and problems, including advising on all rewards, staffing, competency management, government relations, as well as monitoring compliance with human resources organizational practices.

4.6.14 Marketing and Communications Group

The Bank's Marketing and Communications Group is responsible for organizing media and business events (such as press conferences and product launch ceremonies) as well as preparing and distributing press releases, advertising and bank correspondence sent to investors and shareholders.

4.6.15 Social Responsibility

As a socially responsible entity, the Bank allocated SAR (100) million to launch a community service program (Khair Aljazira Le Ahl Aljazira) on 10 Jumada Al-Awwal 1427H (corresponding to 6 June 2006). The program (Khair Aljazira Le Ahl Aljazira) was established to implement social programs and activities for the benefit of the Saudi society by supporting and organizing activities in the social, humanitarian and cultural fields. The Bank hopes that the program will help achieve sustainable development within Saudi society.

As of the date of the prospectus, the Khair Aljazira Le Ahl Aljazira program manages the following activities:

- Goodwill loan program "A loan without Murabaha": This program is designed to help the offspring of families in need to utilize the opportunity to start small projects by providing the necessary funding in cooperation with other charitable organizations.
- Training and Qualification for the Labor Market Program: This program is designed to train and qualify young people for the labor market to help them manage their careers in the future.
- Special Needs Program: This program is designed to help people with special needs acquire the skills necessary to improve their abilities in order to help them communicate with the community on a large scale.
- Non-Profit Sector Capacity Building Program: These programs are designed for participation in humanitarian and charitable activities through the establishment of educational and cultural programs, and the certification of social workers in terms of skill development and capacity building.
- National and Islamic Events and Participation Program: This program is designed to support projects, research studies and scientific conferences related to Islamic social responsibility and social banking, as well as to participate in national events and humanitarian campaigns.
- Volunteer Initiatives and Community Awareness Program: This program is designed to foster a culture of volunteering, support youth initiatives and raise community awareness about its core and influential issues.
- Ekhaa Program: This program is designed to assist the Bank's staff and contribute to some of their burdens (financial, health, and educational).

During the first half of 2017G, the number of beneficiaries of the various activities and programs launched as part of "Khair Aljazira Le Ahl Aljazira" program in various cities and provinces in KSA reached 3,887 young people (three thousand, eight hundred and eighty seven), while the total amount spent on the program was SAR fifteen million, six hundred and seventeen thousand, seven hundred and ninety (15,617,790).

4.6.16 Shari'ah and Social Responsibility Group

The main duties of the Bank's Shari'ah and Social Responsibility Group are to monitor the application of the various aspects of Islamic Shari'ah within the Bank and to ensure that all transactions, operations and activities executed by the Bank are Shari'ah-compliant. It acts as an intermediary between the Shari'ah Board and the various business units of the Bank in relation to the following: (1) Communication of decisions and opinions and (2) communication of comments and questions referred by the Bank's network to the Shari'ah Board. The Shari'ah Board also focuses on Shari'ah-compliant banking research and the development of new Shari'ah-compliant financial products for the Bank.

The Bank's Shari'ah Board consists of five members whose names are listed in the table below:

Name	Position
His Excellency Sheikh Abdullah Bin Sulaiman Al Manea	Board Chairman
His Excellency Sheikh Dr. Abdullah bin Mohammed Al Mutlaq	Vice Chairman of the Board
Dr. Fahd bin Ali Al-Olayan	Minute-Taker
Dr. Mohammed bin Ali Al-Qari	Board Member
Dr. Abdul Sattar Abu Ghoddah	Board Member

4.6.17 Subsidiaries and Affiliate Companies

The Bank's subsidiaries and affiliate companies included in the consolidated financial statements are as follows:

Company Name	Ownership (direct and indirect)
Aljazira Capital	100%
Aman Development and Real Estate Investment Company	100%
Aljazira Takaful Ta'wuni Company	35% (30% directly and 5% by Aljazira Capital Company)
Aman Insurance	100%
Aljazira Capital (established in Cayman Islands)	100%

4.6.17.1 Aljazira Capital

Aljazira Capital, a Saudi closed joint stock company offering its services in accordance with the provisions of Islamic Shari'ah, is the Bank's investment arm and was established in 2008 and licensed by CMA to engage in the business of securities. Aljazira Capital was incorporated as a wholly owned subsidiary of the Bank after being a department at the Bank. Incorporation was in compliance with the statutory requirements that require the separation of securities businesses as independent entities.

The capital of Aljazira Capital is SAR five hundred (500) million divided into fifty (50) million shares with a per-share value of SAR ten (10).

Aljazira Capital offers financial brokerage products and services (all of which are Shari'ah-compliant and approved by the Shari'ah Board) related to trading in local, GCC and international markets.

Aljazira Capital is the largest brokerage service provider in Tadawul (in terms of total value traded) and has maintained such position for the last ten years. Aljazira Capital performed trading transactions amounting approximately to SAR one hundred and fifty-two Saudi billion (152 billion) on 30 September 2017G, as compared to SAR three hundred and forty-two billion (342 billion) in 2016G, SAR five hundred and thirty-nine billion (539 billion) in 2015G, and SAR seven hundred and forty-two billion (742 billion) in 2014G. Aljazira Capital offers innovative, easily accessible and responsive customer brokerage solutions to its customers to enable them to achieve their investment objectives. Its success can be attributed, among other things, to its powerful, easy-to-use and award-winning e-commerce platform (TadawulCom), which enables customers to conduct large-scale online or telephone transactions at any time in many markets in the GCC and around the world. Aljazira Capital has a wide network of investment centers across the Kingdom, providing easy-to-reach and well-equipped trading rooms, as well as fully staffed agent centers to help customers conduct trades via phone orders. Aljazira Capital continues to increase trading capabilities to enable customers to trade in new international markets.

In addition to brokerage services, Aljazira Capital provides its customers with other products and services including:

A. Asset management

A team of investment professionals works with Aljazira Capital in the field of asset management. Aljazira Capital currently manages a range of investment funds (Saudi, Japanese, European, Gulf and international equity funds, emerging and real estate markets and cash markets). Aljazira Capital also manages a special portfolio for some customers, allowing them to diversify their investments and achieve their investment objectives.

The Asset Management Unit is a key element of Aljazira Capital's strategy to generate future revenues, as the company believes that the asset management sector has significant future growth opportunities within the Kingdom.

B. Investment Banking and Corporate Finance

Aljazira Capital provides consulting services to corporate customers who are seeking funding through CMA, including counseling services with respect to investment banking products such as Sukuks, Rights, special offerings, initial public offerings proposals for initial public proposals, underwriting services and me

C. Research

Aljazira Capital established a research department to provide customers with market data and guidance to facilitate investment decisions. It helps customers to achieve their investment objectives mainly through periodic publication of various types of research reports including:

- Periodic reports on the market published on a daily, weekly and monthly basis to provide a concise and effective summary of overall market performance and trends.
- Reports on a particular sector or company, which provide detailed analyses of company or sector performance, including leading companies and the most effective sectors based on a substantial, technical, and analytical point of view. Coverage begins with an initial report, usually followed by successive reports reflecting the views of Aljazira Capital about a company's performance and developments.
- Special reports issued to address or provide insights or views on specific developments and events, including economic developments and emerging investments trends at the local and international levels.

D. Custody

Aljazira Capital provides services to hold securities for safe keeping in domestic and international markets, including the following:

- Custody of stock in local and international markets; and
- Transfer of local and international equities among customers' portfolios.

The table below shows the income and Aljazira Capital income proportion to the Bank income, as well as its net income (or net loss) and total assets for the years ending on 31 December 2013G, 2014G, 2015G and 2016G and the period ending on 30 September 2017G.

Table 4.5 Income and Aljazira Capital Income Proportion (SAR)

(SAR'000)	2014G Audited	2015G Audited	2016G Audited	30 September 2017G Unaudited
Total operating income	346,388	270,727	193,482	131,522
Income proportion to bank's total income	15.6%	9.3%	7.7%	6.7%
Net income (loss)	196,153	108,989	43,925	28,228
Total assets	**766,188**	**440,840**	**814,899**	**1,487,309**

Source: The Consolidated financial statements

4.6.17.2 Aman Development and Real Estate Investment Company

Aman Development and Real Estate Investment Company is wholly owned by and affiliated to the Bank as of the date of this Prospectus. It was established as a limited liability company in KSA and commenced operations in 2006G as a custodian of property mortgaged to the Bank as collateral against credit facilities and real estate financing. Recently, Aman Development and Real Estate Investment Company became a sole partnership of the Bank under Council of Ministers Resolution No. 319 dated 17/9/1430H (corresponding to 7/9/2009G), the approval of the Saudi Arabian Monetary Authority dated on 20/5/1431H (4/5/2010G) and Minister of Trade and Industry Resolution No. 39G dated on 5/2/1432H (corresponding to 9/1/2010G).

4.6.17.3 Aljazira Takaful Ta'wuni Company

Aljazira Takaful Taawuni Company is a joint stock company established by Council of Ministers Resolution No. 137 dated on 27/4/1431H (corresponding to 12/4/2010G). As of the date of this Prospectus, Aljazira Takaful Taawuni Company's capital is SAR 350,000,000 (three hundred and fifty million) divided into 35,000,000 ordinary shares with nominal value of SAR 10 per share. Aljazira Takaful Taawuni Company completed its IPO on Jumada Al-Thani 1434H (corresponding to May 2013G). The Bank's share (direct and indirect) in Aljazira Takaful Taawuni Company is 35%, of 30% which is directly owned by the Bank, while 5% of which is owned by Aljazira Capital.

Aljazira Takaful Taawuni Company is engaged in insurance activities in the protection and savings sector pursuant to the Cooperative Insurance Companies Control Law and its Regulations. Aljazira Takaful Taawuni Company obtained a license from the Saudi Arabian Monetary Authority on 20 Safar 1435H (corresponding to 23/12/2013G) and began its operations in Rabi' Al-Awwal 1435H (corresponding to January 2014G).

Bank Aljazira was the first bank in the Kingdom of Saudi Arabia to provide protection and savings products in 2001G as a Shari'ah-compliant alternative to traditional life insurance products.

Aljazira Takaful Taawuni Company has proved that it is a leading company operating in life insurance market in KSA in terms of size and innovation. Aljazira Takaful Taawuni Company has experienced rapid growth in order to meet the growing demand for Shari'ah-compliant life insurance products in the Kingdom.

Aljazira Takaful Taawuni Company products are classified into individuals and groups as well as additional options, if needed, (including the waiver of premiums and/or additional cover for permanent total and partial disability, as well as serious illness).

- **Retail**

Individual business is divided into two sub-main categories:

- Protection and savings products designed to meet the needs of individuals engaged in the Afrad Program. These products are designed to provide a specific targeted amount in the future and provide protection against death, God forbid, or as an option for disability or injury of a particular disease, God forbid.
- Protection products designed only to provide the insured person with protection. There are no entitlements due at the end of the contract period. There are also no investment components/contributions by the insured person. Therefore, products are classified only as a risk.

- **Groups**

Aljazira Takaful Taawuni Company products can combine more than one insured person in one contract. These products are usually aimed at providing insurance cover against death and permanent total disability, God forbid, including but not limited to important persons, employees and companies.

The table below shows the income and Aljazira Takaful Taawuni Company's percentage of the Bank's income, as well as its net income (or net loss) and total assets for 2014G, 2015G and 2016G:

Table 4.6 Income and Aljazira Takaful Taawuni Company Income Proportion (SAR)

(SAR'000)	2014G Audited	2015G Audited	2016G Audited	30 September 2017G unaudited
Total operating income	22,217	21,338	20,211	14,543
Income proportion to bank's total income	1.0%	0.73%	0.8%	0.7%
Net income (loss)	(2,637)	(12,753)	(5,193)	(1,532)
Total assets	**6,860**	**11,459**	**4,544**	**55,251**

Source: The Consolidated financial statements

4.6.17.4 Aman Insurance

Aman Insurance is established as a limited liability company totally owned by the Bank The Company is intended to practice insurance businesses by virtue of SAMA's approval No. 381000004468 dated 11/1/1438H As of the date of this Prospectus, Aman Insurance's capital is SAR five hundred thousand (500,000), divided into 50,000 ordinary shares with nominal value of SAR 10 per share.

4.6.17.5 Aljazira Capital

Aljazira Capital is established by virtue of Cayman Islands Laws on 24/4/2017G. As of the date of this Prospectus, Aljazira Capital's capital is USD fifty thousand (50,000), which is equivalent to SAR 187,500 and is divided into 50,000 ordinary shares with a nominal value of USD 1 per share The Company's main purpose is to support the Treasury's activities in the Bank through the implementation of derivative transactions and repurchase agreements with international banks.

4.6.18 The Bank's Business and Activities outside the Kingdom

The Bank has some cash deposited with external banks to meet customers' demands. The Bank also exercises some activities through the Treasury with external bodies for many purposes including hedging The Bank has lately established a company in Cayman Islands (Aljazira Capital) with a capital of USD (50,000). The Company's main purpose is to support the Treasury's activities in the Bank through the implementation of derivative transactions and repurchase agreements with international banks. The Bank has limited credit exposure in some Gulf States (no more than 1% of bank's total credit exposure). Otherwise, the Bank's business, assets and subsidiaries operate in the Kingdom. The Bank's total assets and its affiliates within the Kingdom amount to SAR (67,528,331,788.84).

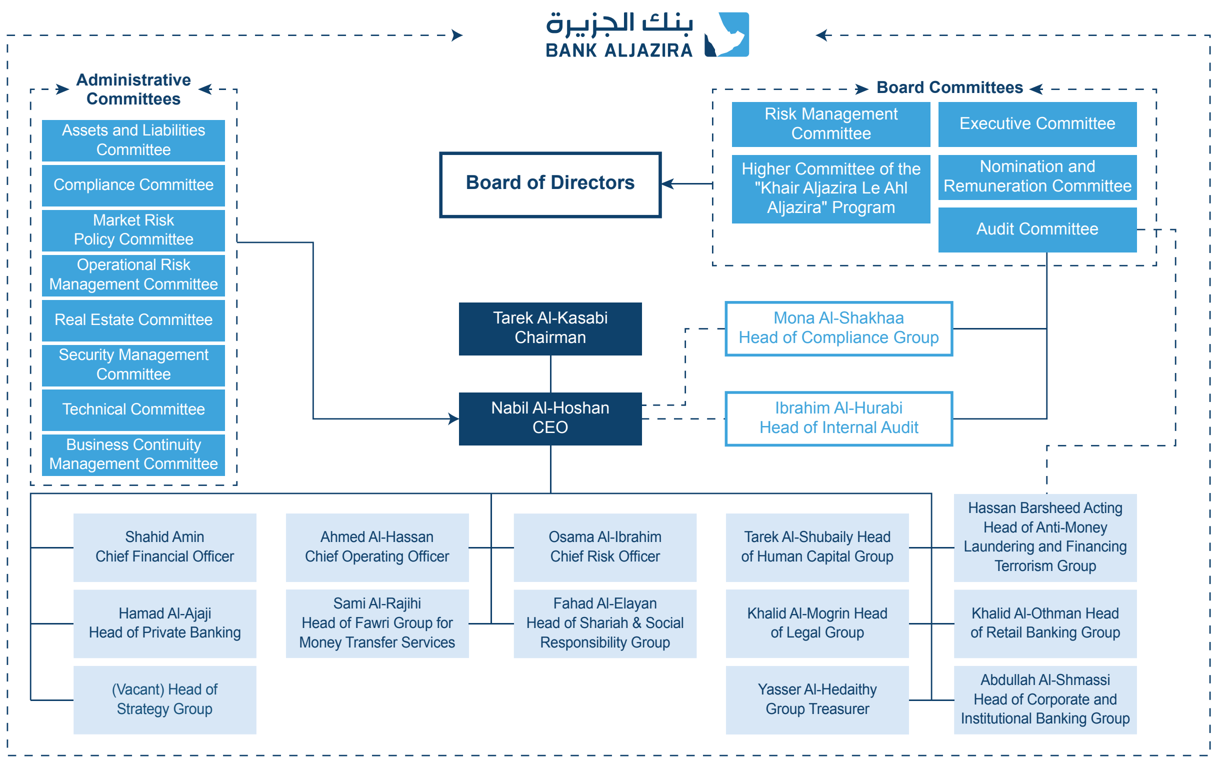
5. Management and Governance of the Bank

5.1 Management Structure

The Bank's management structure consists of its board of Directors (the "Board"), a number of committees and the senior management team (the "Senior Management Team"). The Board is mainly responsible for approving the Bank's key objectives and strategic plans, supervising their implementation, and monitoring the Banks performance and work flow. The Bank has five Board Committees: the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Senior Committee for the "Khair Aljazira Le Ahl Aljazira" Program. Such Committees help the Board in managing and monitoring the Bank's business, each according to its competences. (For more details about Board Committees, please refer to section 5.7 "Board Committees").

The following chart sets out the Bank's organizational structure:

Chart 5.1 the Bank's Organizational Structure



- - - - only administratively related to the CEO (whereas the CEO is responsible for organizing their works such as Determining attendance, entitlement to vacations and other administrative responsibilities).

5.2 Board of Directors

The Bank's management is overseen by a highly competent and experienced Board, the Board consists of nine Saudi Directors. The current Board was appointed in the Extraordinary General Assembly held on 17/3/1437H (corresponding to 28/12/2015G) which commenced its session on 01/01/2016G, for a period of three years. The table below illustrates the Directors' names as of the date of this Prospectus.

Table 5.1 Board's Directors

Name	Nationality	Age	Position	Membership Status	Date of appointment to the Board	Representing	Number of shares held			
							Directly	Indirectly*	Total	Percentage
Eng. Tarek bin Othman Al Kasabi	Saudi	69	Chairman of the Board	Non-executive/ Non-independent	01/01/2016G	-	15,913	None	15,913	0.00306%
Eng. Abdul Majeed bin Ibrahim Al Sultan	Saudi	51	Vice-Chairman of the Board	Non-executive/ Non-independent	01/01/2016G	-	1,732	6,857,696	6,859,428	1.31912%
Mr. Nabil bin Dawood Al Hoshan	Saudi	56	Chief Executive Officer and Managing Director	Executive/ Non-independent	01/01/2016G	-	3,465	None	3,465	0.00067%
Mr. Khalifa bin Abdul Latif Al Mulhem	Saudi	66	Director	Non-executive/ Non-independent	01/01/2016G	-	2,707,468	41,275	2,748,743	0.53%
Mohammed Abdulla Al Haqbani	Saudi	36	Director	Non-executive/ Non-independent	01/01/2016G	-	1,300	None	1,300	0.00025%
Abdul Salam bin Abdulrahman Al-Aqeel	Saudi	51	Director	Non-executive/ Independent	01/01/2016G	-	1,300	None	1,300	0.00025%
Saeed bin Saad Al-Murtan	Saudi	73	Director	Non-executive/ Non-independent	01/01/2016G	-	2,600	None	2,600	0.00050%
Ibrahim bin Abdul Aziz Alshaya	Saudi	35	Director	Non-executive/ Independent	01/01/2016G	General Organization for Social Insurance (GOSI)	None	None	0.00	0.00
Abdullah Saleh Al-Rasheed	Saudi	60	Director	Non-executive/ Independent	01/01/2016G	-	1,300	None	1,300	0.00025%

Source: The Bank

* Meaning the shares owned by the Board of Directors indirectly at the bank by owning companies possessing shares at the bank, or the shares owned by the relatives of the Board of Directors directly or by owning companies possessing shares at the bank.

5.2.1 Summary of Biographies of Directors

Eng. Tarek bin Othman Al Kasabi

Age: 69 years

Nationality: Saudi

Position: Chairman

Academic and Professional Qualifications

Year	Qualification	Area	University
1976G	Bachelor	Civil Engineering	King Saud University, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
2008G - 2013G	Chairman	Aljazira Capital Co.	Closed joint stock company	Securities
1998G - 2015G	Director	Bank Aljazira	Public joint stock company	Banks and financial services
2015-2016G	Director	Aljazira Capital Co.	Closed joint stock company	Securities

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
1994G	Director	Aseer Trading, Tourism & Manufacturing Co.	Public joint stock company	Multi-Investment
1995G	Chairman	Dallah Healthcare Holding Company	Public joint stock company	Medical services
2006G	Director	Kingdom University Co. (Kingdom of Bahrain)	Closed joint stock company	Education
2008G	Chairman	RZM Holding Co.	Closed joint stock company	Multi-Investment
2010G	Chairman	Ataa Educational Company	Closed joint stock company	Education
2012G	Chairman	Cerb Real-Estate Investment	Closed joint stock company	Real-Estate Development
2013G	Chairman	RZM Gayrimenkul Anonim Sirketi RZM Gayrimenkul Anonim Sirketi Turkey	Closed joint stock company	Multi-Investment
2013G	Chairman	NEBA Gayrimenkul Yatirimlari VE Ticaret A.S NEBA Gayrimenkul Yatirimlari VE Ticaret A.S Turkey	Closed joint stock company	Real-Estate Development
2016G	Chairman	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Nabil Dawood Al Hoshan

Age: 56 years

Nationality: Saudi

Chief Executive Officer and Managing Director

Academic and Professional Qualifications

Year	Qualification	Area	University
1984G	Bachelor	Accounting	King Saud University, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1984G - 1998G	Head of Central Region Retail Banking	SABB	Public joint stock company	Banks and financial services
1998G - 2001G	Head of Eastern Region Retail Banking	SAMBA Financial Group	Public joint stock company	Banks and financial services
2001G - 2006G	Head of Retail Banking	Arab National Bank	Public joint stock company	Banks and financial services
2006G - 2010G	Director	SABB Takaful Company	Public joint stock company	Insurance
2006G - 2010G	Head of Retail Banking	SABB	Public joint stock company	Banks and financial services
2013G – 2015G	Member of Remuneration and Nomination Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2013G – 2015G	Member of Risk Management Committee	Bank Aljazira	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2010G	CEO	Bank Aljazira	Public joint stock company	Banks and financial services
2013G	Member of the Executive Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2013G	Member of Remuneration and Nomination Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2013G	Member of Risk Management Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2013G	Managing Director	Bank Aljazira	Public joint stock company	Banks and financial services
2013G	Director	Aljazira Capital Co.	Closed joint stock company	Securities

Abdul Majeed bin Ibrahim Al Sultan

Age: 51 years

Nationality: Saudi

Position: Vice Chairman

Academic and Professional Qualifications

Year	Qualification	Area	University
1989G	Bachelor	Petroleum Engineering	King Saud University, Kingdom of Saudi Arabia

Previous Positions

N/A

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
1993G	Director	Etihad Brothers Develop. Co.	Closed joint stock company	Real-Estate Development
1998G	Director	Al Qassim Cement Company	Public joint stock company	Cement
2004G	Director (Vice Chairman of the Bank since January 2018	Bank Aljazira	Public joint stock company	Banks and financial services
2009G	Chairman of the Board	Royal & Sun Insurance Co. (Egypt)	Closed joint stock company	Insurance
2013G	Chairman	Aljazira Takaful Ta'wuni Company	Public joint stock company	Insurance

Mr. Khalifa bin Abdul Latif Al Mulhem

Age: 66 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
1978G	Bachelor	Business Administration	University of Colorado, US

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1985G - 2002G	Director	SABB	Public joint stock company	Banks and financial services
2009G - 2011G	Director	Saudi United Cooperative Insurance Company ("Wala'a Insurance")	Closed joint stock company	Insurance
2007G - 2012G	Director	Riyadh Cement Company	Closed joint stock company	Cement
2003G - 2012G	Director	Nama Chemical Company	Public joint stock company	Petrochemical industries

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
1995G	Director	Saudi White Cement Company	Closed joint stock company	Cement
2004G	Chairman	Advanced Petrochemical Company	Public joint stock company	Petrochemical industries
2007G	Director	Bank Aljazira	Public joint stock company	Banks and financial services
2007G	Director	IGI Company Jordan	Closed joint stock company	Insurance
2012G	Director	Al Ittefaq Steel Product Company	Closed joint stock company	Steel industries
2013G	Director	Aljazira Support Services Company	Closed joint stock company	Recruitment
2014G	Director	General Organization for Social Insurance (GOSI)	Government organization	Government
2017	Director	National Shipping Company of Saudi Arabia (Bahri)	Public joint stock company	Energy

Mohammad Abdullah Al Hagbani

Age: 36 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
2005G	Bachelor	Finance	Virginia Tech University, Virginia, USA

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
2005G - 2006G	Portfolio Manager	Al-Rajhi Bank	Public joint stock company	Banks and financial services
2006G - 2013G	Advisory Body Member	Global Investment House (Kuwait)	Public joint stock company	Investment & Asset Management
2006G - 2013G	Director-General of Investment Research Department	General Organization for Social Insurance (GOSI)	Government Organization	Government
2008G - 2013G	Investment Committee Member	Company for Cooperative Insurance	Public joint stock company	Insurance
2008G - 2013G	Advisory Body Member	Cerberus Capital Management (USA)	Partnership	Investment
2008G - 2013G	Advisory Body Member	Apollo Company for Capital Management (USA)	Limited liability company	Investment
2008G - 2013G	Advisory Body Member	Axa Investment Managers (USA)	Public joint stock company	Investment

Service period	Position	Company/Authority	Legal entity	Sector
2009G - 2013G	Director	Bank Aljazira	Public joint stock company	Banks and financial services
2010G - 2013G	Chairman of the Audit Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2010G - 2013G	Chairman of the Audit Committee	National Petrochemical Company	Public joint stock company	Petrochemical industries
2010G - 2013G	Director	National Petrochemical Company	Public joint stock company	Petrochemical industries
2012G-2013G	Member of Investment Committee	Aljazira Capital	Closed joint stock company	Securities

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2016G	Director	Bank Aljazira	Public joint stock company	Banks and financial services
2016G	Chairman of the Audit Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2010G	Director	Aljazira Capital Co.	Closed joint stock company	Securities
2014G	CEO	Astra Industrial Group	Public joint stock company	Industrial Investment
2014G	Chairman of Manager Board	Astra Mining Company	Limited liability company	Mining
2016G	Chairman	Aljazira Capital Co.	Closed joint stock company	Securities
2017G	Director	Herfy Food Services	Public joint stock company	Fast-Moving Consumer Goods

Abdul Salam bin Abdulrahman Al-Aqeel

Age: 51 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
1990G	Bachelor of Science	Industrial Management	King Fahd University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia Kingdom
1996G	Training course in CPE	Finance Department	The Family Office, USA
1997G	Strategic Finance Certificate	Finance Department	Harvard University, USA
2001G	Private Wealth Management Certificate	Finance Department	Wharton Education Program, Pennsylvania University, USA

Year	Qualification	Area	University
2009G	Certificate of successfully passing the test CME	Financial markets	Banking Institute in Riyadh, the Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
2008G - 2015G	Director	Jarir Holding Company	Closed joint stock company	Multi-Investment
2009G - 2013G	Director	Malath Insurance & Reinsurance Company	Public joint stock company	Insurance
2010G - 2013G	Director	Herfy Food Services	Public joint stock company	Foodstuffs
2013G - 2016G	Member of the Executive Committee	Capital Market Authority	Government organization	Government

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2001G	Chairman of the Audit Committee	Jarir Marketing Company	Public joint stock company	Retail
2002G	Chairman of Manager Board	Century 21 Saudi Company	Limited liability company	Real estate
2006G	General Manager	Future Markets Company	Limited liability company	Real estate
2007G	Chairman of Manager Board	Developed Market Company	Limited liability company	Real estate
2008G	Managing Director and CEO	Riyadh Najd Schools Company	Closed joint stock company	Education
2008G	Director	Kinan International for Real Estate Development Company	Closed joint stock company	Real-Estate Development
2010G	General Manager	AFRAS	Limited liability company	Real estate and contracting
2013G	Director	Eta'am	Charity	Volunteering works
2013G	Chairman of the Board	Horma	Closed joint stock company	Real estate
2013G	Director	Wadi Horma Company	Closed joint stock company	Real estate
2014G	Director	Al Khomasiah	Limited liability company	Real estate and contracting
2014G	Director	Al Khomasiah	Limited liability company	Real estate and contracting
2014G	Director	Sorouh	Limited liability company	Real estate

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2014G	Chairman of the Board	Asala Holding Company	Closed joint stock company	Real estate
2014G	Director	General Authority for Investment	Government organization	Government
2015G	Director	Al-Andalus Real Estate Company	Public joint stock company	Real estate
2016G	Managing Director and Director	Jarir for Commercial Investment Company	Closed joint stock company	Commercial investment
2016G	Managing Director and Director	Jarir for Commercial Investment Company	Closed joint stock company	Real estate
2016G	Chairman of the Board	Imtiaz	Closed joint stock company	Retail
2017G	Chairman of Manager Board	Alkhoyool Alarabia for Real Estate Development	Limited liability company	Real Estate Development
2016G	Chairman of Manager Board	Manazel Al-Mostaqbal for Real Estate Development and Investment Co.	Limited liability company	Real Estate Development and Investment

Saeed bin Saad Al-Murtan

Age: 73 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
1971G	Bachelors	Economy and political science	Riyadh University, the Kingdom of Saudi Arabia,
1975G	Masters	Economics	Iowa State University, United States of America
1980G	PhD	Economics	University of Nebraska, Lincoln, United States of America

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1972G - 1980G	Teaching Assistant and Graduate Scholar	University of Riyadh	Government	Education
1980G - 1992G	Assistant Professor - Department of Economics	King Saud University	Government	Education
1984G - 1987G	Vice Dean and Acting Dean	University Studies Center for Girls - King Saud University	Government	Education
1987G - 1992G	Associate Professor, Department of Economics and Head of Economics Department	King Saud University	Government	Education

Service period	Position	Company/ Authority	Legal entity	Sector
1992G - 1998G	Assistant General Manager and Director of Islamic Banking Services Department	The National Commercial Bank (NCB)	Public joint stock company	Banks and financial services
1998G - 1999G	Executive Advisor to the Chairman of the Public Administration Committee	The National Commercial Bank (NCB)	Public joint stock company	Banks and financial services
1999G - 2000G	Executive Advisor to the Chairman and Managing Director	The National Commercial Bank (NCB)	Public joint stock company	Banks and financial services
2000G - 2004G	CEO	Shamil Bank of Bahrain (Bahrain)	Public joint stock company	Banks and financial services
2000G - 2004G	Vice Chairman of the Board	Shamil Bank of Yemen and Bahrain (Yemen)	Closed joint stock company	Banks and financial services
2000G - 2004G	Director	General Council of Islamic Banks and Financial Institutions	An international organization	Banks and financial services
2000G - 2005G	Director	Faisal Bank Limited (Pakistan)	Public joint stock company	Banks and financial services
2000G - 2005G	Director	Faisal Finance (Switzerland)	Closed joint stock company	Banks and financial services
2001G - 2004G	Director	International Islamic Financial Market (Bahrain)	Non-profit Organization	Banks and financial services
2002G - 2005G	Director	Solidarity Islamic Takaful (Bahrain)	Public joint stock company	Takaful and insurance
2004G - 2005G	Executive Vice President	Dar Al-Maal Al-Islami Group (Switzerland)	Closed joint stock company	Banking and financial banking services
2005G - 2006G	Director	Al Raed Islamic Fund (UK)	Limited Liability Company	Banks and financial services
2006G and 2008G	CEO	Al-Sarrah Center for Financial and Economic Consultancy	Consulting Office	Financial consulting services
2008G - 2012G	Chairman of the Board	Adeem Capital	Closed joint stock company	Financial Brokerage and asset management
2009G - 2015G	Director and General Manager	Business Solutions Company	Limited liability company	Marketing
2016G - 2017G	Director and General Manager	Tharwa Investment Co.	Limited liability company	Public and real estate investment
2007G - 2016G	Chairman of Manager Board	Gulf Advisors	Limited liability company	Financial consulting

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2016G	Director, Head of the Risk Committee and member of the Audit Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2005G	Chairman of Manager Board	Alriyada IT Company	Limited liability company	Information Technology

Ibrahim bin Abdulaziz Al-Shaya

Age: 35 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
2004G	Bachelors	Accounting	King Saud University, Riyadh, Kingdom of Saudi Arabia
2008G	Masters	Advanced professional accounting	Queensland University of Technology, Australia

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
2002G - 2004G	Financial Auditor	Al-Rashed Consultants & Accountants	Limited liability company	Accounting and auditing
2008G - 2009G	Part-time consultant on development of electronic financial and administrative work	GCC Accounting and Auditing Organization	Government organization	Accounting and auditing
2010G - 2013G	Audit Committee member	Saudi French Insurance Company	Public joint stock company	Insurance
2011G - 2015G	Director	Al Safwa Cement Company	Closed joint stock company	Cement
2011G - 2014G	Budget Management Manager	General Organization for Social Insurance (GOSI)	Government Organization	Social insurance
2013G - 2015G	Chairman of the Audit Committee	Al Safwa Cement Company	Closed joint stock company	Cement
2015G – 2016G	Chairman of the Audit Committee	Al Safwa Cement Company	Closed joint stock company	Cement

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2014G	General Manager Finance	General Organization for Social Insurance (GOSI)	Government Organization	Social insurance
2016G	Member of the Executive Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2016G	Member of Risk Management Committee	Bank Aljazira	Public joint stock company	Banks and financial services
2016G	Director	Bank Aljazira	Public joint stock company	Banks and financial services

Abdullah bin Saleh Al-Rashid

Age: 60 years

Nationality: Saudi

Position: Director

Academic and Professional Qualifications

Year	Qualification	Area	University
1983G	Bachelors	Administrative Sciences - Accounting Specialization	King Saud University, Riyadh, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1983G - 1984G	Responsible for budget estimates for Financial Affairs	Arab National Bank	Public joint stock company	Banks and financial services
1984G - 1988G	Official in Financial Affairs	Cultural Office of the Kingdom of Saudi Arabia (Canada)	Government	Education
1988G - 1992G	Official in Financial Affairs - Accounts Saudi Arabian Cultural Attache in the U.S.A	Ministry of Higher Education	Government	Education
1992G - 2001G	Assistant General Manager	Tourism Cheque Saudi Company	Closed joint stock company	Banks and financial services
2001G - 2005G	Deputy CEO for financial and administrative affairs and Board member	Othaim Trading Group	Public joint stock company	Investing in wholesale and retail
2006G - 2008G	Deputy CEO for financial affairs- Director of Abdullah Al-Othaim Markets Company	Al-Othman Holding	Closed joint stock company	Commercial investment
2008G - 2014G	Vice Chief Executive Officer	Khalid Al Bultan Group	Limited liability company	Commercial investment

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2015G	Co-founder, CEO and Board Member	Ada'i Company for Financial and Administrative Consultancy	Limited liability company	Administrative & Financial Business
2017G	Director	Maharah Human Resources Co.	Closed joint stock company	Administrative Consultancies
2017G	Chairman of the Audit Committee	Gas Cylinder Factory Company	Closed joint stock company	Industrial

The business address of each of the Directors comprising the Board is Bank Aljazira Head Office, P.O. Box 6277, Al-Nahdah District, Jeddah 21442, Kingdom of Saudi Arabia.

5.3 Board Secretary

Mr. Khalid bin Omar Al-Mogrin

Age: 51 years

Nationality: Saudi

Position: Head of Legal Group and Board Secretary

Academic and Professional Qualifications

Year	Qualification	Area	University
1990G	Bachelor	Law	King Saud University, Kingdom of Saudi Arabia
1998G	Master	Law	American University in Washington D.C., USA

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1994G - 1995G	Assistant Legal Adviser	Saudi Industrial Development Fund (SIDF)	Government Organization	Government
1995G - 1999G	Cases Researcher	Arab Petroleum Investment Corporation	Closed joint stock company	Energy
1999G - 2001G	Legal Consultant	Arab Petroleum Investment Corporation	Closed joint stock company	Energy
2001G - 2002G	Senior Manager	SAMBA Financial Group	Public joint stock company	Banks and financial services
2002G - 2004G	Deputy Head of Legal Department	SAMBA Financial Group	Public joint stock company	Banks and financial services
2004G - 2005G	Legal Consultant and Head of Resolving Disputes Department	Communication and Information Technology Commission	Government Organization	Government
2005G - 2010G	Head of Legal Group and Board secretary	Bank Al-Bilad	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2010G	Head of Legal Group and Board Secretary	Bank Aljazira	Public joint stock company	Banks and financial services

5.4 Senior Management

The Company is managed by a highly experienced team with the necessary knowledge and skills to manage the Bank's operations. The following table sets out the names of Senior Management team as of the date of this Offering Circular.

Table 5.2 Members of Senior Management Team

Name	Age	Nationality	Position	Date of Appointment to Current Position	Date of joining the Bank	Number of shares held			
						Directly	Indirectly*	Total	Percentage
Mr. Nabil bin Dawood Al Hoshan	56	Saudi	Chief Executive Officer and Managing Director	2010G	2010G	3,465	None	3,465	0.0006%
Mr. Yasser bin Ali Al-Hedaithy	46	Saudi	Head of Treasury Group	2010G	2010G	N/A	None	-	-
Mr. Tarek bin Abdulrahman Al-Shubaily	59	Saudi	Head of Human Resources Group	2010G	2010G	N/A	None	-	-
Mr. Hamad bin Abdulaziz Al-Ajaji	63	Saudi	Head of Private Banking	2012G	2012G	N/A	None	-	-
Mr. Khalid bin Othman Al-Othman	51	Saudi	Head of Retail Banking Group	2010G	2010G	N/A	None	-	-
Mr. Abdullah bin Mohammed Al-Shmassi**	50	Saudi	Head of Corporate and Institutional Banking Group	2012G	2012G	N/A	None	-	-
Ahmed Sufian Abdul Razzaq Al Hassan	38	Saudi	Chief Operations Officer	2017G	2011G	3900	N/A	3900	0.00008%
Mr. Osama bin Khader Al Ibrahim	46	Saudi	Head of Risk Management Group	2017G	2006G	5,102	N/A	5,102	0.00098%
Mr. Shahid Amin	51	British	Chief Financial Officer	2012G	2012	N/A	None	-	-
Mr. Khalid bin Omar Al-Mogrin	51	Saudi	Head of Legal Group and Board secretary	2010G	2010G	N/A	None	-	-
Dr. Fahd bin Ali Al-Olayan	49	Saudi	Head of Sharia and Social Responsibility Group	2008G	2008G	8,665	N/A	8,665	0.0016%
Mr. Ibrahim bin Mohammed Al-Hurabi***	62	Saudi	Head of Internal Audit Group	2008G	2008G	N/A	None	-	-
Hassan Ali Ahmed Barsheed	37	Saudi	Acting Head of the Group Combating Money Laundering and the Financing of Terrorism	2017G	2007G	N/A	None	-	-
Mona bint Abdulrahman Al-Shaghaa	45	Saudi	Head of Compliance Group	2013G	2013G	N/A	None	-	-

Name	Age	Nationality	Position	Date of Appointment to Current Position	Date of joining the Bank	Number of shares held			
						Directly	Indirectly*	Total	Percentage
Sami Hamed Nasser Al Rajhi	46	Saudi	Head of Fawry Services Group	2013G	2013G	N/A	None	-	-

Source: The Bank

* Meaning the shares owned by the board of Directors indirectly at the bank by owning companies possessing shares at the bank or the shares owned by the relatives of the board of Directors directly or by owning companies possessing shares at the bank.

** Mr. Abdullah bin Mohammed Al-Shmassi resigned from his current position at the bank and his employment at the bank will end on March 31, 2018G. The bank has started to look for the suitable replacement for that position.

*** Mr. Ibrahim bin Mohammed Al-Hurabi will retire from his current position at the bank and his employment at the bank will end on March 31, 2018G. The bank has started to look for the suitable replacement for that position.

5.4.1 CVs of Senior Management

Below is a brief biographical summary of each member of Senior Management:

Nabil bin Dawood Al Hoshan

Position: Chief Executive Officer and Managing Director. To review his biography, see section 5.2.1 "Summary of Biographies of Directors".

Mr. Yasser bin Ali Al-Hedaithy

Age: 46 years

Nationality: Saudi

Position: Head of Treasury Group

Academic Qualifications

Year	Qualification	Area	University
1994G	Bachelors	Accounting	King Saud University, Riyadh, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1994G - 2001G	Held many positions, last of which was Manager of Trading	SAMBA Financial Group	Public joint stock company	Banks and financial services
2001G - 2008G	Head of Trading in Treasury Group	SAMBA Financial Group	Public joint stock company	Banks and financial services
2008G - 2009G	Head of Treasury Group	Arab National Bank	Public joint stock company	Banks and financial services
2009G - 2010G	Private Business Management	Emar Investment Company	Limited liability company	Investment

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2010G	Head of Treasury Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Tarek bin Abdulrahman Al-Shubaily

Age: 59 years

Nationality: Saudi

Position: Senior Vice President and Head of Human Resources Group

Academic Qualifications

Year	Qualification	Area	University
1981G	Bachelors	Business Administration	Ohio State University, USA

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1982G - 1994G	Held many positions, last of which was Deputy Head of the Finance and Administration Division	Saudi Aramco	A company owned by the Kingdom's Government	Petroleum
1994G - 1995G	Deputy General Manager of Private Projects	Mada Trading Company-United Kingdom	Limited liability company	Commerce
1996G - 1997G	Assistant of Vice Chairman	Mawarid Holding Company	Limited liability company	Multi-Investment
1997G - 2008G	Held many positions, last of which was General Manager of Human Resources Division	SABB	Public joint stock company	Banks and financial services
March 2009G - September 2009G	Manager of Human Resources	The Saudi Stock Exchange Company (Tadawul)	Joint stock company	Exchange

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2010G	Senior Vice President and Head of Human Resources Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Hamad bin Abdulaziz Al-Ajaji

Age: 63 years

Nationality: Saudi

Position: Head of Private Banking Group

Academic Qualifications

Year	Qualification	Area	University
1984G	Bachelors	Business Administration	Knoxville College, Tennessee, US

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1994G - 2002G	Chief Executive of Credit Card Division	SABB	Public joint stock company	Banks and financial services
	Chief Executive of Consumer Credit Services	SABB	Public joint stock company	Banks and financial services
	Chief Executive of Division of Credit Card products	SABB	Public joint stock company	Banks and financial services

Service period	Position	Company/Authority	Legal entity	Sector
2002G - 2004G	Chief Executive of the Premier Division	SABB	Public joint stock company	Banks and financial services
2004G - 2011G	Head of Private Banking Group	SABB	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2012G	Senior Vice President and Head of Private Banking Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Khalid bin Othman Al-Othman

Age: 51 years

Nationality: Saudi

Position: Head of Retail Banking Group

Academic Qualifications

Year	Qualification	Area	University
2012G	Master	Business Administration	London Business School, UK

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
2003G - 2006G	Head of Central Region Retail Banking	Banque Saudi Fransi	Public joint stock company	Banks and financial services
2006G - 2008G	Head of Central Region Retail Banking	The National Commercial Bank (NCB)	Public joint stock company	Banks and financial services
2008G - 2010G	Head of branch network of retail banking	Bank Al-Bilad	Public joint stock company	Banks and financial services
2010G - 2011G	Head of branch network of retail banking	Bank Aljazira	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2011G	Head of Retail Banking Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Abdullah bin Mohammed Al-Shmassi

Age: 50 years

Nationality: Saudi

Position: Head of Corporate and Institutional Banking Group (it is worth noting that Mr. Abdullah bin Mohammed Al-Shmassi resigned from his position as head of Corporate and Institutional Banking Group at the bank and his employment at the bank will end on March 31, 2018G). The bank has started to look for the suitable replacement for that position.

Academic Qualifications

Year	Qualification	Area	University
1992G	Bachelors	Petroleum Engineering	King Saud University, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1993G - 2000G	Held many positions, last of which was Team Leader in Corporate Banking	Saudi Hollandi Bank	Public joint stock company	Banks and financial services
2000G - 2001G	Head of Corporate Banking	Gulf International Bank -Kingdom of Saudi Arabia Branch	Public joint stock company	Banks and financial services
2001G - 2011G	Held many positions, last of which was head of Corporate and Institutional Banking Group	The Saudi Investment Bank	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2012	Head of Corporate and Institutional Banking Group	Bank Aljazira	Public joint stock company	Banks and financial services

Ahmed Sufian Abdul Razzaq Al Hassan

Age: 38 years

Nationality: Saudi

Position: Chief Operations Officer

Academic Qualifications

Year	Qualification	Area	University
2002G	Bachelors	Computer Science	King Saud University

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
2002G - 2005G	System Analyst	Saudi Arabian Monetary Authority	Government organization	Government
2005G - 2009G	IT Manager	Payment System	Government organization	Government
2009G - 2011G	Manager of Banking Channels Development	SABB	Public joint stock company	Banks and financial services
February 2011G - June 2011G	Head of Logistic Transformation Division	Bank Aljazira	Public joint stock company	Banks and financial services
June 2011G - 2017G	Head of Information Technology Division	Bank Aljazira	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2017G	Chief Operations Officer	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Shahid Amin

Age: 51 years

Nationality: British

Position: Chief Financial Officer

Academic Qualifications

Year	Qualification	Area	University
1990G	Bachelors	Economics	University of the West London
1997G	Member of the Association of Chartered Certified Accountants (FCCA)	Accounting	Association of Chartered Certified Accountants in UK

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1998G - 2000G	Senior Adviser	Lauren Consulting Group - London Office	Joint stock company	Financial consulting
2000G - 2002G	Senior Adviser	PA Consulting Group - London Office	Privately held corporation	Financial consulting
2002G - 2007G	Head of Cost Management and Coordinator of Finance	HSBC Group - London Office, assigned in the Group's office in the Kingdom of Saudi Arabia	Joint stock company	Banks and financial services
2007G - 2010G	Head of Development of Finance Products	SABB	Public joint stock company	Banks and financial services
2010G - 2012G	Executive vice president of finance and strategic planning	Al Hilal Bank	Joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2012G	Chief Financial Officer	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Khalid bin Omar Al-Mogrin

Position: Head of Legal Group and Board Secretary. To review his biography, see section 5.3 "Board Secretary".

Dr. Fahd bin Ali Al-Olayan

Age: 49

Nationality: Saudi

Position: Head of Sharia and Social Responsibility Group

Academic Qualifications

Year	Qualification	Area	University
1990G	Bachelors	Education	Shari'ah College - Imam University
1995G	Masters	Education	Applied Linguistics - Imam University
2001G	PhD	Education	Ohio State University, USA

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
2003G	Manager of the National Cultural Project for Renewing the Relation to Book	King Abdulaziz Public Library	Charity foundation	Charity
2003G - 2007G	Part-time consultant	Ministry of Higher Education	Government	Education
2005G - 2008G	Vice Dean of the University Center for Community Service and Continuing Education	Al-Imam Muhammad Ibn Saud Islamic University, Kingdom of Saudi Arabia	Government	Education
2005G - 2014G	Director in the Youth Club Board	General Presidency of Youth Welfare	Government agency	Sports and youth

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2008G	Head of Social Responsibility Group	Bank Aljazira	Public joint stock company	Banks and financial services
2001G	Professor in Curricula and Methods of Teaching	Al-Imam Muhammad Ibn Saud Islamic University, Kingdom of Saudi Arabia	Government agency	Education

Mr. Ibrahim bin Mohammed Al-Hurabi

Age: 62 years

Nationality: Saudi

Position: Head of Internal Audit Group (Please note that Mr. Abdullah bin Mohammed Al-Shmassi resigned from his position as Head of Internal Audit Group at the bank and his employment at the bank will end on March 31, 2018G). The bank has started to look for the suitable replacement for that position.

Academic Qualifications

Year	Qualification	Area	University
1980G	Bachelor	Shari'ah	Imam Mohammad bin Saud University - Qassim Branch
1982G	Higher Diploma	Financial control	General Administration Institute, Kingdom of Saudi Arabia

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1982G - 1983G	Internal auditor in Corporate Division	General Authority for Zakat and Income	Government entity	Government
1983G - 1994G	Held many positions, last of which was IT Auditor - Internal Audit	Saudi Arabian Monetary Authority	Government agency	Government
1994G - 1995G	IT Auditor	Ernst & Young, London. UK (seconded by SAMA)	Partnership	Audit
1995G - 2000G	Manager of security and control of information systems - Technological Banking	Saudi Arabian Monetary Authority	Government agency	Government
2000G - 2002G	Manager of Treasury and Issuance Department	Saudi Arabian Monetary Authority	Government agency	Government
2002G - 2008G	General Manager of Finance and Administration	Communication and Information Technology Commission	Government organization	Government

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2008G	Head of Internal Audit Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mr. Osama bin Khader Al Ibrahim

Age: 46 years

Nationality: Saudi

Position: Head of Risk Management Group

Academic Qualifications

Year	Qualification	Area	University
1994G	Bachelors	Industrial Management	King Fahd University of Petroleum and Minerals

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1996G - 2006G	Held many positions, including Customer Relations Manager and Head of Customer Relations	SAMBA Financial Group	Public joint stock company	Banks and financial services
2006G - 2008G	Head of Central Region Corporate Banking	Bank Aljazira	Public joint stock company	Banks and financial services
2008G - 2014G	Head of Corporate Banking in the Kingdom	Bank Aljazira	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2017G	Head of Risk Management Group	Bank Aljazira	Public joint stock company	Banks and financial services

Mona bint Abdulrahman Al-Shaghaa

Age: 45

Nationality: Saudi

Position: Head of Compliance Group

Academic Qualifications

Year	Qualification	Area	University
1995G	Diploma in Banking Operations	Banking	Institute of Public Administration

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1996G - 1998G	Electronic Banking Back Office Support in Corporate Division	SABB	Public joint stock company	Banks and financial services
1998G - 2006G	Held many positions, including Compliance Section Manager in Corporate Banking Services Management and Product Manager in Corporate Banking Services Management	SAMBA Financial Group	Public joint stock company	Banks and financial services
2006G - 2008G	Senior Officer in Treasury Operations	Olayan Financing Company	Limited liability company	Financing
2008G - 2012G	Manager in Public Management for Internal Audit	Capital Market Authority	Government organization	Securities
2012G - 2013G	Advisor in the Public Division of Capital Market Institutions Supervision	Capital Market Authority	Government organization	Securities

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2013G	Head of Compliance Group	Bank Aljazira	Public joint stock company	Banks and financial services

Hassan Ali Ahmed Barsheed

Age: 37 years

Nationality: Saudi

Position: Acting Head of the Group Combating Money Laundering and the Financing of Terrorism

Academic Qualifications

Year	Qualification	Area	University
2005G	Bachelors	Finance Management	University of Colorado, US

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
2005G - 2007G	Financial Analyst	Ernst & Young Finance Office	Professional Co.	Accounting
2007G - 2009G	Assistant Manager in Compliance Group	Bank Aljazira	Public joint stock company	Banks and financial services

Service period	Position	Company/ Authority	Legal entity	Sector
2009G - 2017G	Manager of Self-Supervision	Bank Aljazira	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2017G	(Acting) Head of the Group Combating Money Laundering and the Financing of Terrorism	Bank Aljazira	Public joint stock company	Banks and financial services

Sami bin Hamad Al Rajhi

Age: 46 years

Nationality: Saudi

Position: Head of Fawry Group for money transfer services

Academic Qualifications

Year	Qualification	Area	University
2002G	Diploma in commerce	Banking	Nibras Commercial Secondary Institute in the Kingdom of Saudi Arabia
2003G	Banking Diploma	Banking	Arab Academy for Banking and Financial Sciences in the Hashemite Kingdom of Jordan

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1990G - 1993G	Operations Management Supervisor	Al-Rajehi Bank	Public joint stock company	Banks and financial services
1993G - 1996G	Transfer Center Supervisor	Al-Rajehi Bank	Public joint stock company	Banks and financial services
1996G - 2006G	Transfer Center Supervisor	Al-Rajehi Bank	Public joint stock company	Banks and financial services
2006G - 2007G	Brokerage Management Manager	Al-Rajhi Bank	Public joint stock company	Banks and financial services
2007G - 2007G	Transfer Management Manager	The National Commercial Bank (NCB)	Public joint stock company	Banks and financial services
2008G - 2013G	Ingaz Sector General Manager	Bank Al-Bilad	Public joint stock company	Banks and financial services

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2013G	Head of Fawry Group	Bank Aljazira	Public joint stock company	Banks and financial services

5.5 Governance

The Bank is committed to fully comply with corporate governance rules that ensure the strict implementation of comprehensive internal control systems, disclosure and transparency policies and adherence to risk management principles. In addition, the Bank also seeks to conduct its business in strict accordance with the Kingdom's laws and introduce the most recent performance standards of global banking to oversee its own banking performance, including the directives issued by SAMA, CMA, MOCI, and all the requirements and recommendations of the Basel Committee.

The new corporate governance regulations have been issued, imposing a number of additional requirements on the listed companies, especially in respect of disclosure and governance. The Bank is going to update its by-laws and policies in line with the new requirements. (for more details about risks of non-compliance with the regulatory requirements, see Section 2.1.23 "Risks Related to the Regulatory Requirements".

5.6 Board of Directors

The Board of Directors consists of nine (9) members appointed by the Ordinary General Assembly held on 17/03/1437H (corresponding to 28/12/2015G). The Board consists of three independent Directors, five non-executive Directors and one executive Director.

The Board is primarily responsible for approving the Bank's main objectives and strategic plans, supervising their implementation, and monitoring the performance and progress of the Bank through regular meetings held throughout the year. Moreover, the Board of Directors regularly reviews the efficiency of the applicable systems and internal control procedures, monitors the Bank's key sectors to ensure the application of its established general policies, determines the risk levels, and ensures their proper management.

5.7 Committees

As per the date of this Prospectus, the Bank has five Committees, four of which are related to the Board: the Executive Committee, the Nomination and Remuneration Committee, the Risk Management Committee, the Senior Committee for the "Khair Aljazira Le Ahl Aljazira" Program, and the Audit Committee formed by the Bank's General Assembly. All Committees work in accordance to a clear and approved charters specifying each committee's tasks and responsibilities. These committees are responsible for monitoring the Company's business, each according to its competence, and providing recommendations and propositions to the Board.

5.7.1 Executive Committee

The Bank's Executive Committee consists of five members elected by the Board and is currently overseen by the Chairman of the Board. The Executive Committee's competence and powers are defined by the Board, and accordingly is responsible for monitoring the implementation of the strategy and policies laid down by the Board and Risk Department, observing the Bank's performance, and recommending the budget and business plan of the Bank for each financial year. In addition to monitoring the efficiency of implementing the standards and policies for internal control.

The Executive Committee consists of the following members:

Table 5.3 Executive Committee's Members

Name	Position
Eng. Tarek bin Othman Al Kasabi	Committee Chairman
Mr. Nabil bin Dawood Al Hoshan	Member
Mr. Khalifa bin Abdul Latif Al Mulhem	Member
Eng. Abdul Majeed bin Ibrahim Al Sultan	Member
Ibrahim bin Abdulaziz Al-Shaya	Member

5.7.2 Audit Committee

The Audit Committee consists of three members who are fully experienced in accounting standards and business laws, which enables them to fulfill their duties smoothly. The responsibilities and duties of this Committee are as follows:

- Supervising the Internal Audit Division, and monitoring its effectiveness of implementing the duties and responsibilities assigned to it.
- Studying the reports of Internal Audit and following-up on the implementation of corrective actions for the referred notes.
- Studying and reviewing the Bank's internal audit and finance systems and risk management.
- Reviewing the results of regulatory bodies' reports and checking that the Bank took the necessary actions in this regard.
- Submitting recommendations to the Board to nominate auditors, dismiss them from office, determine their fees and evaluate their performance after checking their independence and reviewing their work scope and their contracting conditions.
- Overseeing the activities of external auditors, and approving any activities out of the agreed scope of work.

- Reviewing, with the external auditors, the audit plan, and making any comments thereon.
- Reviewing the external auditors' comments on the financial statements, and ensuring that all necessary actions in this regard are taken.
- Reviewing the quarterly and annual financial statements before presenting them to the Board, and giving opinions and recommendations thereon.
- Reviewing the accounting policies followed by the Bank, and providing the Board with relevant recommendations.

On 04/06/2017G, the Bank's Board of Directors approved a new charter for the Audit Committee, which includes the additional tasks for the Audit Committee. The new charter will be discussed with the shareholders in the Extraordinary General Assembly related to the approval of the capital increase. The additional tasks outlined in the revised charter are as follows:-

- Reviewing the proposed contracts and transactions to be executed with the related parties and providing the Board with relevant recommendations.
- Reviewing the transactions to be executed with the related parties and ensuring that they are recorded and disclosed properly.

The Audit Committee consists of the following members:

Table 5.4 Audit Committee's Members

Name	Position
Mohammad Abdullah Al Hagbani	Committee Chairman
Fawaz bin Mohammed Al-Fawaz	Member
Taha Mohammed Azhary	Member

Fawaz Mohammed Al-Fawaz

Age: 53 years

Nationality: Saudi

Position: Audit Committee member

Academic and Professional Qualifications

Year	Qualification	Area	University
1983G	Bachelors	Accounting & Finance	King Saud University, the Kingdom

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1983G - 1999G	Held several positions, the most recent of which was Assistant Deputy Head of the Finance Division	Sabic Marketing Co. Ltd.	Limited liability company	Marketing
2000G - 2004G	General Manager of Common Services – Accounting Division	Saudi Basic Industries Corporation (SABIC)	Public joint stock company	Petrochemical industries
2004G - 2009G	Finance Division General Manager	Saudi Basic Industries Corporation (SABIC)	Public joint stock company	Petrochemical industries
2007G - 2015G	Deputy Chairman and Audit Committee Head	Yanbu National Petrochemical Company	Public joint stock company	Petrochemical industries
2010G - 2015G	Finance Division Deputy Head	Saudi Basic Industries Corporation (SABIC)	Public joint stock company	Petrochemical industries

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2012G	Audit Committee member	Bank Aljazira	Public joint stock company	Banks and financial services

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2013G	Audit Committee member	Malath Insurance Company	Public joint stock company	Insurance
2015G	Chief Financial Officer	National Industrialization Company (Tasnee)	Public joint stock company	Petrochemical industries

Taha Mohammed Azhary

Age: 46 years

Nationality: Saudi

Position: Audit Committee member

Academic and Professional Qualifications

Year	Qualification	Area	University
1993G	Bachelors	Accounting	King Saud University, the Kingdom

Previous Positions

Service period	Position	Company/ Authority	Legal entity	Sector
1993G - 1995G	External Auditor	Arthur Andersen Co., Riyadh	Limited liability company	Audit
1995G - 1998G	Internal Auditor	SAMBA Financial Group	Public joint stock company	Banks and financial services
1998G - 2001G	Compliance & Quality Assurance Officer	SAMBA Financial Group	Public joint stock company	Banks and financial services
1999G - 2001G	Internal Auditor - Finance Division	SAMBA Financial Group, Geneva Branch - Switzerland	Public joint stock company	Banks and financial services
2001G - 2004G	Internal Audit & Risk Management Manager	Othaim Trading Group	Limited liability company	Retail
2004G - 2008G	Finance Division General Manager	The Saudi Hypermarkets Company (Carrefour)	Limited liability company	Retail
2008G - 2015G	Held several positions, the most recent of which was Economic Advisor to the CEO	National Water Company	Closed joint stock company	Water
2013G - 2016G	Audit Committee member	Aljazira Capital Co.	Closed joint stock company	Securities

Current Positions

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2013G	Audit Committee member	Bank Aljazira	Public joint stock company	Banks and financial services

Date of Appointment/ Joining	Position	Company/Authority	Legal entity	Sector
2014G	Audit Committee member	Arabian Shield Cooperative Insurance Company	Public joint stock company	Insurance
2014G	Chairman of the Audit Committee	Hana Food Industries Company	Closed joint stock company	Industries
2015G	Senior Financial Manager	GACA	Limited liability company	Aviation
2017G	Director	Batic for Logistics and Investment Co.	Public joint stock company	Transportation
2017G	Director	Zahrat Al Waha For Trading Company	Public joint stock company	Industries

5.7.3 Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three members. The responsibilities and duties of this committee include the following:

- Recommending the nomination of the Directors in compliance with the policies and standards approved by the Company, and ensuring that no person previously convicted of any offence in regards to honor or honesty is nominated for the Directorship.
- Reviewing, on annual basis, the requirements and skills necessary to qualify for Directorship, describing members' duties and academic degrees required for membership, and specifying the time necessary for the member to designate to carry out the Board's work.
- Reviewing the structure of the Board, and making recommendations regarding the changes that might be made.
- Determining the points of strengths and weakness in the Board, and recommending remedies that are compatible with the Company's interest.
- Ensuring, on an annual basis, the independence of independent Directors and the absence of any conflict of interests.
- Drawing clear policies for indemnities and remunerations of the Directors, including Board Chairman and Board Committees' members.

The Nomination and Remuneration Committee consists of the following members:

Table 5.5 Nomination and Remuneration Committee Members

Name	Position
Khalifa bin Abdul Latif Al Mulhem	Committee Chairman
Abdul Salam bin Abdulrahman Al-Aqeel	Member
Abdullah bin Saleh Al-Rashid	Member

5.7.4 Risk Management Committee

The Risk Management Committee consists of three members. Its tasks and responsibilities include overseeing the risks related to the Bank's business and operations; it reviews the ability of the Bank to manage risks based on analysis submitted by the Risk Management and formulates the appropriate polices for application. It also approves the classification system in the Bank and adopts risk policies related to the management of assets and liabilities.

The Risk Committee consists of the following members:

Table 5.6 Risk Management Committee Members

Name	Position
Saeed bin Saad Al-Murtan	Committee Chairman
Ibrahim bin Abdulaziz Al-Shaya	Member
Abdullah bin Saleh Al-Rashid	Member

5.7.5 The Higher Committee of the "Khair Aljazira Le Ahl Aljazira" Program

The Higher Committee of the "Khair Aljazira Le Ahl Aljazira" Program consists of three members and plays a significant role in assisting the Board with social responsibilities related to the "Khair Aljazira Le Ahl Aljazira" Program. The Committee is responsible for drawing up policies and procedures for social responsibility program and activities, approving the annual budget and plan of the "Khair Aljazira Le Ahl Aljazira" Program, and reviewing the program's objectives through activating and demonstrating the role of the Bank in serving to the community.

The committee effectively contributes and participates in social responsibility programs in the Kingdom, setting the ground for cooperation and communication between the Bank and entities concerned with such programs. It also establishes quality partnerships with charity associations in the Kingdom, thereby manifesting the role of the private sector in boosting the social responsibility. The Committee strives relentlessly to create a suitable environment for encouraging and qualifying youth for the labor market and introducing special programs to qualify people with special needs. It also submits an annual report to the Board on the activities and programs of "Khair Aljazira Le Ahl Aljazira".

The Higher Committee for the "Khair Aljazira Le Ahl Aljazira" Program consists of the following members:

Table 5.7 Members of the "Khair Aljazira Le Ahl Aljazira" Program Higher Committee

Name	Position
Eng. Abdul Majeed bin Ibrahim Al Sultan	Committee Chairman
Mr. Abdulaziz bin Ibrahim Al-Hadlaq	Member
Dr. Fahd bin Ali Al-Olayan	Member

Mr. Abdulaziz bin Ibrahim Al-Hadlaq

Age: 54 years

Nationality: Saudi

Position: Member of the "Khair Aljazira Le Ahl Aljazira" Program Higher Committee

Academic and Professional Qualifications

Year	Qualification	Area	University
1982G	Bachelors	Social Service	King Saud University, the Kingdom
1984G	Diploma	Community Development	Applied Research and Training Centre, KSA
1991G	Diploma	International Development	University of Missouri, Columbia, USA
1992G	Masters	Community Development	University of Missouri, Columbia, USA

Previous Positions

Service period	Position	Company/Authority	Legal entity	Sector
1996G - 1998G	General Manager Assistant of the General Department for International Organizations	Ministry of Labor and Social Affairs	Government entity	Government
1998G - 2005G	General Manager of the General Department for International Organizations	Ministry of Labor and Social Affairs	Government entity	Government
1996G - 2005G	Director	International Labour Organization	Non-profit Organization	Social development
2005G - 2006G	General Supervisor of the Public Relations & Social Advertising Department	The Ministry of Social Affairs	Government entity	Government
2005G - 2007G	Director-General of International Co-operation	Ministry of Social Affairs for Social Development	Government entity	Government
2007G - 2011G	Assistant Undersecretary	Ministry of Social Affairs for Social Development	Government entity	Government

Service period	Position	Company/Authority	Legal entity	Sector
2011G - 2013G	Deputy Minister	Ministry of Social Affairs for Social Development	Government entity	Government
2013G - 2017G	Director	Shura Council	Government entity	Government

Current Positions

Date of Appointment/ Joining	Position	Company/ Authority	Legal entity	Sector
2013G	Member of the "Khair Aljazira Le Ahl Aljazira" Program Higher Committee	Bank Aljazira	Public joint stock joint stock company	Banks and financial services
2017G	Consultant of Labor and Social Development	Ministry of Labor and Social Affairs	Government entity	Government

5.8 Service Contracts

The Bank has not entered into any service or labor contracts with any of the Directors except for Mr. Nabil bin Dawud al-Hoshan as the CEO and the managing Director. The following table sets out the summary of the contracts concluded with the CEO and the CFO:

The following table sets out the summary of such contracts:

Table 5.8 Service Contracts

Name	Position	Contract Commencement Date	Term of Contract
Mr. Nabil bin Dawood Al Hoshan	CEO	2010G	Undefined
Mr. Shahid Amin	Chief Financial Officer	2012G	Two Renewable Years

Source: The Company

5.9 In-kind Numerations, Indemnities and Benefits of the Board's Members and Senior Executives

The below table shows total number of in-kind numerations, indemnities and benefits granted by the Bank and any of its subsidiary to the Board's members for the years ending on 31 December 2014G, 2015G and 2016G.

Table 5.9 In-kind Numerations, Indemnities and Benefits of the Board's Members (in SAR thousands)

Total in-kind numerations, indemnities and benefits	Year
5,664	2014G
3,459	2015G
5,058	2016G

The following table sets out the total in-kind numerations and benefits granted by the Bank and any of its subsidiary to five of the senior executives in the Bank (including the CEO and the CFO) who received the highest numerations in the last three financial years:

Table 5.10 Numerations and Benefits of Senior Executives (SAR'000)

Name	2014G	2015G	2016G
Salary and indemnities	13,910	14,197	14,197
Allowances	1,922	1,252	1,252
Annual and regular allowances	9,240	9,984	12,533
Incentives	-	-	0
Indemnities or benefits paid monthly or annually	1,500	1,515	1,500
Total	**26,572**	**26,948**	**29,482**

5.10 Employees

5.10.1 Bank Employees and Saudization Rate

The following table sets out the Bank's employees number by department for the years ending on 31 December 2014G, 2015G and 2016G and the period until 30 September 2017G:

Table 5.11 Breakdown of Bank Aljazira Employees by Department

Department	2014G				2015G				2016G				September 2017G			
	Saudization Rate	Total	Non-Saudis	Saudi Nationals	Saudization Rate	Total	Non-Saudis	Saudi Nationals	Saudization Rate	Total	Non-Saudis	Saudi Nationals	Saudization Rate	Total	Non-Saudis	Saudi Nationals
*Senior Management	14	3	17	82.35%	13	2	15	86.67%	13	2	15	86.67%	15	1	16	93.75%
Office of the CEO	2	2	4	50%	2	3	5	40%	2	3	5	40%	2	3	5	40%
**HR Group	56	7	63	88.89%	40	6	46	86.96%	67	6	73	91.78%	38	6	44	86.36%
***Safety & Security Department	18	0	18	100%	16	-	16	100%	19	0	19	100%	20	0	20	100%
****Fawry Banking Services Group	72	6	78	92.31%	176	6	182	96.70%	221	7	228	96.93%	233	7	240	97.08%
Public Relations and Communications Department	4	0	4	100%	3	-	3	100%	3	0	3	100%	3	-	3	100%
Marketing Group	6	0	6	100%	8	-	8	100%	8	0	8	100%	8	-	8	100%
Financial Group	23	11	34	67.65%	40	13	53	75.47%	45	13	58	77.59%	45	11	56	80.36%
Support Group	279	58	337	82.79%	254	53	307	82.74%	195	48	243	80.25%	195	57	252	77.38%
Private Banking Group	20	2	22	90.91%	21	2	23	91.30%	22	2	24	91.67%	25	2	27	92.59%
Retail Banking Group	896	15	911	98.35%	961	14	975	98.56%	960	14	974	98.56%	985	14	999	98.60%
Corporate and Institutional Banking Group	112	16	128	87.50%	130	24	154	84.42%	139	16	155	89.68%	146	15	161	90.68%
Risk Management Group	36	16	52	69.23%	48	19	67	71.64%	53	15	68	77.94%	54	20	74	72.97%
Treasury Group	32	4	36	88.89%	33	3	36	91.67%	31	3	34	91.18%	34	3	37	91.89%
Legal Group	6	2	8	75%	6	2	8	75%	9	3	12	75%	9	2	11	82%
Shari'ah Group	8	2	10	80%	8	1	9	88.89%	9	1	10	90%	9	1	10	90%
Internal Audit Group	21	2	23	91.30%	24	2	26	92.31%	22	2	24	91.67%	22	3	25	88.00%
Group Combating Money Laundering and the Financing of Terrorism	15	1	16	93.75%	21	1	22	95.45%	25	1	26	96.15%	23	15	24	95.83%
Social Responsibility Division	5	0	5	100%	5	-	5	100%	4	0	4	100%	4	20	4	100%

Department	2014G				2015G				2016G				September 2017G			
Compliance Group	12	1	13	92.31%	13	1	14	92.86%	15	1	16	93.75%	15	3	16	93.75%
***** Strategy and Business Development Group									36	4	40	90%	39	2	43	91%
Total	**1623**	**145**	**1768**	**91.80%**	**1793**	**150**	**1943**	**92.28%**	**1866**	**139**	**2005**	**93.06%**	**1889**	**1**	**2039**	**92.64%**

Source: The Company

* The Senior Management is not included in the total because every group head is calculated within his/her group.

** Includes the number of training program that end with employment

** The Security and Safety Department was transferred to the Risk Management Group in 2015 and is not included in the total.

**** Fawry Group For Banking Services was established in the last quarter of 2013G.

***** In 2016G, The Strategy and Business Development Group was removed from Supporting Services to an independent group. At the beginning of 2018G, it was integrated again as a sub group of the Support Group.

It should be noted that the total number of the Bank's employees has increased by 271 employees in 30 September 2017G compared to 2014G. The increase in the number of employees is mainly attributed to the growth strategy of the retail sector. The number of the Bank's employees in the Retail Banking Group has increased from 911 in 2014G to 999 in September 2017G. It should also be mentioned that Fawry Services Group commenced its business in the last quarter of 2013G, and the number of the Bank's employees in the Fawry Services Group has increased from 78 in 2014G to 240 in September 2017G.

The following table sets out the number of employees with Aljazira Capital for the years ending on 31 December 2014G, 2015G and 2016G and the period until October 2017:

Table 5.12 Aljazira Capital's Employees for years ending on 31 December 2014G, 2015G and 2016G and the period till October 2017G

Department	2014G			2015G			2016G			September 2017G		
	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total
Distribution and Customer Service Division	98	4	102	102	2	104	98	2	100	90	2	92
Asset Management Division	10	2	12	11	4	15	10	3	13	10	3	13
Investment Banking Services Division	2	4	6	3	4	7	2	4	6	2	3	5
Marginal Finance Management Division	7	-	7	7	-	7	8	-	8	8	-	8
Office of the CEO Division	3	-	3	3	-	3	2	1	3	2	1	3
Finance Management Division	3	3	6	2	4	6	2	4	6	1	3	4
Technology Management Division	8	16	24	8	15	23	8	16	24	7	16	23
Strategies and Institutional Development Division	6	1	7	6	1	7	6	1	7	7	1	8

Department	2014G			2015G			2016G			September 2017G		
	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total	Saudi Nationals	Non-Saudis	Total
Human Resources Management Division	5	-	5	4	-	4	5	-	5	5	-	5
Operations Management Division	13	4	17	14	6	20	15	4	19	17	4	21
Risk Management and Compliance Division	7	1	8	11	1	12	12	1	13	13	2	15
Research Division	2	4	6	2	2	4	4	1	5	4	1	5
Total	**164**	**39**	**203**	**173**	**39**	**212**	**172**	**37**	**209**	**166**	**36**	**202**

With regard to the Aman Development and Real Estate Investment Company, it has no employees, because its business is limited to registering real-estate guarantees on behalf of the Bank. For Aman Insurance, the total number of its employees is (13) thirteen employees seconded by the Bank since it is newly founded. The Aljazira Capital Co. has no employees since it is newly founded.

5.10.2 Staff Share Programs

As of the date of this Prospectus, the Bank does not have any Employee Share Schemes or other arrangements involving the employees in the Bank's capital.

6. Financial Information and Management Discussion and Analysis

6.1 Introduction

The management discussion and analysis of the Group's financial result shown below has been prepared by senior management on a consolidated basis, that is the financial statements for the years ending on 2014G, 2015G and 2016G and the financial statements for the interim periods ending on 30/09/2016G and 30/09/2017G ("the Financial Statements"). This discussion and analysis should be read in conjunction with those financial statements. Unless otherwise specified, the financial information presented in this discussion is derived from the financial statements.

Auditors (Ernst & Young Partners, KPMG Al Fouzan & Al Sadhan) and any of their partners or employees (or any relatives of such partners or employees) do not have any shareholding or interest of any kind in the Group. The auditors have submitted and not withdrawn their written consent with respect to the reference to their role stated in the Prospectus as the Group's Auditors for the financial years ending on 31/12/2014G, 31/12/2015G and 31/12/2016G and the interim financial periods ending 30/09/2016G and 30/09/2017G.

This section contains some forward-looking views and statements related to the Group's future prospectus based on current senior management plans and expectations regarding the Group's growth, results of operations and financial position. Accordingly, this discussion and analysis section involves a number of risks and uncertainties,. The actual results and actual performance of the Group may differ from what was explicitly or implicitly anticipated in the forward-looking views as a result of several factors and future events, including those discussed below and in other sections of this Prospectus.

Please note that the numbers in this Prospectus are rounded to the nearest integer. Therefore, the sum of these figures may differ from those in the tables. All annual rates, margins, annual expenses and compound annual growth rates are based on rounded figures.

6.2 Summary of Main Internal Policies

Credit risk is managed through the application and identification of formulated credit risk management policies, the establishment of certain risk levels, and monitoring these risks and their conformity to such levels as per the agreed terms and conditions. The Bank conducts a detailed study of the client through analyzing the operational and financial information and with the approved evaluation tools, reflecting the bank's view of the possibility of non-payment by the customer. Internal evaluation of the customer is reviewed annually for the parties committed to payment. As such, this assessment is reviewed when signs of increased risk appear. Risk is assessed for non-performing loans twice a year at a minimum.

If the customer does not pay its dues, the bad debts will be transferred to the debt restructuring section to try to put an end to the probability of loss by the bank. Debt is restructured when approval is given by the Bank, taking into account the economic and legal affairs of the customer. In cases of non-performing loan rescheduling, the customer's rating is not raised because of the approval of the restructuring only. The customer's rating is only raised in cases where there is evidence that the customer is subject to the rules contained in the rescheduling agreement. This includes a date of at least twelve months of regular payment of the fees, commissions and principal loan set out in the rescheduling agreement.

Loans and advances decrease when repaid by a customer, and in case of selling thereof to a third party, or when bad debts are written off by the bank and their provisions are written off on a case-by-case basis. All loans and advances must be written off within a period of 720 days from the date of allocation of the entire amount, unless approved by the Board of Directors.

The Bank reviews its loan and advances portfolio to assess the specific and general provision for credit losses. A provision will be created for a specific loan when the customer fails to pay the resulting loans or profits directly or through guarantees. Provisions for non-performing loans that exceed 90 days are computed in accordance with SAMA instructions. The internal risk valuations are rated from 1 to 10 according to the SAMA instructions. The rating for good debts is from 1 to 6, debts in need of special care is 7 and non-performing loans is from 8, 9 and10. The following sub-standard rates, relate to doubtful debts or losses, respectively. Accordingly, a provision will be created in accordance with the outstanding balance after applying the collateral limit given through a provision of 25%, 50% and 100% of the net value of loans and advances with ratings 8, 9 and 10, respectively. The Bank will, in accordance with the instructions of SAMA, make out 1% of the total operating facilities where the general provision is created.

6.3 Directors' Acknowledgment of the Financial Statements

The Board of Directors declares that the financial information presented in this discussion and analysis is obtained from the audited financial statements without material change. These financial statements have been prepared in accordance with the accounting standards of the financial institutions issued by SAMA and the International Financial Reporting Standards.

The Board of Directors declares that there has been no negative and significant change in the position of the Group (or the Bank) over the financial years ending on 31/12/2014G, 31/12/2015G and 21/12/2016G and the interim financial period ending on 30/09/2016G and 30/09/2017G in addition to the period from 01/10/2017G to the date of this Prospectus.

The Board of Directors declares that the Bank has sufficient funds to meet the Working Capital requirements for the twelve months following the date of this Prospectus, and that the Bank and subsidiaries' capital is not subject to any right of option.

Each member of the Bank's Board of Directors declares that, to his/her best knowledge and belief, and unless disclosed in this section and in other sections of this Prospectus, there are no mortgages, rights or assignment on the Bank's property as of the date of this Prospectus.

The Board of Directors also declares that the Group has not granted commissions, discounts, brokerage fees or any non-monetary compensation from the Bank to any Director, senior executive, responsible parties for presenting or offering securities or experts in connection with the issue or offering of any securities during the three years preceding the date of this Prospectus.

The Board of Directors declares that there is no interruption in the business of the Issuer or any of its subsidiaries which may have affected or has had a significant impact on the financial situation over the 12 months following the date of this Prospectus.

The Board of Directors declares that the Group does not have any properties, including contractual securities or any other assets whose value may be subject to fluctuations or may be difficult to verify its value, which directly affect the evaluation of the financial position.

The banking sector is monitored through SAMA by issuing the regulatory framework governing the sector as a whole. It is worth noting that the change in these frameworks and rules issued by SAMA has a positive or negative effect on the Bank's performance. For example, the income of fees and commissions was affected by SAMA's policy, setting a higher ceiling for loans granted to individuals in some cases since October 2014G. (For more information, see Section 6.7.5.5.2 of this Prospectus "Real estate loans").

The Bank's objectives are to comply with the capital requirements established by Basel III and applied by SAMA. These requirements have resulted in changes in the capital account and have raised the ceiling of capital adequacy requirements at earlier times. The current capital increase will help Bank Aljazira comply with these requirements, to help growth requirements in line with the management agenda.

6.4 Summary of Main Accounting Policies

These consolidated financial statements have been prepared in accordance with Accounting Standards for Financial Institutions issued by SAMA and International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB). The Bank also prepares its consolidated audited financial statements in line with the Banking Control System, the Companies Law in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

6.4.1 The Basis of Consolidation of the Financial Statements

The consolidated financial statements consist of the financial statements of Bank Aljazira and its subsidiaries. The subsidiaries' financial statements are prepared for the same financial year as the financial year for which the Bank's financial statements are prepared using similar accounting policies.

The consolidated financial statements have been prepared using accounting policies and valuation methods similar to similar transactions and other activities in similar circumstances.

(1) Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank shall have control over an enterprise when the Bank has rights or variable returns arising from its engagement with that enterprise. It also has the ability to influence those revenues through its control of the entity. To define control, the following three criteria must be met:

a- The must have authority over the enterprise.
b- The Bank must have rights in variable returns due to its engagement with the enterprise.
c- The Bank must have the ability to use its authority over the enterprise to influence the size of its revenues.

The Bank reassesses its continuing control over the invested enterprise if the facts and circumstances indicate that there are changes in one or more of the control criteria.

Subsidiaries are consolidated as of the date on which control is transferred to the Bank, and the consolidation is discontinued from the date on which control is transferred from the Bank. The profits of subsidiaries acquired or sold during the year, if any, are included in the consolidated income statement from the date of acquisition or up to the date of sale, as appropriate.

(2) Non-Controlling Share

The non-controlling share comes in the form of a share in the net income and net assets of subsidiaries that are not directly or indirectly held by the Bank. Such shares are separately presented in the consolidated income statement and are also presented on the standardized finance center's statement independently of the shareholders rights in the bank. Losses related to the non-controlling share in a subsidiary will be incurred thereby even if this causes a balance deficit in the non-controlling share. Changes in the Bank's share in a subsidiary which does not lead to the loss of control over such subsidiary are calculated as equity variables.

(3) Exclusion of operations upon consolidation

Balances and any unrealized income and expenses (except for foreign exchange gains or losses) arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains only if there is no evidence of impairment.

(4) Investment in affiliate companies

Affiliate companies are those entities over which the Bank exercises significant influence. Cost of investments in affiliates is initially recognized, and such investments are subsequently accounted for using the equity method of accounting. They are recognized in the consolidated statement of the financial position based on the value calculated in accordance with the method of equity rights or retrievable value-whichever is less.

The value calculated using the equity method represents the cost plus post-acquisition changes in the Group's share of the net assets of the affiliate (the share of results, reserves and gains/losses accumulated based on the latest available financial statements) less any reduction in value (if any).

After application of the equity method, the Group decides whether it is necessary to record an additional loss on the value of its investment in the affiliate. The Group determines at each reporting date and whether there is objective evidence indicating that the investment in the affiliate has declined. In this case, the Group calculates the amount of decline as the difference between the recoverable value of the affiliate and the book value of the investment, which shows the difference in the affiliates' share of profit/loss in the consolidated income statement.

The value decline loss previously recognized with respect to an investment in an affiliate can be recognized in the consolidated income statement, so that the book value of the investment in the consolidated statement of financial position remains at its book value in accordance with the equity method (before the value decline provision is created) or the retrievable amount-whichever is less.

The unrealized gains and losses from transactions between the Group and its affiliates are eliminated to the extent of the Group's interest in those affiliates.

6.4.2 Reclassification of Certain Items in the Financial Statement

According to the summary of the consolidated interim financial statements for the third quarter of 2017G, the Bank reclassified certain items of the other assets and liabilities in the consolidated statement of its financial position for the year ending on 31 December 2016G under different budgetary items. The reclassifications have been certified by the auditors.

The reclassification included the items listed below, including:

1- Reclassification of a financial derivatives fair value item as a separate item;

2- Reclassification of due special commission income/expenses from other assets and liabilities and followed by the assets and liabilities producing them.

Table 6.1 Reclassification of Other Assets on 31/12/2016G

SAR million	31/12/2016G	31/12/2016G	Difference
	Pre-reclassification	Post-reclassification	
Funds Due from Banks and Other Financial Institutions	1,337	1,338	1
Investments	16,200	16,293	93
Positive fair value of derivatives	0	129	129
Net, loans and advances	41,729	42,099	370
Other Assets	963	371	(592)
Total	**60,229**	**60,230**	**1**

Source: Bank Aljazira Management

Table 6.2 Reclassification of Other Liabilities in 31/12/2016G

SAR million	31/12/2016G	31/12/2016G	Difference
	Pre-reclassification	Post-reclassification	
Funds due to banks and other financial institutions	3,542	3,545	3
Negative fair value of derivatives	0	334	334

SAR million	31/12/2016G	31/12/2016G	Difference
	Pre-reclassification	Post-reclassification	
Customer deposits	51,443	51,602	159
Sukuk issued to increase capital	2,000	2,006	6
Other liabilities	1,231	728	(503)
Total	**58,216**	**58,215**	**(1)**

Source: Bank Aljazira Management

6.5 Overview of Financial Results

6.5.1 Statement of Financial Position

Table 6.3 Key Performance Indicators (KPI's) of Consolidated Income Statement

KPIs	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
Capital adequacy ratio (the first pillar-Tier 1+2)	14.05%	15.83%	19.86%	20.34%
Proportion of assets producing special commission to total assets	88.6%	89.0%	89.0%	91.2%
Proportion of liabilities subject to special commissions to total liabilities	59.8%	51.0%	37.8%	37.6%
LTD Ratio	75.6%	83.6%	80.6%	79.9%
Growth of Loans and Advances	17.9%	2.3%	(0.2%)	(2.8%)
Growth/(reduction) of customer deposits	13.5%	(8.8%)	3.7%	(3.7%)

The total assets of the Group increased by 1.5% from SAR 66.554 billion (sixty-six billion, five hundred and fifty-four million Saudi riyals) as of 31/12/2014G to SAR 67.528 billion (sixty-seven billion, five hundred and twenty-eight million Saudi riyals) as of 30/09/2017G mainly due to the following:

- Loans and advances, which represent 61.0% of total assets as of 30/09/2017G. Loans and advances have decreased by SAR 319 million (three hundred and nineteen million Saudi riyals) during the period from 31/12/2014G to 30/09/2017G, mainly due to reduction of the loan portfolio of corporate and institutional banking group (a decrease of SAR 3.722 billion [three billion seven hundred and twenty-two million Saudi riyals]), in addition to the growth of the retail banking loan portfolio (by SAR 2.901 billion (two billion, nine hundred and one million Saudi riyals).
- Investments, which represent 30.2% of total assets as of 30/09/2017G. Basically these investments consist of local long-term Sukuk instruments by (SAR 20.133 (twenty billion, one hundred and thirty-three million Saudi riyals) accounted for 98.7% of total investments . The investments decreased by SAR 63 million (sixty-three million Saudi riyals) during the years 2014G and 2015G, mainly due to the sale and acquisition of some Sukuk instruments in 2014G as well as another part is sold in 2015G. The investments increased by SAR 5.020 billion (five billion and twenty million Saudi riyals) during the years 2015G and 2016G, due to the investment of some Sukuk instruments. During the period ending on 30/09/2017G, the investments increased by SAR 4.108 billion (four billion, one hundred and eight million Saudi riyals) due to the investment of long-term Sukuk instruments.
- Cash and funds with Saudi Arabian Monetary Authority (SAMA) which represent 5.7% of total assets as of 30/09/2017G. Cash and Funds with Saudi Arabian Monetary Authority (SAMA) were reduced from SAR 6.552 billion (six billion, five hundred and fifty-two million Saudi riyals) as of 31/12/2014G to SAR 3.842 billion (three billion, eight hundred and forty-two million Saudi riyals) as of 30/09/2017G (by SAR 2.710 billion (two billion, seven hundred and ten million Saudi Riyals). This reduction came largely as a result of the cash lending decrease due to the liquidity required to finance customer deposits withdrawn during this period especially during the two years 2015G and 2017G.
- Balances with the banks and other financial institutions which represented 0.7 of total assets as of 30/09/2017G were SAR 474 million (four hundred and seventy-four million Saudi riyals) as of 30/09/2017G. This clause mainly includes the following: (1) Capital market deposits by SAR 230 million (two hundred and thirty million Saudi riyals) and (2) current accounts by SAR 244 million (two hundred and forty-four million Saudi riyals).

The Group's total liabilities decreased by 2.4% from SAR 60.396 billion (sixty billion, three hundred and ninety-six million Saudi riyals) as of 31/12/2014G to SAR 58.921 billion (fifty-eight billion, nine hundred and twenty-one million Saudi riyals) as of 30/09/2017G, mainly due to the following:

- The customer deposits at the bank decreased by 9% from SAR 54.569 billion (fifty-four billion, five hundred and sixty-nine million Saudi riyals) as of 31/12/2014G to SAR 49.676 billion (forty-nine billion, six hundred and seventy-six million Saudi riyals) as of 30/09/2017G, mainly due to the term deposits whose amount is decreased from SAR 27.130 billion (twenty-seven billion, one hundred and thirty million Saudi riyals) as of 31/12/2014G to SAR 22.490 billion (twenty-two billion, four hundred and ninety million Saudi riyal) as of 30/9/2017 due to the liquidity decline in the Saudi Markets. Moreover, on-demand deposits decreased from SAR 26.437 billion (twenty-six billion, four hundred and thirty-seven million Saudi riyals) as of 31/12/2014G to SAR 26.070 billion (twenty-six billion and seventy million Saudi riyals), mainly due to the customers of Retail Banking Group.
- As of 30/09/2017G, the first and second levels of Capital Adequacy Ratio (underlying capital-the first pillar-Tier 1 + 2) was 20.34% above the 8.0% required by Basel III. The first level of capital adequacy ratio (the first pillar-Tier 1) was 15.95%.

6.5.2 Consolidated Income Statement

Table 6.4 Key Performance Indicators (KPI's) of Consolidated Income Statement

KPIs	2014G	2015G	2016G	Nine-month period ending on September 2016G	Nine-month period ending on September 2017G
ROA Percentage	0.9%	1.1%	1.0%	1.1%	1.3%
Percentage of Return on Shareholders' Equity	9.6%	10.5%	8.5%	8.6%	10.6%
Percentage of the total expenses from operations to the total income from operations	74.5%	56.1%	65.7%	63.0%	66.8%
Number of Bank Branches	70	76	80	78	79

The net income of the Bank with a CAGR of 23.5% over the period from 2014G to 2016G has increased from SAR 572 million (five hundred and seventy-two million Saudi riyals) for the fiscal year 2014G to SAR 872 million (eight hundred and seventy-two million Saudi riyals for the fiscal year 2016G. This increase was due to: An increase of CAGR of 4.1% in the net special commission income during the period from SAR 1.445 billion (one billion, four hundred and forty-five million Saudi riyals) to SAR 1.566 billion (one billion, five hundred and sixty-six million Saudi riyals). This increase is significantly due to the strategic concentration on the high return loans.

- The decreased income from the Banking service fees of CAGR of 1.2% due to the brokerage fees on trading operations in Aljazira Capital decreased from SAR 231 million (two hundred and thirty-one million Saudi riyals) as of 2014G to SAR 106 million (one hundred and six million Saudi riyals) as of 2016G in addition to the decreased size of traded operations.
- Over the period 2014G-2015G, the Group's net income from the other sold properties increased by 1.810.0% from SAR 30 million (thirty million Saudi riyals) in 2014G to SAR 573 million (five hundred and seventy-three million Saudi riyals) in 2015G as a result of the sale of a plot of land amounting to SAR 1.189 billion (one billion, one hundred and eighty-nine million Saudi riyals), with a book value of SAR 616 million (six hundred and sixteen million Saudi riyals). The profit of sale amounted to SAR 573 million (five hundred and seventy-three million Saudi riyals) is listed under the item "Profits of Other Sold Properties".
- Over the period 2015G-2016G, the Group's net income from profits of the other sold properties decreased by 63.2% from SAR 573 million (five hundred and seventy-three million Saudi Riyals) in 2015G to SAR 211 million (two hundred and eleven million Saudi Riyals) in 2016G, mainly due to the fact that the profits of the other sold properties decreased from SAR 209 million (two hundred and nine million Saudi Riyals) as a result of the bank's sale of a plot of land valued at SAR 218 million (two hundred and eighteen million Saudi Riyals), with a book value of SAR 9 million (nine million Saudi Riyals) on February 2016G.

The Group's net income decreased by 7.8% from SAR 720 million (seven hundred and twenty million Saudi riyals) during the nine-month period ended on 30/09/2016G to SAR 664 million (six hundred and sixty-four million Saudi riyals) during the same period of 2017G. The reduction was due to the following:

- An increase of 16.9% in the net special commission income during the nine-month period ending on 30/09/2016G and the nine-month period ending on 30/09/2017G from SAR 1.162 billion (one billion, one hundred and sixty-two million Saudi riyals) to SAR 1.358 billion (one billion, three hundred and fifty-eight million Saudi riyals). This increase is due to the net special commission income that increased by 8.3% due to the strategic concentration on the high return loans.
- The profits of the other sold properties decreased from SAR 211 million (two hundred and eleven million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 1 million (one million Saudi riyals) in the nine-month period ending on 30/09/2017G as a result of the sale of a plot of land in 2016G. A plot is sold for the amount of SAR 218 million (two hundred and eighteen million Saudi riyals), with a book value of SAR 9 million (nine million

Saudi riyals) and was listed under the item "Other Real Estate Assets, Net". No similar operations are made in the period ending on 30/09/2017G.

- The provision of credit losses increased by 123.0% in the two periods ending on 30/09/2016G-30/09/2017G from SAR 87 million (eighty-seven million Saudi riyals) to SAR 194 million (one hundred and ninety-four million Saudi riyals) because some debts were re-classified as non-performing loans in the period ending on 30/09/2017G.
- The increase of net foreign currencies transfer by 35.4% during the nine-month period ending on 30/09/2016G to the nine-month period ending on 30/09/2017G from SAR 79 million (seventy-nine million Saudi riyals) to SAR 107 million (one hundred and seven million Saudi riyals) as a result of the Bank's strategy aimed at focusing on providing these services and leveraging the expansion of the Bank's branch network that provides "Fawri" service.
- An increase of fee and commission income by 5.3% during the nine-month period ending on 30/09/2016G to the nine-month period ending on 30/09/2017G from SAR 472 million (four hundred and seventy-two million Saudi riyals) to SAR 497 million (four hundred and ninety-seven million Saudi riyals) as a result of the increase of fee and commission income of Dinar Personal Finance Program's by (100%) during the nine-month period ending on 30/09/2016G to the nine-month period ending on 30/09/2017G from SAR 41 million (forty-one million Saudi riyals) to SAR 82 million (eighty-two million Saudi riyals) due to the payment of one of the largest loans during the period which leads to add all commissions related to this loan to the Income Statement.

6.6 Consolidated Income Statement

Table 6.5 Consolidated Income Statement

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G – 2016G
Special Commission Income	1,955	2,135	2,656	1,716	1,858	9.2%	24.4%	8.3%	16.56%
Special Commission Expenses	(510)	(534)	(1,089)	(554)	(500)	4.7%	103.9%	(9.7%)	46.13%
Net Special Commission Income	**1,445**	**1,601**	**1,567**	**1,162**	**1,358**	**10.8%**	**(2.2%)**	**16.9%**	**4.1%**
Fee and Commission Income	648	630	632	472	497	(2.8%)	0.3%	5.3%	(1.2%)
Net, Foreign Currencies Transfer	57	90	103	79	107	57.9%	14.4%	35.4%	34.4%
Net, Trading Income	30	11	5	4	9	(63.3%)	(54.5%)	125.0%	(59.2%)
Dividend Income	3	2	-	-	-	(33.3%)	100.0%	N/A	N/A
Net, benefits from not-for-trade investments	4	-	-	-	-	N/A	N/A	N/A	N/A
Profits from other sold properties	30	573	211	211	1	1,810.0%	(63.2%)	(99.5%)	165.2%
Other Operations Income	9	15	1	1	1	66.7%	(93.3%)	(0.0%)	(66.7%)
Total Operations Income	**2,226**	**2,922**	**2,519**	**1,929**	**1,973**	**31.3%**	**(13.8%)**	**2.3%**	**6.4%**
Employee Salaries and Expenses	(722)	(909)	(894)	(663)	(644)	25.9%	(1.7%)	(2.9%)	11.28%
Premises lease and expenses	(113)	(136)	(137)	(98)	(103)	20.4%	0.7%	5.1%	10.11%
Consumption	(79)	(79)	(81)	(61)	(64)	0.0%	2.5%	4.9%	1.26%
Other general and administrative expenses	(356)	(458)	(417)	(305)	(311)	28.7%	(9.0%)	2%	8.23%
Net, provision of credit losses	(383)	(53)	(125)	(87)	(194)	(86.2%)	135.8%	123%	(42.9%)
Other Operations Expenses	(5)	(3)	(1)	(1)	(1)	(40.0%)	(66.7%)	0.0%	(55.3%)
Total Operations Expenses	**(1,658)**	**(1,638)**	**(1,655)**	**(1,215)**	**(1,317)**	**(1.2%)**	**1.0%**	**8.5%**	**(0.1%)**

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G – 2016G
Income from operations activities	**568**	**1,284**	**864**	**714**	**656**	**126.1%**	**(32.7%)**	**(8.3%)**	**23.3%**
Share from the net profit/ loss of affiliate	4	3	8	6	8	(25.0%)	166.7%	33.3%	41.42%
Net income (for period)	**572**	**1,287**	**872**	**720**	**664**	**125.0%**	**(32.2%)**	**(7.8%)**	**23.5%**

Source: The consolidated financial statements and management of Bank Aljazira

This section summarizes the Group's primary financial results. All main components for the financial years ending on 31/12/2014G, 2015G, and 2016G and the nine-month ending on 30/09/2016G and 30/09/2017G.

6.6.1 Special Commission Income

6.6.1.1 Special Commission Income Achieved by the Parent Company and Subsidiaries

Table 6.6 Special Commission Income Achieved by the Enterprise, Parent Company, and Subsidiaries

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	1,955	2,135	2,656	1,716	1,819	9.2%	24.4%	6%	16.56%
Aljazira Capital	8	8	12	9	45	0.0%	50.0%	400%	22.47%
Total before consolidation adjustments	**1,963**	**2,143**	**2,668**	**1,725**	**1,864**	**9.2%**	**24.5%**	**8.1%**	**16.58%**
Consolidation adjustments	(8)	(8)	(12)	(9)	(6)	0.0%	50.0%	(33.3%)	22.47%
Total after consolidation	**1,955**	**2,135**	**2,656**	**1,716**	**1,858**	**9.2%**	**24.4%**	**8.3%**	**16.56%**

Source: Bank Aljazira Management

The Group's special commission income for the period between 2014G and 2016G increased at a CAGR of 16.6% from SAR 1.955 billion (one billion, nine hundred and fifty-five million Saudi riyals) to SAR 2.656 billion (two billion, six hundred and fifty-six million Saudi riyals). This increase was mainly due to the increase in special commission income at Bank Aljazira, where this item represents the total consolidated special commission income detailed below.

The Bank's special commission income increased by 8.3% from SAR 1.716 billion (one billion, seven hundred and sixteen million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 1.858 billion (one billion, eight hundred and fifty-eight million Saudi riyals) in the nine-month period ending on 30/09/2017G as a result of an increase of the special commission income from the lending at Bank Aljazira from SAR 1.716 billion (one billion, seven hundred and sixteen million Saudi riyals) during the nine-month period ending on 30/09/2016G to SAR 1.819 billion (one billion, eight hundred and nineteen million Saudi riyals) in the nine-month period ending on 30/09/2017G.

6.6.1.2 Types of Special Commission Income-Bank Aljazira

Table 6.7 Types of Special Commission Income -Bank Aljazira

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Corporate loans	878	914	1,121	802	774	4.1%	22.6%	(3.5%)	13.0%
Consumer loans	610	730	830	619	654	19.7%	13.7%	5.7%	16.6%
Banks and financial institutions	34	38	22	17	28	11.8%	(42.1%)	64.7%	(19.6%)
Total income from special commissions from lending	**1,522**	**1,682**	**1,973**	**1,438**	**1,456**	**10.5%**	**17.2%**	**1.25%**	**13.8%**
Income from investments	314	291	419	299	365	(7.3%)	44.0%	22.1%	15.5%
Income from profit swap	119	162	264	(21)	(2)	36.1%	63.0%	90.5%	48.9%
Net special commission income	**1,955**	**2,135**	**2,656**	**1,716**	**1,819**	**9.2%**	**24.4%**	**6%**	**16.6%**

Source: Bank Aljazira Management

In general, special commission income from lending continued to grow annually to a CAGR of 13.8% during the period from 2014G to 2016G in light of the expansion of the loan portfolio during the same period.

The special commission income from lending increased by 10.5% in 2015G from SAR 1.522 billion (one billion, five hundred and twenty-two million Saudi riyals) in 2014G to SAR 1.682 billion (one billion, six hundred and eighty-two million Saudi riyals) as a result of the increased income arising from retail loans accounted for SAR 120 million (one hundred and twenty million Saudi riyals) due to the expansion initiatives of bank branches, and the concentration on the personal lending for employees' of affiliate and the increase of the real estate portfolio while the special commission income from corporate loans increased relatively less, amounting to SAR 36 million (thirty-six million Saudi riyals) due to the strategic concentration on SMEs.

The special commission income from lending increased by 17.2% during the period from 2015G to 2016G from SAR 1.682 billion (one billion, six hundred and eighty-two million Saudi riyals) to SAR 1.973 billion (one billion, nine hundred and seventy-three million Saudi riyals). This is achieved mainly due to the growth of special commission income acquired from the Corporate loans by 22.6% from SAR 914 million (nine hundred and fourteen million Saudi riyals) in 2015G to SAR 1.121 billion (one billion, one hundred and twenty-one million Saudi riyals) in 2016G, mainly due to the growth of special commission income acquired from loans of "Dinar" Corporate Finance Program. The special commission income related to retail loans achieved a growth by 13.7% from SAR 730 million (seven hundred and thirty million Saudi riyals) in 2015G to SAR 830 million (eight hundred and thirty million Saudi riyals) in 2016G as a result of the growth of special commission income of real estate loans, especially the investment loans.

The special commission income from lending increased by 1.3% in the nine-month period ending on 30/09/2017G compared to the same period in 2016G from SAR 1.438 billion (one billion, four hundred and thirty-eight million Saudi riyals) to SAR 1.456 billion (one billion, four hundred and fifty-six million Saudi Riyals). This is due to the growth of special commission income acquired from retail loans by 5.7% in 2016G from SAR 619 million (six hundred and nineteen million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 654 million (six hundred and fifty-four million Saudi riyals) in the nine-month period ending on 30/09/2016G as a result of the growth of special commission income of real estate loans. While the special commission income of the corporate loans decreased by 3.5% from SAR 802 million (eight hundred and two million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 774 million (seven hundred and seventy-four million Saudi riyals) in the nine-month period ending on 30/09/2017G due to the reclassification of special commission income in the nine-month period ending on 30/09/2017G from Dinar Income Statement Program of Bank Aljazira to the Income Statement of Aljazira Capital as well as it is classified within the Income Statement of Bank Aljazira in the nine-month period ending on 30/09/2016G.

Special commission income from banks and financial institutions represents income from capital market deposits. Special commission income from banks and financial institutions increased from SAR 34 million (thirty-four million Saudi riyals) in 2014G to SAR 38 million (thirty-eight million Saudi riyals) (11.8% growth) due to a higher volume of deposits with banks and financial institutions, and due to an increase balances at SAMA. Deposit balance increased from SAR 6.796 billion (six billion, seven hundred and ninety-six million Saudi riyals) in 2014G to SAR 7.642 billion (seven billion, six hundred and forty-two million Saudi riyals) in 2015G.

In return, the special commission income from banks and financial institutions decreased from SAR 38 million (thirty-eight million Saudi riyals) in 2016G to SAR 22 million (twenty-two million Saudi riyals) in 2015G (42.1% decline) as a result of the decline of funds with banks and financial institutions due to the decrease of the deposit balance of SAMA from SAR 7.642 billion (seven billion, six hundred and forty-two million Saudi riyals) in 2015G to SAR 598 million (five hundred and ninety-eight million Saudi riyals) in 2016G.

The special commission income from banks and financial institutions in the nine-month period ending on 30/09/2017G compared to the same period of 2016G increased by 64.7% from SAR 17 million (seventeen million Saudi riyals) to SAR 28 million (twenty-eight million Saudi riyals) as a result of the increase of the deposit balance of SAMA from SAR 423 million (four hundred and twenty-three million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 1.420 billion (one billion, four hundred and twenty million Saudi riyals) in the nine-month period ending on 30/09/2017G due to the management of short-term liquidity at the Bank.

Income from investments is achieved through income from the portfolio of fixed income securities (such as Sukuk), which is mostly classified as acquired from amortized cost. Special commission income from investment increased at a CAGR of 15.5% over the period from 2014G to 2016G.

In 2015G, the investment income of securities decreased from SAR 314 million (three hundred and fourteen million Saudi riyals) in 2014G to SAR 291 million (two hundred and ninety-one million Saudi riyals) (a decrease of 7.3%) due to the decrease in the investment rate from SAR 12.009 billion (twelve billion and nine million Saudi riyals) in 2014G to SAR 10.883 billion (ten billion, eight hundred and eighty-three million Saudi riyals) in 2015G as a result of the maturity of some Sukuk before the end of 2014G and the investment resulting from liquidity surplus in the advances portfolio.

Special commission income of investments increased by 44% from SAR 291 million (two hundred and ninety-one million Saudi riyals) in 2015G to SAR 419 million (four hundred and nineteen million Saudi riyals) in 2016G due to the increase in the investment rate from SAR 10.883 billion (ten billion, eight hundred and eighty-three million Saudi riyals) in 2015G to SAR 14.552 billion (fourteen billion, five hundred and fifty two million Saudi riyals) in 2016G as a result of the new bank investments, while the Sukuk portfolio at the Bank increased by SAR 5.267 billion (five billion, two hundred and sixty-seven million Saudi riyals) in 2016G.

Special commission income of investments increased by 22% from SAR 299 million (two hundred and ninety-nine million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 365 million (three hundred and sixty-five million Saudi riyals) in the nine-month period ending on 30/09/2017G due to the increase in the investment of Sukuk from SAR 14.832 billion (fourteen billion, eight hundred and thirty-two Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 17.611 billion (seventeen billion, six hundred and eleven million Saudi riyals) in nine-month period ending on 30/09/2017G as a result of the new bank investments, while the Sukuk portfolio at the Bank increased by SAR 4.034 billion (four billion and thirty-four million Saudi riyals) from 30/9/2016G to 30/09/2017G.

Income from profit swaps is a variable profit income earned on derivative financial instruments purchased by the Bank, thereby increasing the risk of variable income. The related fixed income expense paid by the Bank has been recorded under a special commission expense. Income from the profit swap increased by SAR 43 million (forty-three million Saudi riyals) in 2015G (growth of 36.1%) from SAR 119 million (one hundred and nineteen million Saudi riyals) in 2014G to SAR 162 million (one hundred and sixty-two million Saudi riyals) as a result of the increase in SAIBOR in 2015G.

Income from the profit swap increased by SAR 102 million (one hundred and two million Saudi riyals) in 2016G (growth of 63.0%) from SAR 162 million (one hundred and sixty-two million Saudi riyals) in 2015G to SAR 264 million (two hundred and sixty-four million Saudi riyals) as a result of the significant increase in SAIBOR within three months. In addition to the increase of profit swap tools used to hedge from the cash flows, which may lead to the decrease of net losses of profit swap.

The losses from the profit swap decreased by SAR 19 million (nineteen million Saudi riyals) in the nine-month period ending on 30/09/2017G as compared to the nine-month period ending on 30/09/2016G (decrease of 90.5%) from SAR 21 million (twenty-one million Saudi riyals) to SAR 2 million (two million Saudi riyals) as a result of the unstable increase in the profits rates in 2017G compared to 2016G. It should be noted that this decrease was due to the reclassification of the loss item of profit swap in the financial statements for these periods, as well as it is integrated with the income item of profit swap, while all items are shown independently in the financial statements for the prior periods. It should be noted that the profit swap revenue (before the re-classification) is SAR 187 million (one hundred and eighty-seven million Saudi riyals) in the nine-month period ending on 30/09/2016G and SAR 203 (two hundred and three million Saudi riyals) in the nine-month period ending on 30/09/2017G.

6.6.1.3 Special Commission Income from Corporate and Institutional Banking Loans-Bank Aljazira

Table 6.8 Special Commission Income from the Loans of Corporate and Institutional Banking Group-Bank Aljazira

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G- 2016G
Dinar Corporate Finance Program	581	635	836	591	628	9.3%	31.7%	6.3%	20.0%
Tamam Program	127	119	74	59	3	(6.3%)	(37.8%)	(94.9%)	(23.7%)
Trade finance	81	103	132	97	87	27.2%	28.2%	(10.3%)	27.7%
Specialized Finance-Ijarah	53	50	67	49	53	(5.7%)	36.0%	8.2%	13.3%
Specialized Finance-Murabaha	34	6	4	3	3	(82.4%)	(33.3%)	(0.0%)	(65.7%)
Others	2	1	8	3	-	(50.0%)	300.0%	(100.0%)	41.4%
Net special commission income	**878**	**914**	**1,121**	**802**	**774**	**4.1%**	**22.5%**	**(3.5%)**	**12.9%**

Source: Bank Aljazira Management

Special commission income from corporate and institutional banking loans grew at a CAGR of 12.9% over the period from 2014G to 2016G. Special commission income from corporate and institutional banking loans increased by 4.1% in 2015G from SAR 878 million (eight hundred and seventy-eight million Saudi riyals) in 2014G to SAR 914 million (nine hundred and fourteen million Saudi riyals) in 2015G. The increase was mainly driven by the increase in special commission income from Dinar Corporate Finance Program during the same period.

Special commission income from corporate and institutional banking loans increased by 22.5% in 2016G from SAR 914 million (nine hundred and fourteen million Saudi riyals) in 2015G to SAR 1.121 billion (one billion, one hundred and twenty-one million Saudi riyals), mainly due to the increase of special commission income from Dinar Corporate Finance Program loans and the Commercial Finance Program during the same period.

The commission income from corporate and institutional banking loans decreased by 3.5% from SAR 802 million (eight hundred and two million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 774 million (seven hundred and seventy-four million Saudi riyals) in the nine-month period ending on 30/09/2017G due to the reclassification of the net special commission from the Dinar Program from the income statement of Bank Aljazira to the income statement of Aljazira Capital as it was classified within the income statement of Bank Aljazira in the nine-month period ending on 30/09/2016G.

The income of the Dinar Corporate Finance Program increased by SAR 54 million (fifty-four million Saudi riyals) from SAR 581 million (five hundred and eighty-one million Saudi riyals) in 2014G to SAR 635 million (six hundred and thirty-five million Saudi riyals) in 2015G (an increase of 9.3%) as a result of the growth of Dinar Corporate Finance Program in 2015G, which was due to the successful strategy of corporate and institutional banking to focus on SMEs.

During 2016G, the special commission income of Dinar Corporate Finance Program continued to grow while it increased by SAR 201 million (two hundred and one million Saudi riyals) from SAR 635 million (six hundred and thirty-five million Saudi riyals) in 2015G to SAR 836 million (eight hundred and thirty-six million Saudi riyals) (an increase of 31.7%). This growth, mainly, is due to the increase of margin rate from 3.7% in 2015G to 4.7% in 2016G due to the increase of return rate in SAIBOR and the financing cost at the Bank. The rate of loan portfolio of Dinar Corporate Finance Program increased from SAR 17.091 billion (seventeen billion and ninety-one million Saudi riyals) in 2015 to SAR 17.610 billion (seventeen billion, six hundred and ten million Saudi riyals) in 2016G (an increase of 3.0%) after the strategy of corporate and institutional banking still applies a selective policy based on issuing the loans that gained the highest possible revenues.

The special commission income of Dinar Corporate Finance Program increased by SAR 37 million (thirty-seven million Saudi riyals) from 591 million (five hundred and ninety-one million Saudi riyals) in the nine-month period ending on 30/09/2016G, to SAR 628 million (six hundred and twenty-eight million Saudi riyals) in the nine-month period ending on 30/09/2017G (an increase of 6.3%) due to the increase of margin rate from 3.4% in the nine-month period ending on 30/09/2016G to 3.9% in in the nine-month period ending on 30/09/2017G, although the decrease of rate of loan portfolio of Dinar Corporate Finance Program from SAR 17.572 billion (seventeen billion, five hundred and seventy-two million Saudi riyals) to SAR 16.034 billion (sixteen billion, and thirty-four million Saudi riyals) during the same period.

Income from the Tamam Program is the special commissions achieved on the margin of trading facilities provided by Bank Aljazira to Aljazira Capital clients. Special commissions of the Tamam Program decreased by 41.7% over the period from 2014G to 2016G.

In 2015G, special commission income related to Tamam program decreased by 6.3% from SAR 127 million (one hundred and twenty-seven million Saudi riyals) in 2014 to SAR 119 million (one hundred and nineteen million Saudi riyals) in 2015G due to a decrease in the loan portfolio of the Tamam Program in 2015G, which amounted to SAR 2.994 billion (two billion, nine hundred and ninety-four million Saudi riyals). Such decrease was driven by the decline of the Saudi market main index during the year leading certain clients to liquidate their shares portfolios.

In 2016G, special commission income related to Tamam Program decreased by 37.8% from SAR 119 million (one hundred and nineteen million Saudi riyals) in 2015G to SAR 74 million (seventy-four million Saudi riyals). This decrease was driven by the decline of loan portfolio of the Tamam Program from SAR 2.995 billion (two billion, nine hundred and ninety-five million Saudi riyals) in 2015G to SAR 1.886 billion (one billion, eight hundred and eighty-six million Saudi riyals) in 2016G (a decrease of 37.0%) due to the additional decline of the Saudi market main index during the year leading decrease the market demand on Tamam Program.

While the special commission income related to the Tamam Program decreased by 95% from SAR 59 million (fifty-nine million Saudi riyals) in the nine-month period ending on 30/09/2016G to SAR 3 million (three million Saudi riyals) in the nine-month period ending on 30/09/2017G due to the reclassification of special commission income in the nine-month period ending on 30/09/2017G from the Dinar Income Statement Program of Bank Aljazira to the Income Statement of Aljazira Capital, as well as that it is classified within the Income Statement of Bank Aljazira in the nine-month period ending on 30/09/2016G. The special commission income related to Tamam Program is SAR 39 million (thirty-nine million Saudi riyals) in the nine-month period ending on 30/09/2017G compared to SAR 59 million (fifty-nine million Saudi riyals) in the nine-month period ending on 30/09/2016G (a decrease of 33.9%).

Special commission income of the trade finance sector increased at a CAGR of 27.7% from SAR 81 million (eighty-one million Saudi riyals) in 2014G to SAR 132 million (one hundred and thirty-two million Saudi riyals) in 2016G as a result of the improvement in customer service, which led to more cross selling due to the restructuring of this section during 2015G based the principle of decentralization.

Special commission income of the trade finance sector increased by SAR 22 million (twenty-two million Saudi riyals) in 2015G (an increase of 27.2%) from to SAR 81 million (eighty-one million Saudi riyals) in 2014G to SAR 103 million (one hundred and three million Saudi riyals) due to the increase in the trade finance portfolio from SAR 2.050 billion (two billion and fifty million Saudi riyals) in 2014G to SAR 2.674 billion (two billion, six hundred and seventy-four million Saudi riyals) in 2015G. This growth was driven by the improvement in customer service, which led to the restructuring of the Trade Finance Department in accordance with the principle of decentralization.

In 2016G, special commission income of the Trade Finance Sector increased by SAR 29 million (twenty-nine million Saudi riyals) (an increase of 28.2%) from SAR 103 million (one hundred and three million Saudi riyals) in 2015G to SAR 132 million (two hundred and thirty-two million Saudi riyals) as a result of the increase of return margin from 3.9% to 4.9%. Special commission income of the trade finance sector portfolio increased from to SAR 2.672 billion (two billion, six hundred and seventy-two million Saudi riyals) in 2015G to SAR 2.720 billion (two billion, seven hundred and twenty million Saudi riyals) in 2016G (an increase of 1.8%) after the efforts made to improve the Customer service, which led to more cross selling.

Special commission income of the trade finance sector decreased by SAR 10 million (ten million Saudi riyals) in the nine-month period ending on 30/9/2017G (10.3% decrease) to SAR 87 million (eighty-seven million Saudi riyals) compared to SAR 97 million (ninety-seven million Saudi riyals) in the nine-month period ending on 30/09/2016G due to a decrease in the rate of the trade finance portfolio from SAR 2.753 billion (two billion, seven hundred and fifty-three million Saudi riyals) in the nine-month ending on 30/09/2016G to SAR 2.203 billion (two billion, two hundred and three million Saudi riyals) in the nine-month ending on30/09/2017 G.

In 2015G, special commission income for Specialized Financing (Ijarah) declined by SAR 3 million (three million Saudi riyals) (a decline of 5.7%) to SAR 53 million (fifty-three million Saudi riyals) in 2014G due to the low volume of loans, since the rate of specialized finance-Ijarah portfolio declined from SAR 2.817 billion (two billion, eight hundred and seventeen million Saudi riyals) in 2014G to SAR 2.598 billion (two billion, five hundred and ninety-eight million Saudi riyals) in 2015G.

In 2016G, special commission income for Specialized Financing (Ijarah) increased by SAR 18 million (eighteen million Saudi riyals) (an increase of 36.0%) from SAR 50 million (fifty million Saudi riyals) in 2015G to SAR 68 million (sixty-eight million Saudi riyals) as a result of the increase of return margin from 1.9% to 2.7%.

Special commission income for Specialized Financing (Ijarah) increased by SAR 4 million (four million Saudi riyals) (an increase of 8.2%) in the nine-month period ending on 30/09/2017G as compared to the nine-month period ending on 30/09/2016G from SAR 49 million (forty-nine million Saudi riyals) to SAR 53 million (fifty-three million Saudi riyals) as a result of the increase of return margin from 2.7% to 3.0%.

In 2015G, special commission income from Specialized Financing (Murabaha) declined from SAR 34 million (thirty-four million Saudi riyals) in 2014G to SAR 6 million (six million Saudi riyals) (82.4% decrease) due to the repayment of some joint Murabaha loans and the non-participation of the Bank in similar new operations, while the portfolio size decreased from SAR 764 million (seven hundred and sixty-four million Saudi riyals) in 2014G to SAR 196 million (one hundred and ninety-six million Saudi riyals) in 2015G.

In 2016G, special commission income from Specialized Financing (Murabaha) continued for decrease by 4 million (four million Saudi riyals) (a decline of 33.3%) due to the non-participation of the Bank in similar new operations.

Special commission income from Specialized Financing (Murabaha) continued to decrease in the nine-month period ending on 30/09/2017G as compared to the same period in 2016G by 3 million (three million Saudi riyals) due to the non-participation of the Bank in similar new operations.

6.6.1.4 Special Commission Income from the Retail Banking Group's Loans-Bank Aljazira

Table 6.9 Special Commission Income from the Retail Banking Group's Loans-Bank Aljazira

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Real estate loans	321	392	463	342	375	22.1%	18.0%	9.6%	20.0%
Dinar Personal Finance Program	258	280	292	220	221	8.5%	4.3%	0.5%	6.4%
Credit cards	27	52	69	49	58	92.6%	32.7%	18.4%	59.9%
Others	4	6	6	8	-	50.0%	(16.7%)	(100.0%)	11.8%
Net special commission income	**610**	**730**	**830**	**619**	**654**	**19.7%**	**13.7%**	**5.7%**	**16.6%**

Source: Bank Aljazira Management

Special commission income from retail banking group's loans grew at a CAGR of 16.6% (an increase of SAR 220 million (two hundred and twenty million Saudi riyals)) over the period from 2014G to 2016G. This is mainly attributed to the increase in special commission income from Real estate loans from SAR 321 (three hundred and twenty-one million Saudi riyals) in 2014 to SAR 463 million (four hundred and sixty-three million Saudi riyals) in 2016 as a result of the Bank's increase of this type of loans, not to mention benefiting from the high special commission rates. Special commission income from retail banking group's loans increased by 19.7% in 2015G from SAR 610 million (Six hundred ten million Saudi riyals) in 2014G to SAR 730 million (seven hundred thirty million Saudi riyals) in 2015G. Moreover, special commission income from retail banking group's loans continued to grow in 2016G, reaching SAR 830 million (eighty hundred and thirty million Saudi riyals) (a growth rate of 13.7%).

Furthermore, it increased by 5.7% in the nine-month period ending on 30/09/2017G from SAR 619 million (six hundred and nineteen million Saudi riyals) in the nine-month period ending 30/09/2016G to SAR 654 million (six hundred and fifty-four million Saudi riyals). This is mainly due to the increase in special commission income from real estate loans by SAR 33 million (thirty-three million Saudi riyals) as a result of the Bank's efforts to develop the real estate loan portfolio due to its market importance.

Special commission income from real estate loans increased at a CAGR of 20.1% over the period from 2014G to 2016G. In 2015G, special commission income from real estate loans increased (by 22.1%) from SAR 321 million (three hundred and twenty-one million Saudi riyals) in 2014G to SAR 392 million (three hundred and ninety-two million Saudi riyals) in 2015G due to the increase in the real estate loan portfolio from SAR 5.656 billion (five billion, six hundred and fifty-six million Saudi riyals) in 2014G to SAR 6.726 billion (six billion, seven hundred and twenty-six million Saudi riyals) in 2015G due to the Bank's focus on the investment real estate finance portfolio with its high special commission rates.

In 2016G, Special commission income from Real estate loans continued to increase by SAR 463 million (four hundred and sixty-three million Saudi riyals) (an increase of 18.1%) from SAR 392 million (three hundred and ninety-two million Saudi riyals) in 2015G. This is due to the Bank's focus on the investment real estate finance portfolio with its high special commission rates.

Furthermore, special commission income from real estate loans increased by SAR 33 million (thirty-three million Saudi riyals) from SAR 342 million (three hundred and forty-two million Saudi riyals) in the nine-month period ending 30/09/2016G to SAR 375 million (three hundred and seventy-five million Saudi riyals) in the nine-month period ending on 30/09/2017G (an increase of 9.6%) as a result of the Bank's intensive efforts to develop the real estate loan portfolio due to its market importance.

Special commission income from loans under "Dinar Personal Finance Program at a CAGR of 6.4% over the period from 2014G to 2016G. In 2015, Dinar Personal Finance Program income increased by 8.5% from SAR 258 million (two hundred fifty-eight million Saudi riyals) in 2014 to SAR 280 million (two hundred eighty million Saudi riyals) in 2015, given that the average volume of the Dinar Personal Finance Program's annual loans increased by 12%, amounting to SAR 8.721 billion. (eight billion, seven hundred twenty-one million Saudi riyals). This increase was accompanied by an improvement in the rates of special commissions compared to 2014G.

In 2016, special commission income from Dinar Personal Finance Program loans continued to increase by 4.3% to SAR 292 million (two hundred ninety-two million Saudi riyals) due to the increase in the annual volume of dinar personal finance loans by 4.4% up to SAR 8.960 billion (eight billion nine hundred and sixty million Saudi riyals).

Moreover, special commission income from Dinar Personal Finance Program loans rose from SAR 220 million (two hundred twenty million Saudi riyals) in the nine month period ending on 30 September 2016 to SAR 221 million (two hundred twenty-one million Saudi riyals) in the nine month period ending on 30/09/2017 (representing a growth of 0.5%) due to stable levels of Dinar Personal Finance Program between 30/09/2016 and 30/09/2017.

Special commission income from credit cards grew at a CAGR of 59.9% over the period from 2014G to 2016G. In 2015G, special commission income from credit cards increased by 92.6% from SAR 27 million (twenty-seven million Saudi riyals) in 2014G to SAR 52 million (fifty-two million Saudi riyals) in 2015G due to the growing size of the credit card portfolio, coupled with the increase in the numbers of credit cards issued from 122,665 cards in 2014G to 134,447 in 2015G due to new credit card programs. In 2016, this increase continued by SAR 17 million (seventeen million Saudi riyals),that is, a growth of 32.7% as a result of the increase in the size of the credit card portfolio, which increased from SAR 368 million (three hundred sixty eight from Saudi riyals) to SAR 477 (four hundred seventy-seven million riyals).

In addition, special commission income related to the credit cards grew by SAR 9 million (nine million Saudi riyals) from SAR 49 million (forty-nine million Saudi riyals) during the nine-month period ending on 30/09/2016G to SAR 58 million (fifty-eight million Saudi riyals) during the nine-month period ending on 30/09/2017G (an increase of 18.4%). This is due to the increase of size of credit cards portfolio from 30/09/2016G to 30/09/2017G.

6.6.2 Special Commission Expenses

6.6.2.1 Special Commission Expenses by the Parent Company and Subsidiaries

Table 6.10: Special Commission Expenses by the Parent Company and Subsidiaries

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	518	543	1,089	563	500	4.8%	100.6%	(11.2%)	45.0%
Total before consolidation adjustments	518	543	1,101	563	506	4.8%	102.8%	(10.1%)	45.8%
Consolidation adjustments	(8)	(9)	(12)	(9)	(6)	12.5%	33.3%	(33.3%)	22.5%
Total after consolidation	**510**	**534**	**1,089**	**554**	**500**	**4.7%**	**103.9%**	**(9.7%)**	**46.1%**

Source: Bank Aljazira Management

Special commission expenses mainly represent payments to customers holding term deposits with the Bank and profit rate swaps.

6.6.2.2 Types of Special Commission Expenses - Bank Aljazira

Table 6.11 Types of Special Commission Expenses - Bank Aljazira

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Term deposits	289	270	643	448	369	(6.6%)	138.1%	(17.6%)	49.2%
Sukuk issued to increase capital	27	26	56	35	62	(3.7%)	115.4%	77.1%	44.0%
Banks and financial institutions	24	24	98	79	69	0.0%	308.3%	(12.7%)	102.1%
Total	**340**	**320**	**797**	**562**	**500**	**(5.9%)**	**149.1%**	**(11.0%)**	**53.1%**
Profit rate swap instrument expenses	172	213	291	-	-	23.8%	36.6%	N/A	30.1%

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Others	6	10	1	1	-	66.7%	(90.0%)	(100.0%)	(59.2%)
Total special commission expenses	**518**	**543**	**1,089**	**563**	**500**	**4.8%**	**100.6%**	**(11.2%)**	**45.0%**

Source: Bank Aljazira Management

*Expenses of dividend yield swap instruments were deducted from special commission income

Bank Aljazira's special commission expenses increased at a CAGR of 45% (an increase of [SAR 571] five hundred seventy one million Saudi riyals) over the period from 2014G to 2016G. This increase is mainly due to a rise in the expenses of yield swap instruments (by [SAR 119] one hundred nineteen million Saudi riyals) due to the increase in liquidity crisis, along with the increase in SAIBOR.

Special commission expenses increased by 4.8% in 2015 from SAR 518 million (five hundred eighteen million Saudi riyals) in 2014 to SAR 543 million (five hundred forty-three million Saudi riyals) in 2015 as a result of the Bank's increase in its profit-yield swap instruments to hedge a larger percentage of the Sukuk portfolio.

Special commission expenses continued to grow in 2016, reaching SAR1.089 billion (one billion, eighty-one million Saudi riyals) (a growth of 100.6%). This was due to the increase in the cost of term deposits due to the continued liquidity crisis in the Saudi market and the high Saudi Arabian Interbank Offer Rate (SAIBOR).

However, special commission expenses decreased by 11.2% in the nine month period ending on 30/09/2017 from SAR 563 million (five hundred sixty three million Saudi riyals) in the nine months ending 30/09/2016 to SAR 500 million (five hundred million Saudi riyals), driven by a decrease in low capital market deposits held with banks.

In 2015G, special commissions on term deposits decreased by 6.6% from SAR 289 million (two hundred and eighty-nine million Saudi Riyals) in 2014G to SAR 270 million (two hundred and seventy million Saudi Riyals) due to a decrease in term deposits from SAR 27.130 billion (twenty-seven billion, one hundred and thirty million Saudi Riyals) as of 31/12/2014G to SAR 23.587 billion (twenty-three billion, five hundred and eighty-seven million Saudi Riyals (as of31/12/2015 G .This decline is attributed to withdrawals by some customers in pursuit of a better return.

In 2016G, special commission expenses on term deposits increased significantly from SAR 270 million (two hundred seventy million Saudi riyals) to SAR 643 million (Six hundred forty-three million Saudi riyals), that is, an increase of 138.1% due to the higher cost of deposits on the account of the continued liquidity crisis in the Saudi market, along with the increase in Saudi Arabian Interbank Offer Rate ("SAIBOR").

Special commission expenses on term deposits decreased by 17.6% from SAR 448 million (four hundred forty-eight million Saudi riyals) in the nine month period ended 30/9/2016 to SAR 369 million (three hundred sixty nine million Saudi riyals) in the nine month period ended on 30/09/2017G. This came as a result of the decrease in the cost of term deposits from 2.2% in the nine month period ended on 30/09/2016 to 1.8% in the nine months ended on 30/09/2017G, driven by the improved liquidity crisis in the Saudi market and the decrease in Saudi Arabian Interbank Offer Rate ("SAIBOR") during the same period.

Special commission expenses on Sukuk issued to increase capital represent the special commissions paid for Sukuk issued by Bank Aljazira in 2011, amounting to SAR 1.000 billion (one billion) over the period from 2014G to 2015G. In 2015G, special commission expenses on Sukuk issued to increase capital declined from SAR 27 million (twenty-seven million Saudi riyals) in 2014G to SAR 26 million (twenty six million Saudi riyals) in 2015G in line with Saudi Arabian Interbank Offer Rate ("SAIBOR") in 2015.

In 2016, Special commission expenses on Sukuk issued to increase capital rose from SAR 26 million (twenty six million Saudi riyals) in 2015 to SAR 56 million (fifty six million Saudi riyals), i.e., an increase of 115.4% as a result of the Bank's exercise of the option to call the Sukuk on 29/03/2016 based on the fulfillment of certain conditions in accordance with the provisions of their prospectus and the issuance of new Sukuk in the amount of two billion Saudi riyals in June 2016. The cost margin of SAIBOR changed from +1.70% six months to +1.90% six months, resulting in the increase of the annual Sukuk rate from 2.6% to 3.8%.

Special commission expenses on Sukuk issued to increase capital increased from SAR 35 million (thirty five million Saudi riyals) to SAR 62 million (sixty two million Saudi riyals) between the nine month period ending 30 September 2016 and the nine month period ending 30/09/2017, that is, an increase of 77.1%, on the grounds that cost margin of SAIBOR changed from +1.70% six months to +1.90% six months, which led to a higher cost of Sukuk.

Special commission expenses on deposits with banks and financial institutions increased at a CAGR of 102.1% from SAR 24 million (twenty four million Saudi Riyals) in 2014 to SAR 98 (ninety-eight million Saudi Riyals) in 2016 due to the large increase in the rate of bank's credit balances as well as the increase in the average cost of financing due to the increase in Saudi Arabian Interbank Offer Rate ("SAIBOR") all over this period.

In 2015G, special commission expenses on deposits with banks and financial institutions stood at SAR twenty-four (24) million due to a decrease in deposits with banks from SAR 4.513 billion (four billion, five hundred and thirteen million Saudi Riyals) in 2014G to SAR 3.928 billion (three billion, nine hundred and twenty-eight million Saudi Riyals) in 2015G. This was offset by an increase in the average finance cost from 0.53% in 2014G to 0.61% in 2015G.

In 2016, special commission expenses on deposits with banks and financial institutions increased significantly from SAR 24 million (twenty four million Saudi riyals) in 2015 to SAR 98 million (ninety-eight million Saudi riyals), representing an increase of 308.3%. This growth is driven by the large increase in the bank's credit balances and the increase in the average cost of financing due to the rise in Saudi Arabian Interbank Offer Rate ("SAIBOR") during the period.

In the nine month period ending on 30/09/2017, special commission fees on deposits with banks and financial institutions decreased from SAR 79 million (seventy nine million Saudi Riyals) for the nine month period ending on 30 September 2016 to SAR 69 million (sixty nine million Saudi riyals), that is, a decrease by 12.7%. This came as a result of the decrease in the cost of term deposits from 1.9% in the nine month period ending on 30/09/2016 to 1.5% in the nine months ending on 30/09/2017G, driven by the improved liquidity crisis in the Saudi market and the decrease in Saudi Arabian Interbank Offer Rate ("SAIBOR") during the same period.

The expenses of dividend yield swap instruments is linked to the fixed income paid by Bank Aljazira for derivative financial instruments held, as explained above in the clause related to special commission income. Profit swap expenses increased at a CAGR of 30.1% from SAR 172 million (one hundred seventy two million Saudi riyals) in 2014G to SAR 291 million (two hundred ninety one million Saudi riyals) in 2016G, given that the Bank increased its dividend yield swap instruments to hedge a larger SAR the Sukuk portfolio.

In 2015G, the expenses of instruments on dividend yield swap with fixed income grew by 23.8% from SAR 172 million (one hundred and seventy-two million Saudi Riyals) in 2014G to SAR 213 million (two hundred and thirteen million Saudi Riyals) in 2015G as a result of the increase in the financial derivatives portfolio in 2015G.

In 2016, these instruments continued to increase from SAR 213 million (two hundred thirteen million Saudi riyals) in 2015 to SAR 291 million (two hundred ninety one million Saudi riyals) (representing as increase of 36.6% as the Bank reclassified profit swap loss to profit swap income in the financial statements so as to be clearly recognized in special commission income.

In the nine-month period ending on 30/9/2016G, the Bank reclassified profit swap loss to profit swap income in the financial statements so as to be clearly recognized in special commission income.

6.6.3 Fee and Commission Income

6.6.3.1 Fee and Commission Income by the Parent Company and Subsidiaries

Table 6.12 Fee and Commission Income - by the Parent Company and Subsidiaries

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	332	367	454	342	408	10.5%	23.7%	19.3%	16.9%
Aljazira Capital	316	263	178	130	89	(16.8%)	(32.3%)	(31.5%)	(24.9%)
Total before consolidation adjustments	648	630	632	472	497	(2.8%)	0.3%	5.3%	(1.2%)
Consolidation adjustments	-	-	-	-	-	N/A	N/A	N/A	N/A
Total after consolidation	**648**	**630**	**632**	**472**	**497**	**(2.8%)**	**0.3%**	**5.3%**	**(1.2%)**

Source: Bank Aljazira Management

Fee and commission income of Bank Aljazira represents fees paid by customers in relation to financing within the balance sheet (administrative fees mainly on loans and annual fees for credit cards), and outside it (letters of credit and guarantee).

It consists primarily of brokerage fees. The value of these fees was 92.9% of the income of Aljazira Capital during the period from 01/01/2014G to 31/12/2016G.

6.6.3.2 Fee and Commission Income by Nature

Table 6.13 Banking Fee and Income-Aljazira Bank

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2013G-2014G	Annual change September 2016G - September 2017G	CAGR 2014G-2016G
Dinar Personal Finance Program	129	93	102	84	66	(27.9%)	9.7%	(21.4%)	(11.1%)
Dinar Corporate Finance Program	79	78	83	58	82	(1.3%)	6.4%	41.4%	2.5%
Credit cards and ATMs	63	111	139	105	111	76.2%	25.2%	5.7%	48.5%
Trade finance	49	56	54	41	40	14.3%	(3.6%)	(2.4%)	5.0%
Takaful	22	21	20	15	14	(4.5%)	(4.8%)	(6.7%)	(4.7%)
Tamam Program	(44)	(52)	(32)	(24)	(3)	18.2%	(38.5%)	(87.5%)	(14.7%)
Others	34	61	90	64	98	79.4%	47.5%	53.1%	62.7%
Fee and commission income	**332**	**367**	**454**	**342**	**408**	**10.5%**	**23.7%**	**19.3%**	**16.9%**

Source: Bank Aljazira Management

Net fee and commission income is a source of income independent of special commission income. Fee and commission income grew at a CAGR of 16.9% over the period from 01/01/2014G to 31/12/2016G from SAR 332 million (three hundred thirty two million Saudi riyals) in 2014G to SAR 454 (four hundred fifty-four million Saudi riyals) in 2016G, mainly driven by the increase in Bank Aljazira's business activities both within and outside the balance sheet.

In 2015, fee and commission income increased from SAR 332 million (three hundred thirty-two million Saudi riyals) in 2014 to SAR 367 million (three hundred sixty-seven million Saudi riyals), representing an increase by 10.5%. In 2016, fee and commission income rose by SAR454 million (four hundred fifty- four million Saudi riyals), i.e., an increase by (23.7%). This growth is mainly due to active performance of retail banking portfolio.

Fee and commission income continued to grow by 19.3% to reach SAR 408 million (four hundred and eight million Saudi riyals) for the nine month period ending on 30/09/2017 compared to SAR 342 million (three hundred forty two million Saudi riyals) for the nine month period ending on 30/09/2016G. This growth is mainly due to the increase in Bank Aljazira's activities both inside and outside the balance sheet.

The Dinar Personal Finance Program is the largest source of banking fees and commission income of Aljazira and mainly represents processing fees that are charged on new financing operations, refinancing fees recorded on current refinanced loans and early settlement fees. Dinar Personal Finance Program expenses declined at a CAGR of 11.1% over the period from 2014G to 2016G.

In 2015G, fee and commission income related to the "Dinar Personal Finance Program decreased by 43.4% from SAR 129 million (one hundred twenty-nine million Saudi riyals) in 2014G to SAR 73 million (seventy-three million Saudi riyals) in 2015G due to new decisions issued by the Saudi Arabian Monetary Agency (SAMA) on the determination of processing and early repayment fees.

Fee and commission income related to the Dinar Personal Finance Program increased again to SAR 102 million (one hundred and two million Saudi riyals) in 2016, with an increase of 39.7% due to the change in the Bank's profit rates, resulting from more customers being attracted.

For the nine-month period ending on 30/09/2017, fee and commission income related to the Dinar Personal Finance Program decreased by 25.0% from SAR 84 million (eighty four million Saudi riyals) to SAR 63 million (sixty three million Saudi riyals) compared to the same period in 2016 due to the liquidity crisis in the Saudi market.

Most of the fee and commission income from the Dinar Corporate Finance Program of Bank Aljazira is generated from financing and lending fees, which mainly represent management fees paid by customers upon receiving corporate finance loans. Fee and commission income from Dinar Corporate Finance Program grew at a CAGR of 2.5% over the period from 2014G to 2016G, mainly driven by the annual increase in newly issued loans and advances.

In 2015G, fee and commission income from Dinar Corporate Finance Program increased by 2.5% from SAR 79 million (seventy-nine million Saudi riyals) in 2014G to SAR 81 million (eighty-one million Saudi riyals) in 2015G as a result of the increase in the Dinar Corporate Finance Program's portfolio in 2015G from SAR 7.815 billion (seven billion, eight hundred and fifteen million Saudi riyals) in 2014G to SAR 8.721 billion (eight billion, seven hundred and twenty-one thousand Saudi riyals) in 2015G.

In 2016, it increased by 2.5% from SAR 81 million (eighty one million Saudi riyals) in 2015 to SAR 83 million (eighty three million Saudi riyals) in 2016 due to the continued liquidity crisis in the Saudi market.

In addition, it increased in the nine month period ending on 30/09/2017 from SAR 41 million (forty one million Saudi riyals) in the nine month period ending on 30/09/2016G to SAR 82 million (eighty two million Saudi riyals) in the nine month period ending on 30/09/2017G, i.e., a 100% growth rate due to the repayment of a large loan during the period, which led to recognition of all commissions related to this loan in the income statement.

Credit card fees mainly consist of the annual fees paid by customers to renew their credit cards, whereby the amount varies by card type. Card transaction and cash advance fees represent the other credit card fee income categories. Credit card and ATM fees decreased at a CAGR of 6.6% over the period from 2014 to 2016 due to the continued liquidity crisis in the Saudi market.

In 2015G, fee and commission income from credit cards and ATMs increased by 76.2% to SAR 48 million (forty-eight million Saudi Riyals) from SAR 63 million (sixty-three million Saudi riyals) in 2014G to SAR 111 million (one hundred and eleven million Saudi riyals) in 2015G due to the increase in the number of credit cards issued to one hundred and thirty-five (135) thousand cards in 31/12/2015G, in addition to the increase in the number of customers' transactions, along with the high number of points of sale in the Kingdom, and the increase in the number of ATMs from five hundred and eleven (511) to six hundred and eleven (611).

In 2016, fee and commission income from credit cards and ATMs decreased significantly from SAR 111 million (one hundred and eleven million Saudi riyals) in 2015 to SAR 55 million (fifty five million Saudi riyals) or 50.5% due to the continuation of liquidity crisis in the Saudi market.

In addition, fee and commission income from credit cards and ATMs decreased by SAR 63 million (sixty three million Saudi riyals) from SAR 105 million (one hundred and five million Saudi riyals) in the nine month period ending on 30 September 2016 to SAR 42 million (forty two million Saudi riyals) in the nine month period ending on 30/09/2017 or 60% due to the continued liquidity crisis in the Saudi market.

Trade finance in the fees resulting from commitments and contingencies in relation to credit, mainly consisting of letters of credit, guarantees, acceptance declarations and commitments to provide credit. The fee and commission income from commercial finance at a CAGR of 64.1% over the period from 2014G to 2016G. This growth was mainly due to the increasing trade finance transactions.

The fee and commission income from commercial finance increased by 14.3% from SAR 49 million (forty-nine million Saudi riyals) in 2014G to SAR 56 million (fifty-six million Saudi riyals) in 2015G as a result of improvements in trade finance management, which led to growing mutual sale transactions, especially in the Q2 of 2015G.

Moreover, in 2016, fee and commission income from commercial finance increased by 135.7% from SAR 56 million (fifty six million Saudi riyals) in 2015 to SAR 132 million (one hundred thirty two million Saudi riyals) in line with the Bank's strategy to improve SME services.

Fee and commission income from commercial finance for the nine months period ending on 30/09/2017 increased by 112.2% compared to the same period in 2016 from SAR 41 million (forty one million Saudi riyals) in the nine month period ending 30/09/2016 to SAR 87 million (eighty one million Saudi riyals) in the nine month period ending on 30/09/2017 as a result of improvements in the Commercial Finance Department, which led to more mutual sales, not to mention the mitigation of liquidity crisis in the Saudi market.

The fee and commission income from Takaful Program represents fees related to the Bank's management of Takaful Program's portfolio. Such income was stable over the period from 2014G to 2016G. In 2015G, the fee and commission income from Takaful Program decreased slightly by 4.5% from SAR 22 million (twenty-two million Saudi riyals) in 2014 to SAR 21 million (twenty one million Saudi riyals) and SAR 20 million (twenty million Saudi riyals) in 2015and 2016 respectively, accounting for a decrease by 4.8% due to improved management and investment of resources against the liquidity crisis in the Saudi market.

In the nine month period ending on 30/09/2017, fee and commission income from Takaful Program decreased by 6.7% from SAR 15 million (fifteen million Saudi riyals) for the same period in 2016 to SAR 14 million (fourteen million Saudi riyals) due to the decrease in the number of beneficiaries of the Cooperative Takaful Program.

Tamam Program's fees is reflective of the mutual arrangement between Bank Aljazira and Aljazira Capital with respect to the special commission income realized from Tamam product facilities provided by Aljazira Bank to Aljazira Capital's customers. The amount paid by Bank Aljazira shall, on a consolidated basis, be deducted against the fee income recorded by Aljazira Capital.

Other fee and commission income includes fees charged to money remittances. Other fee & commission income increased during the period from 2014G to 2016G at a CAGR of 23.7% from SAR 34 million (thirty four million Saudi riyals) in 2014G to SAR 52 million (fifty two million Saudi riyals) in 2016G, driven by the increasing remittances in light of the increase in branches during the period. In the nine month period ending on 30/09/2017, other fee and commission income increased by 48.8% from SAR 80 million (eighty million Saudi riyals) for the same period in 2016 to SAR 119 million (one hundred nineteen Saudi riyals) due to growing remittances during the same period.

6.6.3.3 Fee and commission income by nature - Aljazira Capital

Table 6.14 Fee and Commission Income – Aljazira Capital

SAR millions	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Brokerage fees	231	165	106	82	53	(28.6%)	(35.8%)	(35.4%)	(32.3%)
Tamam Program	44	52	41	30	4	18.2%	(21.2%)	(86.7%)	(3.5%)
Investment fund management fees	33	35	24	16	28	6.1%	(31.4%)	75.0%	(14.7%)
Others	8	11	7	2	3	37.5%	(36.4%)	50.0%	(6.5%)
Fee and commission income	**316**	**263**	**178**	**130**	**89**	**(16.8%)**	**(32.3%)**	**(31.5%)**	**(24.9%)**

Source: Aljazira Capital Management

Aljazira Capital's fee and commission decreased at a CAGR of 24.9% over the period from 01/01/2014G to 31/12/2016G from SAR 316 million (three hundred sixteen million Saudi riyals) in 2014G to SAR 178 million (one hundred seventy-eight million Saudi riyals), mainly driven by fluctuations of the capital market and diminished volume of trading in the Kingdom, which affected the brokerage and Tamam Program's fees.

Brokerage fees represent fees imposed on all the transactions carried out by Aljazira Capital on behalf of customers. Brokerage fees represent a fixed percentage of the value of each transaction, as they are the primary source of revenues for Aljazira Capital. Brokerage fees declined at a CAGR of 32.3% over the period from 01/01/2014G to 31/12/2016G due to lower trading activities carried out by customers.

During 2015G, Aljazira Capital brokerage fees decreased by 28.6% from SAR 231 million (two hundred and thirty-one million Saudi riyals) in 2014G to SAR 165 million (one hundred and sixty-five million Saudi riyals) in 2015G due to a decrease in its trading activities from SAR 742 billion (seven hundred forty-two billion Saudi riyals) in 2014G to SAR 539 billion (five hundred thirty-nine billion Saudi riyals) in 2015G. It is worth mentioning that this contraction represents the general market trend, and is not restricted to Aljazira Capital in particular.

In 2016, Aljazira Capital brokerage fees decreased by 35.8% from SAR 165 million (one hundred sixty five million Saudi riyals) in 2015G to SAR 106 million (one hundred six million Saudi riyals) in 2016G due to the decrease in the volume of trading operations.

Furthermore, Aljazira Capital brokerage fees decreased by 35.4% from SAR 82 million (eighty two million Saudi riyals) in the nine month period ending on 30/09/2016 to SAR 53 million (fifty-three million Saudi riyals) for the same period in 2017G. This decline is mainly due to fluctuations of the capital market and diminished volume of trading in the Kingdom. It is worth mentioning that this contraction represents the general market trend, and is not restricted to Aljazira Capital in particular

Tamam Program's fee income represents Aljazira Capital's commission fees of Tamam Program's portfolio. This income declined at a CAGR of 3.5% over the period from 01/01/2014G to 31/12/2016G, given that the Tamam portfolio underwent a decline during the same period.

In 2015G, it increased by 18.2% from SAR 44 million (forty-four million Saudi riyals) in 2014G to SAR 52 million (fifty-two million Saudi riyals) in 2015G as a result of the change in funds transfer pricing by Bank Aljazira on the one hand.

On the other hand, in 2016 Tamam's fee income decreased by 21.2% from SAR 52 million (fifty-two million Saudi riyals) in 2015G to SAR 41 million (forty-one million Saudi riyals) as a result of the continued decline in the main market index in the Kingdom.

In addition, Tamam's fee income decreased by 86.7% from SAR 30 million (thirty million Saudi riyals) in the nine month period ending on 30 September 2016G to SAR 4 million (four million Saudi riyals) in the nine month period ending on 30/09/2017G. This decline was due to the transfer of Tamam's portfolio from the Bank to Aljazira Capital.

Investment fund management fees are charged by Aljazira Capital on assets under management. The fees decreased by a CAGR of 14.7% over the period from 01/01/2014G to 31/12/2016G.

In 2015G, fund management fees increased by 6.1% from SAR 33 million (thirty-three million Saudi riyals) in 2014G to SAR 35 million (thirty-five million Saudi riyals). This growth was mainly driven by an increase in fund management fees, offset by a slight decrease in the rate of assets from SAR 3.974 billion (three billion, nine hundred and seventy-four million Saudi riyals) to SAR 3.930 billion (three billion, nine hundred and thirty million Saudi riyals) in 2015G.

In 2016G, investment fund management fees decreased by 31.4% from SAR 35 million (thirty five million Saudi riyals) to SAR 24 million (twenty four million Saudi riyals). This decrease was mainly due to the failure to achieve performance fees in 2016G compared to 3.2 million Saudi riyals in 2015G.

Investment fund management fees increased from SAR 16 million (sixteen million Saudi riyals) in 30 September 2016 to SAR 28 million (twenty-eight million Saudi riyals) in the nine month period ending on 30 September 2017G (accounting for a 75% increase). This increase was mainly due to the growth of assets under management.

6.6.4 Other Income Items

Other income items consist mainly of income from foreign exchange transactions related to conversion of Treasury currencies. Income from foreign exchange transactions increased at a CAGR of 34.4% over the period from 01/01/2014G to 31/12/2016G. In 2015G, foreign exchange income increased by 58.0% compared to 2014G from SAR 57 million (fifty-seven million Saudi Riyals) in 2014G to SAR 90 million (ninety million Saudi riyals) in 2015G as a result of the Bank's strategy aimed at focusing on providing these services and leveraging the expansion of the Bank's branch network that provides "Fawri" service to 30 branches as of 31/12/2015G.

In 2016G, foreign exchange income increased by 14.4% from SAR 90 million (ninety million Saudi riyals) to SAR 103 million (one-hundred and three million Saudi riyals) as a result of the expansion of the bank's branch network from 76 branches to 80 branches in in the same year.

In the nine month period ending on 30/09/2017, foreign exchange income increased by 35.4% compared to the same period of the year 2015G to reach SAR 79 million (seventy-nine million Saudi riyals) and SAR 107 million (one hundred and seven million Saudi riyals) as a result of the Bank's strategy that focused on these services.

Other income items include trading income which is the income from investments classified as fair value in the income statement and the premiums received when selling foreign currency options. Trading income decreased at a CAGR of 59.2% over the period from 1/1/2014G to 31/12/2016G.

In the year 2015G, trading income decreased by 63.3% from SAR 30 million (thirty million Saudi riyals) in 2014G to SAR 11 million (eleven million Saudi riyals) due to the decline in trading in investments classified at fair value in the income statement during the year.

In 2016G, trading income decreased by 54.5% from SAR 11 million (eleven million Saudi riyals) in 2014G to SAR 5 million (five million Saudi riyals) due to the declined trading investments classified at fair value in the income statement during the year.

In the nine month period ending on 30/09/2017, trading income increased by 125% to SAR 9 million (nine million Saudi riyals) compared to SAR 4 million (four million Saudi riyals) in the same period in 2016G as a result of increased trading in investments classified as fair value during the period.

Other income items include dividend income which is the income from equity classified at fair value through other comprehensive income. The dividend income gradually decreased to zero (0) Saudi riyals over the period from 1/1/2014G to 31/12/2016G. However, it decreased by 33.3% from SAR 3 million (three million Saudi riyals) in 2014G to SAR 2 million (two million Saudi riyals) in 2015G due to the decline of Aljazira Capital's investments. No dividend income was recognized in 2016G in the nine month period ending on 30 September 2016G and the nine month period ending on 30/09/2017, as no dividends generated from existing investments in Aljazira Capital were distributed.

Other income items include gains on net non-trading investments, which are the net of non-trading investments and income from investments classified at amortized cost. The fluctuations in the profits of non-trading investments over the period from 01/01/2014G to 31/12/2016G are attributed to the timing and volume of the Sukuk options where the investment is liquidated.

Income decreased from SAR 4 million (four million Saudi riyals) in 2014G to SAR 0.0 (zero Saudi riyals) in 2015 due to a decrease in the volume of Sukuk liquidation in 2015G. Income remained at SAR 0.0 (zero Saudi riyals) from 2015G until the nine month period ending on 30/09/2017G.

Other income items include income from the sale of other properties, which represent the profit resulting from the sale of real estate assets. Income from sale of other properties increased at a CAGR of 165.2% over the period from 01/01/2014G to 31/12/2016G.

It increased by 1,407.1% from SAR 39 million (thirty-nine million Saudi riyals) in 2014G to SAR 588 million (five hundred and eighty-eight million Saudi riyals) in 2015G, driven by the Bank's sale of a plot in Obhor in the amount of SAR 1 billion (one billion Saudi riyals), SAR 1.189 billion (one billion and one hundred and eighty-nine million Saudi riyals), recorded at a book value of SAR 616 million (six hundred and sixteen million) as of 31/12/2014G and classified under "Other Real Estate Assets-Net". Profit from sales amounted to SAR 573 million (five hundred and seventy-three million Saudi riyals).

In 2016G, income from other transactions decreased from SAR 588 million (five hundred eighty-eight million Saudi riyals) to SAR 212 million (two hundred twelve million Saudi riyals), i.e. a 64% decline. As a result, there was a sale of a plot in the amount of SAR 218 million (two hundred eighteen million Saudi riyals), with a book value of SAR 9 million (nine million Saudi riyals) in February 2016G. This transaction was recognized in "Net of Other Real estate Assets". The value of profit from sales amounted to SAR 209 million (two hundred and nine million Saudi riyals). On the contrary, income from other transactions in the nine month period ending on 30/09/2016G includes profit from sale of a plot in Obhor, as set out above.

In the nine-month period ending on 30/09/2017, income from other transactions decreased from SAR 212 million (two hundred twelve million Saudi riyals) to SAR 3 million (three million Saudi riyals) in the same period in 2016G, i.e. 98.6% decline on the account of the Bank's failure to sell any real estate during this period.

6.6.5 Employees' Salaries and Expenses

6.6.5.1 Employees' Salaries and Expenses by the Parent Company and Subsidiaries

Table 6.15 Employees' Salaries and Expenses by the Parent Company and Subsidiaries

SAR million	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	629	806	804	594	581	28.1%	(0.2%)	(2.2%)	13.1%
Aljazira Capital	93	103	90	69	63	10.8%	(12.6%)	(8.7%)	(1.6%)
Total before consolidation adjustments	722	909	894	663	644	25.9%	(1.7%)	(2.9%)	11.3%
Consolidation adjustments	-	-	-	-	-	N/A	N/A	N/A	N/A
Total after consolidation	**722**	**909**	**894**	**663**	**644**	**25.9%**	**(1.7%)**	**(2.9%)**	**11.3%**

Source: Bank Aljazira Management

Total employees' salaries and expenses increased by a CAGR of 11.3%, from SAR 722 million (seven hundred and twenty-two Saudi riyals) as of 31/12/2014G to SAR 894 (eight hundred ninety-four million Saudi riyals) as of 31/12/2016G. This is because the number of employees increased from 1,971 employees in 2014G to 2,214 employees in 2016G, leading to the increase in the salaries and expenses of employees of the Bank and its subsidiaries.

Total employees' salaries and expenses were stable after a decrease by 2.9% from SAR 663 million (six hundred sixty three million Saudi riyals) in the nine month period ending on 30/09/2016G to SAR 644 million (six hundred and forty four million Saudi riyals) in the nine month period ending on 30/09/2017G despite the rise in the number of employees from 2,767 employees on 30/09/2016G to 2,841 employees as of 30/09/2017G due to the decrease in the salary rate resulting from the replacement of high-paid employees in some areas with low-salaried employees.

6.6.5.2 Employees' Salaries and Expenses by Type-Bank Aljazira

Table 6.16 Employee's Salaries and Expenses by Nature-Bank Aljazira

SAR million	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Basic Benefits	358	430	451	339	343	20.1%	4.9%	1.2%	12.2%
Remunerations	82	98	88	66	45	19.5%	(10.2%)	(31.8%)	3.6%
Other Benefits	128	190	167	117	126	48.4%	(12.1%)	7.7%	14.2%
Employee Cost	**568**	**718**	**706**	**522**	**514**	**26.4%**	**(1.7%)**	**(1.5%)**	**11.5%**
Outsourced Services	61	88	98	72	67	44.3%	11.4%	(6.9%)	26.8%
Total	**629**	**806**	**804**	**594**	**581**	**28.1%**	**(0.2%)**	**(2.2%)**	**13.1%**

Source: Bank Aljazira Management

Employees' salaries and expenses consist of: 1) Basic benefits provided to full-time employees at Bank Aljazira, which consist of basic salaries and some other allowances; 2) Performance-based bonuses linked to productivity targets and performance management; 3) Other benefits, such as education, transport etc.; and 4) Costs of employees outsourced by Bank Aljazira.

Total employees' salaries and expenses increased by a CAGR of 13.1% from 01/01/2014G to 31/12/2016G, from SAR 629 million (six hundred twenty-nine million Saudi riyals) in 2014G to SAR 806 million (eight hundred and six million Saudi riyals) and SAR 804 million (eight hundred and four million Saudi riyals) in 2015G and 2016G respectively. This was mainly driven by an increase in basic benefits, bonuses and related benefits, as Aljazira increased its employees from 1,768 employees in 2014G to 2,005 employees in 2016G. This increase is mainly attributed to the expansion in the Bank's operations within departments dealing directly with customers, as well as departments supporting internal operations.

Basic benefits grew at a CAGR of 12.2% from 01/01/2014G to 31/12/2016G. In 2015G, basic benefits increased by 20.1%, from SAR 358 million (three hundred and fifty-eight million Saudi riyals) in 2014G to SAR 430 (four hundred and thirty million Saudi riyals) in 2015G as a result of the full year effect (FYE) of allowances on salaries, and the rise in the number of employees to 1,943 late in 2015G.

Basic benefits increased by 4.9% from SAR 430 million (four hundred and thirty million Saudi riyals) to SAR 451 million (four hundred and fifty-one million Saudi riyals) in 2016G due to the increase in the number of employees from 1,943 employees as of 31/12/2015G to 2,005 employees as of 31/12/2016G, as well as the full year effect resulting from restructuring of basic salaries and benefits of the Bank's employees in May 2015G.

During the nine month period ending on 30/9/2017, basic benefits increased by 1.2%, from SAR 339 million (three hundred and thirty-nine million Saudi riyals) in the nine-month period ending on 30 September 2016G to SAR 343 million (three hundred and forty-three million Saudi riyals) as a result of the increase in the number of employees in the period ending on 30/09/2017, which was partially offset by the decrease in the salary rate resulting from the replacement of high-paid employees in some areas with low-paid employees.

Remunerations increased by a CAGR of 3.6% over the period from 01/01/2014G to 31/12/2016G. They increased by 19.5%, from SAR 82 million (eighty-two million Saudi riyals) in 2014G to SAR 98 million (ninety-eight million Saudi riyals) in 2015G as a result of higher employee remunerations associated with basic salaries and benefits due to restructuring salaries in May 2015G.

However, such remunerations decreased in 2016G from SAR 98 million (ninety-eight million Saudi riyals) to SAR 88 million (eighty-eight million Saudi riyals), i.e., a decrease of 10.2% as a result of the reduction in employees' remunerations, pending approval by the Recommendation and Remunerations Committee. Remunerations also decreased in the nine month period ending on 30/09/2017G from SAR 66 million (sixty-six million Saudi riyals) in the nine month period ending on 30/09/2016G to SAR 45 million (forty-five million Saudi riyals) (i.e. a decrease by 31.8%) due to the allocation of an amount in 2016G, which was not fully spent and therefore was carried over to the period 30/09/2017G, which led to a decrease in the expenses of the period.

Other benefits increased by a CAGR of 14.2% over the period from 01/01/2014G to 31/12/2016G. In 2015G they increased by 48.4% from SAR 128 million (one hundred and twenty-eight million Saudi riyals) in 2014G to SAR 190 million (one hundred and ninety million Saudi riyals) in 2015G as a result of the impact of salary increases on end-of-service indemnities, as well as the Custodian of the Two Holy Mosques' bonus in 2015G.

However, these benefits declined in 2016G from SAR 190 million (one hundred and ninety million Saudi riyals) in 2015 to SAR 167 million (one hundred and sixty-seven million Saudi riyals), i.e. a decrease of12.1% because of non-payment of the Custodian of the Two Holy Mosques' bonus as of 2015G, which led to the reduction of other benefits by SAR 23 million (twenty-three million Saudi riyals), which was partially offset by the increase in sales staff incentives in 2016G.

In the nine month period ending on 30/09/2017, other benefits increased by 7.7% compared to the same period in 2016G, from SAR 117 million (one hundred and seventeen million Saudi riyals) to SAR 126 million (one hundred and twenty-six Saudi riyals) due to total increase in employee benefits, including end of service benefits, the Dinar Program's incentives and education expenses due to a higher number of employees.

Outsourcing expenses increased by a CAGR of 26.8% over the period from 01/01/2014G to 31/12/2016G. In 2015G, such expenses increased by 44.3%, from SAR 61 million (sixty-one million Saudi riyals) in 2014G to SAR 88 million (eighty-eight million Saudi riyals) in 2015G as a result of the difficulty of issuing work permits for foreign workers and replacing them with outsourced services.

In addition, these expenses continued to rise in 2016G from SAR 88 million (eighty-eight million) in 2015G to SAR 98 million (ninety-eight million Saudi riyals), i.e., a growth of 11.4% due to the increase in the number of outsourced employees in the new transfer centers, in addition to the increase in the number of foreign employees because of the difficulty in issuing residence and work permits.

However, the nine month period ending on 30/09/2017G witnessed a decrease of 6.9% in outsourcing expenses, which decreased from SAR 72 million (seventy-two million Saudi riyals) in the nine month period ending on 30 September 2016G to SAR 67 million (sixty-seven million Saudi riyals) on the ground that a number of outsourced employees in Fawri centers were transferred and classified among the Bank's employees (i.e. within the expenses of the basic benefits).

6.6.6 Net provision for Credit Losses, by Parent Company and Subsidiaries

Table 6.17 Net Provision for Credit Losses by Parent Company and Subsidiaries

SAR million	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	383	53	125	87	194	(86.2%)	135.8%	123.0%	(42.9%)
Aljazira Capital	-	-	-	-	-	N/A	N/A	N/A	N/A
Total before consolidation adjustments	**383**	**53**	**125**	**87**	**194**	**(86.2%)**	**135.8%**	**123.0%**	**(42.9%)**
Consolidation adjustments	-	-	-	-	-	N/A	N/A	N/A	N/A
Total after consolidation	**383**	**53**	**125**	**87**	**194**	**(86.2%)**	**135.8%**	**123.0%**	**(42.9%)**

Source: Bank Aljazira Management

PCL registered in the income statement represents additional provisions for direct and indirect facilities less the recovery of previously deducted amounts. Provision for credit losses decreased at a CAGR of 42.9% over the period from 1/1/2014G to 31/12/2016G.

Whereas in 2015G, provision for credit losses decreased by 86.2% compared to 2014G, down from SAR 383 million (three hundred and eighty-three million Saudi riyals) in 2014G to SAR 53 million (fifty-three million Saudi riyals) in 2015G. This was mainly driven by a decease in bank provisions SAR 147 million (one hundred and forty-seven million Saudi riyals) were recorded in 2015G compared to SAR 457 million (four hundred and fifty-seven million Saudi riyals) in 2014G. Refunds for previously-made provisions were made for SAR 45 million (forty-five million Saudi riyals). In addition, there was payment of written-off debts of SAR 49 million (forty-nine million Saudi riyals) in 2015G and 2014G respectively.

In 2016G, the provision for credit losses increased by 135.8% compared to 2015G, down from SAR 53 million (fifty-three million Saudi riyals) in 2014G to SAR 125 million (one hundred and twenty-five million Saudi riyals) in 2016G. This was attributed to the increase in the Bank's recognized provisions by SAR 233 million (two hundred and thirty-three million Saudi riyals) in 2016G compared to SAR 147 million (one hundred and forty-seven million Saudi riyals) in 2015G. Given that refunds amounting to SAR 30 million (thirty million Saudi riyals) with previously-made provisions were received; in addition, debts of SAR 69 million (sixty-nine million Saudi riyals) were written-off in 2016G and 2015G respectively.

During the nine month period ending on 30 September 2017G, provision for credit losses increased by 0.123% compared to the same period in 2016G from SAR 87 (eighty seven million Saudi riyals) to SAR 194 million (one hundred and ninety-four million Saudi riyals). This was mainly driven by an increase in the Bank's recognized provisions by SAR 244 million (two hundred and forty-four million Saudi riyals) in 2017G, given that refunds amounting to SAR 36 million (thirty-six million Saudi riyals) with previously-made provisions were received; in addition, debts of SAR 14 million (fourteen million Saudi riyals) were written-off during the nine month period ending on 30 September 2017G and the same period in 2016G respectively.

6.6.7 Other expenses by Parent Company and Subsidiaries

Table 6.18 Other Expenses by the Parent Company and Subsidiaries

SAR million	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Bank Aljazira	500	621	576	426	438	24.2%	(7.2%)	2.8%	7.3%
Aljazira Capital	58	59	64	42	44	1.7%	8.5%	4.8%	5.0%
Total before consolidation adjustments	558	680	640	468	482	21.9%	(5.9%)	3%	7.1%
Consolidation adjustments	(5)	(4)	(4)	(3)	(3)	(20.0%)	0.0%	0.0%	(10.6%)
Total after consolidation	**553**	**676**	**636**	**465**	**479**	**22.2%**	**5.9%**	**3%**	**7.2%**

Source: Bank Aljazira Management

Other expenses for the nine month period ending on 30/09/2017G include rents SAR 96 million (ninety-six million Saudi riyals) and depreciation SAR 59 million (fifty-nine million Saudi riyals), G&A expenses of SAR 89 million (eighty-nine million Saudi riyals) and other operating expenses of SAR 195 million (one hundred and ninety-five million Saudi riyals). In the nine month period ending on 30 September 2017G, the other expense items of Bank Aljazira accounted for 90.9% of the total of the Group's other expense items (before amendments to the consolidated financial statements).

6.6.8 Other Expenses by Type - Bank Aljazira

Table 6.19 Other Expenses by Type-Bank Aljazira

SAR million	2014G Audited	2015G Audited	2016G Audited	Nine-month period ending on September 2016G Unaudited	Nine-month period Ending on September 2017G Unaudited	Annual change 2014G-2015G	Annual change 2015G-2016G	Annual change September 2016G - September 2017G	CAGR 2014G - 2016G
Rental expenses	103	127	127	91	96	23.3%	0.0%	5.5%	11.0%
Depreciation	72	72	74	55	59	0.0%	2.8%	7.3%	1.4%
Equipment expenses	50	58	61	41	40	16.0%	5.2%	(2.4%)	10.5%
Marketing expenses	38	45	14	13	13	18.4%	(68.9%)	0.0%	(39.3%)
Communications expenses	37	50	51	35	36	35.1%	2.0%	2.9%	17.4%
Other expenses	200	269	250	191	195	34.5%	(7.1%)	2.1%	11.8%
Total	**500**	**621**	**576**	**426**	**438**	**24.2%**	**(7.2%)**	**3.1%**	**7.4%**

Source: Bank Aljazira Management

Rents increased by a CAGR of 11.0% over the period from 01/01/2014G to 31/12/2016G. In 2015G, rents increased by 23.3% from SAR 103 million (one hundred and three million Saudi riyals) in 2014G to SAR 127 million (one hundred and twenty-seven million Saudi riyals) in 2015G as a result of an increase in the number of retail banking branches from seventy (70) branches in 2014G to seventy-six (76) branches in 2015G, in addition to an increase in "Fawri" branches from ten (10) branches at the end of 2014G to thirty (30) branches at the end of 2015G, as well as the increase in the number of ATMs.

In 2016G, there were no changes in rental expenses, which remained stable at SAR 127 million (one hundred and twenty seven million Saudi riyals). Despite the increase in the number of branches, there was a decrease in the expenses of the main operating activities.

In the nine month period ending on 30/9/2017H, such rental expenses increased by 5.5% compared to the same period in 2016G from SAR 91 million (ninety-one million Saudi riyals) to SAR 96 million (ninety-six million Saudi riyals). Due to the increase of rental expenses by SAR 1,900,000 (one million and nine hundred thousand Saudi riyals) in addition to the higher site maintenance and repair costs amounting to SAR 3,100,000 (three million and one hundred thousand Saudi riyals).

Depreciation increased at a CAGR of 1.4% over the period from 01/01/2014G to 31/12/2016G. Depreciation stood at SAR 72 million (seventy-two million Saudi riyals) in 2015G as in 2014G as a result of the concentration of additions to capital works in progress during the year 2015G.

In 2016G, depreciation increased by 2.8% from SAR 72 million (seventy-two million Saudi riyals) in 2015G to SAR 74 million (seventy-four million Saudi riyals) due to depreciated property and equipment additions amounting to SAR 105 million (one hundred and five million Saudi riyals),including computer hardware, offices and improvements in rented properties.

Depreciation continued to increase in the nine month period ending on 30/09/2017G by 16.4% from SAR 55 million (fifty-five million Saudi riyals) as of 30/09/2016G to SAR 59 million (fifty-nine million Saudi riyals) on account of the depreciation recognized with respect to property and equipment additions amounting to SAR 138 million (one hundred and thirty-eight million Saudi riyals), which was mainly due to investments in IT equipment to support the Bank's systems and programs.

Equipment expenses increased at a CAGR of 10.5% over the period from 01/01/2014G to 31/12/2016G. In 2015G, they grew by 16.0% from SAR 50 million (fifty million Saudi riyals) in 2014G to SAR 58 million (fifty-eight million Saudi riyals) in 2015G due to an increase in the Bank's branches during the year.

In 2016G, equipment expenses increased by 5.2% from SAR 58 million (fifty-eight million Saudi riyals) in 2015G to SAR 61 million (sixty-one million Saudi riyals) due to higher expenses for electronic archiving.

Equipment expenses decreased by 2.4% from SAR 41 million (forty-one million Saudi riyals) in the nine months ending 30 September 2016G to SAR 40 million (forty million Saudi riyals) as of the period ending on 30/09/2017G due to cost savings.

Marketing expenses decreased at a CAGR of 39.3% over the period from 01/01/2014G to 31/12/2016G. In 2015G, marketing expenses rose by 18.4% from SAR 38 million (thirty-eight million Saudi riyals) in 2014G to SAR 45 million (forty-five million Saudi riyals) in 2015G as a result of the Bank's campaign marketing of Fawri branches, as well as launching of the "Ajwaa" credit cards.

At the same time, marketing expenses decreased from SAR 45 million (forty-five million Saudi riyals) in 2015G to SAR 14 million (fourteen million Saudi riyals) in 2016G, that is, a decrease of 68.9% due to the decline in advertising and marketing expenses related to the re-branding of branches in line with the Bank's initiative to generally reduce expenses.

In the nine-month period ending 30/09/2016G and the nine-month period ending 30/09/2017, marketing expenses were fixed at SAR13 million (thirteen million Saudi riyals) due to non-engagement in new marketing contracts.

Telecom expenses increased at a CAGR of 17.4% over the period from 01/01/2014G to 31/12/2016G. In 2015G, telecom expenses increased by 35.1% from SAR 37 million (thirty-seven million Saudi riyals) in 2014G to SAR 50 million (fifty million Saudi riyals) in 2015G in line with the overall increase in the Bank's operations and its branches.

In addition, in 2016G, telecom expenses increased by 2.0% from SAR 50 million (fifty million Saudi riyals) to SAR 51 million (fifty one million Saudi riyals) due to the expansion of SMS services.

In the nine month period ending on 30 September 2017, telecom expenses increased by 2.9% compared to the nine-month period ending on 30 September 2016G, from SAR 35 million (thirty-five million Saudi riyals) to SAR 36 million (thirty-six million Saudi riyals) as a result of the expansion of SMS services.

Other expenses increased at a CAGR of 11.8% over the period from 01/01/2014G to 31/12/2016G. Whereas in 2015G, other expenses grew by 34.5% from SAR 200 million (two hundred million Saudi riyals) in 2014G to SAR 269 million (two hundred and sixty-nine million Saudi riyals) in 2015G as a result of increases in expenses related to credit cards, the number of credit cards and technical costs related to licenses required to support infrastructures and new regulations.

In 2016G, other expenses decreased by 7.1% from SAR 269 million (two hundred and sixty-nine million Saudi riyals) to SAR 250 million (two hundred fifty million Saudi riyals) due to the decrease in attorneys' fees. This decline is attributed to the drop of travel expenses and employee training in the amount of SAR 17 million (seventeen million Saudi riyals).

In the nine month period ending on 30/09/2017, other expenses increased to SAR 195 million (one hundred and ninety five million Saudi riyals) compared to SAR191 million (one hundred and ninety-one million Saudi riyals) in the same period of 2016G, that is, a 2.1% increase. This increase is due to the growth of municipal and attorneys' fees, and hospitality and cleaning expenses.

6.7 Consolidated Statement of Financial Position

Table 6.20 Consolidated Financial Position Statement

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Cash and Balances with SAMA	6,552	3,728	5,197	3,842
Funds Due from Banks and Other Financial Institutions	4,909	4,704	1,338	474
Investments	11,335	11,273	16,293	20,401
Positive fair value of derivatives	-	198	129	114
Net loans and advances	41,245	42,174	42,099	40,926
Investment in an associate	126	128	130	132
Other net real estate	660	44	61	445
Net property and equipment	599	679	702	775
Other Assets	1,128	336	370	419
Total assets	**66,554**	**63,264**	**66,319**	**67,528**
Funds due to banks and other financial institutions	3,736	4,057	3,545	6,217
Negative fair value of derivatives	-	372	334	268
Customer deposits	54,569	49,765	51,602	49,676
Sukuk issued to increase capital	1,000	1,007	2,006	2,026
Other Liabilities	1,091	650	728	735

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Total Liabilities	**60,396**	**55,851**	**58,215**	**58,921**
Capital	4,000	4,000	4,000	5,200
Statutory Reserve	1,406	1,727	1,945	1,945
General Reserve	68	68	68	68
Other Reserves	(142)	(173)	(212)	(154)
Retained Earnings	826	1,791	2,302	1,548
Total Shareholders' Equity	**6,158**	**7,413**	**8,104**	**8,607**
Total liabilities and shareholders' equity	**66,554**	**63,264**	**66,319**	**67,528**
KPIs				
Proportion of assets that produce special commissions to total assets	88.6%	89.0%	89.0%	91.2%
Proportion of liabilities subject to special commissions to total liabilities	59.8%	51.0%	37.8%	37.6%
LTD Ratio	75.6%	83.6%	80.6%	79.9%
Growth of Loans and Advances	17.9%	2.3%	(0.2%)	(2.8%)
Growth/(reduction) of customer deposits	13.5%	(8.8%)	3.7%	(3.7%)

Source: The consolidated financial statements and management of Bank Aljazira

This section summarizes the main trends of previous financial positions on the consolidated group level. Below are detailed statements on all basic components of the financial years ending on 31/12/2014G, 31/12/2015G, 31/12/2016G and 30/09/2017G.

6.7.1 Cash and Balances with SAMA

6.7.1.1 Cash and Balances with SAMA by Parent Company and Subsidiaries

Table 6.21 Cash and Balances with SAMA by Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	6,550	3,723	5,197	3,842
Aljazira Capital	416	430	612	118
Total before consolidation adjustments	**6,966**	**4,153**	**5,809**	**3,960**
Consolidation adjustments	(414)	(425)	(612)	(118)
Total after consolidation	**6,552**	**3,728**	**5,197**	**3,842**

Source: Bank Aljazira Management

6.7.1.2 Cash and Balances with SAMA

Table 6.22 Cash and Balances with SAMA by Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Cash on hand	729	963	927	1,026
Balances with SAMA				
Statutory deposit	2,863	2,750	2,738	2,816

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Cash loans	2,960	15	1,532	-
Total	**6,552**	**3,728**	**5,197**	**3,842**

Source :The Consolidated financial statements

Bank Aljazira's cash and balances with SAMA include: (1) Cash on hand representing cash with different Aljazira Bank's branches, safes and ATMs; (2) Statutory deposits-obligatory reserves that must be deposited with SAMA that are not available to finance the Bank's daily operations (pursuant to Article 7 of the Banking Control Law and the regulations issued by SAMA; this balance shall represent 7% of total on-demand deposits and 4% of savings and term deposits); and (3) Monetary lending, which represents the Murabaha deposits with SAMA supported by the Saudi government and semi-government bonds (i.e. Sukuk issued by State institutions).

In 2015G, cash and balances with SAMA declined by SAR 2.824 billion (two billion, eight hundred and twenty-four million Saudi riyals) from SAR 6.552 billion (six billion, five hundred and fifty-two million Saudi riyals) on 31/12/2014G to SAR 3.728 billion (three billion, seven hundred and twenty-eight million Saudi riyals) on 31/12/2015G, as a result of a decrease in cash lending by SAR 2.945 billion (two billion, nine hundred and forty-five million Saudi riyals) from SAR 2.960 billion (two billion, nine hundred and sixty million Saudi riyals) as of 31/12/2014G to SAR 15 million (fifteen million Saudi riyals) as of 31/12/2015G. This decline was driven by the withdrawal of these stocks to cover some withdrawals in term deposits towards the end of 2015G.

The balance of cash on hand rose in 2015G by SAR 234 million (two hundred and thirty-four million Saudi riyals), up from SAR 729 million (seven hundred and twenty-nine million Saudi riyals) as of 31/12/2014G to SAR 963 million (nine hundred and sixty-three million Saudi riyals) as of 31/12/2015G, as a result of the Bank's management of liquidity in its branches.

In 2015G the statutory deposit balance declined by SAR one hundred and thirteen (113) million, down from SAR two billion, eight hundred and sixty-three million (2.863 billion) on 31/12/2014G to SAR two billion, seven hundred and fifty million (2.750 billion) on 31/12/2015G, as a result of the Bank's compliance with the Banking Control Law and the regulations issued by SAMA, as well as decreased customer deposits.

Cash and balances with SAMA increased by SAR 1.469 billion (one billion, four hundred and sixty nine million Saudi riyals) from SAR 3.728 billion (three billion, seven hundred and twenty-eight million Saudi riyals) as of 31/12/2015G to SAR 5.197 billion (five billion, one hundred and ninety-seven million Saudi riyals) as of 31/12/2016G due to the increase in cash lending by SAR 1.517 billion (one billion, five hundred and seventeen million Saudi riyals) (during the period, from SAR 15 million [fifteen million Saudi riyals] as of 31/12/2015G to SAR 1.532 billion (one billion, five hundred and thirty-two million Saudi riyals) as of 31/12/2016G due to the issuance of a repurchase agreement at the end of 2016G.

The balance of cash-on-hand decreased in 2016G by SAR 36 million (thirty-six million Saudi riyals), from SAR 963 million (nine hundred and sixty-three million Saudi riyals) as of 31/12/2015G to SAR 927 million (nine hundred and twenty-seven million Saudi riyals) as of 31/12/2016G, as a result of the Bank's management of liquidity in its branches.

In 2016G, the statutory deposits balance decreased by SAR 12 million, from SAR 2.750 billion (two billion, seven hundred and fifty million Saudi riyals) as of 31/12/2015G to SAR 2.738 billion (two billion, seven hundred and thirty eight million Saudi riyals) as of 31/12/2016G, as a result of the Bank's compliance with the Banking Control Law and the regulations issued by SAMA.

In the first nine months of 2017G, cash and balances with SAMA decreased by SAR 1.355 billion (one billion, three hundred and fifty-five million Saudi riyals) from SAR 5.197 billion (five billion, one hundred and ninety-seven million Saudi riyals) as of 31/12/2016G to SAR 3.842 billion (three billion, eight hundred and forty-two million Saudi riyals) as of 31/12/2017G as a result of a reduction in cash lending by SAR 1.532 billion (one billion, five hundred and thirty-two million Saudi riyals) during this period, from SAR 1.532 billion (one billion, five hundred and thirty-two million Saudi riyals) as of 31/12/2016G to SAR 0 million (zero million Saudi riyals) as of 31/12/2017, due to the maturity of a repurchase agreement concluded at the end of 2016G.

While at the same time, the balance of cash-on-hand rose in 2017G by SAR 99 (ninety-nine) million, from SAR 927 million (nine hundred and twenty-seven Saudi riyals) as of 31/12/2016G to SAR 1.026 billion (one billion and twenty-six million Saudi riyals) as of 30/09/2017, as a result of the Bank's management of liquidity in its branches.

The statutory deposits balance rose by SAR 78 (seventy-eight) million, from SAR 2.738 billion (two billion, seven hundred and thirty-eight million Saudi riyals) as of 31/12/2016G to SAR 2.816 billion (two billion, eight hundred and sixteen million Saudi riyals) as of 31/12/2017, as a result of the Bank's compliance with the Banking Control Law and the regulations issued by SAMA.

6.7.2 Funds Payable to Banks and Other Financial Institutions

6.7.2.1 Funds Payable to Banks and Other Financial Institutions by the Parent Company and Subsidiaries

Table 6.23 Funds Payable to Banks and Other Financial Institutions by the Parent Company and Subsidiaries

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	4,909	4,704	1,338	1,129
Aljazira Capital	-	-	-	-
Total before consolidation adjustments	**4,909**	**4,704**	**1,338**	**1,129**
Consolidation adjustments	-	-	-	(655)
Total after consolidation	**4,909**	**4,704**	**1,338**	**474**

Source: Bank Aljazira Management

6.7.2.2 Funds Payable to Banks and Other Financial Institutions by Type

Table 6.24 Funds Payable to Banks and Other Financial Institutions by Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Current Accounts	809	736	225	244
Money Market deposits	4,100	3,968	1,113	230
Total	**4,909**	**4,704**	**1,338**	**474**

Source: The Consolidated financial statements

The Bank's balances with banks and other financial institutions consist of (1) current account representing deposits that do not generate any special commissions from banks, and (2) money market deposits representing short-term financing provided to domestic Saudi banks, GCC countries banks and international banks on the basis of Shari'ah-compliant Murabaha. Fluctuations in this balance are mainly driven by a liquidity surplus at the Bank at a specific time period.

In 2015G, balances with banks and other financial institutions decreased by SAR two hundred and five (205) million, from SAR four billion, nine hundred and nine million (4.909 billion) on 31/12/2014G to SAR four billion, seven hundred and four million (4.704 billion) as of 31/12/2015G, as a result of the decline in money market deposits by SAR one hundred and thirty-two (132) million from SAR four billion and one hundred million (4.10 billion) on 31/12/2014G to SAR three billion, nine hundred and sixty-eight million (3.968 billion) on 31/12/2015G in addition to a decrease in the balance of current accounts by SAR seventy-three (73) million from SAR eight hundred and nine (809) million on 31/12/2014G to SAR seven hundred and thirty-six (736) million on 31/12/2015G as a result of due to the management of short-term liquidity at the Bank as of 31/12/2015G.

Moreover, balances payable to banks and other financial institutions decreased by SAR 3.366 billion (three billion, three hundred and sixty-six million Saudi riyals) from SAR 4.704 billion (four billion, seven hundred and four million Saudi riyals) as of 31/12/2015G to SAR 1.338 billion (one billion, three hundred thirty eight million Saudi riyals) as of 31/12/2016G, as a result of the decline in money market deposits from SAR 3.968 billion (three billion, nine hundred and sixty-eight million Saudi riyals) as of 31/12/2015G to SAR 1.113 billion (one billion, one hundred and thirteen million Saudi riyals) as of 31/12/2016G, due to the management of short-term liquidity at the Bank as of 31/12/2016G. The current accounts balance also dropped by SAR 511 (five hundred and eleven) million in 2015G from SAR 736 (seven hundred and thirty-six) million as of 31/12/2015G to SAR 225 (two hundred and twenty-five) million as of 31/12/2016G as a result of the management of bank's liquidity.

The balances payable to banks and other financial institutions decreased by SAR 864 million (eight hundred and sixty-four million Saudi riyals) from SAR 1.338 billion (one billion, three hundred and thirty-eight million Saudi riyals) as of 31/12/2016G to SAR 474 million (four hundred and seventy-four million Saudi riyals) as of 13/12/2017G, driven by the decline in money market deposits from SAR 1.113 billion (one billion, one hundred and thirteen million Saudi riyals) as of 31/12/2016G to SAR 230 million (two hundred and thirty million Saudi riyals) as of 30/09/2017G due to the management of short-term liquidity at the Bank as of 30/09/2017. The current account balance rose by SAR 19 million in 2015G from SAR 225 million (two hundred and twenty-five million Saudi riyals) as of 31/122016G to SAR 244 million (two hundred and forty-four million Saudi riyals) as of 31/09/2017G as a result of the management of bank's liquidity.

6.7.3 Investments

6.7.3.1 Investments by Parent Company and Subsidiaries

Table 6.25 Investments by Parent Company and Subsidiaries

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	11,066	11,037	16,706	20,807
Aljazira Capital	269	236	88	95
Total before consolidation adjustments	**11,335**	**11,273**	**16,794**	**20,902**
Consolidation adjustments	-	-	(501)	(501)
Total after consolidation	**11,335**	**11,273**	**16,293**	**20,401**

Source :Bank Aljazira Management

In 2015G, investment portfolio decreased by SAR 62 million (sixty-two million Saudi riyals) from SAR 11.335 billion (eleven billion, three hundred and thirty-five million Saudi riyals) as of 31/12/2014G to SAR 11.273 billion (eleven billion, two hundred and seventy-three million Saudi riyals) as of 31/12/2015G, as a result of the sale of some investments for SAR 100 million (one hundred million Saudi riyals) from the Sukuk portfolio prior to maturity, as well as the maturity of a portion of the Sukuk portfolio in 2015G.

In 2016G, the investment portfolio increased by SAR 5.020 billion (five billion and twenty million Saudi riyals) from SAR 11.273 million (eleven billion, two hundred and seventy- three million Saudi riyals) as of 31/12/2015G to SAR 16.293 billion (sixteen billion, two hundred and ninety-three million Saudi riyals), mainly due to the purchase of new floating rate Sukuk (issued by the Saudi Arabian Monetary Agency) investments amounting to SAR 4.9 billion (four billion and nine hundred million Saudi riyals).

As of the period ended on 30/09/2017G, the investment portfolio increased by SAR 4.108 billion (four billion, one hundred and eight million Saudi riyals) from SAR 16.293 billion (sixteen billion, two hundred and ninety-three million Saudi riyals) as of 31/12/2016G to SAR 20.401 million (twenty billion, four hundred and one million Saudi riyals), mainly due to the purchase of investments in Ministry of Finance Sukuk in the amount of SAR 4.312 billion (four billion, three hundred and twelve million Saudi riyals).

6.7.3.2 Consolidated Investments by Product Type

Table 6.26 Consolidated Investments by Product Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Sukuk Investments	10,926	10,829	16,096	20,133
Investment Funds	330	322	92	100
Shares	79	52	12	15
Murabaha Investment	-	-	-	-
Income of special commissions due and payable	-	70	93	153
Total investment	**11,335**	**11,273**	**16,293**	**20,401**

Source: The Consolidated financial statements

In 2015G, Sukuk investments decreased by 0.9% from SAR ten billion, nine hundred and twenty-six million (10.926 billion) as of 31/12/2014G to SAR ten billion, eight hundred and twenty-nine million (10.829 billion) as of 31/12/2015G after the sale of some investments from the Sukuk portfolio with a nominal value of SAR one hundred (100) million.

As of 31/12/2016G, the investment portfolio increased by 48.7% from SAR 10.829 billion (ten billion, eight hundred and twenty-nine million Saudi riyals) as of 31/12/2015G to SAR 16.096 billion (sixteen billion and ninety-six million Saudi riyals), mainly due to the purchase of the new floating rate Sukuk (issued by Saudi Arabian Monetary Agency) investments amounting to SAR 4.900 million (four billion and nine hundred million Saudi riyals).

As of 30/09/2017, the investment portfolio increased by 25.1% from SAR 16.096 billion (sixteen billion and sixty-nine million Saudi riyals) as of 30/12/2016G to SAR 20.133 billion (twenty billion, one hundred and thirty three Saudi riyals), mainly due to the purchase of investments in Ministry of Finance Sukuk in the amount of SAR 4.312 billion (four billion, three hundred and twelve million Saudi riyals).

In 2015G, the value of investment funds decreased by 2.4% from SAR three hundred and thirty (330) million as of 31/12/2014G to SAR three hundred and twenty-two (322) million as of 31/12/2015G due to a decline in the Saudi market index.

As of 31/12/2016G, the value of investment funds decreased by 71.4% from SAR 322 million (three hundred and twenty-two million Saudi riyals) as of 31/12/2015G to SAR 92 million (ninety-two million Saudi riyals) as of 31/12/2016G, due to the sale of some investment funds and some investments in an equity portfolio, including the sale of investment in Al-Qawafel Commodity Trading Fund managed by Aljazira Capital in the amount of SAR 102 million (one hundred and two million Saudi riyals).

As of 30/09/2017, the value of investment funds increased by 8.7% from SAR 92 million (ninety-two million Saudi riyals) as of 30/09/2016G to SAR 100 million (one hundred million Saudi riyals)as of 30/09/2017G due to the rise in the fair value of investments.

In 2015G, the value of the equity portfolio decreased by 34.2% from SAR seventy-nine (79) million as of 31/12/2014G to SAR fifty-two (52) million as of 31/12/2015G according to the trading results.

As of 31/12/2016G, the equity portfolio decreased again by 77.0% from SAR 52 (fifty-two) million as of 31/12/2015G to SAR 12 (twelve) million as of 30/09/2016G as a result of the sale of a portion of the portfolio.

As of 30/09/2017, the equity portfolio increased by 25% from SAR 12 million (twelve million Saudi riyals) as of 31/12/2016G to SAR 15 (fifteen) million as of 30/09/2017G.

As of 31/12/2016G, due and payable special commission income increased by 32.9% from SAR 70 (seventy) million as of 31/12/2015G to SAR 93 (ninety-three) million as of 31/09/2016G due to the high rate of return

In addition, as of 30/09/2017G, due and payable special commission income increased by 64.5% from SAR 93 million (ninety-three million Saudi riyals) as of 31/09/2016G to SAR 153 million (one hundred and fifty-three million Saudi riyals) as of 30/09/2017, due to a rise in the rate of return and the size of the investment portfolio.

6.7.3.3 Investments by Accounting Classification

Table 6.27 Investments by Accounting Classification

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Amortized cost investment	10,926	10,900	16,188	20,286
Fair value investments through income statement	398	361	93	100
Investments at fair value through other comprehensive income	11	12	12	15
Net investments	**11,335**	**11,273**	**16,293**	**20,401**

Source: The Consolidated financial statements

In 2015G, investments acquired through amortized cost by 0.2% with a value of SAR 26 million (twenty-six million Saudi Riyals) as a result of the sale of some investments from the Sukuk portfolio. The nominal value amounted to SAR one hundred (100) million in 2015G. As of 31/12/2016G, the portfolio of investments acquired through amortized cost increased by the amount of SAR 5.288 billion (five billion, two hundred and eighty-eight million Saudi riyals) from SAR 10.900 billion (ten billion and nine hundred million Saudi riyals) as of 31/12/2015G to SAR 16.188 billion (sixteen billion, one hundred and eighty-eight million Saudi riyals), mainly due to the purchase of new floating rate Sukuk (issued by Saudi Arabian Monetary Agency) investments amounting to SAR 4.900 billion (four billion and nine hundred million Saudi riyals). As of 30/09/2017, the investment portfolio increased by 25.3% from SAR 16.188 billion (sixteen billion, one hundred and eighty-eight million Saudi riyals) as of 31/12/2016G to SAR 20.286 billion (twenty billion, two hundred and eighty-six million Saudi riyals) as of 30/09/2017, mainly due to the purchase of investments in Ministry of Finance Sukuk in the amount of SAR 4.312 billion (four billion, three hundred and twelve million Saudi riyals).

In 2015G, investments classified at fair value in the income statement decreased by 9.3% from SAR three hundred and ninety-eight (398) million on 31/12/2014G to SAR three hundred and sixty-one (361) million on 31/12/2015G as a result of the decrease of the value of the acquired stocks portfolio by SAR twenty-eight (28) million. As of 31/12/2016G, investments classified at fair value through the income statement decreased by 74.2% from SAR 361 million (three hundred and sixty-one million Saudi riyals) as of 31/12/2015G to SAR 93 million (ninety-three million Saudi riyals) as of 31/12/2016G, on account of sale of some investments of investment funds and equity portfolio during the twelve-month period ending on 31/12/2016G including sale of investment in Al-Qawafel Commodity Trading Fund managed by Aljazira Capital in the amount of SAR 102 million (one hundred and two million Saudi riyals). As of 30/09/2017, investments classified at fair value through the income statement increased by 7.5% from SAR 93 million (ninety-three million Saudi riyals)as of 31/12/2016G to SAR 100 million (one hundred million Saudi riyals) as of 31/09/2017G due to high fair value of investments.

Whereas in 2015G, the value of investments classified at fair value through other comprehensive income increased by 9.1% from SAR 11 million (eleven million Saudi riyals) on 31/12/2014G to SAR 12 million (twelve million Saudi riyals) as of 31/12/2015G. As of 13/12/2016G, value of investments classified at fair value through other comprehensive income stood at SAR 12 million (twelve million Saudi riyals). As of 30/09/2017, investments classified at fair value through other comprehensive statement increased by 25% from SAR 12 million (twelve million Saudi riyals) as of 31/12/2016G to SAR 15 million (fifteen million Saudi riyals) as of 30/09/2017G due to high fair value of investments.

6.7.3.4 Group Investments by Geographical Region

Table 6.28 Group Investments by Geographical Region

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Kingdom of Saudi Arabia	11,173	11,110	16,254	20,390
International	162	163	39	11
Total	**11,335**	**11,273**	**16,293**	**20,401**

Source: The Consolidated financial statements

In 2015G, investment in KSA decreased by 0.6% from SAR eleven billion, one hundred and seventy-three million (11.173 billion) on 31/12/2014G to SAR eleven billion, one hundred and ten million (11.110 billion) on 31/12/2015G following the sale of Sukuk valued at SAR one hundred (100) million in 2015G. Investments outside KSA increased slightly by 0.6% from SAR one hundred and sixty-two (162) million on 31/12/2014G to SAR one hundred and sixty-three (163) million on 31/12/2015G.

As of 31/12/2016G, investments in the Kingdom increased by 46.3% from SAR 11.110 billion (eleven billion, one hundred and ten million Saudi riyals) on 31/12/2015G to SAR 16.254 billion (sixteen billion, two hundred and fifty-four million Saudi riyals) as of 31/12/2016G after the purchase of new floating rate Sukuk (issued by Saudi Arabian Monetary Agency) investments amounting to SAR 4.900 billion (four billion and nine hundred million Saudi riyals), while the investments outside the Kingdom decreased by 76% from SAR 163 million (one hundred and sixty-three million Saudi riyals)as of 31/12/2015G to SAR 39 million (thirty-nine million Saudi riyals) as of 31/12/2016G due to the Management's decision to liquidate certain international investments to avoid the fluctuations in these markets and in turn increase investment in the local market.

As of 30/09/2017, investment portfolio increased by 25.4% from SAR 16.254 billion (sixteen billion, two hundred and fifty-four million Saudi riyals) as of 31/12/2016G to SAR 20.390 billion (twenty billion, three hundred and ninety million Saudi riyals) as of 30/09/2017, mainly due to the purchase of investments in Ministry of Finance Sukuk in the amount of SAR 4.312 billion (four billion, three hundred twelve million Saudi riyals). As of 30/09/2017, investments outside the Kingdom decreased by 71.8% from SAR 39 million (thirty-nine million Saudi riyals) as of 31/12/2016G to SAR 11 (eleven) million on 30/09/2017G in line with the Management's decision to reduce balances of international investments.

6.7.4 Fair Value of Derivatives

Table 6.29 Fair Value of Derivatives

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Positive fair value of derivatives	-	198	129	114
Negative fair value of derivatives	-	(372)	(334)	(268)
Fair Value of Derivatives	**-**	**(174)**	**(205)**	**(154)**

Source: Bank Aljazira Management

In 2016G, the Bank reclassified the positive and negative fair values of financial derivatives of other assets and liabilities. The fair value of derivatives decreased by 15.1% from SAR 174 million (one hundred and seventy-four million Saudi riyals) as of 31/12/2015G to SAR 205 million (two hundred and five million Saudi riyals) as of 31/12/2016G due to unfavorable movements in the long-term variable yield curve.

The fair value of derivatives represents the present value of estimated future cash flows upon payment for all retained derivatives. The negative increase in this balance is driven by profit rate swap positions at Bank Aljazira. This negative gap grew in in the nine month period ending on 30/9/2017G as a result of unfavorable movements in the long-term yield curve with variable price.

6.7.5 Loans and Advances

6.7.5.1 Loans and Advances by Entity

Table 6.30 Loans and Advances by Parent Company and Subsidiaries

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	41,245	42,174	42,099	39,763
Aljazira Capital	-	-	-	1,163
Total before consolidation adjustments	41,245	42,174	42,099	40,926
Consolidation adjustments	-	-	-	-
Total after consolidation	**41,245**	**42,174**	**42,099**	**40,926**

Source: Bank Aljazira Management

6.7.5.2 Loans and Advances by Business Sector

Table 6.31 Loans and Advances by Business Sector

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Corporate Banking Group	26,224	25,586	23,971	22,502
Retail Banking Group	14,736	15,927	17,367	17,637
Others	285	351	391	417
Income of special commissions due and payable	-	310	370	370
Loans and advances, net	41,245	42,174	42,099	40,926

Source: The Consolidated financial statements

During the period from 2014G to 2016G, Bank Aljazira's loan portfolio witnessed an increase of SAR 854 (eight hundred and fifty-four) million at a CAGR of 1.0% as a result of the initiative to expand the Bank's branches and the strategic focus on real estate loans. The loans and advances portfolio witnessed an increase from SAR 41.245 billion (forty-one billion, two hundred and forty-five million Saudi riyals) in 2014G to SAR 42.099 billion (forty-two billion and ninety-nine million Saudi riyals) in 2016G (i.e. a growth of 2.1%). The growth of Retail Banking Group increased by SAR 2.631 billion (two billion, six hundred and thirty-one million Saudi riyals (i.e. a growth of 17.9%), while Retail Banking Group decreased by SAR 2.253 billion (two billion, two hundred and fifty-three million Saudi riyals) (a decrease of 8.6%).

In 2015G, loans and advances portfolio grew from SAR 41.245 billion (forty-one billion, two hundred and forty-five million Saudi riyals) at the end of 2014G to SAR 42.174 billion (forty-two billion, one hundred and seventy-four million) at the end of 2015G (a growth of 2.3%). This growth resulted from the Retail Banking Group's growth of SAR 1.191 billion (one billion, one hundred and ninety one million Saudi riyals) (a growth of 8.1%) compared to the Retail Banking Group's decline by SAR 638 million (six hundred and thirty-eight million), which was a result of the Bank's focus on the quality of loans granted to the Retail Banking Group due to low liquidity in the Saudi Market as of 31/12/2015G.

In 2016G, loan and advances portfolio decreased from SAR 42.174 billion (forty-two billion, one hundred and seventy-four million Saudi riyals) at the end of 2015G to SAR 42.099 billion (forty-two billion and ninety-nine million Saudi riyals) at the end of 2016G. (0.2% decrease), driven by a decline in the loans of the Retail Banking Group by SAR 1.615 billion (one billion, six hundred and fifteen million Saudi riyals) during the same period due to the diminished demand for Tamam's loans during this period. However, Retail Banking Group's portfolio increased by SAR 1.440 billion (one billion, four hundred and forty million Saudi riyals) (9.0% growth) as a result of the Bank's focus on the sale of investment property loans and Dinar Personal Finance Program during the period.

As of 30/09/2017, loans and advances portfolio declined from SAR 42.099 billion (forty-two billion and ninety-nine million Saudi riyals) at the end of 2016G to SAR 40.926 billion (forty billion, nine hundred and twenty-six million Saudi riyals) as of 30/09/2017 (a decrease of 2.8%). This decrease is due to the decline of the portfolio of the Retail Banking Group by SAR 1.469 billion (one billion, four hundred and sixty-nine million Saudi riyals) during the same period as a result of the Management policy based on the stability of the quality of loans in light of the deteriorated economic conditions throughout the Kingdom and the decline in demand for Tamam's loans during the period. On the other hand, the Retail Banking Group's portfolio increased by SAR 270 million (two hundred and seventy million Saudi riyals) (1.6% growth) as a result of the Bank's focus on the sale of investment real estate loans during the period.

Loans and advances extended to clients amounting to SAR 40.926 billion (forty billion, nine hundred and twenty-six million Saudi riyals) as of 30/09/2017G include (1) Companies and Institutions Banking Group's loans of SAR 22.502 billion (twenty-two billion, five hundred and two million Saudi riyals (approximately 55.0% of net loans and advances), (2) Retail Banking Group's loans amounting to SAR 17.637 billion (seventeen billion, six hundred and thirty-seven million Saudi riyals)(approximately 43.1% of net loans and advances), and other loans amounting to SAR 417 million (four hundred and seventeen million Saudi riyals) (mainly loans and advances to employees) in addition to payable special commission income amounting to SAR 370 (three hundred and seventy) million Saudi riyals.

The distribution mix of Aljazira Bank's loans changed noticeably between 31/12/2014G and 30/09/2016G due to the growth of the Retail Banking Group's portfolio. In 30/09/2017G, the Retail Banking Group's loans made up approximately 43.1% of the total portfolio compared to 35.7% in 31/12/2014G. In 30/09/2017G, the Retail Banking Group's loans represented approximately 55.0% of the total portfolio compared to 63.6% in 31/12/2014G. The change in this mix resulted from Aljazira Bank's strategy to focus on expanding operations related to the Retail Banking Group and on increasing the market share by expanding its network of branches during the same period from 70 branches (seventy branched) in 2014G to 79 branches as of 30/09/2017G, as well as growing demand for various individual finance products. At the same time, Aljazira Bank maintained corporate portfolio's growth through focusing on Retail Banking Group's medium corporate clients and business clients in order to increase revenue, diversify the client base, and continue to manage its current base of reputable and major corporate clients.

The large increase in loans and advances was accompanied by a modest growth in client deposits, resulting in an increase in the ratio of loans to deposits from nearly 79.9% as of 30/09/2017G to including 75.6% as of 31/12/2014G.

Borrowing services provided by Aljazira Bank are Shari'ah-compliant. Their compliance with the principles of Islamic Shari'ah are controlled by the Independent Shari'ah Control Board. This body is composed of a number of Islamic banking specialists to monitor and approve the Bank's operations.

The maturity period of the Bank Aljazira loan portfolio has shrunk, as it is expected that is approximately 39.8% of the portfolio will mature in less than one year as of 30/09/2017G, compared to 50.1%, 53.3% and 52.0% as of 31/12/2016G, 2015G, and 2014G, respectively.

Almost all of the loan portfolio is concentrated at the domestic level, with 99.9% of the loans being granted to customers within the Kingdom of Saudi Arabia in 30/09/2017G. GCC countries exercised slight credit risk (less than 1%).

The Bank's portfolio of loans was diverse in 30/09/2017G, as it included many sectors. The Retail Banking Group's loans accounted for 43.7% of the total portfolio, while the remainder of the portfolio was distributed among the manufacturing sector (13.6% of total loans), wholesale and retail sectors (12.6% of total loans), real estate trading sector (9.7%), building and construction sector (2.7%) and other sectors (17.7%).

The exposure rates value of the foregoing sectors are SAR 17.866 billion (seventeen billion, eight hundred and sixty-six million Saudi riyals) out of the total exposure rate of retail loans and credit cards, SAR 5.573 billion (five billion, five hundred and seventy-three million Saudi riyals) of the total exposure rate of the manufacturing sector and SAR 5.153 million (five billion, one hundred and fifty-three million Saudi riyals)of the total exposure rate of the wholesale and retail sectors as of 30/09/2017G. The Bank has also complied with the limits laid down in its internal policy, as the individual exposure rate of any sector must not exceed 25% of the total loans portfolio.

As of 30/09/2017, the fair value of the guarantees amounted to SAR 16.959 billion (sixteen billion, nine hundred and fifty-nine million Saudi riyals) compared to SAR 17.299 billion (seventeen billion, two hundred and ninety-nine Saudi riyals) as of 31/12/2015G, as a result of the decline in the portfolio of banking group during the same period. Guarantees made up 41.4% and 41.0% of total performing loans in 30/09/2017G and 31/12/2015G respectively.

The percentage of guarantees covering non-performing loans amounted to 51.1% in 30/09/2017G compared to 49.5% in 31/12/2015G.

According to the credit policy of Aljazira Bank, guarantees must be evaluated by three independent and approved professional appraisers. Non-performing loans and advances are evaluated annually, but performing loans and advances are evaluated every two years. With respect to real-estate guarantees, Aljazira Bank's policy requires the approval of three external appraisers on any mortgaged guarantee for any new evaluation so that the minimum value is approved.

The Retail Banking Group offered 55.7% of uncovered loans in 30/09/2017G, of which 34.4% was covered by real-estate guarantees, 4.7% was covered by shares and funds and 1.1% was covered by cash margins and term deposits. The Management believes that such guarantee-uncovered lending is a customary practice in the corporate finance market in the Kingdom, because demanding guarantees from senior clients who have economic weight leads to increasing the risks of loss to competitor banks.

Secured guarantees do not cover a wide range of credit risks of the Retail Banking Group's portfolio, which is mainly based on salary transfers. The "Dinar Personal Finance Program" represented 48.4% of the group's portfolio on 30/09/2017G. Most of the lending based on salary transfers for government workers, as well as the private sector. Salary-based lending is driven by salary transfers to the bank, as Aljazira Bank has the authority to directly deduct from such accounts to repay installments when salaries are transferred. Salaries cannot be transferred to another bank without the written consent of Aljazira Bank.

6.7.5.3 Credit Quality of Loans and Advances

Table 6.32 Credit Quality of Loans and Advances

(SAR millions)	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Performing loans and advances	39,742	37,666	36,076	34,918
Loans and advances that require special care	1,506	1,792	3,648	3,755
Total performing loans	**41,248**	**39,458**	**39,724**	**38,673**
Payable and high value				
Less than 30 days	208	2,466	2,041	1,139
30 to 60 days	14	163	335	414
60 to 90 days	13	134	104	156
More than 90 days	30	213	167	777
Total performing loans	41,513	42,434	42,371	41,159
Less: Portfolio provision	(415)	(451)	(470)	(467)
Net performing loans	**41,098**	**41,983**	**41,901**	**40,692**
Non-performing loans				
Total non-performing loans	370	355	484	509
Less: Specified loss provision	(223)	(164)	(286)	(274)
Net non-performing loans	**147**	**191**	**198**	**235**
Net loans and advances	**41,245**	**42,174**	**42,099**	**40,926**

Source: The Consolidated financial statements

Net performing loans increased by about SAR eight hundred and eighty-five (885) million during the period from 31/12/2014G to 31/12/2015G from SAR forty-one billion and ninety-eight million (41.098 million) to SAR forty-one billion, nine hundred and eighty-three million (41.983 million). Provisions for the portfolio increased by SAR thirty-six (36) million from SAR four hundred and fifteen (415) million as of 31/12/2014G to SAR four hundred and fifty-one (451) million as of 31/12/2015G. This resulted in a slight increase in the portfolio provisions from 1.0% as of 31/12/2013G to 1.1% as of 31/12/2015G in line with the Bank's policy and portfolio allocation system, pursuant to the Banking Control Law and regulations issued by SAMA, which set the minimum provision for the portfolio at 1.0% of performing loans.

Non-performing loans decreased by SAR fifteen (15) million from SAR three hundred and seventy (370) million as of 31/12/2014G to SAR three hundred and fifty-five (355) million as of 31/12/2015G due to writing off large balances held by the Retail Banking Group in the amount of SAR one hundred and twenty-six (126) million, resulting in a decrease in the ratio of non-performing loans from 0.9% to 0.8% during the same period. In addition, provisions specified in 2015G decreased from SAR two hundred and twenty-three (223) million as of 31/12/2014G to SAR one hundred and sixty-four (164) million as of 31/12/2015G, due to a write off of large balances held by the Retail Banking Group. The Management maintained the same ratio of non-performing loan provisions at 173% as of 31/12/2014G and 31/12/2015G.

In 2016G, net performing loans increased by SAR one billion, two hundred and fifty-six million (1.256 billion) during the period from 31/12/2015G to 31/12/2016G from SAR forty-one billion, nine hundred and eighty-three million (41.983 billion) to SAR forty-three billion, two hundred and thirty-nine million (43.239 billion). Provisions for the portfolio increased by SAR nineteen (19) million from SAR four hundred and fifty-one (451) million as of 31/12/2015G to SAR four hundred and seventy (470) million as of 31/12/2016G. It led to stable ratio of portfolio's provisions from total loans on the percentage of 1.1% as of 31/12/2015G and 31/12/2016G. The current ratio is still in line with the Bank's policy and portfolio allocation system pursuant to the Banking Control Law and the regulations issued by SAMA, which set the minimum provision for the portfolio at 1.0% of performing loans.

Non-performing loans increased by SAR 129 million (one hundred and twenty-nine million Saudi riyals) from SAR 355 million (three hundred and fifty-five million Saudi riyals) as of 31/12/2015G to SAR 484 million (four hundred and forty-four million Saudi riyals) as of 31/12/2016G, as a result of the reclassification of SAR 224 million (two hundred and twenty-four million Saudi riyals) previously written off loans against a decrease in the retail banking portfolio of individuals amounting to SAR 96 million (ninety-six million Saudi riyals) due to the write off of some non-performing debts. This has led to an increase in the ratio of non-performing loans from 0.8% as of 31/12/2015G to 1.1% as of 31/12/2016G. Provisions for the period from 31/12/2015G to 31/12/2016G increased from SAR164 million (one hundred and sixty-four million Saudi riyals) as of 31/12/2015G to SAR 286 million (two hundred and eighty-six million Saudi riyals) as of 31/12/2016G, as a result of the reclassification of certain debt (with a value of SAR 76 [seventy-six] million) the recognition of certain previously written off debts under non-performing loans in Retail Banking Group, not to mention additional provisions against some other debts due to some non-performing debts being written off in the Retail Banking Group. The ratio of non-performing loan provisions increased from 173.2% as of 31/12/2015G to 156.2% as of 31/12/2016G.

As of 30/09/2017, net performing loans decreased by approximately SAR 2.547 billion (two billion, five hundred and forty-seven million Saudi riyals) during the period from 31/12/2016G to 30/09/2017G from SAR 43.239 billion (forty-three billion, two hundred and thirty-nine million Saudi riyals) to SAR 40.692 billion (forty billion, six hundred and ninety-two million Saudi riyals). Provisions of the portfolio decreased from SAR 470 million (four hundred and seventy million Saudi riyals) as of 31/12/2016G to SAR 467 million (four hundred and sixty-seven million Saudi riyals) as of 30/09/2017, i.e. 1.1% at 31/12/2015G and 30/09/2016G. The current ratio is still in line with the Bank's policy and portfolio allocation system pursuant to the Banking Control Law and the regulations issued by SAMA, which set the minimum provision for the portfolio at 1.0% of loans.

Non-performing loans increased by SAR 25 million (twenty-five million Saudi riyals) from SAR 484 million (four hundred and eighty-four million Saudi riyals) on 31/12/2016 to SAR 509 (five hundred and nine) million as of 30/09/2017G due to the increase in non-performing loans of a Retail Banking Group amounting to SAR 30 million (thirty million Saudi riyals), compared to a decrease of SAR 6 million (six million Saudi riyals) in non-performing loans in corporate banking portfolio due to write off of non-performing debts. This resulted in an increase in non-performing loans from 1.1% on 31/12/2016G to 1.2% as of 30/09/2017. Provisions for the period from 31/12/2016G to 30/09/2017G decreased from SAR 286 million (two hundred and eighty-six million Saudi riyals) as of 31/12/2016G to SAR 274 million (two hundred and seventy-four million Saudi riyals) as of 30/09/2017 as a result of the write off of some debts in the retail and Retail Banking Groups. The ratio of non-performing loan provisions decreased from 156.2% at 31/12/2015G to 145.6% as of 30/09/2017.

6.7.5.4 Corporate and Institutional Banking Group

Table 6.33 Corporate and Institutional Banking Group

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Dinar Corporate Finance Program	16,901	17,154	16,553	16,087
Specialized finance	3,570	2,578	2,449	2,273
Trade finance	2,329	2,876	2,459	2,003
Tamam Program	3,406	2,588	1,133	1,135
Others	301	697	1,873	1,516
Corporate and Institutional Banking Group' total loans	**26,507**	**25,893**	**24,467**	**23,014**
Provision for credit losses	(283)	(307)	(496)	(512)
Corporate and Corporate and Institutional Banking Group's net total loans	**26,224**	**25,586**	**23,971**	**22,502**
% of Corporate and Institutional Banking Group's total net loans				
Dinar Corporate Finance Program	63.8%	66.2%	67.7%	69.9%
Specialized finance	13.5%	10.0%	10.0%	9.9%
Trade finance	8.8%	11.1%	10.1%	8.7%
Tamam Program	12.8%	10.0%	4.6%	4.9%
Others	1.1%	2.7%	7.7%	6.6%

Source: Bank Aljazira Management

The Corporate and Institutional Banking Group's loans target four sectors of customers. These sectors include large-sized enterprises (with an annual income of SAR one [1] billion) medium-sized companies (with an annual income ranging between SAR two hundred [200] million and SAR one [1] billion), commercial enterprises (with an annual income ranging between SAR thirty [30] million and SAR two hundred [200] million), and SMEs (with an annual income less than SAR thirty [30] million). The Bank aims to focus on lending to medium-sized companies, as well as continuing to focus on commercial enterprises. This strategy is designed to boost revenues and diversify the loan portfolio by reducing the current focus while Bank Aljazira continues to manage its current customer base of prestigious and large companies.

Total loans of Retail Banking Group decreased by SAR 2.040 billion (two billion and forty million Saudi riyals) from 31/12/2014G to 31/12/2016G. In 2015G, total loans of Retail Banking Group decreased by SAR 614 million (six hundred and fourteen million Saudi riyals) from SAR 26.507 billion (twenty-six billion, five hundred and seven million Saudi riyals) to SAR 25.893 billion (twenty-five billion, eight hundred and ninety-three million Saudi riyals) (a decrease of 2.3%). This was the result of a decrease in the growth of Tamam's portfolio by SAR 818 million (eight hundred and eighteen million Saudi riyals) (accounting for 24.0%) from SAR 3.406 billion (three billion, four hundred and six million Saudi riyals) as of 31/12/2014G to SAR 2.588 billion (two billion, five hundred and eighty-eight million Saudi riyals) as of 31/12/2015G due to the decrease in the portfolio of specialized financing program by SAR 992 million (nine hundred and ninety-two million Saudi riyals) (i.e. a decline of 27.8%) from to SAR 3.570 billion (three billion, five hundred and seventy million Saudi riyals) to SAR 2.578 billion (two billion, five hundred and seventy-eight million Saudi riyals) as of 31/12/2015G.

Total loans of the Retail Banking Group increased by SAR 1.426 billion (one billion, four hundred and twenty-six million Saudi riyals) over the period from 31/12/2015G and 31/12/2016G from SAR 25.893 billion (twenty five billion, eight hundred and ninety-three million Saudi riyals) as of 31/12/2015G to SAR 24.467 billion (twenty-four billion, four hundred and sixty-seven million Saudi riyals) as of 31/12/2016G (representing an increase of about 5.5%). Tamam's portfolio decreased by 56.2% from SAR 2.588 billion (two billion, five hundred eighty-eight million Saudi riyals) as 31/12/2015G to SAR 1.133 billion (one billion, one hundred and thirty-three million Saudi riyals) as of 31/12/2016G due to the decline of the main market index in the Kingdom during this year, which led to some customers liquidating their portfolios shares.

Total loans of the Corporate decreased by SAR 1.453 billion (one billion, four hundred and fifty-three million Saudi riyals) over the period from 31/12/2016G and 30/09/2017G from SAR 24.467 billion (twenty-four billion, four hundred and sixty-seven million Saudi riyals) as of 31/12/2016G to SAR 23.014 billion (twenty-three billion and fourteen million Saudi riyals) as of 31/09/2017G (representing an increase of about 5.9%). This was attributed to the Bank's focus on the quality of loans granted to the Retail Banking Group due to low liquidity in the Saudi Market.

The composition of Retail Banking Group's loan varied as 30/09/2016G. Dinar Corporate Finance Program increased by 63.8% to 69.9% out of total loans of Retail Banking Group during the same period, in line with the Bank's strategy, which focuses on the development of the medium-sized enterprises sector on the one hand. On the other hand, the ratio of specialized financing decreased from 13.5% of total loans of the Group at 31/12/2014G to 9.9% of the same as of 30/09/2017G.

6.7.5.4.1 Dinar Corporate Finance Program

Dinar Corporate Finance is a Shari'ah-compliant product. It is designed as a "securitization" contract, whereby the Bank buys Shari'ah-compliant commodities/shares and sells them to the customer for a pre-agreed profit upon signing the contract. The Bank offers this program in Saudi riyals or any other convertible currency, either at fixed or variable profit rates based on the customer's requirements and according to the chosen Shari'ah structure. Most of the Bank's facilities offered to corporate customers are unsecured. However, where the Bank seeks guarantees in the context of corporate lending, facilities may be provided for cash deposits, bank guarantees, properties, shares or equipment.

In 2015G, Dinar Personal Finance Program's loans increased by 1.5% by SAR two hundred and fifty-three (253) million over the period from 31/12/2014G to 31/12/2015G from SAR sixteen billion, nine hundred and one million (16.901 billion) as of 31/12/2014G to SAR seventeen billion, one hundred and fifty-four million (17.154 billion) as of 31/12/2015G due to the strategic focus on small and medium enterprises with regard to corporate loans in light of the Bank's attempt to maintain the quality of the portfolio. Program's loans out of total loans of the corporate banking increased by 66.2% as of 31/12/2015G compared to 63.8% as of 31/12/2014G.

In 2016G, Dinar Corporate Finance Program's loans decreased by SAR 601 (six hundred and one) million (3.5%) over the period from 31/12/2015G and 31/12/2016G from SAR 17.154 million (seventeen billion, one hundred and fifty-four million Saudi riyals) as of 31/12/2015G to SAR 16.553 billion (sixteen billion, five hundred and fifty-three million Saudi riyals) as of 31/12/2016G, while the ratio of Program's loans out of the total loans of Retail Banking Group declined by 67.7% as of 31/12/2016G as compared to 66.2% as of 31/12/2015G. The decline in Dinar Program's loans is attributed to the Bank's conservative growth policy, in pursuit of new higher yielding loans due to the low liquidity in the local market and the high loan-to-deposit ratio.

Dinar Corporate Finance Program's loans decreased by SAR 466 million (four thousand, six hundred and six million Saudi Riyals) between 31/12/2016G and 30/09/2017, from SAR 16.553 billion (sixteen billion, five hundred and fifty-three million Saudi riyals) as of 31/12/2016 to SAR 16.087 billion (sixteen billion and eighty seven million Saudi riyals) as of 30/09/2017, representing a decline of approximately 2.8%, while the percentage of loans of the Program out of the total loans of the Retail Banking Group reached 69.9% as of 30/09/2017G compared to 67.7% at 31/12/2016G. The decrease in Dinar Program's loans is due to the Bank's conservative growth policy because of low liquidity in the local market and the high loan-to-deposit ratio.

6.7.5.4.2 Specialized finance

The Bank offers loans of joint Ijarah (Leasing) and Murabaha (Cost-plus) in compliance with Shari'ah principles under its Specialized Finance section. It participates in syndicated loans related to large Saudi companies. The Bank aims to be an active participant in the syndicated loan and project financing market, to have strong relationships with regional and global Islamic banks, and to be able to conclude, structure and manage transactions by working with the Bank's customers in a constructive and innovative way. This is all in order to develop Shari'ah-compliant financial products designed specifically to deliver initiatives focused on customer needs.

Joint facilities represented about 10.0% of the total loans of the Retail Banking Group as of 31/12/2015G, down from 13.5% as of 31/12/2014G. Specialized financing balance decreased by 27.8% from SAR 3.570 billion (three billion, five hundred and seventy million Saudi riyals) as of 31/12/2014G to SAR 2.578 billion (two billion, five hundred and seventy-eight million Saudi riyals) as of 31/12/2015G due to the decrease in Murabaha and Ijarah loans as a result of the early settlement of some large loans granted.

In 2016G, the total financing loans allocated from the total group of loans of the Corporate Banking Group stood at 10.0% as of 31/12/2016G. Specialized financing balance decreased by 5.0% from SAR 2.578 billion (two billion, five hundred and seventy-eight million Saudi riyals) as of 31/12/2015G to SAR 2.449 billion (two billion, four hundred and forty-nine million Saudi riyals) as of 31/12/2016G due to the decrease in Murabaha and Ijarah loans. The decline in special finance loans is attributed to the Bank's conservative growth policy in pursuit of new higher yielding loans due to the low liquidity in the local market and the high loan-to-deposit ratio.

As of 30/09/2017G, specialized financing portfolio decreased by 9.9% of the total loans of Corporate Banking Group, compared to 10.0% as of 31/12/2016G, as it slightly declined from SAR 2.449 billion (two billion, four hundred and forty-nine million Saudi riyals) as of 31/12/2016G to SAR 2.273 billion (two billion, three hundred and seventy-three million Saudi riyals) as of 30/09/2017G, i.e. a decrease by 7.2%, driven by the decline in special finance loans as a result of the Bank's conservative growth policy, in pursuit of new higher yielding loans due to the low liquidity in the local market and the high loan-to-deposit ratio.

6.7.5.4.3 Tamam Program

Tamam service offers Murabaha margin financing to customers to trade in Shari'ah-compliant shares. This product was designed specifically to facilitate share trading for Aljazira Capital's customers. While the assets and facilities are held in the name of Bank Aljazira (as of 31/03/2017), the facilities are managed by Aljazira Capital. The facilities granted to customers are determined based on the ratio (or margin) of the accepted guarantees of the shares; up to the value of the local shares and 100% of the global shares of the initial investment value of the customer. Please note that the Bank has transferred the Tamam facility from the financial position statement of Bank Aljazira as of 31 March 2017G to that of Aljazira Capital.

In 2015G, the facilities related to the Tamam Program decreased by 24.0% from SAR three billion, four hundred and six million (3.406 billion) as of 31/12/2014G to SAR two billion, five hundred and eighty-eight million (2.588 billion) as of 31/12/2015G due to the decline of the main market index in the Kingdom during the year, which led to some customers liquidating their equity portfolio. Accordingly, the ratio of the Program's facilities to the total loans of the Corporate and Institutional Banking Group decreased from 12.8% as of 31/12/2014G to 10.0% as of 31/12/2015G.

In 2016G, the facilities related to the Tamam Program decreased by 56.2% from SAR 2.588 billion (two billion, five hundred and eighty-eight million Saudi riyals) as of 31/12/2015G to SAR 1.133 billion (one billion, one hundred and thirty three million Saudi riyals) as of 13/12/2016G. The decline in Tamam loans was driven by the Bank's conservative growth policy because of the low liquidity in the local market and the high loan-to-deposit ratio.

The facilities related to the Tamam Program decreased by 0.2% over the period between 31/12/2016G and 30/09/2017G from SAR 1.133 billion (one billion, one hundred and thirty-three million Saudi riyals) as of 31/12/2016G to SAR 1.135 billion (one billion, one hundred and thirty-five million Saudi riyals) as of 30/09/2017G as a result of the continued decline of the main market index in the Kingdom during 2017G, which led to a decrease in the proportion of the Program's facilities out of the total loans of the Corporate Banking Group.

According to Saudi Arabian Monetary Authority (SAMA) directives, total lending on margin (of investments) should not exceed 10% of the Bank's total lending portfolio. As of 30/09/2017G, Tamam facilities held with the Bank represented 4.9% of the total credit portfolio.

6.7.5.4.4 Commercial Finance

The Bank offers a wide range of products for local and international trade finance services to corporate and institutional customers. This Program includes export and import credit letters, letters of guarantee, which include a variety of issue or reissue of products (such as tender letters of guarantee, performance letter of guarantee, prepayment letters of guarantee, and retention letters of guarantee), shipping guarantees, letters of credit, invoices to be collected, import financing solutions and other post-shipment financing programs in accordance with Islamic Shari'ah. The trade finance balance for Corporate and Institutional Banking Group's loans represents letters of credit refinanced for trade finance customers.

In 2015G, trade finance loans increased by 23.5% at SAR five hundred and forty-seven (547) million from SAR 2.329 billion (two billion, three hundred and twenty-nine million Saudi riyals) as of 31/12/2014G to SAR 2.876 billion (two billion, eight hundred and seventy-six million Saudi riyals) as of 31/12/2015G. The ratio of commercial finance loans to total loans of Corporate Banking Group increased by 11.0% as of 31/12/2015G as compared to 8.8% as of 31/12/2014G. This increase resulted mainly from a management initiative aimed at developing this sector through improved service by focusing on mutual selling and putting the decentralization policy into force.

In 2016G, commercial finance loans decreased by 14.5% at SAR 417 million (four hundred and seventeen million Saudi riyals) from SAR 2.876 billion (two billion, eight hundred and seventy-six million Saudi riyals) as of 31/12/2015G to SAR 2.459 billion (two billion, four hundred and fifty-nine million Saudi riyals) as of 31/12/2016G. The ratio of commercial finance loans to total loans of the Corporate Banking Group decreased to 10.1% as of 31/12/2016G compared to 11.1% as of 31/12/2015G. This decrease resulted from the continued decline of the main market index in the Kingdom during 2017G, which led to a decrease in the proportion of the Program's facilitating of commercial financing out of the total loans of the Corporate Banking Group.

Commercial finance loans decreased by SAR 456 million (four hundred fifty-six Saudi riyals) between 31/12/2016G and 30/09/2017G from SAR 2.459 billion (two billion, four hundred and fifty-nine million Saudi riyals) on 31/12/2016G to SAR 2.003 billion (two billion and three million Saudi riyals) as of 30/09/2017G representing a decrease of approximately 18.5%. In the same context, the ratio of commercial finance loans to total loans of Corporate Banking Group declined to 8.7% as of 30/09/2017G, compared to10.1% as of 31/12/2016G. This decrease is driven mainly by the decline in commercial finance operations.

6.7.5.4.5 Other Loans

Other loans of the Corporate Banking Group mainly represent overdrafts (under Dinar Personal Finance Program). Other loans increased from SAR 301 million (three hundred and one million Saudi riyals) as of 31/12/2014G to SAR 1.516 billion (one billion, five hundred and sixteen million) as of 30/9/2017G due to growth in loans and/or overdrafts. This increase resulted from some customers' delaying settlement of their obligations as of 30/09/2017

6.7.5.4.6 Credit Quality of Corporate Banking Group

Table 6.34 Credit Quality of Corporate and Institutional Banking Group

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Performing loans and advances	26,360	25,694	24,044	22,597
Non-performing loans and advances	147	199	423	417
Net loans and advances	**26,507**	**25,893**	**24,467**	**23,014**
Provision for portfolio loss	(233)	(241)	(234)	(274)
Specified loss provision	(50)	(66)	(262)	(238)
Provision for credit losses	**(283)**	**(307)**	**(496)**	**(512)**
Total	**26,224**	**25,586**	**23,971**	**22,502**

Source: The consolidated financial statements

In 2015G, performing loans decreased from SAR 26.360 billion (twenty-six billion, three hundred and sixty million Saudi riyals) as of 31/12/2014G to SAR 25.694 billion (twenty five billion, six hundred and ninety four million Saudi riyals) as of 31/12/2015G, driven by the decrease in the loans of specialized finance and Tamam Program. Non-performing loans increased during the same period from SAR one hundred and forty-seven (147) million as of 31/12/2014G to SAR one hundred and ninety-nine (199) million as of 31/12/2015G, due to eight customers being listed during the year. Thus, the ratio of non-performing loans to the total corporate loans and advances increased from 0.6% as of 31/12/2014G to 0.7% as of 31/12/2015G.

The total provisions for the Corporate and Institutional Banking Group increased by SAR twenty-four (24) million from SAR two hundred and eighty-three (283) million as of 31/12/2014G to SAR three hundred and seven (307) million as of 31/12/2015G due to the increase in the provisions allocated to the Corporate and Institutional Banking Group during this period by SAR sixteen (16) million, as well as the provisions for a portfolio in the amount of SAR eight (8) million. Hence, the ratio of provisions of the Corporate and Institutional Banking Group's portfolio to performing loans as of 31/12/2015G stood at 0.9% while the ratio of total provisions to total non-performing loans declined from 192.5% as of 31/12/2014G to 154.3% as of 31/12/2015G.

As of 31/12/2016G, operating loans decreased from SAR 25.694 billion (twenty-five billion, six hundred and ninety-four million Saudi riyals) as of 31/12/2015G to SAR 24.044 billion (twenty-four billion and forty-four million Saudi riyals) due to the decrease in the loans of specialized finance and the Tamam Program. Non-performing loans increased during the same period from SAR 199 million (one hundred and ninety-nine million Saudi riyals) as of 31/12/2015G to SAR 423 million (four hundred and twenty-three million Saudi riyals) as of 31/12/2016G due to the reclassification of some previously written off debts. As a result, the ratio of non-performing loans increased from 0.8% as of 31/12/2015G to 1.7% as of 31/12/2016G.

As of 31/12/2016G, the total provisions of the Corporate Banking Group increased by SAR189 (one hundred and eighty-nine million Saudi riyals) from SAR 307 million (three hundred and seven million Saudi riyals) as of 31/12/2015G to SAR 496 million (four hundred and ninety-six million Saudi riyals) due to the reclassification of some previously written off debts amounting to SAR 196 million (one hundred and ninety-six million Saudi riyals) to SAR 76 million (seventy-six million Saudi riyals) in addition to allocating some additional provisions to some customers. Conversely, the provision for portfolio losses decreased by SAR 7 million (seven million Saudi riyals). Thus, the ratio of provisions of the Corporate and Institutional Banking Group's portfolio to performing loans declined from 0.9% at 31/12/2015G to 1.0% as of 31/12/2016G, while the ratio of total provisions to total non-performing loans decreased from 154.3% at 31/12/2015G to 117.3% as of 31/12/2016G.

On 30/09/2017G, operating loans decreased from SAR 24.044 billion (twenty-four billion and forty-four million Saudi riyals) as of 31/12/2016G to SAR 22.597 billion (twenty-two billion, five hundred and ninety-seven million Saudi riyals) as of 30/09/2017G due to the Bank's focus on the quality of loans granted to the Corporate Banking Group due to low liquidity in the Saudi Market. Non-performing loans out of the total corporate loans and advances portfolio decreased during the same period from SAR 423 million (four hundred and twenty-three million Saudi riyals) to SAR 417 million (four hundred and seventeen million Saudi riyals) due to write-offs amounting to SAR 159 (one hundred and fifty-nine) million for the allocation of SAR 136 million (one hundred and thirty-six million Saudi riyals) because of the classification of some debts. This resulted an increase in non-performing loans from 1.7% on 31/12/2016G to 1.8% as of 30/09/2017G.

As of 30/9/2017G, the total provisions of the Corporate Banking Group increased by SAR 16 million (sixteen million Saudi riyals) from SAR 496 million (four hundred and ninety-six million Saudi riyals) as of 31/12/2016G to SAR 512 million (five hundred and twelve million Saudi riyals) as of 30/09/2017G due to an increase in a portfolio loss provision amounting to SAR 40 million (forty million Saudi riyals), compared to a decrease of SAR 24 million (twenty-four million Saudi riyals) in the provisions of the Corporate Banking Group during this period as a result of write-offs during the period. Consequently, the ratio of provisions for Corporate Banking Group's portfolio to non-performing loans increased from 1.0% as of 31/12/2016G to 1.2% as of 30/09/2017G, while the ratio of total provisions to total non-performing loans increased from 117.3% at 31/12/2015G to 122.8% at 30/09/2017G.

6.7.5.5 Retail Banking Group

Table 6.35 Retail Banking Group

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Dinar Personal Finance Program	8,514	8,584	8,960	8,655
Real estate loans	6,250	7,171	8,105	8,638
Credit cards	257	368	477	508
Others	71	112	86	65
Retail Banking Group total loans	**15,092**	**16,235**	**17,628**	**17,866**
Provision for credit losses	(356)	(308)	(261)	(229)
Retail Banking Group's net total loans	**14,736**	**15,927**	**17,367**	**17,637**

Source: Bank Aljazira Management

In 2015G, the total loans of the Retail Banking Group increased by SAR 1.143 billion (one billion, one hundred and forty-three million Saudi riyals) from SAR 15.092 billion (fifteen billion and ninety-two million Saudi riyals) as of 31/12/2014G to SAR 16.235 billion (sixteen billion, two hundred and thirty-five million Saudi riyals) as of 31/12/2015G, representing a growth of approximately 7.6%. The increase was in line with Bank Aljazira's strategy of focusing on the development of subsidized individual businesses by increasing the Bank's branches from 70 branches as of 31/12/2014G to 76 branches as of 31/12/2015G. Further growth has been achieved due to various products and marketing initiatives, such as the renewal of the Bank's Shari'ah-complaint retail products, such as real estate investment and personal finance, as well as the introduction of new products within the credit card portfolio during 2015G.

In 2016G, the total loans of the Retail Banking Group increased by SAR 1.393 billion (one billion, three hundred and ninety-three million Saudi riyals) from SAR 16.235 billion (sixteen billion, two hundred and thirty-five million Saudi riyals) as of 31/12/2015G to SAR 17.628 billion (seventeen billion, six hundred and twenty-eight million Saudi riyals) as of 31/12/2016G, representing a growth of approximately 8.6%. The increase was in line with Bank Aljazira's strategy focusing on the development of individual business.

Total loans of the Retail Banking Group increased by 1.4% during the period from 31/12/2016G to 30/09/2017G from SAR 17.628 billion (seventeen billion, six hundred and twenty-eight million Saudi riyals) as of 31/12/2016G to SAR 17.866 billion (seventeen billion, eight hundred and sixty-six million Saudi riyals) as of 30/09/2017G. The increase was in line with Bank Aljazira's strategy, which was based on the sale of investment real estate loans during that period.

The mix of product distribution within the Retail Banking Group changed over the period from 31/12/2014G to 30/09/2017G. The Dinar Personal Finance Program accounted for approximately 56.4% of the individuals portfolio as of 31/12/2014G, despite representing about 48.4% as of 30/09/2017G. The change in the mix of products is due to the Bank's success in developing its real estate portfolio during the same period. Real estate and investment lending increased from 41.4% of total loans of the Retail Banking Group as of 31/12/2014G to 48.3% as of 30/09/2017G, while credit cards increased over the same period from 1.7% to 2.8% respectively.

6.7.5.5.1 Dinar Personal Finance Program

The Dinar Personal Finance Program is ordinary personal financing, whereby the Bank buys a commodity and sells financing solutions in the form of Shari'ah-complaint securitization. This operation is done in return for a salary transferred after preparation of a credit application according to internal risk acceptance criteria.

The Personal finance loan portfolio was relatively stable in 2015G, with a slight increase in the balance of the Dinar Personal Finance Program by 0.8% by SAR seventy (70) million from SAR 8.514 billion (eight billion, five hundred and fourteen million Saudi riyals) as of 31/12/2014G to SAR 8.584 billion (eight billion, five hundred and eighty-four million Saudi riyals) as of 31/12/2015G. This slight increase was driven by the growth in the number of payroll customers versus a write-off of a large number of portfolio debts amounting to SAR one hundred and twelve (112) million as of 2015G. Accordingly, the share of individuals in the Dinar Personal Finance Program out of the total of individual loans of the Retail Banking Group decreased from 56.4% to 52.9% during the same period.

In 2016G, personal finance loan portfolio increased by 4.4% at SAR 376 million (three hundred and seventy-six million Saudi riyals) from SAR 8.584 billion (eight billion, five hundred and eighty-four million Saudi riyals) as of 31/12/2015 to SAR 8.960 billion (eight billion, nine hundred and sixty million Saudi riyals) as of 31/12/2016G. This increase resulted from the initiatives launched with a view to expanding the Bank's branches during the period, along with intensive efforts to attract customers whose salaries transferred to the Bank. Dinar Personal Finance Program's facilities are supported by the transfer of monthly salaries of individuals with Bank Aljazira. The Bank managed to make a direct deduction from the customer's salary account when the premiums become due immediately after transferring the salary. However, the share of individuals in Dinar Personal Finance Program to total loans of Retail Banking Group decreased from 52.9% to 50.8% during the same period.

Again, the personal loan portfolio declined as of 30/09/2017G by SAR 305 million (three hundred and five million Saudi riyals) from SAR 8.960 billion (eight billion, nine hundred and sixty million Saudi riyals) as of 31/12/2016G to SAR 8.655 billion (eight billion, six hundred and fifty-five million Saudi riyals) as of 30/09/2017G, representing a decrease of 3.4% as a result of the Bank's focus on the sale of investment real estate loans in pursuit of a better return. The share of individuals in the Dinar Personal Finance Program out of total loans of Retail Banking Group decreased from 50.8% at 30/09/2016G to 48.4% at 30/09/2017G.

6.7.5.5.2 Real Estate Loans

Real estate financing is provided for various purposes: (1) Residential real estate for individuals who wish to own their own home or real estate for personal use; (2) Investment real estate for individuals who wish to own (residential or commercial) real estate for the purpose of generating rental and capital gains. Financing is in accordance with Shari'ah-complaint Murabaha or Ijarah principles. The Bank complies with the regulations of the Saudi Arabian Monetary Agency (SAMA), which sets the maximum amount of financing to a house value of 85% for banks with respect to the first residence only of the relevant customer.

In 2015G, real estate finance increased significantly by 14.7% to SAR nine hundred and twenty-one (921) million from SAR six billion, two hundred and fifty million (6.250 billion) as of 31/12/2014G to SAR seven billion, one hundred and seventy-one million (7.171 billion) as of 31/12/2015G, driven by the increase in investment loans by SAR seven hundred and ninety-two (792) million. This increase was mainly due to the marketing of investment real estates in order to generate rental and capital gains due to growing demand, along with the increasing focus on this product by Bank Aljazira. Housing loans accounted for 68.8% of total real estate loans as of 31/12/2015G, down from 76.9% as of 31/12/2014G. The real estate ratio to total loans of Retail Banking Group decreased from 41.4% to 44.2% during the same period.

In 2016G, real estate loans grew by 13% to SAR 934 million (nine hundred and thirty-four million Saudi riyals) from SAR 7.171 billion (seven billion, one hundred and seventy-one million Saudi riyals) as of 31/12/2015G to SAR 8.105 billion (eight billion, one hundred and five million Saudi riyals) as of 31/12/2016G as a result of the increase of investment real estate loans by SAR 854 million (eight hundred and fifty-four million Saudi riyals), while housing real estate loans increased by SAR 168 million (one hundred and sixty-eight million Saudi riyals) during the same period. This increase was mainly due to the increasing focus on this product, as well as the stable marketing of investment real estates in order to generate rental and capital gains.

Real estate loans grew by 6.6% from SAR 8.105 billion (eight billion, one hundred and five million Saudi riyals) as of 31/12/2016G to SAR 8.638 billion (eight billion, six hundred and thirty-eight Saudi riyals) as of 30/09/2017G, as a result of the increase in investment real estate loans by SAR 217 million (two hundred and seventeen million Saudi riyals) while housing real estate loans rose by SAR 228 million (two hundred and twenty-eight million Saudi riyals) in the same period. This increase was mainly due to the increasing focus on this product, as well as the stable marketing of investment real estates in order to generate rental and capital gains, compared to the remainder of the Group's programs.

6.7.5.5.3 Credit Cards

Bank Aljazira provides various credit cards targeting all categories. These cards differ in terms of benefits, privileges and rewards. Credit cards account for a small percentage of the total RBG loan portfolio.

In 2015G, the credit card sector grew by 43.2% from SAR two hundred and fifty-seven (257) million as of 31/12/2014G (1.7% of the total RBG loan portfolio) to SAR three hundred and sixty-eight (368) million as of 31/12/2015G (2.3% of the RBG portfolio) due to an increase in the number of credit cards issued from 122.7 thousand cards as of 31/12/2014G to 134.4 thousand cards as of 31/12/2015G. This is due to an increase in sales of credit cards through marketing and an increase in the number of the Bank's branches.

During 2016G, the credit card sector grew by 29.6% from SAR 368 million (three hundred and sixty-eight million Saudi riyals) as of 31/12/2015G to SAR 477 million (four hundred and seventy-seven million Saudi riyals) as of 31/12/2016G. This increase is attributed to the Bank's policy of focusing on this channel through marketing operations, issuing various credit cards and increasing the number of branches.

As of 30/09/2016G, the credit card portfolio grew due to the number of credit cards issued. The credit card credit balance increased from SAR 477 million (four hundred and seventy-seven Saudi riyals) as of 31/12/2016G to SAR 508 million (five hundred and eight million Saudi riyals) as of 30/09/2017G, i.e. an increase of 6.5% from 31/12/2016G. This increase is attributed to the Bank's policy of focusing on this channel through marketing and high credit card sales.

6.7.5.5.4 Credit Quality of Retail Loans and Advances

Table 6.36 Credit Quality of Retail Loans and Advances

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Performing loans and advances	14,869	16,078	17,567	17,775
Non-performing loans and advances	223	157	61	91
Total cash loans and advances	**15,092**	**16,235**	**17,628**	**17,866**
Portfolio loan loss provision	(183)	(210)	(237)	(193)
Specified loss provision	(173)	(98)	(24)	(36)
Provision for credit losses	**(356)**	**(308)**	**(261)**	**(229)**
Total	**14,736**	**15,927**	**17,367**	**17,637**

Source: The consolidated financial statements

In 2015G, Retail Banking Group's performing loans increased from SAR 14.869 billion (fourteen billion, eight hundred and sixty-nine million Saudi riyals) as of 31/12/2014G to SAR 16.078 billion (sixteen billion and seventy-eight million Saudi riyals) as of 31/12/2015G, driven by the growth in the Retail Banking Group's portfolio. On the other side, the total of non-performing loans decreased from SAR two hundred and twenty-three (223) million as of 31/12/2014G to SAR one hundred and fifty-seven (157) million as of 31/12/2015G due to write-offs of large RBG balances amounting to SAR one hundred and twenty-six (126) million in 2015G. This resulted in a decrease in the ratio of non-performing loans to the total retail banking portfolio from 1.5% as of 31/12/2014G to 1.0% as of 31/12/2015G.

In 2015G, the loss provision of the RBG portfolio increased from SAR one hundred and eighty-three (183) million as of 31/12/2014G to SAR two hundred and ten (210) million as of 31/12/2015G in line with the Bank's policy and Banking Control Law and the regulations issued by SAMA, which set the minimum provision for the portfolio at 1% of the total performing loans. The ratio of the provision for the RBG portfolio to operating loans is 1.3% as of 31/12/2015G, an increase from 1.2% as of 31/12/2014G. On the other hand, the above write-offs resulted in a decrease in loss provisions of the RBG portfolio from SAR one hundred and seventy-three (173) million as of 31/12/2014G to SAR ninety-eight (98) million as of 31/12/2015G. The ratio of total provisions to total non-performing loans increased from 159.6% as of 31/12/2014 to 196.2% as of 31/12/2015G in line with the Bank's policy and regulations issued by the Saudi Arabian Monetary Agency's to set a minimum ratio of total provisions to total non-performing loans in excess of 150.0%.

In 2016G, total performing loans increased from SAR 16.078 billion (sixteen billion and seventy-eight million Saudi riyals) as of 31/12/2015G to SAR 17.567 billion (seventeen billion, five hundred and sixty-seven million Saudi riyals) as of 31/12/2016G. The total non-performing loans decreased from SAR 157 (one hundred and fifty-seven million Saudi riyals) to SAR 61 million (sixty-one million Saudi riyals) given that customers' debts were written off under Dinar personal finance Program and credit card loans. Accordingly, the ratio of non-performing loans of the total RBG portfolio decreased from 1.0% in 31/12/2015G to 0.3% in 31/12/2016G.

In contrast, in 2016G the loss provision of the Retail Banking Group's portfolio increased from SAR 210 million (two hundred and ten million Saudi riyals) as of 31/12/2015G to SAR 237 million (two hundred and thirty-seven million Saudi riyals) as of 31/12/2016G in line with the Bank's policy and Banking Control Law and the regulations issued by SAMA, which set the minimum provision for the portfolio at 1% of the total performing loans. The ratio of the provision for the Retail Banking Group's portfolio to performing loans reached 1.3% as of 31/12/2016G. On the other hand, the above write-offs resulted in a decrease in loss provisions of the Retail Banking Group's portfolio from SAR 98 million (ninety-eight million Saudi riyals) as of 31/12/2015G to SAR 24 million (twenty-four million Saudi riyals) as of 31/12/2016G. The ratio of total provisions to total non-performing loans from 196.2% as of 31/12/2015G to 427.9% as of 31/12/2016G in line with the Bank's policy and regulations issued by the Saudi Arabian Monetary Agency's to set a minimum ratio of total provisions to total non-performing loans in excess of 150.0%.

During the period between 31/12/2016G and 30/09/2017G, total performing loans increased from SAR 17.567 billion (seventeen billion, five hundred sixty-seven million Saudi riyals) as of 31/12/2016G to SAR 17.775 billion (seventeen billion, seven hundred and seventy-five million Saudi riyals). Total non-performing loans increased from SAR 61 (sixty-one) million to SAR 91 (ninety-one) million due to the classification of customers' debts under the Dinar Personal Finance Program and credit card loans. This caused an increase in non-performing loans from 0.3% as of 31/12/2016G to 0.5% as of 30/09/2017G. The allocated provisions increased from SAR 24 million (twenty four million Saudi riyals) as of 31/12/2016G to SAR 36 million (thirty-six million Saudi riyals)as of 30/09/2017G. Nonetheless, provisions of the portfolio decreased from SAR 237 million (two hundred and thirty-seven Saudi riyals) as of 31/12/2016G to SAR 193 million (one hundred and ninety-three million Saudi riyals) as of 30/09/2017G. Owing to the slight increase in the provisions compared to the increase in the value of performing loans, there was a decrease in the ratio of Retail Banking Group portfolio provisions to performing loans from 1.3% as of 31/12/2016G to 1.1% as of 30/09/2017G. The ratio of total provisions to total non-performing loans decreased from 427.9% as of 31/12/2016G to 251.6% as of 30/09/2017G in line with the Bank's policy and regulations issued by the Saudi Arabian Monetary Agency's to set a minimum ratio of total provisions to total non-performing loans in excess of 150.0%.

6.7.6 Property and equipment

6.7.6.1 Property and equipment by establishment

Table 6.37 Property and Equipment by Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	555	631	650	726
Aljazira Capital	44	48	52	49
Total after consolidation	**599**	**679**	**702**	**775**

Source: Bank Aljazira Management

As of 31/12/2014G, Bank Aljazira's property and equipment accounted for SAR five hundred and fifty-five (555) million of the total property and equipment amounting to SAR five hundred and ninety-nine (599) million.

Bank Aljazira's property and equipment accounted for SAR six hundred and thirty-one (631) million as of 31/12/2015G of the total property and equipment amounting to SAR six hundred and seventy-nine (679) million.

In addition, they accounted for SAR 650 million (six hundred and fifty million Saudi riyals) as of 31/12/2016G of the total property and equipment amounting to SAR 702 million (seven hundred and two million Saudi riyals).

Moreover, as of 30/09/2017G Bank Aljazira's property and equipment accounted for SAR 726 million (seven hundred and twenty-six million Saudi riyals) as of 30/09/2017G of the total property and equipment amounting to SAR 775 million (seven hundred and seventy-five million Saudi riyals).

6.7.6.2 Property and Equipment by Nature

Table 6.38 Group's Property and Equipment by Type

SAR million	Land and Buildings	Leasehold improvements	Furniture, equipment and vehicles	Capital work in progress	Total
Cost:					
Balance at the beginning of 2015G	161	390	563	139	1,253
Additions	-	8	26	129	163
Transfers	-	49	55	(104)	-
Disposals	(4)	-	(7)	-	(11)

SAR million	Land and Buildings	Leasehold improvements	Furniture, equipment and vehicles	Capital work in progress	Total
Cost as of the end of 2015G	**157**	**447**	**637**	**164**	**1,405**
Additions	-	2	14	89	105
Transfers	-	45	23	(68)	-
Disposals	-	-	(11)	(1)	(12)
Cost at the end of 2015G	**157**	**494**	**663**	**184**	**1,498**
Additions	84	-	9	45	138
Transfers	-	35	85	(120)	-
Disposals	-	-	(6)	-	(6)
Cost as of the period ending on 30/09/2017G	**241**	**529**	**751**	**109**	**1630**
Depreciation					
Balance at the beginning of 2015G	5	221	428	-	654
Carried over during 2015G	-	24	45	-	78
Disposals	-	-	(6)	-	(6)
Depreciation as of the end of 2015G	**5**	**245**	**476**	**-**	**726**
Carried over during 2015G	-	22	58	-	80
Disposals	-	-	(10)	-	(10)
Depreciation at the end of 2016G	**5**	**267**	**524**	**-**	**796**
Carried over during 2015G	-	19	45	-	64
Disposals	-	-	(5)	-	(5)
Depreciation as of the period ending on 30/09/2017G	5	286	564	-	855
Net book value as of 31 December 2014G	**156**	**169**	**135**	**139**	**599**
Net book value as of 31 December 2015G	**152**	**202**	**161**	**164**	**679**
Net book value as of 31 December 2016G	**152**	**227**	**139**	**184**	**702**
Net book value as of 31 December 2017G	**236**	**243**	**187**	**109**	**775**

Source: The financial statements and management of Bank Aljazira

The table above shows the Group's property and equipment. Property and equipment mainly consists of land, buildings and leasehold improvements, a large part of which is retained by Bank Aljazira. The rest consists of furniture, equipment and vehicles. All of the Group's assets are recorded at historical cost less depreciation expenses and impairment.

All fixed assets (except for land) are depreciated on a straight-line basis over their estimated useful lives. The average life expectancy of major assets varies as follows: buildings: Over 33 years, leasehold improvements: Lease period or 10 years (whichever is shorter), furniture, equipment and vehicles: 4 to 10 years. The Board of Directors declares that there no anticipated changes to depreciation policy as of 30/09/2017G.

In 2015G, the balance of property and equipment increased by SAR eighty (80) million from SAR five hundred and ninety-nine (599) million as of 31/12/2014G to SAR six hundred and seventy-nine (679) million as of 31/12/2015G, an increase by 13.4% compared to 31/12/2014G due to growth of Bank Aljazira's branch network to 76 branches in 2015G.

In 2016G, the balance of property and equipment increased by SAR twenty-three (23) million from SAR six hundred and seventy-nine (679) million as of 31/12/2015G to SAR seven hundred and two (702) million as of 31/12/2016G, i.e. an increase by 3.4% compared to 31/12/2015G due to investments in infrastructure and IT systems to support internal systems.

The balance of property and equipment also increased by SAR seventy-three (73) million during the period between 31/12/2016G and 30/09/2017G as a result of the purchase of a plot located on King Salman Road to build an administrative building.

The Board of Directors declares that there are no mortgages or rights and burdens on its properties and subsidiaries as of 30/09/2017G.

The Board of Directors declares that there are no significant fixed assets to be purchased or leased on 30/09/2017G, except for those referred to below under "Group's Credit-related Commitments and Contingent Liabilities".

6.7.7 Other Assets

6.7.7.1 Other Assets by Establishment

Table 6.39 Other Assets by the Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	1,095	303	378	402
Aljazira Capital	66	50	17	35
Total before consolidation adjustments	**1,161**	**353**	**395**	**437**
Consolidation adjustments	(33)	(17)	(25)	(16)
Total after consolidation adjustments	**1,128**	**336**	**370**	**419**

Source: Bank Aljazira Management

As of 30/09/2017G, Bank Aljazira's share accounted for SAR four hundred and two (402) million out of the Group's total assets, which amounted to SAR four hundred and nineteen (419) million. The consolidation adjustment is due to the return on profits of Aljazira Capital's deposits held with Bank Aljazira, as well as other fees and expenses of the Group's companies.

6.7.7.2 Other Assets by Nature

Table 6.40 Other Assets by Nature-Bank Aljazira

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Income of special commissions due and payable	402	-	-	-
Financial security against derivatives	249	153	159	180
Positive fair value of derivatives	239	-	-	-
Others	205	150	219	222
Total	**1,095**	**303**	**378**	**402**

Source: Bank Aljazira Management

Other assets amounted to SAR three hundred and three (303) million as of 31/12/2015G after the Bank reclassified the positive fair value of derivatives and special commission income payable to be recorded under other items of the Bank's liabilities. See paragraph [Changes in accounting policies].

During 2015G, financial securities against derivatives decreased by SAR ninety-six (96) million and other liabilities decreased by SAR fifty-five (55) million.

In 2016G, other assets amounted to SAR three hundred and seventy eight (378) million as of 31 December 2016G due to an increase in maintenance expenses and other prepaid expenses.

In addition, financial securities increased against derivatives (an increase of SAR six (6) million) during this year. Other assets then increased by SAR sixty-nine (69) million. As of 30/09/2017G, other assets increased by SAR four hundred and two (402) million (an increase of SAR twenty-four (24) million). The increase was mainly due to the increase in financial securities against derivatives (a growth of SAR twenty-one (21) million) and other liabilities increased by SAR three (3) million.

Financial securities related to derivatives of guarantees deposited by Bank Aljazira with clearing houses against cash margins received when the fair value of the derivatives and the purchase agreements are changed. The positive fair value of derivatives represents the fair value thereof at the maturity of all derivative instruments, including yield-swap instruments and trading positions held against customers' positions. The fair value related to payment against these positions, which exceeds the current positive fair value, is recognized in fair value of liabilities.

Other assets mainly include insurance-related advance payments, offices, branches, lease contracts ATM and other receivables.

6.7.8 Funds due to Banks and Other Financial Institutions

6.7.8.1 Balances Banks and Other Financial Institutions by Establishment

Table 6.41 Balances Due to Banks and Other Financial Institutions-by the Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	3,736	4,057	3,545	6,217
Aljazira Capital	-	-	-	655
Total before consolidation adjustments	**3,736**	**4,057**	**3,545**	**6,872**
Consolidation adjustments	-	-	-	655
Total after consolidation	**3,736**	**4,057**	**3,545**	**6,217**

Source: Bank Aljazira Management

All balances due to banks and other financial institutions belong to Bank Aljazira.

6.7.8.2 Balances due to Banks and Other Financial Institutions by Type

Table 6.42 Funds Due to Banks and Other Financial Institutions by Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Current Accounts	63	36	98	187
Money market deposits	3,673	3,321	3,447	6,030
Cash borrowings from SAMA	-	700	-	-
Total	**3,736**	**4,057**	**3,545**	**6,217**

Source: The Consolidated financial statements

These balances consist of (i) Current accounts that represent non-interest-bearing deposits with other banks, (ii) Money market deposits representing funds that are deposited often as Shari'ah-compliant Murabaha with Saudi banks, and (iii) Cash borrowings from SAMA, used when necessary. The volatility of this balance is mainly due to the short term financing requirements of Bank Aljazira at a specific time.

In 2015G, balances of banks and other financial institutions increased by 8.6% from SAR three billion, seven hundred and thirty-six million (3.736 billion) as of 31/12/2014G to SAR four billion and fifty-seven million (4.057 billion) as of 31/12/2015G due to cash borrowings from SAMA in 2015G representing repurchase agreements of SAR seven hundred (700) million in 2015G. On the other hand, money market deposits decreased by 9.6% from SAR three billion, six hundred and seventy-three million (3.673 billion) as of 31/12/2014G to SAR three billion, three hundred and twenty-one million (3.321 billion) in 31/12/2015G due to the short-term financing requirements of Bank Aljazira.

In 2016G, balances of banks and other financial institutions decreased by 12.6% from SAR four billion and fifty-seven million (4,057 billion) as of 31/12/2015G to SAR three billion, five hundred and forty-five million (3.545 million) as of 31/12/2016G, as a result of the settlement of the repurchase agreement amounting to SAR seven hundred (700) million Saudi riyals. On the other hand, money market deposits increased by 3.8%, from SAR three billion, three hundred and twenty-one million (3.321 billion riyals) on 31/12/2015G to SAR three billion, four hundred and forty-seven million (3.447 billion Saudi riyals) as of 31/12/2016G.

As of 30/09/2017G, the balances of banks and other financial institutions increased from SAR three billion, five hundred and forty-five million (3,545 billion) as of 31/12/2016G to SAR six billion, two hundred and seventeen million (6.217 billion) as of 30/09/2017G, due to the increase in deposits related to the capital markets by SAR two billion, five hundred and eighty-three million (2.583 billion) from SAR three billion, four hundred and forty-seven million (3.447 billion) on 31/12/2016G to SAR six billion and thirty million (6.030 billion) as of 30/09/2017G. This increase is driven by the low liquidity in Saudi market, requiring the Bank to use foreign banks.

6.7.9 Customer deposits

6.7.9.1 Customer Deposits by Establishment

Table 6.43 Customer Deposits by Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	54,983	50,191	52,227	49,795
Total before consolidation adjustments	**54,983**	**50,191**	**52,227**	**49,795**
Consolidation adjustments	(414)	(426)	(625)	(119)
Total after consolidation	**54,569**	**49,765**	**51,602**	**49,676**

Source: Bank Aljazira Management

As of 30/09/2017G, all customer deposits belong to Bank Aljazira. The consolidation amendment relates to Aljazira Capital's corporate deposits held by Bank Aljazira.

6.7.9.2 Customer Deposits by Type

Table 6.44 Customer Deposits by Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
On-demand	26,437	24,945	25,522	26,070
Time	27,130	23,587	25,167	22,490
Others	1,002	1,233	913	1,116
Total	**54,569**	**49,765**	**51,602**	**49,676**

Source: The Consolidated financial statements

Deposit balance of Bank Aljazira's customers consists of (i) Call deposits (representing current accounts), (ii) Term deposits received on a Murabaha basis, and (iii) Other deposits (including retained margins for contingent liabilities and non-convertible liabilities).

In 2015G, total deposits decreased by 8.8% from SAR fifty-four billion, five hundred and sixty-nine million (54.569 billion) as of 31/12/2014G to SAR forty-nine billion, seven hundred and sixty-five million (49.765 billion) as of 31/12/2015G. This decrease was due to a decline in the value of demand deposits by SAR one billion, four hundred and ninety-two million (1.492 billion) and term deposits amounting to SAR three billion, five hundred and forty-three million (3.543 billion), while other deposits increased by SAR two hundred and thirty-one (231) million.

In 2015G, the value of demand deposits decreased by 5.6% from SAR twenty-six billion, four hundred and thirty-seven million (26.437 billion) as of 31/12/2014G to SAR twenty-four billion, nine hundred and forty-five million (24.945 billion) as of 31/12/2015G after deposits amounting to SAR one billion and four hundred million (1.400 billion) were withdrawn, including those related to the early settlement of some special financing loans.

During 2016G, total deposits increased by 3.7% from SAR forty-nine billion, seven hundred and sixty-five million (49.765 billion) as of 31/12/2015G to SAR fifty-one billion, six hundred and two million (51.602 billion) as of 31/12/2016G. This increase is due to an increase in the value of term deposits amounting to SAR one billion, five hundred and eighty million (1.580 billion) and demand deposits amounting to SAR five hundred and seventy-seven (577) million on the other hand. On the other hand, other deposits increased by SAR three hundred and twenty (320) million.

In 2016G, the value of on-demand deposits increased by 2.3% from SAR twenty-four billion, nine hundred and forty-five million (24.945 billion) on 31/12/2015G to SAR twenty-five billion, five hundred and twenty-two million (25.522 billion) as of 31/12/2016G in line with the Bank's focus on attracting on-demand deposits as a lower cost financing.

As of 30/09/2017G, total deposits decreased by 3.7% from SAR fifty-one billion, six hundred and two million (51.602 billion) as of 31/12/2016G to SAR forty-nine billion, six hundred and seventy-six million (49.676 billion) as of 31/09/2017G. The decrease is due to a decline in the value of term deposits amounting to SAR two billion, six hundred and seventy-seven million (2,677 billion). On-demand deposits increased by SAR five hundred and forty-eight (548) million and other deposits grew by SAR two hundred and three (203) million.

As of 30/09/2017G, the balance of on-demand deposits increased by 2.1% from SAR twenty-five billion, five hundred and twenty-two million (25.522 billion) on 31/12/2016G to SAR twenty-six billion and seventy million (26.070 billion) as of 30/09/2017G as a result of the Bank's continued focus on attracting on-demand deposits as a low cost financing.

In 2015G, the value of term deposits decreased by 13.1% from SAR twenty-seven billion, one hundred and thirty million (27.130 billion) as of 31/12/2014G to SAR twenty three billion, five hundred and eighty-seven million (23.587 billion) as of 31/12/2015G due to the withdrawal of large deposits amounting to SAR two billion and one hundred million (2.100 billion) in 2015G as a result of the decrease in liquidity in the Saudi markets and the higher returns being requested by these depositors.

In 2016G, the value of term deposits increased by 6.7% from SAR twenty-three billion, five hundred and eighty-seven million (23.587 billion) as of 31/12/2015G to SAR twenty-five billion, one hundred and sixty-seven million (25.167 billion) as of 31/12/2016G given that the performance of Retail Banking Group's deposits led to attracting more deposits.

As of 30/09/2017G, the balance of term deposits decreased by 10.6% from SAR twenty-five billion, one hundred and sixty-seven million (25.167 billion) as of 31/12/2016G to SAR twenty-two billion, four hundred and ninety million (22.490 billion) in line with the Bank's strategy to increase its focus on attracting on-demand deposits to manage liquidity, finance growth in the Group's assets and reduce the cost of borrowing.

In 2015G, the value of other deposits increased by 23.1% from SAR one billion and two million (1.002 billion) as of 31/12/2014G to SAR one billion, two hundred and thirty-three million (1.233 billion) as of 31/12/2015G. This growth is attributed to the continued success of the deposit acquisition strategy.

In 2016G, the value of other deposits decreased from SAR one billion, two hundred and thirty-three million (1.233 billion) as of 31/12/2015G to SAR nine hundred and thirteen (913) million as of 31/12/2016G due to the decrease in the value of outstanding bank checks.

In the period ending on 30/09/2017G, the value of other deposits increased by 22.2% from SAR nine hundred and thirteen (913) million as of 31/12/2016G to SAR one billion, one hundred and sixteen million (1.116 billion) as of 30/09/2017G due to the high value of outstanding bank checks and deposits.

6.7.10 Other Liabilities

6.7.10.1 Other Liabilities by Parent Company and Subsidiaries

Table 6.45 Other Liabilities by Parent Company and Subsidiaries

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Bank Aljazira	1,031	581	652	643
Aljazira Capital	91	85	99	98
Total before consolidation adjustments	**1,122**	**666**	**751**	**741**
Consolidation adjustments	(31)	(16)	(23)	(6)
Total after consolidation adjustments	**1,091**	**650**	**728**	**735**

Source: Bank Aljazira Management

As of 30/09/2017G, the amount of SAR six hundred and forty-three (643) million included in other total liabilities amounting to SAR seven hundred and forty-one (741) million, belongs to Bank Aljazira. Consolidation adjustment is related to special commissions payable on Aljazira Capital's deposits held in Bank Aljazira's books along with the other fees and expenses of the Group's companies.

6.7.10.2 Other Liabilities by Type - Aljazira Bank

Table 6.46 Other Liabilities by Type

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Negative fair value of derivatives	379	-	-	-
Payable special commission expenses	151	-	-	-
Program (Khair Aljazira Le Ahl Aljazira) Committee	49	45	34	36
Dividend payable	27	27	27	28
Others	425	509	591	579
Total	**1,031**	**581**	**652**	**643**

Source: Bank Aljazira Management

In 2015G, other liabilities stood at SAR five hundred and eighty-one (581) million as of 31/12/2015G after the Bank reclassified the negative fair value of derivatives and special commission expenses in order to be recorded under other items of the Bank's liabilities. See paragraph [Changes in accounting policies]. As of 30/09/2016G, other liabilities include liabilities of the Program "Khair Aljazira Le Ahl Aljazira", dividends payable and other liabilities.

In 2016G, other liabilities increased by 12.2% from SAR five hundred and eighty-one (581) million as of 31/12/2015G to SAR six hundred and fifty-two (652) million as of 31/12/2016G, driven mainly by an increase in other liabilities that were partially offset by a decline in Khair Aljazira Le Ahl Aljazira's Program.

Other liabilities decreased by 1.4% from SAR six hundred and fifty-two (652) million as of 31/12/2016G to SAR six hundred and forty-three (643) million as of 30/09/2017G due to a slight decrease in other liabilities.

The negative fair value of derivatives represents the present value of estimated future cash flows upon payment for all retained derivatives. The increase in this balance above the positive fair value of the derivatives relates to yield-swap positions at Bank Aljazira.

Special commission receivables comprise payable profit of commission received since the last payment of deposits, balances due to banks and other financial institutions. During the period between 31/12/2014G and 31/12/2016G, these balances increased from SAR one hundred and twenty (120) million to SAR one hundred and fifty-one (151) million in conjunction with the accumulation of term deposits over such period.

Pursuant to the Bank's social responsibility policy, the Bank's charitable program was launched with an initial contribution of SAR one hundred (100) million in 2006G. Withdrawals from this amount are made to fund the various charitable activities of Bank Aljazira when necessary.

Credit distributions represent distributions and amounts not previously claimed by shareholders in 2011G, but with small amounts in all years.

The item "other" mainly represents remuneration, other employees' benefits, amounts due to suppliers of utilities and other miscellaneous expenses. These amounts are inherently short-term amounts. In 2015G, other liabilities increased by 19.8% from SAR four hundred and twenty-five (425) million as of 31/12/2014G to SAR five hundred and nine (509) million as of 31/12/2015G due to an increase in salaries and expenses of employees by 28.1% in 2015G.

In 2016G, the value of other liabilities increased by 16.1% from SAR five hundred and nine (509) million as of 31/12/2015G to SAR five hundred and ninety-one (591) million as of 31/12/2016G mainly due to increased income tax allowances, end of service benefits, various creditors and other accrued expenses.

As of 30/09/2017G, the balance of other liabilities decreased by 2.0% from SAR five hundred and ninety-one (591) million as of 31/12/2016G to SAR five hundred and seventy-nine (579) million as a result of the backdrop of due bonuses and the provisions of tax, which was partially offset by an increase in the provisions of Zakat and end of service benefits.

6.7.11 The other components of the balance sheet include:

6.7.11.1 Investment in Affiliates

This investment represents the Group's 35% stake in Aljazira Takaful Taawuni Company.

Aljazira Takaful Taawuni Company offers Shari'ah-compliant savings and protection products. In accordance with the requirements of the Saudi Insurance Law, this insurance company was established as an independent legal entity listed on the Saudi Stock Exchange (Tadawul). Aljazira Takaful Taawuni Company was granted by SAMA the insurance license on 31/12/2013G.

6.7.11.2 Other Real Estate

All the assets classified as "other real estate" belong to Bank Aljazira and Aman Development and Real Estate Investment Company ("Aman Real Estate").

During the ordinary course of business, the Group obtains certain real estate against repayment of loans and advances due. This real estate is assets acquired for sale and initially calculated by net realizable value of the outstanding loans and advances and the present fair value of the properties in question, whichever is less, the costs related to the sale thereof are subtracted, if they are material. Upon initial registration, these properties are revalued periodically, and no depreciation is made.

In 2015G, the other real estate declined significantly to SAR forty-four (44) million as of 31/12/2015G, mainly due to sale of land with a book value of SAR six hundred and sixteen (616) million. The sale of land at a price of SAR one billion, one hundred and eighty-nine million (1.189 billion) resulted in a profit of SAR five hundred and seventy-three (573) million, recorded under "net income from other operations".

In 2016G, other real estates increased by 40.9% from SAR forty-four (44) million as of 31/12/2015G to SAR sixty-two (62) million as of 31/12/2016G as a result of the Group's acquisition of SAR twenty-eight (28) million. In contrast, this increase was reduced by SAR ten (10) million after the sale of a property with this value.

Other real estates continued to rise to SAR four hundred and forty-five (445) million during the nine month period ending on 30 September 2017G, driven mainly due to the acquisition of three plots of land worth SAR three hundred and eighty-three (383) million due to failure to repay outstanding loans and advances.

6.7.11.3 Sukuk issued to increase capital

Due to the nature of the banking business and the approved financing resources, the Bank's debts are mainly restricted to customers' deposits, balances of banks and other financial institutions, and debt securities and secondary debt instruments (in the form of Sukuk).. This is in addition to the Bank's use of credit instruments through SAMA and other banks in the form of Murabaha and agency facilities to manage its liquidity.

Except as disclosed above, the Board members declares that the Bank has no accounts payable or overdrafts from bank accounts, commitments related to renal purchases or personal secured or unsecured debts, nor does the Group have any amounts of a financing nature due to other parties.

In March 2011G, Bank Aljazira issued 1,000 subordinated Sukuk of SAR one million each, with a dividend ratio based on SAIBOR for a period of 6 months, to be redefined in advance on a semi-annual basis, in addition to a margin of 170 basis points per annum and paid on a semi-annual basis for the previous period. Profit is paid on 29 March and 29 September of each year until 29 March 2021, which is the maturity date of the Sukuk.

Proceeds of Sukuk were used by the Bank to strengthen its capital structure, with Sukuk consisting of Tier II capital for regulatory purposes in the Kingdom of Saudi Arabia.

The Bank has the option to buy Sukuk from its holders, which may be exercised after 29/03/2016G and upon fulfillment of certain conditions in accordance with the provisions of the Prospectus dated 28/03/2011G.

As of 29/03/2016G, The Bank exercised the call option on the Sukuk upon the fulfillment of certain conditions in accordance with the provisions of their prospectus

In June 2016G, Bank Aljazira issued 2,000 subordinated Sukuk of SAR one million each, with a dividend ratio based on SAIBOR for a period of 6 months, to be redefined in advance on a semi-annual basis, in addition to a margin of 190 basis points per annum and paid on a semi-annual basis for the previous period.

The Bank has the option to buy Sukuk from its holders, which may be exercised after 02/06/2021G and upon fulfillment of certain conditions in accordance with the provisions of the Prospectus.

6.7.12 Group Shareholders' Equity

Table 6.47 Total Shareholders' Equity

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Capital	4,000	4,000	4,000	5,200
Statutory Reserve	1,406	1,727	1,945	1,945
General Reserve	68	68	68	68
Other Reserves	(142)	(173)	(211)	(154)
Retained Earnings	826	1,791	2,302	1,548
Total Shareholders' Equity	**6,158**	**7,413**	**8,104**	**8,607**

Source: The consolidated financial statements and management of Bank Aljazira

As of 30/09/2017G, the Group's total equity amounted to SAR eight billion, six hundred and seven million (8.607 billion), consisting mainly of the following:

- Capital of SAR five billion and two hundred million (5.200 billion) as of 30/09/2017G. At its Extraordinary General Meeting held on 10 April 2017G, the shareholders of the Bank agreed to increase the Bank's capital from SAR 4 billion to SAR 5.2 billion through the issue of bonus shares to shareholders of the Bank (three shares for every 10 shares owned). The formal procedures for capital increase during the second quarter of the year were completed. Accordingly, the Bank's authorized, issued and fully paid up share capital is 520 million shares with a value of SAR 10 per share.
- The statutory reserves represent the requirements approved in accordance with Article 7 of the Banking Control Law and the instructions issued by SAMA. All companies are required to allocate 25.0% of the annual net profit to the statutory reserve until the reserve equals the paid up share capital. This balance increased over the 3-year period as a result of the Group's net profit. Noting that these reserves are not available for distribution.
- Other reserves amounting to SAR one hundred and fifty-four (154) million as of 30/09/2017G and two hundred and eleven (211) million as of 31/12/2016G represent net of unrealized gains and losses of revaluation related to the effective portion of the Bank's cash flow hedges. These reserves are not available for distribution.

- Retained earnings increased from SAR one billion, seven hundred and ninety-one million (1.791 billion) as of 31/12/2015G to SAR two billion, three hundred and two million (2.302 billion) as of 31/12/2016G in line with the Group's net profit. Retained earnings increased from SAR two billion, three hundred and two million (2.302 billion) as of 31/12/2016G to SAR one billion, five hundred and forty-eight million (1.548 billion) as of 30/09/2017G in line with the Group's net profit.

It should be noted that the decision to issue additional shares requires the approval of related parties and the Extraordinary General Assembly.

6.7.13 Adequacy of the Group's Capital

Table 6.48 Group's Capital Adequacy

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Credit risks	48,210	49,807	48,372	49,054
Currency risk	3,482	3,952	4,750	4,944
Market risks	1,751	1,215	1,129	873
Total accumulation 1. Risk-weighted assets	**53,443**	**54,974**	**54,252**	**54,872**
(Tier 1) Core capital	6,299	7,579	8,304	8,753
(Tier 2) Supplementary capital	1,209	1,121	2,470	2,408
(Tiers 1+2) Core and supplementary capital	**7,508**	**8,700**	**10,774**	**11,161**
Capital adequacy ratio (the first pillar-Tier 1+2)	14.05%	15.83%	19.86%	20.34%
Capital adequacy ratio (the first pillar-Tier 1)	11.79%	13.79%	15.31%	15.95%
Basel III minimum requirement (3%)	8.0%	8.0%		

Source: The consolidated financial statements and management of Bank Aljazira

The Group's statutory capital consists mainly of capital, statutory reserve, other reserves, retained earnings, subordinated Sukuk and other specific deductions.

In 2015G, risk weighted assets under Pillar 1 increased from SAR fifty-three billion, four hundred and forty-three million (53.443 billion) as of 31/12/2014G to SAR fifty-four billion, nine hundred and seventy-four million (54.974 billion) as of 31/12/2015G, due to the increase in loans and advances. Credit risk weighted assets, which accounted for 90.6% of the total risk weighted assets under Pillar I as of 31/12/2015G (compared to 90.2% as of 31/12/2014G), increased from SAR forty-eight billion, two hundred and ten million (48.210 billion) as of 31/12/2014G to SAR forty-nine billion, eight hundred and seven million (49.807 billion) as of 31/12/2015G.

The Group's statutory capital increased from SAR seven billion, five hundred and eight million (7.508 billion) as of 31/12/2014G to SAR eight billion and seven hundred million (8.700 billion) as of 31/12/2015G mainly due to the increase in the Group's retained earnings against the decrease in the ratio of eligible Sukuk to Bank Aljazira with SAR 100 million annually due to the option available for the Bank to redeem these Sukuk in 2016G.

The Group's capital adequacy ratio (Pillar I-Tier 1) increased from 14.05% as of 31/12/2014G to 15.83% as of 31/12/2015G, which is higher than the minimum requirement of 8% required by Basel III, i.e. 8% due to the increase in the Group's retained earnings. While the Bank's statutory capital is higher than the 8% required by Basel III, it does not currently meet the minimum requirements of 14.5% required by the Saudi Arabian Monetary Agency (SAMA) as of the end of 2015G. The Bank has obtained additional time to comply with this ratio against the background of special rights issue is under way.

The Group's capital adequacy ratio (Pillar I-Tier 1) increased from 11.79% as of 31/12/2014G to 13.79% as of 31/12/2015G, which is higher than the minimum requirement of 8% required by Basel III due to the increase in the Group's retained earnings.

In 2016G, risk weighted assets under Pillar 1 decreased from SAR fifty-four billion, nine hundred and seventy-four million (54.974 billion) as of 31/12/2015G to SAR fifty-four billion, two hundred and fifty-two million (54.252 billion as of 31/12/2016G, due to the increase in loans and advances. Credit risk weighted assets, which accounted for 89.2% of the total risk weighted assets under Pillar I as of 31/12/2016G (compared to 90.6% as of 31/12/2015G), increased from SAR forty-nine billion, eight hundred and seven million (49.807 billion) as of 31/12/2015G to SAR forty-eight billion, three hundred and seventy-two million (48.372 billion) as of 31/12/2016G.

The Group's share capital increased from SAR eight billion and seven hundred million (8.700 billion) as of 31/12/2015G to SAR ten billion, seven hundred and seventy-four million (10.774 billion) as of 31/12/2016G due to the increase in the Group's retained earnings and issuance of Sukuk to strengthen capital amounting to SAR (2) billion (two billion Saudi Riyals) as of 31/12/2016G (compared to SAR (700) million (seven hundred million Saudi riyals) on 31/12/2015).

The Group's capital adequacy ratio (Pillar I-Tier 1) increased from 15.83% at 31/12/2015G to 19.86% at 31/12/2016G which is higher than the minimum required by Basel 3 standard of 8.0% due to the increase in the Group's retained earnings, as well as the issuance of Sukuk to enhance the Capital, which is classified as Pillar 1, Tier 2.

The risk weighted assets under Pillar 1 increased to SAR fifty-four billion, eight hundred and seventy-two million (54.872 billion) as of 30/09/2017G due to the increase in loans and advances and investment portfolio The credit risk weighted assets also increased, accounting for 89.4% of the total risk-weighted assets as of 31/09/2017G (compared to 89.2% as of 31/12/2016G).

The Group's statutory capital decreased by 3.6% to SAR eleven billion, one hundred and sixty-one million (11.161 billion) as of 30/09/2017G due to a decrease in the supplementary capital by 5.4% from SAR eight billion, three hundred and four million (8.304 billion) as of 31/12/2016G to SAR eight billion, seven hundred and fifty-three million (8.753 billion) as of 30/09/2017G.

The Group's capital adequacy ratio (Pillar I-Tier 1 + 2) decreased from 19.86% as of 31/12/2016G to 20.34% as of 30/09/2017G due to the decrease in the main capital. Such ratio remains higher than the minimum requirement of 8% required by Basel III.

6.7.14 Group's Credit-related Commitments and Contingent Liabilities

Table 6.49 The Group's Credit-related Commitments and Contingent Liabilities

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
Letters of guarantee	3,685	4,685	4,144	4,215
Documentary letters of credit	1,054	740	973	820
Irrevocable obligations to extend credit	186	150	150	150
Acceptances	331	447	612	540
Total	**5,256**	**6,022**	**5,879**	**5,725**

Source: The consolidated financial statements and management of Bank Aljazira

Letters of guarantee essentially secure a sum of money for the beneficiary in case of a default event. Guarantees primarily include financial guarantees and performance guarantees. This balance increased from SAR three billion, six hundred and eighty-five million (3.685 billion) as of 31/12/2014G to SAR four billion, six hundred and eighty-five million (4.685) as of 31/12/2015G due to the increase the volume of transactions in these facilities as a result of the Bank's focus on improving customer service through the principle of decentralization, resulting in more mutual selling.

In 2016G, this balance was reduced from four SAR four billion, six hundred and eighty-five million (4.685) million on 31/12/2015G to SAR four billion, one hundred and forty-four million (4.144 billion) on 31/12/2015G due to the recession in the construction market in the Kingdom.

As of 30/09/2017G, letters of guarantee increased by 1.7% to SAR four billion, two hundred and fifteen million (4.215 billion) due to the improvement in the Saudi economy, increased government spending and stability in the oil market.

Letters of credit are issued mainly by the Bank to support its customers in their business transactions to ensure payment for the seller of goods and/or service provider. Commissions earned from letters of credit are mainly based on the volumes of letters of credit that the Bank has issued, in addition to the period, amount and guarantee of letters of credit. This balance decreased from SAR one billion and fifty-four million (1.054 billion) as of 31/12/2014G to SAR seven hundred and forty (740) million on 31/12/2015G after some maturities.

In 2016G, letters of credit increased by 31.5% from SAR seven hundred and forty (740) million as of 31/12/2015G to SAR nine hundred and seventy-three (973) million as of 31/12/2016G due to the increase in business and developments in addition to increasing government spending and improving oil prices.

As of 30/09/2017G, the value of letters of credit decreased by 15.7% to SAR eight hundred and twenty (820) million due to the slowdown of the national and international economy.

(Irrevocable) agreements and commitments to extend credit exclusively include the number of operations of the Bank, primarily representing credit facilities granted and not withdrawn. The change in irrevocable commitments to extend credit during the period between 31/12/2014G and 31/12/2015G is due to the cancellation/use of these facilities by some customers No change has been made to the irrevocable commitments to extend credit where it stood at SAR one hundred and fifty (150) million as of 31/12/2015G, 31/12/2016G, and 30/09/2017G due to the customers' demand for such facilities.

Accepted securities are notes payable to be paid in the future or bond futures accepted and guaranteed by Bank Aljazira and withdrawn against a deposit with Aljazira Bank. The accepted securities represented 6.3% of total commitments and liabilities as of 31/12/2014G, 7.4% of total commitments and liabilities as of 31/12/2015G, 10.4% at 31/12/2016G and 9.4% at 30/09/2017G. They have maturity of less than 3 months.

Table 6.50 Group's Financial Commitments

SAR million	31/12/2014G	31/12/2015G	31/12/2016G	30/09/2017G
	Audited	Audited	Audited	Unaudited
IT projects	78	80	70	83
Branch construction projects	22	16	11	18
Others	5	4	5	6
Total	**105**	**123**	**86**	**107**

Source: Bank Aljazira Management

The Group's capital commitments as of 30/09/2017G, 31/12/2016G, 31/12/2015G, 31/12/2014 amounted to SAR one hundred and seven (107) million, SAR eighty-six (86) million, SAR one hundred and twenty-three (123) million, and SAR one hundred and five (105) and million respectively. These commitments are due to the construction of IT branches and projects.

The Group's capital commitments for IT projects increased by 2.6% from SAR seventy-eight (78) million as of 30/12/2014 to SAR eighty (80) million in 2015G.

In 2016G, the Group's capital commitments decreased by 12.5% from SAR eighty (80) million in 2015G to SAR seventy (70) million in 2016G due to the termination of part of the IT projects.

However, in the nine month period ending on 30/09/2017G, Capital commitments related to IT projects increased by 18.6% from SAR seventy (70) million in 2016G to SAR eighty-three (83) million due to the completion of part of the IT projects.

The capital commitments related to the construction of branches decreased by 27.3% from SAR twenty-two (22) million as of 31/12/2014 to SAR sixteen (16) million as of 31/12/2015G as a result of lower capital commitments for projects related to the establishment of new branches, in addition to the renovation of some branches.

In 2016G, capital commitments related to construction projects decreased by 31.3% from SAR sixteen (16) million as of 31/12/2015G to SAR eleven (11) million as of 31/12/2016G as a result of lower capital commitments for projects related to the establishment of new branches, in addition to the renovation of some branches.

As of 30/09/2017G, capital commitments related to construction projects increased by 63.6% from SAR eleven (11) million as of 31/12/2016G to SAR eighteen (18) million due to higher capital commitments for projects related to the establishment of new branches, in addition to the renovation of some branches.

6.8 Consolidated Statement of Cash Flows

Table 6.51 Consolidated Cash Flow Statement

SAR million	2014G Audited	2015G Audited	2013G Audited	Nine month period ending on 30/09/2016G unaudited	Nine month period ending on 30/09/2017G unaudited
Net income (for period)	**572**	**1,287**	**872**	**720**	**664**
Net adjustments to non-cash flow items	**423**	**112**	**195**	**141**	**240**
Statutory deposit with SAMA	(447)	114	12	52	(78)
Funds Payable to Banks and Financial Institutions	(919)	900	769	769	(166)
Investments held at fair value in the income statement	(31)	48	273	129	2
Positive fair value of financial derivatives	-	-	69	75	15
Loans and advances	(6,633)	(671)	(50)	(1,108)	978
Other net real estate	12	616	(18)	8	(383)
Other assets	(337)	198	(118)	(184)	(48)
Funds due to banks and other financial institutions	(622)	318	(512)	555	2,672
Customer deposits	6,487	(4,896)	1,837	570	(1,926)

SAR million	2014G Audited	2015G Audited	2013G Audited	Nine month period ending on 30/09/2016G unaudited	Nine month period ending on 30/09/2017G unaudited
Negative fair value of financial derivatives	-	-	(38)	148	(66)
Other liabilities	55	3	30	(195)	61
Changes in operating assets and liabilities	**(2,435)**	**(3,370)**	**2,255**	**819**	**1,061**
Net cash flow (used in) from operating activities	**(1,440)**	**(1,971)**	**3,321**	**1,679**	**1,965**
Proceeds from maturity and sale of non-trading investments	3,407	440	8	137	525
Purchase of non-trading investments	(2,084)	(344)	(5,297)	(5,464)	(4,626)
Investments in an associate	-	-	6	7	6
Purchase of property and equipment	(171)	(163)	(105)	(80)	(138)
Proceeds from selling property and equipment	0	8	-	-	-
Received dividends	3	2	-	-	-
Net cash flow (used in) from operating activities	**1,155**	**(57)**	**(5,388)**	**(5,400)**	**(4,233)**
Sukuk issued to increase capital	-	-	2,006	2,028	19
Payment of Sukuk issued to increase capital	-	-	(1,007)	(1,007)	-
(Paid) dividends	-	-	-	-	(190)
Paid Zakat and income tax			(50)	(47)	(25)
Net flow of financing activities	**-**	**-**	**949**	**974**	**(196)**
Net (decrease) increase in cash and cash equivalents	**(285)**	**(2,028)**	**(1,118)**	**(2,747)**	**(2,464)**
Cash and cash equivalents at the beginning of the period	7,213	6,928	4,914	4,914	3,797
Cash and cash equivalents at the end of the period	6,928	4,900	3,797	2,167	1,333

Source: The consolidated financial statements and management of Bank Aljazira

In 2015G, the Group's net income increased by 125.0% as a result of the sale of a plot of land for SAR one billion, one hundred and eighty- nine million (1.189 billion) with a book value of SAR six hundred and sixteen (616) million recorded under "Other real estate assets, net".

In 2016G, the Group's net income decreased by 32.2% from SAR one billion, two hundred and eighty-seven million (1.287 billion) as of 31/12/2015G to SAR eight hundred and seventy-two (872) million as of 31/12/2016G. This is due to a decrease in the profit from the sale of real estate from SAR two hundred and eleven (211) million in 2016G compared to SAR five hundred and seventy-three (573) million in 2015.

As of 30/09/2017G, the Group's net income decreased by SAR fifty-six (56) million to SAR six hundred and sixty-four (664) million as of 30/09/2017G due to the absence of profits arising from the sale of real estate.

Adjustments to non-cash items mainly relate to the reversal of non-cash impairment charges on loans and investments, contrary to depreciation.

Changes to operating assets and liabilities have positively impacted the net cash flow from operating activities during the financial year 2016G (an increase of SAR five billion, six hundred and twenty-four million (5.624) million), mainly due to:

- A growth of SAR seven hundred and sixty-nine (769) million in deposits with banks and other financial institutions in 2016G and an increase of SAR nine hundred (900) million in 2015G compared to a decrease of SAR nine hundred and nineteen (919) million in 2014.

- A decrease of SAR fifty (50) million in loans and facilities in 2016G, SAR six hundred and seventy-one (671) million in 2015G, and SAR six billion, six hundred and thirty-three million (6.633 billion) in 2014.
- A decrease of SAR eighteen (18) million in other real estates in 2016G and an increase of SAR six hundred and sixteen (616) million in 2015G and an increase of SAR twelve (12) million in 2014.
- Customer deposits increased by SAR one billion, eight hundred and thirty-seven million (1.837 billion) in 2016G and decreased by SAR four billion, eight hundred and ninety-six million (4.896 billion in 2015G, compared to a rise of SAR 6.487 billion (six billion, four hundred and eighty-seven million Saudi riyals) in 2014.

Changes in investment assets and liabilities have negatively impacted the net cash flow from investment activities during the financial year 2016G and 2015G (cash use of SAR five billion, three hundred and eighty-eight million (5,388 billion) and SAR fifty-seven (57) million respectively), compared to a positive impact in 2014 with an amount of SAR one billion, one hundred and fifty-five million (1.155) million. This was mainly due to:

- Proceeds from the sale of non-trading investments amounting to SAR 8 million (eight million Saudi riyals) in 2016G, SAR 440 million (four hundred and forty million Saudi riyals) in 2015G, and SAR 3.407 million (three billion, four hundred and seven Saudi riyals) in 2014 compared to Purchase of investments at amortized cost of SAR 5.297 billion (five billion, two hundred and ninety-seven million Saudi riyals) in 2016G, SAR 344 million (three hundred and forty-four million Saudi riyals) in 2015G, and SAR 2.084 billion (two billion and eighty-four million Saudi riyals) in 2014G.

Adjustments to non-cash items mainly relate to the reversal of non-cash impairment charges on loans and investments, contrary to depreciation.

Changes to operating assets and liabilities amounting to SAR one billion and sixty million (1,060 billion) were positively impacted in the nine month period ending on 30 September 2017G. This was mainly due to:

- An increase of SAR nine hundred and seventy-eight (978) million in loans and advances in the nine month period ended 30/09/2017G and a decrease of SAR one billion, one hundred and eight million (1,108 billion) in the nine months ending on 30/09/2016G.
- A decrease of SAR one hundred and sixty-six (166) million in balances due to banks and other financial institutions in the nine month period ending on 30 September 2017G and an increase of SAR seven hundred and sixty nine (769) million in the nine month period ending 30/09/2016G.
- An increase of SAR two billion, six hundred and seventy-two million (2.672) million in deposits with banks and other financial institutions in the nine month period ending on 30 September 2017G and an increase of SAR five hundred and fifty-five (555) million in the nine-month period ending on 30/09/2016G.
- A decrease of SAR three hundred and eighty-three (383) million in other real estates in the nine month period ending on 30/09/2017G compared to an increase of SAR eight (8) million in the nine month period ending on 30/09/2016G.
- A decrease of SAR one billion, nine hundred and twenty-six million (1.926 billion) in customer deposits in the nine months period ending on 30/09/2017G compared to a rise of SAR five hundred and seventy (570) million in the nine months ending on 30/09/2016G.

Changes in investment assets and liabilities have negatively impacted the net cash flow from investment activities through cash use SAR four billion, two hundred and thirty-three million [4.233 billion] during the nine month period ending on 30/09/2017G and (cash use of SAR five billion and four hundred million [5.400 billion] during the nine month period ending on 30/09/2016G). This was mainly attributed to:

- Proceeds from maturity and sale of non-trading investments amounting to SAR five hundred and twenty-five (525) million for the nine month period ending on 30/09/2017G and SAR one hundred and thirty-seven (137) million for the nine month period ending on 30/09/2016G.
- Purchase of investments at an amortized cost of SAR four billion, six hundred and twenty-six million (4.626 billion) for the nine month period ending on 30/09/2017G and SAR five billion, four hundred and sixty-four million (5.464 billion) for the nine month period ending on 30/09/2016G.

Financing activities negatively affected the net cash flow from investing activities during the nine month period ending on 30/09/2017, amounting to SAR one hundred and ninety-six (196) million resulting from the exercise of the right to use secondary financial instruments. It is worth noting that the Bank did not distribute any dividends during the financial years ending on 31/12/2016G, 2015G, and 2014G.

7. Dividend Distribution Policy

Future distribution of dividends depends on a number of factors, including, but not limited to, the Bank's profitability in the coming years, its financial position, net worth requirements, distributable reserves, financing available to the Company, general economic conditions, the need to reinvest, future prospects of the Bank's businesses and other factors that may be considered by the Board from time to time, along with other legal and regulatory considerations.

In accordance with Article 43 of the Bank's Bylaws, and the provisions of the Banking Control Law (and as deemed fit by the Board), the Bank's net profits will be distributed to the Shareholders after the deduction of all general expenses and other costs, and after formation of all reserves required to face doubtful debts, investment losses and emergent obligations in the following manner:

a- The amounts necessary to pay Zakat payable by the Saudi Shareholders and the tax payable by the non-Saudi Shareholders will be calculated and deducted from their share in the net profit.

b- Ten (10%) of the net profit, after deducting Zakat and tax, will be set aside to form a statutory reserve. Such allocations to or deduction from the statutory reserve may be discontinued by the Ordinary General Assembly when the statutory reserve amounts reach half of the Bank's paid-up share capital.

c- An amount not less than (5%) of paid-up capital of net profits, after deducting Zakat and tax, will be allocated for distribution to Shareholders as proposed by the Board and determined by the General Assembly. If the remaining amount of net profits is less than the Shareholders' share in profits, Shareholders may not claim distribution thereof in subsequent years. The General Assembly may not decide to distribute a percentage of profits exceeding the percentage proposed by the Board.

d- The remaining amount of the net profits shall be used as proposed by the Board and determined by the General Assembly.

The Bank reserves the right to retain dividends payable to Shareholders to repay their debts or obligations. Distribution of profits to Shareholders shall be at the dates determined by the Board of Directors, after obtaining the prior written approval of SAMA.

The Bank did not distribute any dividends of the financial years ending on 31/12/2014G, and 2015G. The Bank distributed dividends for the year ending on 31/12/2016 at SAR 0.5 per share equivalent of 5% of the Bank's Capital and a total of SAR two hundred (200) million. On 22/05/1439H (corresponding to 08/02/2018G), the Bank published on Tadawul's website its Board recommendation to distribute cash dividends of SAR 0.32 per share, equivalent of 3.2% of Bank's Capital and a total amount of SAR 262,400,000 million, to Shareholders for the fiscal year ending on 31/12/2017G noting that these dividends shall be distributed after obtaining the approval of the General Assembly thereof and amending the minimum dividends that could be distributed under the Bank's Bylaws from 5% to 2.5% of the Bank's Capital. The Bank intends to obtain the approval of the General Assembly regarding the dividend distribution after completing the procedures of its capital increase from SAR 5,200,000,000 to SAR 8,200,000,000 through issuing Rights Shares which will lead to increasing the Bank's shares from 520,000,000 ordinary shares to 820,000,000 ordinary shares, in which the total number of shares entitled to these dividends will be 820,000,000 ordinary shares. It should be noted however that the approval related to the aforesaid dividend distribution is not included in the agenda of the Extraordinary General Assembly to be held to approve the increase of Bank's capital through issuing Rights Shares. Nonetheless, the Bank will send an invitation for holding another General Assembly Meeting at a later date to be duly announced through Tadawul website.

8. Use of Offering Proceeds

The total proceeds from the Offer are estimated at three billion Saudi riyals (SAR 3,000,000,000) of which approximately SAR eighty-one million, six hundred and fifty-six thousand and seven hundred (81,656,700) will be applied to settle all expenses related to the Offer (noting that these expenses are estimate and not final), which includes the fees of each of the Financial Advisors, Lead Managers, the Bank's Legal Advisor, the Underwriters' legal advisor, the Charted Accountants of the Company, the Financial Due Diligence Advisor, and other advisors, in addition to the underwriting expenses, and the printing and distribution expenses, as well as other fees related to the Offer. The net Offering proceeds are expected to reach SAR two billion, nine hundred and eighteen million, three hundred and forty-three thousand and three hundred (2,918,343,300) after deducting all expenses and costs of the Offering.

The Bank intends to use the proceeds of the Offering to finance its expansion plans, which will focus on expanding the retail and corporate banking sectors and developing its digital platforms that it uses in its operations to improve its performance. The Bank aims to expand retail banking by increasing the number of retail banking customers to one million customers over the next three years. The Bank will continue to implement its strategy to offer banking services to new sectors including health, education, transportation and defense to provide innovative products and services to corporate banking customers, particularly small and medium enterprises. The Bank also plans to use the proceeds of the Offering to strengthen its capital base in accordance with SAMA's requirements.

The Bank shall disclose to the public, upon its knowledge, if there is a difference of 5% or more between the actual use of Offering proceeds against what is disclosed in this Prospectus.

9. Statements by Experts

The Financial Advisors, Legal Advisor, the Professional Financial Due Diligence Advisor and the Underwriters have given their approval to include their names, logos, and statements, where applicable, as set out in this Prospectus. The Chartered Accountants of the Company have given their approval to include their names, logos, and the financial statement reports prepared by them in this Prospectus. None of the aforementioned approvals were withdrawn as of the date of this Prospectus. None of the above has any shares or interest whatsoever in the Bank or any subsidiary thereof.

10. Declarations of the Directors, the Board's Secretary, and Members of Senior Management

The Directors, senior management members, and the Secretary of the Board declares that:

- None of them has, at any time, declared bankruptcy or gone through bankruptcy procedures;
- None of them has been appointed in an administrative or supervisory position in any insolvent company during the five years preceding the date of this Prospectus;
- Except as provided in Section 12 ("Legal Information"), neither the Bank nor any of its subsidiaries or associates is party to any legal proceedings, claims or investigation proceedings (whether existing or potential) that individually or collectively would have a material impact on the business of the Bank or its subsidiaries or associates.
- Except as provided in Section 12 ("Legal Information"), the Directors and executive management are not party to any litigation, claims or investigation proceedings (including any existing or potential claims) that, individually or collectively, would materially affect the Bank and its subsidiaries' business or financial position; they also declare that there are no existing investigation procedures with the Bank or with its subsidiaries or associates, and that they are not party to any litigation, claims or investigation proceedings (including any existing or potential claims) that, individually or collectively, would materially affect the Bank and its subsidiaries' business or financial position;
- The provisions allocated by the Bank are appropriate and consistent with the regulations and instructions issued by SAMA;
- There is no current violation of the financial sufficiency rates imposed by the regulatory authority;
- None of the Substantial Shareholders has made any commitment with respect to the subscription of the Rights shares;
- Subject to what has been disclosed in Section 2-2-14 ("Risks Related To Transactions And Agreements Executed With Related Parties"), all operations, contracts and transactions with related parties have been disclosed in this Prospectus;
- All terms and conditions that may affect the decision of the subscribers to the Bank's shares have been disclosed;
- The Bank and its subsidiaries have obtained all licenses and permits necessary to carry out and continue their business to the date of this Prospectus, except for the license of foreign investment;
- All banking transactions with related parties are carried out on terms equal to those applicable, in similar circumstances, to transactions with other parties. They are carried out on a strict arm's length basis. The Bank complies with the provisions of the Banking Control Law and the regulations and instructions issued by SAMA and Article 73 of the Companies Law;
- Except as provided in Section 12 ("Legal Information"), there is no contract or arrangement in force or intended to be concluded as of the date of this Prospectus wherein none of them or any of their relatives or their dependents has material interest in the Bank's business;
- Except as disclosed in Section 5 ("Bank's Management and Governance"), none of Bank's Board of Directors or any of their relatives has any interest whatsoever in the Bank or any of its subsidiaries.
- Except as disclosed in Section 4.3.5 "Sukuk", no commissions, discounts, brokerage fees or any non-monetary compensation were granted by the Bank or any of its subsidiaries during the three years directly preceding the date of submitting the application for registration and listing admission with respect to issuing or offering any securities.
- There has been no interruption in the business of the Bank or any of its subsidiaries which may have or may have had a significant impact on the financial position during the 12 months following the date of this Prospectus.
- There is currently no intention to make any material change in the Bank's activities as of the date of this Prospectus;
- The Bank has no employee share programs or other arrangements involving employees as capital partners as of the date of this Prospectus;
- The Bank and its subsidiaries have sufficient insurance to protect them from any event that may result in material adverse effects.
- The Directors and the executive managers do not have the right to vote on any contract or offer wherein they have any interest;
- The Bank is in compliance with the terms of the financing agreements (as a borrower) and complies with the regulations governing bank borrowing and lending operations;
- The Bank has engaged in a major activity for at least three financial years under the supervision of an administration that has not experienced a significant change, noting that a new Board of Directors was appointed 01/01/2016G, including a number of members who were not present at the previous Board term.
- They are not aware of any information relating to any government, economic, financial, monetary, or political policies, or any other factors that have may have a direct or indirect material effect on the Bank's operations.
- All Board decisions are made in accordance with the provisions of the Bylaws and the Companies Law.
- Notwithstanding what is disclosed in Section 2 ("Risk Factors"), the internal control systems and controls have been prepared on a sound basis. A written policy has been developed to regulate conflicts of interest and address

potential conflicts of interest involving abuse of assets and misconduct resulting from dealing with related persons. This ensures the integrity of financial and operational systems and appropriate controls to manage risk in accordance with the requirements of the Corporate Governance Regulations; The Directors also review the Company's internal control procedures annually;

- They are not aware of any new or expected local or international legislation or regulations relating to banking that may have an impact on the Bank's business and financial position;
- Notwithstanding what is disclosed in Section 2 ("Risk Factors"), there are no seasonal factors or economic cycles that are related to the practice and that may have an impact on the Bank's business and financial position.
- There has been no material adverse change in the financial or commercial position of the Bank or its subsidiaries during the three years immediately preceding the date of application for listing and acceptance thereof, as well as during the period covered by the Chartered Accountant's report until the date of the approval of this Prospectus.

In addition to the declarations set out above, the Directors declare and acknowledge that:

- There is no right of option over the Bank or its subsidiaries' shares;
- The Bank complies with the regulations and instructions governing the granting or guarantee of cash loans to Directors;
- The financial information presented in this Prospectus, the consolidated financial statements for the years ended on 2014G, 2015G,and 2016G, and the six month period ending on 30 September 2017G, and the notes attached thereto have been prepared in accordance with the accounting standards to be followed by the Banks at the instruction of SAMA;
- The financial statements have been obtained from the consolidated financial statements for the years ending on 2014G, 2015G, and 2016G, and the nine months period ending on 30 September 2017G.
- Notwithstanding what is disclosed in Section 12 ("Legal Information"), a Director may not, without a license from the General Assembly, have a direct or indirect interest in the business and contracts made for the Bank's account. Directors must inform the Board of any direct or indirect personal interest that they may have in the transactions or contracts made for the account of the Company. When voting on a resolution relating to the licensing of a direct or indirect interest of a Director, the conflicted Director in question shall not vote for the relevant resolution.
- Notwithstanding what is disclosed in Section 12 ("Legal Information"), a Director may not, without a license from the General Assembly, engage in any business competing with that of the Bank; and
- Neither the Directors nor the CEO may vote on the fees and bonuses granted thereto.

11. Summary of the Bylaws

This Section contains a summary of the current Company's Bylaws. The full version of the Bylaws is available for inspection at the Company's head office (for more details, kindly refer to Section 18 ("Documents Available for Inspection"). The Bank intends to amend and add a number of clauses in the Bylaws to meet the requirements of SAMA and the Companies Law and to reflect the capital increase. The proposed amendments will be submitted to shareholders for approval at the Extraordinary General Assembly on the capital increase. The below is a summary of the current Bylaws of the Company.. For more details on the proposed amendments, see the amendments to the Bylaws which is to be attached to the invitation of the Extraordinary General Assembly on the capital increase.

11.1 Incorporation of the Company

The Company was incorporated by Royal Decree No. 46/M dated 12/06/1395H (corresponding to 21/06/1975G).

11.2 Name of the Company

The Company's name is "Bank Aljazira".

11.3 Head Office of the Company

The Company's head office is located in the city of Jeddah, and it may, by a resolution passed by the General Assembly, be moved to any other city within the Kingdom of Saudi Arabia. Subject to any law, regulation or instructions issued by the competent authorities, the Board of Directors may establish branches and agencies inside and outside the Kingdom of Saudi Arabia and appoint correspondents in such places as may be necessary for the operations of the Company.

11.4 Company Objectives

The Company's objectives are to carry out all banking and investment activities for its own account or for the benefit of others inside or outside the Kingdom. Such activities include, without limitation, the following:

- Opening current accounts and receiving demand deposits in the Saudi Arabian currency or other currencies;
- Opening savings accounts and conducting saving business in the Saudi Arabian currency or other currencies;
- Possession, ownership and sale of foreign currencies, coins, and precious metals;
- Provision of funds and facilities in Saudi riyals or other currencies on gain-loss basis or on any other basis;
- Issuing, accepting, and dealing in commercial papers, such as promissory notes, bills, and checks, and accepting and dealing in bank notes, coins and all types of currency;
- Borrowing or obtaining funds in any manner consistent with the specific rules governing the Company's business, concluding contracts, and providing guarantees, warranties and pledge related thereto, both inside and outside the Kingdom;
- Opening letters of credit and issuing letters of guarantee, as well as granting banking facilities for import, export and local trade;
- Acting as agent, correspondent or representative of local and foreign banks;
- Opening accounts on behalf of the Company at local and foreign banks or other financial institutions;
- Establishing, managing, and renting deposit funds (treasuries);
- Acting as an agent to collect funds, bills, promissory notes and any other documents in the Kingdom and abroad;
- Establishing, operating and managing warehouses and other stores for the storage of goods and commodities, as well as providing financing by holding such goods and commodities as collateral;
- Collection and disposal of money due from third parties and granting a receipt thereof on behalf of any natural or legal person or in his/her capacity as trustee or executor of a will, both inside and outside the Kingdom;
- Receipt of money, documents and objects of value as a deposit or loan or for the custody thereof and the issuance of confirming receipts;
- Carrying out money transfers to and from the Kingdom;
- Managing, selling, utilizing, acquiring and dealing in any funds, rights or interests in any movable or immovable property that may be transferred to the Company, owned thereby or held in its possession, in order to meet all or some of its liabilities or to guarantee any loans or facilities provided therefrom or otherwise related to such claim or guarantee within the limits prescribed by the laws;
- Supervising the management of investment units and funds and participating in capital markets in order to promote Islamic methods in the field of investment and finance;
- Participation in all investment activities whether commercial, agricultural, industrial, real estate and others in accordance with the law;
- Incorporating subsidiaries or joint stock companies, or participating in any way in companies or bodies carrying out an activity that falls within the objectives of the Company similar or complementary to such objectives,

or which helps in the achievement, engagement, or purchase thereof; Subject to the provisions of law and regulations in Kingdom of Saudi Arabia, the Company may also have an interest or participate in any manner with other companies with (20%) of its reserves and no more than (10%) of the share capital of any company wherein the Company participates, provided that the total participation does not exceed the amount of reserves and that the Ordinary General Assembly is informed in its first meeting;

- Issuing syndicated and earmarked loan instruments and other forms of financing that do not conflict with the Company's Bylaws and its declared policies, provided that such issuance is in line with the Banking Control Law and that the approval of SAMA and CMA is obtained;
- Carrying out all other actions that contribute to achieving the objectives of the Company, or to the expansion of its business;
- Carrying out any other banking operations that are not prohibited by the banking and monetary laws in force in the Kingdom; and
- All the above acts are subject to the provisions of the Banking Control Law, the Companies Law and other laws in force.

11.5 Company Term

The term of the Company is (99) ninety nine years from the date of its incorporation. The term of the Company may be extended by a resolution passed by the Extraordinary General Assembly at least one year prior to the expiry of such term.

11.6 Company's Share Capital

The Company's share capital is SAR five billion and two hundred million (5,200,000,000), divided into five hundred and twenty million (520,000,000) ordinary cash shares with a value of SAR ten (10) per share.

11.7 Issue of Shares

The nominal value of each share is SAR 10. Shares may not be issued at a value less than such nominal value, but may be issued at a higher price. In this case, the amount in excess to the nominal value shall be added to the statutory reserve, even if this reserve reaches its maximum limit. The Company's shares shall be indivisible. Therefore, if a share is owned by several persons, they shall nominate one of them to act on their behalf to use the rights related to the Share. Joint owners of a Share shall be jointly liable for the obligations consequent upon such ownership.

11.8 Trading of Shares

Shares shall be tradable subject to restrictions set out in the Company's Bylaws and other laws in force in the Kingdom. The Company's Bylaws do not include any provisions related to the rights, or restrictions related to the Company's shares, or any other securities. The Bylaws also do not include any provisions governing the amendment of securities rights and categories subject to the provisions of this section regarding voting rights, attending general assemblies and obtaining profits. Under Article (110) of the Companies Law, a Shareholder shall be vested with all rights associated with the Shares, which include, in particular, the right to receive a share from the profits declared for distribution, the right to a share in the Company's assets upon liquidation, the right to attend Shareholders' Assemblies and participate in the deliberations and vote on the resolutions proposed at such meetings, the right to dispose of Shares, the right to request to inspect the Company's records and documents, the right to supervise the acts of the Board of Directors, the right to file liability claims against the Directors, and the right to contest the validity of the resolutions adopted at General Assemblies.

11.9 Attachment and Sale of Shares

The Company may lay hold of shares registered therein and held in the name of a Shareholder, or held jointly by him/her and any another person and on any unpaid profits, to secure the repayment of loans or fulfillment of obligations or commitments contracted by a Shareholder with the Company, either individually or with another person. If the Shareholder fails to repay the debt after receiving a two-week notice, the Board of Directors shall have the right to sell the attached shares to recover the amount required for the Company. The Company shall pay to the Shareholder or its representative the excess amount of the sale proceeds.

11.10 Increase of the Share Capital

The capital of the Company may, by a resolution passed by the Extraordinary General Assembly, be increased once or several times, provided that the capital has been paid in full. The resolution shall specify how to increase the capital. The Company's Shareholders shall be given priority in terms of subscribing to the new shares.

11.11 Decrease of the Share Capital

An Extraordinary General Assembly may decide to reduce the Company's capital if it proves to be in excess of the Company's need or if the Company sustains a loss. Such decision may be taken only if the Company's auditors submit a report explaining the reasons for such action, the Company's obligations and the effect of reduction on such obligations. The decision must set out how to carry out such decrease.

Where the reduction is due to the fact that the capital is in excess of the Company's needs, creditors must be invited to express their objections to such procedure within 60 days from the date of publication of the resolution for the reduction of the Company's capital in a daily newspaper distributed in the city wherein the registered head office is located. If any creditor objects to the reduction and provides the Company with a valid claim within the specified date, the Company must pay its debt if it is due and payable, or provide an acceptable guarantee to pay the amount on the date of maturity.

11.12 Debt Instruments

The Company may issue any type of tradable debt instrument, such as Sukuk of various types, either in one or several parts, or through a series of issuances, or under one or more programs established by the Company from time to time, whether for public subscription or otherwise, in or outside the Kingdom of Saudi Arabia and with Saudi Arabian currency or in any foreign currency.

11.13 The Company Management

The Company shall be managed by a Board of Directors composed of nine members to be elected by the Ordinary General Assembly for a term of three (3) years. Members of the Board of Directors may always be re-elected and re-appointed.

11.14 Termination of Directorship

Membership shall be terminated in the following cases:

a- Expiry thereof;

b- Resignation or death of Director;

c- If a Director becomes non-eligible for membership under the provisions of any law in force in the Kingdom of Saudi Arabia;

d- If a Director is removed from office by a General Assembly resolution passed by a majority of voters representing two thirds of the shares; if the removal is not due to a request from the Board of Directors or by a General Assembly resolution passed by a simple majority of voters; if the removal is due to a request from the Board of Directors;

e- Where the Director's mental abilities are compromised.

f- If the Director is convicted of a crime related to honesty, fraud, or honor;

g- If the Director is declared bankrupt, or enters into an arrangement or reconciliation with creditors; or

h- If the Director becomes a Director at any other bank in the Kingdom of Saudi Arabia.

If the position of Director becomes vacant, the Board may appoint a temporary Director to fill the vacancy, provided that such appointment be presented to the Ordinary General Assembly for approval. The new Director shall complete the term of office of his/her predecessor. If the number of Directors falls below the minimum quorum required, the Ordinary General Assembly must convene as soon as possible to appoint the required number of Directors.

11.15 Purchase or Pledge of the Company's Shares

The Company may, subject to the approval of SAMA, purchase or pledge its shares in accordance with the requirements set by the competent authorities. The shares purchased by the Company shall be non-voting shares in the Shareholders assemblies. The Company may pledge its shares in accordance with requirements set by the competent authorities. The pledgee shall have the right to profits and to use the rights related to the share, unless otherwise agreed in the pledge contract. However, the pledgee may not attend or vote in meetings of the General Assembly of Shareholders.

11.16 Powers of the Board

Without prejudice to the powers conferred on the General Assembly, the Board of Directors shall be vested with full powers to manage the business of the Company and supervise its affairs. In order to carry out its duties, the Board may exercise all powers, carry out all actions and take all actions which the Company is authorized to exercise, carry out or take. The Board of Directors shall have the power to make loans and facilities for terms of more than three (3) years, and to purchase, sell and mortgage real estate, discharge the Company's debtors, go into conciliation, recourse to law, accept arbitration, incorporate companies and bodies, participate in and hold interest or shares in other companies and institutions inside and outside the Kingdom and supervise and manage the same. The Board of Directors shall, subject to the approval of the SAMA, have full authority to enter into a partnership with or a technical management agreement between the Company and any company specializing in the banking business.

The Board of Directors may delegate any of its powers to its Chairman and/or to the Managing Director, any Director, any committee composed of the Directors or any of the employees authorized or working at the Company. The Board of Directors may, from time to time, also delegate to any person a specific authority or powers for such period as the Board deems appropriate. However, the Board of Directors may not donate any of the Company's funds except within the limits prescribed in the laws and regulations in force in the Kingdom. The Company's Bylaws do not provide for any power giving a member of the Board of Directors or chief executives the right to borrow from the Issuer. However, the Company is entitled to give loans to the Directors and chief executives in accordance with the provisions of Article (73) of the Companies Law and of SAMAs' relevant regulations and instructions.

11.17 Remuneration of Directors

Remuneration and attendance allowances shall be given to the Chairman and members of the Board of Directors in accordance with the official decisions and instructions issued in this regard. An Executive Committee member shall receive the same allowance prescribed for attending the Board's meetings. The Company shall pay the Members all actual expenses incurred in order to attend meetings of the Board or the Executive Committee, including the expenses of travel, accommodation and food.

The Board of Directors annual report submitted to the Ordinary General Assembly includes a comprehensive statement of all amounts in the form of remuneration, attendance allowance and incidental expenses received by members during the Company's financial year, as well as monetary or in-kind benefits. The report includes a statement of the amounts received by the members of the Board of Directors in their capacities as authorized managers or employees in the Company, or a statement of the compensation received in consideration of technical, administrative or advisory services.

11.18 Executive Committee

The Board of Directors shall form, from among its members, an Executive Committee consisting of five members including the chairman. The Board may change the members and appoint members to fill in any vacant position therein. The Board shall determine the powers and authorities of the Executive Committee. Meetings of the Executive Committee shall be convened upon the invitation of the chairman or at the request of two members.

The meeting of the Executive Committee shall be valid only if it is attended by at least four members personally or by proxy, provided that the number of members present in person is not less than three. The member may not represent more than one member of the Executive Committee. The decisions of the Committee shall be adopted by a majority of votes. In the event of a tie, the chairman shall have a casting vote. Moreover, the Committee's deliberations, decisions, and recommendations shall be recorded in the meeting's minutes to be signed by the Committee's chairman and secretary. The minutes of meeting shall be distributed to all Directors. The Committee's meetings may be attended and decisions can be voted on via video, audio, or both. Attendance in this manner is deemed attendance in person. The Committee's resolutions may be issued by members voting by circulation, unless a member requests a meeting for deliberations on such resolution. Members of the Executive Committee shall be given allowances for attending the meetings as decided by the Board of Directors within the limits of any restrictions in the relevant laws and regulations.

11.19 Chairman, Managing Director, and Board Secretary

The Board of Directors shall appoint a Chairman, Vice Chairman and Managing Director from among its members. The meetings of the General Assembly and the Board shall be chaired by the Chairman of the Board of Directors. The Chairman shall represent the Company before all competent bodies, judicial bodies and the third parties. The Chairman shall perform other tasks that the Board so requires from the Chairman. The Chairman of the Board of Directors or the Vice Chairman shall represent the Bank before third parties. Each of them is entitled to sign the Articles of Association of affiliate companies, conclude all other contracts, to sell, buy, mortgage, and/or release mortgages, classify real-estates, and receive price and transfer proprieties before the notary public and jurisdictions within the limits prescribed by the decisions of the Board of Directors. They also have the right to authorize a third party to do so.

The Chief Executive Officer and Managing Director shall be responsible for implementing the Company's policies determined by the Board of Directors and general supervision of the Company's operations. He is also the Executive officer of the Company. The Board of Directors has the right to entrust and attribute to the Chief Executive Officer and Managing Director any power practiced by the Board, in accordance with the terms and conditions and restrictions that the Board deems appropriate. The Board is from time to time entitled to cancel, withdraw or change any or all of such powers The Board of Directors may appoint a secretary, whether from among its members or otherwise, to record the Board's deliberations and decisions and retain them in a specific record. The Board of Directors determines his/her authorities and remuneration. The term of the Chairman, Managing Director and the secretary - if a member - shall not exceed their respective term of service as members of the board. The term of the Chairman, the Managing Director and the secretary may always be renewed.

11.20 Board Meetings

The Board shall be convened upon an invitation by the Chairman. Such invitation shall be accompanied by the agenda. The Chairman must convene the Board if requested to do so by two Directors. The invitation shall be sent to each member by registered letter, fax or e-mail at least two weeks prior to the time scheduled for the meeting. If the Chairman is not present at a meeting, the Vice Chairman shall preside over the meeting. If both are not present, the meeting shall be presided over by the Board member elected by the members present for such purpose.

11.21 A Quorum and Decisions of the Board

The meeting shall be valid only if attended by at least five of its members in person or represented by another Director. A Director may not represent more than one Director. The Board's meetings may be attended and decisions may be voted on via video, audio, or both. Attendance in this manner is deemed attendance in person. Resolutions of the Board shall be adopted by the majority vote of the present Directors. In the event of a tie, the side with which the Chairman or the Vice Chairman is aligned shall prevail. Board resolutions may be adopted by way of circulation unless one of the members requests, in writing, to hold a meeting to discuss the resolution.

A Director may not have any direct or indirect interest in the business and contracts carried out for the Company's account. A Director or any member of the Board's Committees shall notify the Board of Directors of any personal interest he/she has in the business and contracts carried out for the Company's account. Such notification shall be recorded in the minutes of the Board meeting. A Director who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard.

11.22 Register of the Board and Executive Committee Meetings

Deliberations and resolutions of the Board of Directors shall be recorded in minutes to be distributed to the Directors and signed by the Chairman and the secretary upon approval by the Board. A copy of the minutes shall be signed by all present Directors. Such minutes shall be recorded in a special register, which shall be signed by the Chairman and the secretary.

11.23 Shareholder Assemblies

The Shareholders' assemblies shall be held in the city where the Company's head office is located. Any Shareholder has the right to attend the Shareholders Ordinary and Extraordinary General Assemblies. He/she may authorize another Shareholder other than the members of the Board and the Company's employees to attend the General Assembly and vote on his/her behalf. Each Shareholder shall have one vote at the Shareholders' assemblies. Directors may not participate in voting on resolutions pertaining to their relief from liability for management. Cumulative voting shall be used in the election of directors, where a voting right may not be exercised more than one time.

The Shareholders' Ordinary or Extraordinary General Assemblies shall be held upon the request of the Board of Directors. The Board of Directors shall call for an Ordinary General Assembly if requested to do so by SAMA, the auditors, the Audit Committee or by a number of Shareholders representing at least 5% of the Company's capital, or in accordance with a decision of the Minister of Commerce. The invitation to the Ordinary General Assembly meeting shall be published in a daily newspaper that is distributed in the location of the Company's Head Office, at least 10 days prior to the meeting date. Such invitation shall include the agenda to be presented to the General Assembly.

11.24 Ordinary General Assembly

Meetings of the Ordinary General Assembly shall be valid only if attended by Shareholders representing at least one quarter of the Company's share capital. If such quorum is not met in the first meeting, an invitation for a second meeting to be convened shall be sent within the thirty (30) days following the first meeting. However, the second meeting may be held one hour after the end of the period specified for the first meeting provided that the invitation to the first meeting shall include the possibility of holding such meeting. The second meeting shall be valid regardless of the number of Shares represented therein.

Except for matters falling within the competence of the Extraordinary General Assembly, the Ordinary General Assembly shall have the power to deal with all matters relating to the Company. The Ordinary General Assembly shall be convened at least once a year within six months following the end of the Company's fiscal year. Other Ordinary General Assemblies may be convened as necessary.

The Ordinary General Assembly may issue its resolutions with the simple majority of shares represented during the meeting.

11.25 Extraordinary General Assembly

Meetings of the Extraordinary General Assembly shall be valid only if attended by Shareholders representing at least one half of the Company's share capital. If such a quorum is not achieved in the first meeting, an invitation for a second meeting shall be directed within 30 days of the first meeting. However, the second meeting may be held one hour after the end of the period specified for the first meeting provided that the invitation to the first meeting shall include the possibility of holding such meeting. The second meeting shall be deemed valid if attended by a number of Shareholders representing at least one-quarter of the Company's capital. If this quorum is not attained to convene a second meeting, an invitation shall be sent for a third meeting. The third meeting shall be valid regardless of the number of shares represented therein, after the competent authorities' approval.

The Extraordinary General Assembly shall have the power to amend the Company's Bylaws to the extent permitted under the Companies Law. In addition to the powers vested in the Extraordinary Assemblies under the Bylaws, the Extraordinary General Assembly may issue resolutions in matters normally falling within the competence of the Ordinary General Assembly in accordance with the same terms and conditions applicable to the Ordinary General Assembly.

The resolutions of the Extraordinary General Assembly shall be adopted by a majority of two thirds of the Shares represented at the meeting, unless the resolution is in relation to the decrease or increase of the capital, extension of the Company's term, dissolution of the Company or merger of the Company with another company or enterprise, in which case the resolution shall be adopted by majority vote of three-quarters of the shares represented at the meeting.

11.26 Right of Shareholders to Ask Questions at General Assemblies

Every Shareholder shall have the right to discuss the matters listed in the agenda of the general assembly, and to address questions to the Directors and the auditor with respect thereof. The Directors or the auditor shall answer Shareholders' questions to such an extent as would not jeopardize the Company's interests. If the Shareholder considers that the answer to his/her question is not convincing, he/she may refer to the members present whose decisions in this regard shall be enforceable.

11.27 Appointment of Auditors

The Company shall have two auditors to be selected from among the auditors licensed to work in KSA. The auditor shall be appointed annually, and his/her compensation shall be determined by the General Assembly. The General Assembly may further reappoint the same auditor.

11.28 Powers of the Auditors and Their Report

The auditors shall inspect at all times the Company's books, records and any other documents, and may request information and clarification as the auditors deem necessary. The auditors may further check the Company's assets and liabilities. The auditors shall submit to the annual Ordinary General Assembly a report showing how far the Company has enabled them to obtain the information and clarifications which they have requested, any violations of the Companies Law and the Bylaws, and their opinion as to the accuracy of the Company's accounts.

11.29 Financial Year

The Company's financial year shall begin on 1 January and end on 31 December each year.

11.30 Annual Reports

The Board of Directors shall prepare, at the end of each fiscal year, an inventory of the Company's assets and liabilities on such date, the Company's balance sheet, its profit and loss account, a report on the Company's activities and its financial position for the financial year that ended. The report shall include the method proposed by the Board for distribution of net profits, and the Chairman shall then sign the requisite documents. The Board of Directors shall place such documents at the auditors' disposal at least fifty-five (55) days prior to the date set for convening the General Assembly.

A copy of the Board's report, the balance sheet, the profit and loss account and the Auditor's report shall be distributed at the Company's Head Office in order to be at the disposal of the Shareholders at least 25 days prior to the meeting. The Chairman of the Board shall publish the balance sheet, profit and loss account, a copy of the report of the Board of Directors, and the report issued by the Auditors in at least one daily newspaper distributed in the location of the Company's Head Office. A copy of these documents shall also be sent to the General Department of Companies within at least twenty-five days prior to the meeting of the Assembly.

11.31 Distribution of Dividends

In accordance with the Banking Control Law the Company's net profits shall be distributed to the Shareholders after deducting all general expenses and other costs, and after forming all reserves required to face doubtful debts, investment losses and emergent obligations (as the Board of directors deems fit), in the following manner:

- a- The amounts necessary to pay Zakat payable by the Saudi Shareholders and the tax payable by the non-Saudi Shareholders will be calculated and deducted from their share in the net profit.
- b- 10% of the net profit, after deducting Zakat and tax, shall be set aside to form a statutory reserve. Such allocations to or deduction from the statutory reserve may be discontinued by the Ordinary General Assembly when the total of statutory reserve amounts reach 30% of the Bank's paid-up share capital.
- c- An amount not less than (5%) of paid-up capital, after deducting Zakat and tax, will be allocated from the net profits for distribution to Shareholders as proposed by the Board and determined by the General Assembly. If the remaining amount of net profits is less than the Shareholders' share in profits, Shareholders may not claim distribution thereof in subsequent years. The General Assembly may not decide to distribute a percentage of profits exceeding the percentage proposed by the Board.
- d- The remaining amount of the net profits shall be used as proposed by the Board and determined by the General Assembly.

The Bank reserves the right to retain dividends payable to Shareholders to repay their debts or obligations. Distribution of profits to Shareholders shall be at the dates determined by the Board of Directors, after obtaining the prior written approval of SAMA.

11.32 Legal Action for Liability

Each Shareholder may exercise the right vested in the Company to file a liability claim against the Directors if the fault caused thereby inflicted damage upon him/her. However, the Shareholder may not raise this claim unless the said right of the Company is still valid and the Shareholder informs the Company that he/she intends to file such a claim. If the Shareholder files such a claim, the Directors shall only be liable for compensation arising from the damages and disruption incurred thereby.

11.33 Dissolution and Liquidation of the Company

If the Company's losses equal three-quarters of its capital, then the Board of Directors shall call a meeting of the Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of its term prescribed under Article 5 of the Company's Bylaws. Where a resolution is issued to dissolve the Company before the prescribed term for this reason or for any other reason, or the term of the Company expired, then the Extraordinary General Assembly shall decide, at the proposal of the Board of Directors, the method of liquidation, and then appoint one or more liquidators as well as determine their authorities and their fees. The powers and authorities of the Board shall cease upon dissolution of the Company. The resolution of the Ordinary General Assembly shall be published in the Official Gazette, and the Board of Directors shall continue to manage the Company until the liquidator has been appointed. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

It should be noted that Article (150) of the Companies Law provides that the Extraordinary General Assembly must be called to convene in order to decide whether to increase or reduce the capital or otherwise dissolve the Company before the expiry of the term specified in its Bylaws in the event that the losses of the Company reached half of its paid-up capital. The requirements of Article (150) of the Companies Law shall apply regardless of the provisions of the Company's Bylaws. Therefore, the Bank shall call the Extraordinary General Assembly as required under Article (150) of the Companies Law in case the Bank's losses reached half of its capital, not three quarters thereof as currently provided for in the Bank's Bylaws. The Bank has begun with regulatory procedures to amend this Article in accordance with the Companies Law in order to obtain the approval of the General Assembly of the Bank for amendment of the same at its next meeting on the capital increase.

12. Legal Information

12.1 Material Agreements

Other than contracts and agreements entered into by the Bank and its affiliates in the ordinary course of business (such as financing contracts, financial derivatives, and other financial transactions), there are no other contracts or agreements considered material with regards to their businesses.

12.2 Agreements with Related Parties

In the ordinary course of its business, the Bank deals with Related Parties such as the Bank's Substantial Shareholders, Directors, members of its executive management and their Relatives. The Bank asserts that all of its banking transactions with Related Parties are undertaken on terms similar to those applied to transactions with other parties in similar circumstances, and are in line with the provisions of the Banking Control Law, the regulations and instructions issued by SAMA, and the requirements of Article (73) of the Companies Law. Other than the transactions and agreements with Related Parties stated in this section and the contracts concluded with the Financial Advisors and the Legal Advisor with respect to this Offering, there are no other contracts or agreements with Related Parties. The following table summarizes the Bank's transactions with Related Parties as of 30 September 2017:

Table 12.1 Transactions with Related Parties

Nature of transaction	September 2017G (SAR '000)
Loans and advances	351,569
Deposits	421,124
Investments	231,258
Balances due from banks and other financial institutions	74
Balances due to banks and other financial institutions	186
Other Receivables	0
Potential commitments and liabilities	0
Total	**1,004,211**

12.2.1 Transactions and Agreements with Aljazira Capital

12.2.1.1 Service Agreement with Aljazira Capital

The Bank concluded a service agreement with Aljazira Capital dated 01/05/2014G pursuant to which the Bank provides a number of services to Aljazira Capital. Services provided pursuant to this agreement include, but are not limited to, services related to operations and logistics, business support, and IT. The agreement regulates the procedures and terms for providing these services, along with tasks and responsibilities of both parties. The fee amount payable for these services provided pursuant to the agreement depends on the nature of the provided service. The agreement becomes effective from the date of its execution until its termination by one of the parties pursuant to the agreement's terms and conditions. It should be noted that Mr. Nabil Bin Dawood A-Hoshan and Mohamad Bin Abdullah A-Hagbani (who are members of the Bank's Board of Directors) have an interest in the agreement as they are members of Aljazira Capital's board of directors. Also, the approval of the Bank's general assembly to execute this agreement has been obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

On 01/01/2018G the Bank has made a number of amendments to the aforesaid service agreement entered between the Bank and AlJazira Capital in which the Bank intends to obtain the approval of the General Assembly of the Bank on the same at its next meeting relating to the Bank's Capital Increase.

12.2.1.2 Banking Transactions with Aljazira Capital

The Bank concluded a number of banking transactions with Aljazira Capital, which are part of regular banking transactions. Aljazira Capital has a current account with the Bank amounting to SAR 117,872,673.21 as of 30 September 2017G. It should be noted that Mr. Nabil Bin Dawood Al-Hoshan and Mohamad Bin Abdullah Al-Hagbani (who are members of the Bank's Board of Directors) have an interest in these transactions as they are members of Aljazira Capital's board of directors. Also, the approval of the Bank's general assembly to execute these transactions has been obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.1.3 Transactions relating to payment of rental dues on certain joint properties with Aljazira Capital

The Bank has a number of leased properties that Aljazira Capital has the right, together with the Bank, to use. The Bank pays the rental dues on these properties directly to its beneficiaries, provided that the Bank subsequently obtains from Aljazira Capital the amount of the rent paid for the area used by Aljazira Capital. The total area used by Aljazira Capital is approximately 9,723 square meters with a total annual rental value of approximately SAR 7,032,989.55. It should be noted that Mr. Nabil Bin Dawood Al-Hoshan and Mohamad Bin Abdullah Al-Hagbani (who are members of the Bank's Board of Directors) have an interest in these transactions as they are members of Aljazira Capital's board of directors. Also, the approval of the Bank's general assembly to execute these transactions has been obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2 Transactions and Agreements with Aljazira Takaful Taawuni

12.2.2.1 Banking Transactions with Aljazira Takaful Taawuni

The Bank carries out a number of banking transactions with Aljazira Takaful Taawuni, which fall within the normal banking dealings. The Bank holds deposits for Aljazira Takaful Taawuni, which are included in the total deposit value shown in table 12.1 above. It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in these transactions as he is the Chairman of the board of directors of Aljazira Takaful Taawuni Company. As such, the approval of the Bank's general assembly to execute these transactions was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2.2 Agreement to Manage the Insurance Portfolios with Aljazira Takaful Taawuni

The Bank entered into an agreement with Aljazira Takaful Taawuni on 26/06/2012G regarding the management of a number of insurance portfolios that have not yet been transferred to Aljazira Takaful Taawuni. Under this agreement, the Bank incurs 83% of the administrative costs related to these portfolios, while Aljazira Takaful Taawuni bears 17% of these costs. An application was filed to SAMA to transfer all the insurance portfolios currently managed by the Bank - in cooperation with Aljazira Takaful Taawuni - to Aljazira Takaful Taawuni. It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in this agreement as he is the chairman of the board of directors of Aljazira Takaful Taawuni Company. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2.3 Group Insurance Agreement for Personal Finance Portfolio with Aljazira Takaful Taawuni

The Bank has renewed the group personal insurance agreement with Aljazira Takaful Taawuni to provide group insurance services for the Bank's personal finance portfolio on 07/08/2017. The total value of the agreement is SAR 16,576,534.70 with a coverage cap of SAR 9,209,185,946. The period of coverage shall begin on 08/08/2017G and lasts for one full year. It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of Bank Board) has an interest in this agreement as he is the chairman of the board of directors of Aljazira Takaful Taawuni Company. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2.4 Group Insurance Agreement for Real Estate Finance Portfolio with Aljazira Takaful Taawuni

The Bank has renewed the group insurance agreement with Aljazira Takaful Taawuni to provide group insurance services for the Bank's real estate finance portfolio on 01/06/2017G. The total value of this agreement is SAR 15,515,575.43 with a coverage cap of SAR 8,968,540,708.39. The coverage period shall begin on 02/06/2017G and will remain in effect for one full Gregorian calendar year.

It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in this agreement as he is the chairman of the board of directors of Aljazira Takaful Taawuni company. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2.5 Group Insurance Agreement of the Bank's Employees

The Bank has entered into an agreement with Aljazira Takaful Taawuni company for the provision of insurance services to the Bank's employees, with a coverage cap of SAR 1,024,890,242.80. The total value of this agreement amounts to SAR 2,356,905.21, with coverage period starting from 19/05/2016G and will remain in effect for a full Gregorian calendar year. It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in this agreement as he is the chairman of the board of directors of Aljazira Takaful Taawuni Company. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.2.6 Insurance Agreement on the Bank's Employees Loan Portfolio

The Bank has entered into an agreement with Aljazira Takaful Taawuni to provide insurance on the loan portfolio of the Bank's employees. The total value of the agreement is SAR 696,295.75 with a coverage cap of SAR 289,251,500.69. The coverage period shall begin on 19/05/2017G and will remain in effect for one full Gregorian calendar year. It should be noted that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in this agreement as he is the chairman of the board of directors of Aljazira Takaful Taawuni company. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.3 Lease Agreement with Consolidated Brothers Company for Development

The Bank has entered into a lease agreement with Consolidated Brothers Company for Development (one of the Bank's Substantial Shareholders) on 07/10/1432H (corresponding to 05/09/2011G). The purpose of the agreement is to lease a showroom to be used as a branch of the Bank. The term of agreement is twelve (12) Gregorian years beginning at the end of the grace period, which is six months from 26/10/2011G. The annual rent value is as follows:

- SAR three hundred thousand (300,000) for the first to the fourth year.
- SAR three hundred and thirty thousand (330,000) for the fifth to the eighth year.
- SAR three hundred and sixty-three thousand (363,000) for the ninth to the twelfth year.

It is worth noting that Abdulmajeed Bin Ibrahim Al-Sultan (Deputy Chairman of the Bank's Board) has an interest in this agreement as he is a shareholder in the Consolidated Brothers Company for Development. As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.2.4 A Lease Agreement with Ahmed bin Othman bin Abdullah Al Qasabi

The Bank has entered into a lease agreement with Ahmed Othman Al-Qasabi (the brother of Tariq Bin Othman Al-Qasabi, Chairman of the Banks' Board) on 10/10/1430H (corresponding to 29/09/2009G). The purpose of the agreement is to lease a showroom to be used as a branch of the Bank. The agreement's term is ten (10) Gregorian calendar years. The annual rent value is as follows:

- Two hundred and sixty-eight thousand and five hundred (268,500) Saudi Riyals for the first year to the third year.
- Two hundred and seventy-six thousand, five hundred and fifty-five (276,555) Saudi Riyals for the fourth year to the sixth year
- Two hundred and eighty-four, eight hundred and fifty-two (284,852) Saudi Riyals for the seventh year to the tenth year.

It should be noted that Tariq Bin Othman Al-Qasabi (the Bank's Chairman) has an interest in this agreement, as he is the brother of Ahmed Osman Al-Kasabi (lessor of the property). As such, the approval of the Bank's general assembly to execute this agreement was obtained on 10/04/2017G in accordance with the requirements of Article (71) of the Companies Law.

12.3 Agreements on Provision of IT Services and Maintenance of the Bank's Devices and Software

The Bank has entered into a number of agreements in relation to the provision of it's services and maintenance of electronic devices and software used by the Bank in its operational activities, including, but not limited to, services in relation to interconnection and maintenance of computers, servers and electronic programs (such as applications), etc. The total value of these agreements is approximately SAR 37,032,981. It should be noted that some of these agreements do not have a specific value, but are based on the fees due for the services provided under each relevant agreement.

12.4 Licenses and Approvals

The Bank has obtained all licenses and approvals necessary to conduct its business in the Kingdom of Saudi Arabia, save for a foreign investment license for which, it should be noted, the Bank has initiated the procedures for obtaining (for further details, please refer to Section 2.2.11 "Risks Related to the Lack of a Foreign Investment License").

The following is a summary of the key licenses and approvals obtained by the Bank and its subsidiaries.

12.4.1 Registration in the Commercial Register

The Bank is registered under commercial registration no. 4030010523 dated 29/7/1396H (corresponding to 25/7/1976G) issued in Jeddah, and which expires on 30/05/1443H. Aljazira Capital is registered under commercial registration no. 1010351313 on 13/11/1433H issued in Riyadh and expires on 17/03/1440H (corresponding to 5/12/2017G). Aman Development and Real Estate Investment Company was registered in the commercial register under no. 1010221387 dated 20/06/1427H issued in Riyadh and expires on 20/06/1442H. Aman Agency for Insurance is registered under commercial registration no. 4030592311 dated 14/08/1438H (corresponding to 16/7/2006G) issued in Jeddah and expires on 14/08/1443H.

12.4.2 Bank Branches

As of the date of this Prospectus, the Bank has seventy-nine (79) branches. SAMA's approval to open all branches has been obtained. In addition, the Bank has registered all branches with the Ministry of Commerce and Investment.

12.4.3 License to Carry out Mortgage Financing and Finance Lease Activities

The Bank has obtained SAMA's license no. 20/asa/201405 dated 21/07/1435H to engage in mortgage financing and leasing activities. The license will be valid for five years from the date of issuance.

12.4.4 Intangible Assets

The Bank has no intangible assets as per its financial statements, and accordingly, the Bank does not depend on any of the intangible assets in its business and activities.

It should be noted that the Bank has registered its brand "Bank Aljazira" using two different designs with the Ministry of Commerce and Investment's Trademarks Department. The Bank has also registered a number of brands for its products: "Support from Your Heart", "Ajwaa", "Nadeek," Absher Bezak," and "Fawri".

Aljazira Takaful Taawuni Company has also registered its brand "Aljazira Takaful, together as one" with the Ministry of Commerce and Investment's Trademarks Department. Aljazira Capital has registered its brand "Aljazira Capital" with the Ministry of Commerce and Investment's Trademarks Department. However, neither the Bank nor its subsidiaries depend on their trademarks in their activities and operations.

12.4.5 Social Insurance Certificate

The Bank obtained a GOSI certificate no. 23929423 dated 9/03/1439H (corresponding to 27/11/2017G), which confirms that the Bank has fulfilled its obligations toward GOSI based on the data provided by the Bank on 09/04/1439H. Aljazira Capital obtained a GOSI certificate no. 23873581 dated 02/03/1438H (corresponding to 20/11/2017G), which confirms that Aljazira Capital has fulfilled its obligations toward GOSI based on data provided by Aljazira Capital. The certificate will expire on 02/04/1439H. Aman Real Estate Development and Investment Company obtained a GOSI certificate no. 23920453 dated 9/03/1439H (corresponding to 27/11/2017G), which confirms that Aman Development and Real Estate Investment Company has fulfilled its obligations towards GOSI based on data provided by Aman Real Estate Development and Investment Company. The certificate will expire on 9/04/1439H. Aljazira Takaful Taawuni Company obtained a GOSI certificate no. 23916798 dated 08/03/1439H (corresponding to 26/11/2017G), which confirms that Aljazira Takaful Taawuni Company has fulfilled its obligations toward GOSI based on data provided by Aljazira Ttakaful Taawuni Company. The certificate will expire on 08/04/1439H.

12.4.6 General Authority for Zakat and Income Tax

The Bank has obtained a zakat certificate (not valid for disbursement of final installments) no. 1110112564 dated 21/01/1439H) from GAZT, which will expire on 14/08/1439H (corresponding to 30/04/2018G). Similarly, Aljazira Capital received a zakat certificate (not valid for disbursement of final installments) no. 1110159099 dated 09/02/1439H from GAZT, which expires on 14/08/1439H (corresponding to 30/04/2018G). Aljazira Takaful Taawuni company obtained a zakat certificate (not valid for disbursement of final installments) no. 1110106385 dated 29/07/1437H, which expires on 14/08/1439H (corresponding to 30/04/2018G). Aman Real Estate Development and Investment Company obtained a zakat certificate (not valid for disbursement of final installments) no. 1110122278 dated 13/09/1438H, which expires on 14/08/1439H (corresponding to 30/04/2018G)

The General Authority for Zakat and Income Tax requested the bank to pay additional zakat entitlements for the years from 2006G to 2011G, estimated at a total amount of SAR 462,2 million. However, the Bank has objected to these amounts, explaining that the additional amounts claimed by the General Authority for Zakat and Tax Income are a result of a variant classification of the Bank's investments and debts. There are currently discussions between SAMA and the General Authority for Zakat and Income Tax on this matter. A guarantee in the amount of SAR 285 million has been issued to the General Authority for Zakat and Income Tax with respect to the claims for the years 2006-2009G, together with other two guarantees amounting to SAR 195 million with respect to the claims for the years 2010-2011G.

As for Aljazira Capital, the Preliminary Objection Committee made a decision regarding the claim for Aljazira Capital to pay additional zakat payments for the years from 2008G to 2011G, estimated at SAR 29,9 million. Aljazira Capital has appealed the decision of the Preliminary Objection Committee before the Tax Appeal Committee. Aljazira Capital had also submitted a bank guarantee equal to the additional zakat entitlements at the request of the General Authority for Zakat and Income Tax. In 2016, the Tax Appeal Committee issued its decision in favor of the General Authority for Zakat and Income Tax. Aljazira Capital appealed the decision before the Administrative Court, which issued a judgment on 21/4/1439H (corresponding to 8/1/2018G) to annul the Tax Appeal Committee's decision against Aljazira Capital in respect of the additional zakat entitlements for the years 2008-2011G. The Administrative Court relied in reaching its decision on the illegality of procedures related to the decision of the Tax Appeal Committee on the same matter. The Administrative Court decision however could be appealed by the General Authority for Zakat and Income Tax.

The General Authority for Zakat and Income Tax ordered Aljazira Capital to pay SAR 11.9 million for zakat payments for 2012 on the one hand. In response, Aljazira Capital filed a complaint against the latter's claim before preliminary objection committee, which decided to reduce the claim amount to SAR 400,000. Moreover, Aljazira Capital has appealed the decision of the Preliminary Objection Committee before the Tax Appeal Committee.

Also, the General Authority for Zakat and Tax Income has not completed the Bank's zakat assessment for the years 2012G, 2013G, 2014G, 2015G and 2016G. As for Aljazira Capital's zakat assessment for the years 2013G, 2014G, 2015G and 2016G, it still has not been completed by the General Authority for Zakat and Tax Income. (For further details on the risks associated with the zakat payments, see Section 2.2.12 "Risks associated with Zakat Payments").

12.4.7 CMA License

Aljazira Capital obtained a CMA license no. 37- 07076 dated 05/04/2008G to carry out activities, including engagement as a principal and agent, underwriter, manager, consultant, and custodian of securities.

12.4.8 Authorization to Carry out Insurance Activity

Aljazira Takaful Taawuni Company obtained SAMA license no. TMN/34/201312 dated 15/02/1435H to engage in insurance activities at the protection and savings branch. This license was renewed on 15/02/1438H for a period of three years and will expire on 14/02/1441H.

12.5 Insurance

The table below summarizes the insurance policies obtained by the Bank:

Table 12.2 Insurance Policies

Number	Insurer	Insured	Coverage type	Coverage period	Coverage cap	Value of Contract
1	Company for Cooperative Insurance	The Bank and its Subsidiaries	Responsibility of the Directors and employees	01/03/2016G - 28/02/2018G	SAR 75,000,000	SAR 276,651.22
2	Company for Cooperative Insurance	The Bank	Comprehensive insurance on the Bank's properties	01/03/2017G - 27/02/2018G	SAR 1,372,230,940	SAR 425,391.59
3	Company for Cooperative Insurance	The Bank and its Subsidiaries and Associate	Comprehensive insurance on properties of the Bank's customers	19/01/2017G - 18/01/2018G	SAR 7,313,986,738	SAR 1,834,347.87
4	Medgulf	The Bank	Comprehensive insurance on vehicles	02/02/2017G - 01/02/2018G	SAR 760,450	SAR 17,264.11
5	Medgulf	The Bank	Sabotage and terrorism insurance	02/05/2017G - 01/05/2018G	SAR 1,372,230,940	SAR 93,500
6	Aljazira Takaful Taawuni Company	The Bank	Group insurance on the Bank's Personal Finance Portfolio	02/06/2017G - 01/06/2018G	SAR 8,968,540,708.39, which may increase or decrease on a monthly basis based on portfolio performance	SAR 15,515,575.43
7	Aljazira Takaful Taawuni Company	Customers of Personal Finance products of the Bank	Group insurance services for the Bank's personal finance portfolio	02/08/2017G - 01/08/2018G	SAR 9,209,185,946, which may increase or decrease on a monthly basis based on portfolio performance	SAR 16,576,534.70
8	Aljazira Takaful Taawuni Company	The Bank	Insurance on the Bank's Employees Loan Portfolio	19/05/2017G - 18/05/2018G	SAR 289,251,500.69	SAR 696,295.75

Number	Insurer	Insured	Coverage type	Coverage period	Coverage cap	Value of Contract
9	Medgulf	The Bank and its Subsidiaries	Insurance for staff fraud	01/04/2017G - 31/03/2018G	SAR 150,000,000	SAR 2,346,500
10	Aljazira Takaful Taawuni Company	Bank's employees	Group Insurance of the Bank's Employees	19/05/2017G - 18/05/2018G	SAR 1,024,890,242.80	SAR 2,356,905.21
11	Bupa Arabia	Bank's employees	Medical Insurance	01/07/2017G - 30/06/2018G	SAR 500,000 for gold category SAR 700,000 for VIPs	SAR 23,644,940

12.6 Penalties and Fines

Given that the Bank's business activities are subject to various regulations and instructions issued by SAMA, CMA and a number of other government entities, the Bank is subject to penalties and fines if it fails to comply with any of these regulations and instructions or to fulfill any of the same. The Bank has been subjected to a number of penalties and fines by SAMA, CMA, municipalities and other entities. The total penalties and fines imposed by SAMA and CMA on the Bank from the beginning of 2017G to 30 September 2017G was approximately SAR five hundred and fifty-five thousand (555,000).

12.7 Lease Agreements

The Bank has entered into a number of lease agreements in different parts of the Kingdom. These contracts have to do with lease of exhibition spaces and buildings to be used as Bank's branches, remittance centers or Bank's administrative offices, as well as the lease of warehouses and spaces for furniture storage and archiving purposes. The current annual rent is SAR 72,894,757.

12.8 Real Estate Properties

The Bank owns a number of real estate properties acquired by purchase or debt settlement. It is worth noting that a number of these properties are registered in the name of Aman Real Estate Development and Investment Company. In addition, a number of real estate properties are registered in the name of individuals for the benefit of the Bank for regulatory reasons. The total market value of these properties is SAR 6,586,401. It should also be noted that there are legal and procedural disputes against a number of properties owned by the Bank and Aman Real Estate Development and Investment Company with a total market value of SAR 14,268,769. (for further details on the associated risks, see Section 2.2.15 "Risks Related to Bank Real Estate Properties.")

12.9 Properties Mortgaged to the Bank

As part of the Bank's financing operations, the Bank has a large number of mortgaged properties in its favor as collateral for its clients' financing. In accordance with the procedures generally recognized by the banks in the Kingdom, the Bank has documented the mortgage through the transfer and registration of such properties in its name or Aman Development & Real Estate Investment Company or in the name of persons representing the Bank in certain cases for regulatory reasons. The total number of mortgaged properties for the Bank is about 1400 properties.

It should be noted that the Saudi Arabian Monetary Agency recently issued a resolution requiring all banks to document the mortgages in accordance with contracts thereof and to suspend the procedures related to the transfer of ownership of the property instead of mortgaging it, as well as to correct the conditions of properties currently registered on behalf of the banks or its subsidiaries within a period not exceeding three years. Accordingly, the Bank has initiated procedures for transferring ownership of the mortgaged properties in its favor on behalf of its original owners and then registering the mortgages in accordance with contracts thereof pursuant to SAMA's resolution in this respect. (For further details on the associated risks, see Section 2.2.16 "Risks Related to Mortgages")

12.10 Litigation

The Bank, its subsidiaries and affiliate are involved in a number of lawsuits, as well as a number of labor issues, that fall within the context of their normal business. The total number of claims filed against the Bank, its subsidiaries and affiliate is approximately 144 legal claims as of 14 November 2017G. This includes claims under enforcement (preliminary judgments were issued in some of these claims for a total amount of approximately SAR 3,843,525). It should be noted that the plaintiffs in a significant number of these lawsuits did not specify their claims' amount. Accordingly, the amounts that may be paid by the Bank as a result of such lawsuits will be determined at the respective judge's discretion. As such, the Bank cannot provide an estimate for such claims. As to the cases in which the claimants had set their claimed amounts, the total claims of these cases amounted to approximately SAR 61,187,633. The Bank notes that the total claimed amount is an estimate and is subject to change from time to time. The Bank does not recognize the validity of such amounts. Based on the proceedings, the Bank believes that the judgments will be in favor of the Bank or in amounts lower than the amount of the original claims. (For further details on the associated risks, see Section 2.1.23 "Risks Related to Litigation")

The Directors further affirm that the Bank is not a party to any litigation that could have a material adverse effect, whether individually or in association with other claims, on the Bank's business or financial position. The directors also confirm that they are not aware of any legal action to be filed that may have a material adverse impact on the Bank's business or financial position.

There are also a number of claims that were filed by the Bank against a number of persons for collection of debts outstanding to the Bank. The total amount of these claims is approximately SAR 1,470,122,675. It should be noted that some of these claims were adjudicated in favor of the Bank, but are still under execution. It should be further noted that the Bank may not be able to collect the full adjudicated amounts.

It should be noted that the above information on the claims of the Bank, its subsidiaries and affiliate does not include the amounts of zakat payments that the Bank and Aljazira Capital have objected to. (For further details on zakat payments, see Section 12.4.6 "Certificate of the General Authority for Zakat and Tax Income").

12.11 Directors' Competing Business

The following table illustrates businesses in which the Bank's Board members are involved that may compete with the Bank or its subsidiaries or affiliate:

Table 12.3 Directors' Competing Business

Director's Name	Nature of the business
Dr. Saeed bin Saad Al-Murtan	Dr. Saeed bin Saad Al-Murtan owns 4% of the capital of Adeem Capital (a company authorized by the Capital Market Authority to perform securities activities), which is competing with Aljazira Capital. It should be noted that Dr. Saeed bin Saad Al-Murtan is in the process of obtaining the Extraordinary General Assembly's authorization at its next meeting as to his ownership in Adeem Capital in accordance with the requirements of Article (72) of the Companies Law.

13. Description of Shares

13.1 Share Capital

The Company's share capital is SAR 5,200,000,000 (five billion and two hundred million Saudi riyals) divided into 520,000,000 cash ordinary shares with a value of SAR 10 per share.

13.2 Share Value

The nominal value of each share is SAR 10. Shares may not be issued at a value less than such nominal value, but may be issued at a higher price. In this case, the amount in excess to the nominal value shall be added to the statutory reserve, even if this reserve reaches its maximum limit. The Company's shares shall be indivisible. Therefore, if a share is owned by several persons, they shall nominate one of them to act on their behalf to use the rights related to the share. Joint owners of a share shall be jointly liable for the obligations consequent upon such ownership.

13.3 Share Trading

Shares shall be tradable subject to restrictions set out in the Company's Bylaws and other laws in in force in the Kingdom.

13.4 Attachment and Sale of Shares

The Company may lay hold of shares registered therein and held in the name of a Shareholder, or held jointly by him/her and any other person and on any unpaid profits, to secure the repayment of loans or fulfillment of obligations or commitments contracted by a Shareholder with the Company, either individually or with another person. If he/she fails to repay the debt by virtue of a two week notice, the Board of Directors shall have the right to sell the attached shares to recover the amount required for the Company. The Company shall pay to the Shareholder or its representative the excess amount of the sale proceeds.

13.5 Increase of Share Capital

The capital of the Company may, by a resolution passed by the Extraordinary General Assembly, be increased once or several times, provided that the capital has been paid in full. The resolution shall specify how to increase the capital. The Company's Shareholders shall be given priority in terms of subscribing to the new shares.

13.6 Decrease of Share Capital

An Extraordinary General Assembly may decide to reduce the Company's capital if it proves to be in excess of the Company's need or if the Company sustains a loss. Such decision may be taken only if the Company's auditors submit a report explaining the reasons for such action, the Company's obligations and the effect of reduction on such obligations. The decision must set out how to carry out such decrease.

Where the reduction is due to the fact that the capital is in excess of the Company's needs, creditors must be invited to express their objections to such procedure within 60 days from the date of publication of the resolution for the reduction of the Company's capital in a daily newspaper distributed in the city wherein the registered head office is located. If any creditor objects to the reduction and provides the Company with a valid claim within the specified date, the Company must pay its debt if it is due and payable, or provide an acceptable guarantee to pay the amount on the date of maturity.

13.7 Voting Rights

Any Shareholder has the right to attend the Shareholders Ordinary and Extraordinary General Assemblies. He/she may authorize another Shareholder, other than the members of the Board and other than the Company's employees, to attend the General Assembly and vote on his/her behalf. Each Shareholder shall have one vote per share represented thereby at the Shareholders' assemblies.

13.8 Shareholders' Equity

Under Article (110) of the Companies Law, a Shareholder shall be vested with all Rights associated with the Shares, which include, in particular, the right to receive a share from the profits declared for distribution, the right to a share in the Company's assets upon liquidation, the right to attend Shareholders' Assemblies and participate in the deliberations and vote on the resolutions proposed at such meetings, the right to dispose of Shares, the right to request to inspect the Company's records and documents, the right to supervise the acts of the Board of Directors, the right to file liability claims against the Directors, and the right to contest the validity of the resolutions adopted at the General Assemblies. Under the Companies Law, the shares shall not give their holders the right to ask the Company to repurchase or redeem their shares. The Company's Bylaws does not contain provisions regulating the amendment of share equity or categories.

13.9 Assemblies of Shareholders

The Shareholders Ordinary or Extraordinary General Assemblies shall hold their meetings at the request of the Board of Directors. The Board of Directors shall call for a meeting of the Ordinary General Assembly if requested to do so by the auditors or the Audit Committee, or a number of Shareholders representing at least 5% of the Company's capital, or in accordance with a resolution by the Minister of Commerce. The invitation to the General Assembly meeting shall be published in the Official Gazette and a daily newspaper distributed in the location of the Company's Head Office at least 10 days prior to the date set for the Assembly. Such invitation shall include the agenda to be presented to the General Assembly.

13.10 Ordinary General Assembly

Meetings of the Ordinary General Assembly shall be valid only if attended by Shareholders representing at least one quarter of the Company's share capital. If such quorum is not met in the first meeting, a notice for a second meeting to be convened shall be sent within the thirty (30) days following the first meeting. However, the second meeting may be held one hour after the end of the period specified for the first meeting, provided that the invitation to the first meeting must include the possibility of holding such meeting. The second meeting shall be valid regardless of the number of Shares represented therein.

Except for matters falling within the competence of the Extraordinary General Assembly, the Ordinary General Assembly shall have the power to deal with all matters relating to the Company. The Ordinary General Assembly shall be convened at least once a year within six months following the end of the Company's fiscal year. Other Ordinary General Assemblies may be convened as necessary.

The Ordinary General Assembly may issue its resolutions with the simple majority of shares represented during the meeting.

13.11 Extraordinary General Assembly

Meetings of the Extraordinary General Assembly shall be valid only if attended by Shareholders representing at least one half of the Company's share capital. If such a quorum is not achieved in the first meeting, an invitation for a second meeting to be convened shall be directed within 30 days of the first meeting. However, the second meeting may be held one hour after the end of the period specified for the first meeting, provided that the invitation to first meeting must include the possibility of holding such meeting. The second meeting shall be deemed valid if attended by a number of Shareholders representing at least one-quarter of the Company's capital. If this quorum is not attained to convene a second meeting, an invitation shall be sent for a third meeting. The third meeting shall be valid regardless of the number of shares represented therein, after the competent authorities' approval.

The Extraordinary General Assembly shall have the power to amend the Company's Bylaws to the extent permitted under the Companies Law. In addition to the powers vested in the Extraordinary General Assemblies under the Bylaws, the Extraordinary General Assemblies may issue resolutions in matters normally falling within the competence of the Ordinary General Assembly in accordance with the same terms and conditions applicable to the Ordinary General Assembly.

The resolutions of the Extraordinary General Assembly shall be adopted by a majority of two thirds of the Shares represented at the meeting, unless the resolution is in relation to the decrease or increase of capital, extension of the Company's term, the dissolution of the Company or merger of the Company with another company or enterprise, in which case the resolution shall be adopted by the majority vote of three-quarters of the shares represented at the meeting.

13.12 Right of Shareholders to Ask Questions at General Assemblies

Every Shareholder shall have the right to discuss the matters listed in the agenda of the general assembly, and to address questions to the Directors and the auditor with respect thereof. The Directors or the auditor shall answer Shareholders' questions to such an extent as would not jeopardize the Company's interests. If the Shareholder considers that the answer to his/her question is not convincing, he/she may refer to the members present whose decisions in this regard shall be enforceable.

13.13 Company Term

The term of the Company is (99) ninety nine years from the date of its incorporation. The term of the Company may be extended by a resolution passed by the Extraordinary General Assembly at least one year prior to the expiry of such term.

13.14 Dissolution and Liquidation of the Company

If the Company's losses equal three-quarters of its capital, then the Board of Directors shall call a meeting of the Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of its term prescribed under Article (5) of the Company's Bylaws. Where a resolution is issued to dissolve the Company before the prescribed term for this reason or for any other reason, or the term of the Company expired, then the Extraordinary General Assembly shall decide, at the proposal of the Board of Directors, the method of liquidation, and then appoint one or more liquidators as well as determine their authorities and their fees. The powers of the Board shall cease upon the dissolution of the Company. The resolution of the Ordinary General Assembly shall be published in the Official Gazette, and the Board of Directors shall continue to manage the Company until the liquidator has been appointed. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

It should be noted that Article (150) of the Companies Law provides that the Extraordinary General Assembly must be called to convene in order to decide whether to increase or reduce the capital or otherwise dissolve the Company before the expiry of the term specified in its Bylaws in the event that the losses of the Company reached half of its paid-up capital. The requirements of Article (150) of the Companies Law shall apply regardless of the provisions of the Company's Bylaws. Therefore, the Bank shall call the Extraordinary General Assembly as required under Article (150) of the Companies Law in case the Bank's losses reached half of its capital, not three quarters as currently provided for in the Bank's Bylaws. The Bank has begun with the regulatory procedures to amend this Article in accordance with the Companies Law in order to obtain the approval of the General Assembly of the Bank for the necessary amendment at its next meeting.

14. Underwriting

The Bank has appointed Alinma Investment Company, Middle East Financial Investment Company (MEFIC Capital), Mulkia Investment Company, Saudi Kuwaiti Finance House and Wasata Capital as underwriters.

Underwriters
Alinma Investment Company Anoud Tower-2 King Fahd Road P.O. Box 55560, Riyadh 11544 Kingdom of Saudi Arabia Tel: +966 (11) 2185555 Fax: +966 (11) 2185970 Email: query@alinmainvest.com Website: www.alinmainvestment.com
Middle East Financial Investment Company (MEFIC Capital) King Fahd Road, Olaya Street Office No.1 P.O. Box 7758, Riyadh 12333 Kingdom of Saudi Arabia Tel: +966 (11) 2186666 Fax: +966 (11) 2186667 Email: info@mefic.com.sa Website: www.mefic.com.sa
Mulkia Investment Company Prince Mohammed bin Abdulaziz Street (Tahlia Street) Aknaz Center – Building No: 184 Offices No. 2 and 3 - First Floor P.O. Box 52775, Riyadh 11573 Kingdom of Saudi Arabia Tel: +966 (11) 20003028 Fax: +966112932799 Email: info@mulkia.com.sa Website: www.mulkia.sa
Saudi Kuwaiti Finance House Riyadh, King Fahd Road 7856, Moon Tower, Floor 16 P.O. Box 50051 , Riyadh 11523 Kingdom of Saudi Arabia Tel: +966 (11) 4845500 Fax: +966 (11) 4845501 Email: info@skfh.com.sa Website: www.skfh.com.sa
Wasata Capital Olaya Street P.O. Box 50315, Riyadh 11523 Kingdom of Saudi Arabia Tel: +966 (11) 4944067 Fax: +966 (11) 4944205 Email: info@wasatah.com.sa Website: www.wasatah.com.sa

The Bank will enter into an underwriting agreement with the Underwriters. The following is a summary of the main terms of the agreement to be concluded:

a- The Bank shall, on the date of allocations, issue and allocate to the Underwriters at the Offer Price all underwritten Rights in this Offering which were not subscribed to in the Rump Offering Period.

b- The Underwriters undertake to purchase, at the date of allocations, all Rump Shares at the Offer Price.

c- The Underwriters shall receive a consideration, representing a percentage of the Offering proceeds for underwriting to be paid from the Offering proceeds. It is worth mentioning that the underwriting costs are part of the Offering expenses, as disclosed in Section 15 ("Offering Expenses") of this Prospectus.

d- The obligation of the Underwriters to purchase all Rump Shares in the Offering shall be subject to the termination provisions of the underwriting agreement such as force majeure events as defined in the agreement, or failure to fulfill a number of condition precedents relating to the Offering.

e- The Bank will provide a number of representations, declarations and undertakings, to the Underwriters.

Total Value of Shares Underwritten	(300,000,000) Ordinary Shares
Offer Price	SAR (10)
Total Offer Value Underwritten	SAR 3,000,000,000
The ratio of underwritten shares out of the total value of the offering	100%

Source: The Bank

15. Offering Expenses

An amount of SAR 81,656,700 will be allocated from the proceeds of the Offering to cover the Offering costs and expenses (which is considered to be an estimate and not final). Such proceeds include the fees of the Financial Advisors, Lead Managers, Bank's Legal Advisor, Legal Advisor to the Underwriters, Chartered Accountants, the Financial Due Diligence Advisor and other advisors, as well as underwriting, printing, distribution expenses and any other expenses or charges related to the Offering.

Description	Fees and expenses (in SAR)
Fees of the Financial Advisors, Lead Managers, Underwriters, Bank's Legal Advisor, Legal Advisor to the Underwriters, and Financial Due Diligence Advisor.	79,156,700
Printing and distribution expenses and any other expenses or charges related to the Offering.	2,500,000
Total	**81,656,700**

Source: The Bank

16. Waivers

The Bank has not obtained any waivers from the CMA in relation to the Offering.

17. Offering Terms and Conditions

The Company has filed a request with CMA for registration and admission of the New Shares to be listed on the Capital Market, and the requirements have been fulfilled in accordance with the listing rules. All Eligible Persons (i.e. Registered Shareholders, purchasers of the Rights during the Trading Period) and bidding investors shall read the Offering terms and conditions carefully before online subscription or submission of the Subscription Application Form through a broker or filling of Rump Offering Form. The submission of the Subscription Application Form, or signing and delivery of the Rump Offering Form shall be deemed an approval and acceptance of the Offering Terms and Conditions.

17.1 Subscription to the New Shares

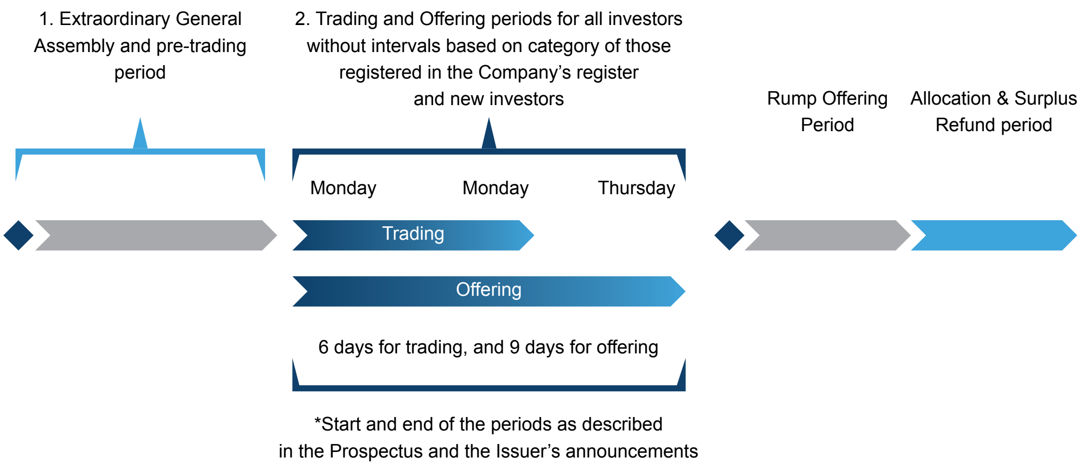
Under this Prospectus, (300,000,000) Ordinary Shares will be offered for subscription, representing 57.7% percent of the Company's capital prior to Capital Increase, at an Offer Price of SAR ten (10) per share, with a nominal value of SAR 10 and a total offering value of SAR (3,000,000,000). The New Shares will be issued at (0,5769) New Shares per current share. Eligible Persons shall be eligible for subscription for the New Shares.

In the event that the Eligible Persons do not exercise their right to subscribe to the New Shares at the end of the Offering Period, the Rump Shares will be offered to the Institutional Investors during the Rump Offering Period. The Registered Shareholders may trade in the Rights deposited in their portfolios through the Tadawul system. Such Rights are deemed a right entitled to all Shareholders registered in the Company's register as of the Eligibility Date. Each Right grants its holder eligibility to subscribe to one New Share at the Offer Price. The Rights will be deposited within two business days following the Extraordinary General Assembly on the Capital Increase. The Shares will appear in the portfolios of Registered Shareholders under a new symbol that designates Priority Rights.

Rights shares will be offered according to the phases and dates set out below:

- **Eligibility Date:** The Shareholders who are owners of shares as of the date of the Extra-ordinary General Assembly held for capital increase and who are registered in the Company's registers as of close of trading on the second trading day following the Extraordinary General Assembly on the Capital Increase to be held on 02/07/1439H (corresponding to 19/03/2018G).
- **Trading Period and Offering Period:** The Trading Period and Offering Period start on Sunday 08/07/1439H (corresponding to 25/03/2018G), and the Trading Period will end on Sunday 15/07/1439H(corresponding to 01/04/2018G) ("Trading Period"), while the Offering Period will end on Wednesday 18/07/1439H (corresponding to 04/04/2018G).
- **Rump Offering Period:** The period from Tuesday 24/07/1439H (corresponding to 10/04/2018G) from 10:00 a.m to 5:00 p.m of the next day dated 25/07/1439H (corresponding to 11/04/2018G). During this period, Rump Shares will be offered to institutional investors, provided that they submit their offers to purchase the Rump Shares during the Rump Offering Period. The Rump Shares will be allocated to the Investment Institutions in order of priority based on the price per Share offered (provided that it is not less than the Offering Price) with Shares being allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. Fractional Shares will be added to the Rump Shares and treated in the same manner. In the event that any Rump Shares are not purchased by the Institutional Investors, such Shares will be allocated to the Underwriters, who will purchase the Shares at the Offer Price.
- **Final Allocation of Shares:** Shares will be allocated to each investor based on the number of Rights properly and fully exercised thereby. As for Shareholders entitled to fractional Shares, these shall be accumulated and offered to Institutional Investors during the Rump Offering. The total remaining Offering Price will be paid to the Company, and the remaining proceeds from the sale of the Rump Shares and fractional shares (i.e. above the offering price, if any) shall be paid to the Eligible Persons, no later than 03/08/1439H (corresponding to 19/04/2018G).
- **Trading of the New Shares on the Market:** Trading in the New Shares will start on Tadawul upon the completion of all procedures relating to the registration, allocation and listing of the New Shares.

Figure 17.1 Illustration of the Rights Mechanism.



17.2 Eligible Persons not Participating in the Subscription for the New Shares

Registered Shareholders who do not fully or partly participate in the Subscription will be subject to a decrease in their shareholding percentage in the Company as well as a decline in the value of their current Shares. Eligible Persons who do not subscribe and do not sell their Rights are exposed to loss. Eligible Persons who fail to subscribe in the New Shares will not receive any benefits for the Rights Shares due to them other than cash compensation from the proceeds of the sale of the Rump Offering shares, each according to its dues (if any). Registered Shareholders will retain the same number of Shares that they owned before the capital increase.

In the event that Institutional Investors wish to buy the Rump Shares only at the Offering price, or if they do not wish to subscribe, the Underwriter will purchase the Rump shares at the Offering Price. Accordingly, Eligible Persons not participating in the Offering will not receive any compensation due to not exercising their Rights in the New Shares. The compensation amount (if any) will be determined for the eligible persons who did not fully or partially subscribe to the New Shares and for the persons entitled to fractional shares by dividing the compensation amount by the total number of Shares not subscribed to by the Eligible Persons and persons entitled to fractional shares. Accordingly, compensation due for each Rump share will be determined and paid to the person entitled who did not fully or partially subscribe to the Shares, for which he/she is entitled to subscribe and to the persons entitled to fractional shares.

17.3 How to apply for the Rights Issue

Eligible shareholders wishing to subscribe to the Rights Issue shall submit the Subscription Applications through the investment portfolio in the trading platforms used to insert purchase and sale orders in addition to subscribing through other channels available at the broker and shares custodian. If there is a Rump offering period, Subscription Application Forms can also be submitted during such period by Institutional Investors for any Rump Shares only.

By presenting the Subscription Application form, the Subscriber declares that they will:

- Agree to subscribe for the Company's Shares in the number of such Shares specified in the Subscription Application Form;
- Declare that he/she has read the Prospectus and understood all of its contents;
- Accept the Company's Articles of Association and the terms of the Prospectus;
- Accept the number of Shares allocated thereto and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form;
- Make sure not to cancel or amend the Subscription Application Form after submitting it to the Broker.

17.4 Allocation

The Company and the Lead Managers will open an escrow account in which the proceeds of the Offering will be deposited. Shares will be allocated to each investor based on the number of Rights properly and fully exercised by it. As for Shareholders entitled to fractional Shares, these shall be accumulated and offered to Institutional Investors during the Rump Offering. The total remaining offering price will be paid to the Company, and the remaining proceeds from the sale of the Rump Shares and fractional shares (i.e. above the offering price, if any) shall be paid to Eligible Persons, whichever is due by the date of 03/08/1439H (corresponding to 19/04/2018G). Excess unsubscribed Shares shall be purchased by and allocated to the Underwriters at the launch price.

Final notice for the number of Shares allocated to each Eligible Person is expected to take place by depositing the shares into the accounts of Subscribers without any charges or withholdings by the Lead Manager. Eligible Persons shall contact the branch of the Broker where they have submitted the Subscription Application Form to obtain any further information. The announcement regarding the allocation shall be made no later than 03/08/1439H (corresponding to 19/04/2018G).

17.5 Compensation Payment

Cash compensation amounts (if any) will be paid to the Eligible Persons who did not subscribe wholly or partially to the Rights no later than 14/08/1439H (corresponding to 30/04/2018G).

17.6 Questions and Answers on Rights Issue Mechanism

What is Rights Issue?

Rights are tradable securities giving their holders the priority to subscribe for the New Shares offered, upon approval of the capital increase. All The Shareholders who are owners of shares as of the date of the Extra-ordinary General Meeting held for capital increase and who are registered in the Company's Register with the Depository Center at the end of the second trading day following the Extraordinary General Assembly. Each Right shall grant its holder eligibility to subscribe for one New Share at the Offer Price.

Who is granted Rights?

Shareholders Registered in the Company's Register as of the close of the second trading day following the Extraordinary General Assembly, i.e., Eligibility Date.

When are the Rights deposited?

After the extraordinary General Assembly's approval of the capital increase through a Rights Issue, the Rights are deposited as securities in the portfolios of the Registered Shareholders and they will appear in the Company's registers with the Depository Center under a new symbol that designates these Rights. These Rights cannot be traded or subscribed for by the Registered Shareholders until the start of the Trading and Offering Periods. How are Registered Shareholders notified of the deposit of Rights in their portfolio?

Registered Shareholders will be notified that the Rights have been deposited into their portfolios through an announcement on the Tadawul website or via the Tadawulaty service provided by the Depository Center or through SMS messages sent by brokerage companies.

How many Rights can be acquired by a Registered Shareholder?

The number of shares acquired by each Registered Shareholder will depend on Rights Issue shares as per the Company Shareholders Register with the Depository Center at the end of second trading day following the Extraordinary General Assembly.

What is the Eligibility Factor?

The factor by which the Registered Shareholders are able to know their due rights from their owned shares as per the Company Shareholders Register with the Depository Center at the end of second trading day following the Extraordinary General Assembly. It is calculated by dividing the number of New Shares by the number of the Bank's existing shares. Thus, the Eligibility Factor is (0.5769) right for each single Share owned by the Registered Shareholder at the Eligibility Date. Accordingly, if a Registered Shareholder holds one thousand (1,000) Shares at the Eligibility Date, he/she shall be allocated 576 right in return for his/her Shares and will be compensated for the remaining fractional shares.

Will the name and code of those Rights Trading be different from the name and code of Company Shares?

Yes, the obtained rights will be added to the investors' portfolios under the name of original share, and in addition to the word "Rights shares," a new code will be added to those rights.

What is the Right value when the trading starts?

The opening price of the Right is the difference between the Bank's closing share price on the day preceding the Right listing and the Offer Price (guiding Right Value). For example: If the Bank's closing share price is SAR 13.0 and the Offer Price is SAR 10.0, the opening price of the Rights will be SAR 3.0.

Who is a Registered Shareholder?

Any shareholder who appears in the Company Shareholder Register at the end of second trading day following the Extraordinary General Assembly.

Can the Registered Shareholders subscribe for additional shares?

Yes, the Registered Shareholders can subscribe for additional shares by buying new rights through the Stock Exchange during the Offering Period.

Could the Registered Shareholder lose his/her subscription right even if he/she is entitled to attend the Extraordinary General Assembly and vote about capital increase by offering Rights shares?

Yes, the shareholder loses his/her subscription right if he/she sold its shares on or prior to one business day of the Extraordinary General Assembly.

How does the Offering take place?

Subscription Applications shall be submitted through the investment portfolio in the trading platforms and applications used to insert purchase and sale orders in addition to subscribing in other media and channels available at the intermediary and shares custodian.

Can Eligible Person subscribe to his shares exceeding his/her rights?

No. Eligible Person cannot subscribe to shares exceeding their rights.

If the Bank's shares are owned through more than one investment portfolio, in which portfolio the Rights will be deposited?

The Rights shares will be deposited in the same portfolio where the Bank's Rights shares are deposited, for example, if a subscriber owns one thousand (1,000) Shares at the bank, eight hundred (800) shares in his portfolio (A) and two hundred shares (200) in portfolio (B), the total rights to be deposited are (576) in consideration of each share having (0.5769) rights. Thus, 461 Rights will be deposited in Portfolio (A), and 115 Rights will be deposited in Portfolio (B).

Are share certificate holders allowed to subscribe and trade?

Yes, they are, but after the certificates are deposited in investment portfolios by the intermediaries or the Depository Center prior to the end of Offering stage and after all needed documents are submitted. If they failed to deposit the certificates as mentioned before, they will not be able to subscribe in Offering Rights shares.

If the investor bought additional rights, may they trade them again?

Yes, they may sell and buy other rights only in the Trading Period.

Is it possible to sell part of Rights shares?

The investor may sell a part of these rights and use the remaining parts for subscription.

When can the Shareholder subscribe for the Rights shares he/she purchased during the Trading Period?

After the Rights purchase is settled (two business days), provided that the Rights shares shall be subscribed during the Offering Period.

May the Rights Share owner sell or waive the right after the expiry of Trading Period?

No, that is not possible. After the expiry of Trading Period, the Right owner may practice or ignore to practice his/her subscription right in Rights shares. If he/she failed to practice the right, the investor could be subject to a loss or decrease in his/her investment portfolio.

What happens to the Rights shares that not sold or subscribed during the Trading Period and Offering Stage?

If all New Shares are not subscribed during the Offering Period, the Excess unsubscribed Shares shall be offered for a Rump offering arranged by the Lead Managers and the compensation value, if any, shall be calculated to the Rights owner after deducting the Offering value and any other expenses as specified in this Prospectus. Please note that the investor may not obtain any compensation if the shares in the Rump Offering Period were sold at a price equal to the offering price.

Who has the right to attend the Extraordinary General Assembly and vote for the increase of Issuer' capital by offering Rights shares?

The Registered Shareholder in the Company Shareholders Register at the Depository Center at the end of the Extraordinary General Assembly trading day have the right to attend the Extraordinary General Assembly and vote for the increase of Issuer' capital by offering Rights shares.

When can the share price be amended due to the increase of Issuer' capital through Rights Issue?

The Share price shall be amended by Tadawul before the trading on the following day of Extraordinary General Assembly.

In case an investor bought shares in the company on the General Meeting day, may he/she obtain the Rights shares arising from the increase of the Issuer's capital?

Yes, the Investor will be registered in the Company Shareholders Register after two business days from the Shares purchase (i.e. at the end of second trading day following the Extraordinary General Assembly meeting), noting that the Rights shares will be granted for all shares holders who are registered in the Company registers at the end of second trading day following the Extraordinary General Assembly meeting, but he/she is not be eligible to attend or vote during the Extraordinary General Assembly regarding the Capital Increase.

If the investor has more than one portfolio with multiple intermediaries, how are their rights could be calculated?

The investor share will be distributed to portfolios owned by the investor as per the ownership percentage available at each portfolio. If there is any fraction, all of those fractions will be collected, and if they formed one proper figure or more, the proper figure will be added to the portfolio in which the investor owns a bigger number of rights.

What are the Trading and Offering Periods?

The trading and offering in Rights will start at the same time, but the trading period will end on the sixth day, while the offering shall continue to the ninth day as stipulated in this Prospectus and bank publications.

Is the Offering available on the weekend?

No, that is not possible.

Can investors other than the shareholders registered subscribe to the Rights shares?

Yes, upon the completion of the Rights shares purchase through the Stock Exchange during the Trading Period.

17.7 Further Assistance

If you have any questions, please contact the Bank via e-mail: ri@baj.com.sa

For legal reasons, the Bank will only be able to provide information contained in this prospectus. It will not be able to give advice on the merits of the Rights Issue or to provide financial, tax, legal or investment advice.

17.8 Trading in New Shares

Trading in the New Shares will be initiated upon completion of all relevant actions. This is expected to take place after the allocation of New Shares, in coordination with the CMA, and will be announced at a later date.

17.9 Miscellaneous Terms

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties of the Subscription and their respective successors, permitted assignees, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the application nor any of the Rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the Subscription without the prior written consent of the other party.

These instructions, the conditions and the receipt of any Subscription Application or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom of Saudi Arabia.

This Prospectus may be distributed in Arabic and English. The Arabic text shall take precedence in the event of any conflict between the Arabic and English versions of this Prospectus.

Although the CMA has approved this Prospectus, it may suspend the Offering if the Company, at any time after the Approval to of this Subscription by CMA and before approving the listing of Shares in the market, becomes aware of: (i) a significant change that has occurred in any of the key information contained in this Prospectus, or any of the documents required to be included under the Listing Rules; or (ii) any additional information that should have been included in this Prospectus. In these cases, it is incumbent on the Company to submit to the CMA a supplementary prospectus, according to the requirements of the Listing Rules. The Supplementary Prospectus will then be issued and the new subscription dates be announced. It is also possible for this Subscription to be suspended in the event of the Extraordinary General Assembly's non-approval of any of its details.

17.10 Saudi Arabian Stock Exchange ("Tadawul")

Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. In 1989G, full electronic trading in Saudi Arabian equities was introduced.

Trading in shares occurring on the Tadawul system takes place through an integrated mechanism covering the entire trading process, from execution of the trade transaction through settlement thereof. Trading occurs on each business day (from Sunday to Thursday) for one period from 10 am to 3 pm, during which orders are executed. However, orders can be entered, amended or deleted from 9:00 am until 10:00 am. New entries and inquiries can be made from 9:00 am of the opening phase (starting at 10:00 am).

Tadawul's system matches orders by price, and orders are received and prioritized based on price. In general, market orders (orders placed at the best prices) are executed first, followed by limit orders (orders place at a price limit). If several orders are generated at the same price, they are executed according to the time of entry.

Tadawul distributes a comprehensive range of information through various channels, including, in particular, the Tadawul website on the Internet and Tadawul Information Link, which supplies trading data in real time to the information providers, such as Reuters.

Transactions shall be settled within two business days. In other words, transfer of ownership of the shares takes place after the completion of the settlement (i.e. two business days from the date of execution of the transaction). The Company is required to report all material decisions and information to the investors via Tadawul. Tadawul's system is responsible for monitoring the market in order to ensure the fairness and easy flow of share exchange.

17.11 Listing of in New Shares

An application has been made to the CMA to admit the New Shares for listing. The listing is expected to be approved and trading to commence on the Exchange once the final allocation of the New Shares has been concluded. An announcement will be made on the Tadawul website in due course. The dates and times stated in this Prospectus are only provisional and may be changed at any time subject to approval of the CMA.

Although the Company's current shares are listed on Tadawul, the New Shares can only be traded after they have been approved for allocation to eligible subscribers and bidders with respect to the Offering of the Rump Shares and their deposit in their trading accounts. It is absolutely forbidden to trade in the New Shares until the allocation has been approved. Subscribers who engage in any forbidden trading activity shall be fully liable. The Company shall have no legal responsibility in such an event.

17.12 Resolutions and Approvals under which the Shares are Offered

In addition, the bank obtained the approval of the Saudi Arabian Monetary Agency (SAMA) about increasing its capital under letter No. 361000057492, dated 19/04/1436H (corresponding to 8/02/2015G). SAMA also agreed to extend the deadline to submit the file of the Bank's capital increase under letter No. 381000015409 dated 09/02/1438H. Upon completion of the

Offering, the Bank's share capital will be SAR 8,200,000,000 comprising 820,000,000 Shares with nominal value of SAR 10 per share. The Board has issued its resolution dated 23/3/1436H (corresponding to 14/1/2015G) recommending increase of the Bank's capital. The Extraordinary General Meeting for the Capital Increase held on 02/07/1439H (corresponding to 19/03/2018G) approved the recommendation of the Board of Directors to increase the capital. The CMA also approved this Prospectus on 05/06/1439H (corresponding to 21/02/2018G).

17.13 Change in the Share Price as a Result of the Capital Increase

The closing price of the Company's share, on which Extraordinary General Assembly on Capital Increase is held, is (12,97), and will be reset to (11,88) at the opening session the next day. The change represents a decrease of (8,4) per cent.

The method of calculating the share price as a result of the capital increase is as follows:

First: Calculation of the market value of the Company at the close of trading on the day on which the Extraordinary General Assembly on Capital Increase is held:

The number of shares of the Company at the end of the day on the day on which the Extraordinary General Assembly on Capital Increase is held x (multiplied by) the closing price for the Company's Shares at the end of the day on the day on which the Extraordinary General Assembly is held = (equals) the market value of the Company at the end of the day on the day on which the Extraordinary General Assembly on Capital Increase is held.

Second: Calculation of the price per share at the opening session on the day following the day on the day on which the Extraordinary General Assembly on Capital Increase is held:

(The market value of the Company at the end of the day on the day on which Extraordinary General Assembly is held + (plus) the value of the Rights Shares) / (that is, divided by) (the total number of shares at the end of the day on which the Extraordinary General Assembly for the Capital Increase is held + (plus) the number of New Shares offered for subscription) = (equals) The expected price per share on the opening day following the day on which the Extraordinary General Assembly on Capital Increase is held.

18. Documents Available for Inspection

The documents shown below will be available for inspection at the Company's main office, located in Jeddah, during official business hours from 9 a.m. to 5 p.m., from Sunday to Thursday, 20 days before the Trading Period and Offering Period throughout these Periods.

Company Incorporation and Organizational Documents:

- The Company's Commercial Registration Certificate;
- The Company's Articles of Association;

Approvals related to capital increase shares:

- The decision of the Board of Directors on recommending a capital increase;
- The Extraordinary General Assembly's approval to increase the capital;
- CMA's approval of the Rights Issue, which will be announced thereby;

Reports, Letters, and Documents:

- Contracts to be disclosed pursuant to Sub-clause (i) of Paragraph (1) of Section (13) of the rules of registration and listing;
- Underwriting Agreement.
- The reports upon which the market study is based (the study was prepared based on several public sources).
- Letters of approval by the Financial Advisors, Lead Managers, Underwriters, Financial Due Diligence Advisor, Legal Advisor, Chartered Accountants to publish their names, logos and statements in the prospectus.
- The consolidated financial statements of the Bank and its subsidiaries for the financial years ending on 31 December 2014G, 2015G and 2016G
- The interim financial statements of the Bank and its subsidiaries for the period ending on 30 September 2017G.

19. Chartered Accountants' Report

BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 AND AUDITORS' REPORT

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

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

We have audited the accompanying consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from 1 to 44. We have not audited note 44, nor the information related to "Basel III Pillar 3 Disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible for such internal 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.

Auditors' responsibility

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

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

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

KPMG Al Fozan & Partners

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
Licence Number 414

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
Certified Public Accountant
Licence Number 382

February 18, 2016
Corresponding to Jumada Al Awal 9, 1437H

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
ASSETS			
Cash and balances with SAMA	3	3,728,044	6,552,141
Due from banks and other financial institutions	4	4,691,538	4,908,991
Investments	5	11,201,821	11,334,970
Loans and advances, net	6	41,863,473	41,244,551
Investment in an associate	7	128,334	125,588
Other real estate	6(e)	44,126	660,097
Property and equipment, net	8	679,088	598,920
Other assets	9	927,710	1,128,671
Total assets		63,264,134	66,553,929
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	4,054,511	3,736,476
Customers' deposits	12	49,673,599	54,569,273
Subordinated Sukuk	13	1,000,000	1,000,000
Other liabilities	14	1,122,555	1,090,134
Total liabilities		55,850,665	60,395,883
SHAREHOLDERS' EQUITY			
Share capital	15	4,000,000	4,000,000
Statutory reserve	16	1,727,119	1,405,500
General reserve	16	68,000	68,000
Other reserves	17	(172,656)	(141,317)
Retained earnings		1,791,006	825,863
Total shareholders' equity		7,413,469	6,158,046
Total liabilities and shareholders' equity		63,264,134	66,553,929

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

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The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
Special commission income	19	**2,135,479**	1,954,869
Special commission expense	19	**(534,939)**	(509,787)
Net special commission income		**1,600,540**	1,445,082
Fees and commission income, net	20	**629,869**	648,052
Exchange income, net		**90,065**	56,822
Trading income, net	21	**11,171**	30,444
Dividend income	22	**1,874**	2,670
Gain on non-trading investments	23	**250**	3,684
Gain from sale of other real estate	24	**572,646**	29,772
Other operating income	25	**15,106**	9,719
Total operating income		**2,921,521**	2,226,245
Salaries and employee-related expenses	36	**908,901**	721,872
Rent and premises-related expenses		**136,492**	112,514
Depreciation	8	**79,014**	79,394
Other general and administrative expenses		**457,870**	356,399
Impairment charge for credit losses, net	6(c)	**53,063**	383,107
Other operating expenses		**2,165**	4,331
Total operating expenses		**1,637,505**	1,657,617
Operating income		**1,284,016**	568,628
Share in profit of an associate	7	**3,103**	3,839
Net income for the year		**1,287,119**	572,467
Basic and diluted earnings per share (expressed in SR per share)	26	**3.22**	1.43

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

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

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Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
Net income for the year		**1,287,119**	572,467
Other comprehensive income:			
Items to be reclassified to statement of income in subsequent periods:			
Cash flow hedges:			
Fair value loss on cash flow hedges	17	**(18,684)**	(146,939)
Net amount transferred to consolidated statement of income	17	**627**	2,819
Items not to be reclassified to statement of income in subsequent periods:			
Net changes in fair value of investments classified as fair value through other comprehensive income (FVTOCI)		**1,189**	1,154
Total other comprehensive loss for the year		**(16,868)**	(142,966)
Share in Zakat of an associate	7	**(357)**	-
Total comprehensive income for the year		**1,269,894**	429,501

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

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The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

2015	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, 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 of 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**
2014							
Balance at January 1, 2014		3,000,000	1,762,500	68,000	1,649	896,396	5,728,545
Net income for the year		-	-	-	-	572,467	572,467
Other comprehensive loss for the year		-	-	-	(142,966)	-	(142,966)
Total comprehensive (loss) / income for the year		-	-	-	(142,966)	572,467	429,501
Transfer to statutory reserve	16	-	143,000	-	-	(143,000)	-
Issuance of bonus share	15	1,000,000	(500,000)	-	-	(500,000)	-
Balance at December 31, 2014		4,000,000	1,405,500	68,000	(141,317)	825,863	6,158,046

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
OPERATING ACTIVITIES			
Net income for the year		**1,287,119**	572,467
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net	21	**(11,171)**	(30,444)
Gain on non-trading investments	23	**(250)**	(3,684)
Depreciation	8	**79,014**	79,394
Dividend income	22	**(1,874)**	(2,670)
(Gain) / loss on disposal of property and equipment, net	25	**(3,299)**	884
Impairment charge for credit losses, net	6 c	**53,063**	383,107
Share of profit of an associate	7	**(3,103)**	(3,839)
		1,399,499	995,215
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**113,545**	(446,525)
Due from banks and other financial institutions maturing after ninety days from the date of placement		**900,000**	(918,750)
Investments held as FVTIS		**48,319**	(51,185)
Loans and advances		**(671,985)**	(6,632,899)
Other real estate, net		**615,971**	12,388
Other assets		**198,014**	(337,483)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**318,035**	(622,262)
Customers' deposits		**(4,895,674)**	6,486,748
Other liabilities		**3,673**	55,556
Net cash used in operating activities		**(1,970,603)**	(1,439,197)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		**440,260**	3,408,244
Acquisition of amortised cost investments		**(343,653)**	(2,084,381)
Acquisition of property and equipment	8	**(163,580)**	(171,487)
Proceeds from sale of property and equipment		**7,697**	55
Dividends received	22	**1,874**	2,670
Net cash (used in) / from investing activities		**(57,402)**	1,155,101
Net decrease in cash and cash equivalents		**(2,028,005)**	(284,096)
Cash and cash equivalents at the beginning of the year		**6,928,904**	7,213,000
Cash and cash equivalents at the end of the year	28	**4,900,899**	6,928,904
Special commission income received during the year		**1,878,319**	1,670,308
Special commission expense paid during the year		**306,622**	330,892

Supplemental non-cash information

Net changes in fair value and transfers to the consolidated statement of income		**(18,057)**	(144,120)

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

The accompanying notes 1 to 44 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 76 branches (2014: 70 branches) in the Kingdom of Saudi Arabia and employed 2,176 staff (2014: 2,015 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 incorporation	Nature of business	Ownership (direct and indirect) December 31, 2015	Ownership (direct and indirect) December 31, 2014
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 issued 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 Income Statement (FVTIS) and Fair Value through Other Comprehensive Income Statement (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

i. Subsidiaries (continued)

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 of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 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 period or prior periods and is expected to have an insignificant effect in future periods:

a) Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.

b) Annual improvements to IFRS 2010-2012 and 2011-2013 cycles applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

   a) IFRS 2 amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.
   b) IFRS 3 – "Business Combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
   c) IFRS 8 – "Operating Segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
   d) IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
   e) IAS 16 – "Property Plant and Equipment" and IAS 38 – "Intangible Assets": – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
   f) IAS 24 – "Related Party Disclosures"– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.
   g) IAS 40 - "Investment Property" clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. 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.

ii. Contractual cash flows of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets (continued)

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 income statement (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).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iv. Fair value of financial instruments (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

v. Impairment of non-financial assets (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

Cash flow hedge

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 refinancings and repricings. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue /expense recognition (continued)

Special commission income and expenses (continued)

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. See 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Sale and repurchase agreements (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

ii. 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.

iii. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

iii. Investment in equity instruments designated as fair value through other comprehensive income (FVTOCI) (continued)

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the in consolidated statement of income.

q) Property and equipment

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Property and equipment (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 accounted for as a receivable from the shareholders and will be deducted from future dividends and a corresponding liability is accounted for as payable to the Department of Zakat and Income Tax (DZIT).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on 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

	2015 **SR'000**	2014 SR'000
Cash in hand	**963,111**	728,663
Balances with SAMA:		
Statutory deposit	**2,749,933**	2,863,478
Cash lending	**15,000**	2,960,000
Total	**3,728,044**	6,552,141

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

	2015 **SR'000**	2014 SR'000
Current accounts	**736,538**	808,991
Money market placements	**3,955,000**	4,100,000
Total	**4,691,538**	4,908,991

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

5. INVESTMENTS

a) As of December 31, 2015 investments are 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**

ii) FVTOCI

Equities	**3,250**	**8,370**	**11,620**

iii) Amortised cost

Sukuk investments	**10,829,145**	**-**	**10,829,145**
Grand Total	**11,038,425**	**163,396**	**11,201,821**

5. INVESTMENTS (continued)

b) As of December 31, 2014 investments were classified as follows:

i) Designated as FVTIS

	2014 SR'000		
	Domestic	International	Total
Mutual funds	174,582	154,948	329,530
Equities	68,674	-	68,674
	243,256	154,948	398,204

ii) FVTOCI

Equities	3,250	7,182	10,432

iii) Amortised cost

Sukuk investments	10,926,334	-	10,926,334
Grand Total	11,172,840	162,130	11,334,970

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

	2015			2014		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments	**2,867,375**	**7,961,770**	**10,829,145**	2,683,473	8,242,861	10,926,334
Equities	**47,257**	**3,438**	**50,695**	75,668	3,438	79,106
Mutual funds	**321,981**	**-**	**321,981**	329,530	-	329,530
Total Investments	**3,236,613**	**7,965,208**	**11,201,821**	3,088,671	8,246,299	11,334,970

5. INVESTMENTS (continued)

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

	2015				2014			
	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	**10,829,145**	**23,268**	**(823)**	**10,851,590**	10,926,334	29,063	(4,260)	10,951,137
Total	**10,829,145**	**23,268**	**(823)**	**10,851,590**	10,926,334	29,063	(4,260)	10,951,137

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

	2015 SR'000	2014 SR'000
Government and quasi Government	**8,158,458**	8,165,646
Corporate	**1,150,418**	1,257,968
Banks and other financial institutions	**1,892,945**	1,911,356
Total	**11,201,821**	11,334,970

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 (2014: 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			
2015	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**16,077,893**	**25,694,012**	**350,845**	**42,122,750**
Non-performing loans and advances	**155,993**	**199,334**	**-**	**355,327**
Total loans and advances	**16,233,886**	**25,893,346**	**350,845**	**42,478,077**
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	**15,926,557**	**25,586,071**	**350,845**	**41,863,473**

	SR'000			
2014	Consumer	Commercial	Others	Total
Performing loans and advances	14,868,491	26,360,158	284,539	41,513,188
Non-performing loans and advances	223,416	146,444	-	369,860
Total loans and advances	15,091,907	26,506,602	284,539	41,883,048
Impairment allowance for credit losses:				
Specific allowance	(172,674)	(50,442)	-	(223,116)
Collective allowance	(182,828)	(232,553)	-	(415,381)
Total impairment allowance for credit losses	(355,502)	(282,995)	-	(638,497)
Loans and advances, net	14,736,405	26,223,607	284,539	41,244,551

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 7.42 billion (2014: SR 9.05 billion).

6. LOANS AND ADVANCES, NET (continued)

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

	SR'000		
2015	**Consumer**	**Commercial**	**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)**	-	**(126,075)**
Recoveries / reversals of amounts previously provided	**(43,674)**	**(1,000)**	**(44,674)**
Balance at the end of the year	**307,329**	**307,275**	**614,604**

	SR'000		
2014	Consumer	Commercial	Total
Balance at the beginning of the year	216,961	444,466	661,427
Impairment charge for the year	155,241	301,450	456,691
Bad debts written off during the year	(1,255)	(429,917)	(431,172)
Recoveries / reversals of amounts previously provided	(15,445)	(33,004)	(48,449)
Balance at the end of the year	355,502	282,995	638,497

The bad debts written off during the year included receivables against credit cards amounting to SR 13.29 million (2014: SR 43 thousands).

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

	2015	2014
	SR'000	SR'000
Impairment charge for credit losses for the year	**146,857**	456,691
Recoveries / reversal of amounts previously provided	**(44,674)**	(48,449)
Recoveries of debts previously written off	**(49,120)**	(25,135)
Impairment charge for credit losses, net	**53,063**	383,107

6. LOANS AND ADVANCES, NET (continued)

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

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	**16,077,893**	**155,993**	**(97,438)**	**16,136,448**
Share trading	**2,459,876**	**2,629**	-	**2,462,505**
Others	**3,099,800**	**14,082**	**(4,477)**	**3,109,405**
	42,122,750	**355,327**	**(163,631)**	**42,314,446**
Collective allowance	-	-	**(450,973)**	**(450,973)**
Total	**42,122,750**	**355,327**	**(614,604)**	**41,863,473**

2014	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	1,126,077	-	-	1,126,077
Banks and other financial institutions	630,365	-	-	630,365
Manufacturing	6,170,870	-	-	6,170,870
Mining and quarrying	80,684	-	-	80,684
Building and construction	1,358,151	221	-	1,358,372
Commerce	9,124,416	72,919	(49,517)	9,147,818
Transportation and communication	218,190	-	-	218,190
Services	446,061	60,575	-	506,636
Consumer loans	14,868,491	223,417	(172,674)	14,919,234
Share trading	3,403,162	3,269	-	3,406,431
Others	4,086,721	9,459	(925)	4,095,255
	41,513,188	369,860	(223,116)	41,659,932
Collective allowance	-	-	(415,381)	(415,381)
Total	41,513,188	369,860	(638,497)	41,244,551

6. LOANS AND ADVANCES, NET (continued)

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

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:

	2015 **SR'000**	2014 SR'000
Collateral against performing loans	**17,203,999**	17,955,136
Collaterals against non-performing loans	**94,955**	84,434
Total	**17,298,954**	18,039,570

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	**2015** **SR'000**	2014 SR'000
Balance at the beginning of the year		**660,097**	672,485
Disposals during the year	24	**(615,971)**	(12,388)
Balance at the end of the year		**44,126**	660,097

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 further details in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2015 is SR 409.4 million (2014: 794.29 million).

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

	2015 SR'000	2014 SR'000
Total shareholders assets	**368,568**	358,619
Total shareholders liabilities	**(1,900)**	(4,310)
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**128,334**	125,588

	2015 SR'000	2014 SR'000
Total profit for the year	**10,332**	10,970
The Group's share of profit for the year	**3,103**	3,839

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

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	**125,588**	121,489
Share in profit for the year	**3,103**	3,839
Share of Zakat	**(357)**	-
Other	-	260
Balance at the end of the year	**128,334**	125,588

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 2015 SR'000	Total 2014 SR'000
Cost						
Balance at the beginning of the year	**161,425**	**389,279**	**562,483**	**139,186**	**1,252,373**	1,125,125
Additions during the year	-	**8,793**	**26,354**	**128,433**	**163,580**	171,487
Transfers during the year	-	**48,762**	**54,974**	**(103,736)**	-	-
Disposals during the year	**(3,856)**	-	**(6,908)**	**(43)**	**(10,807)**	(44,239)
Balance at the end of the year	**157,569**	**446,834**	**636,903**	**163,840**	**1,405,146**	1,252,373
Accumulated depreciation						
Balance at the beginning of the year	**5,040**	**220,593**	**427,820**	-	**653,453**	617,359
Charge for the year	-	**24,199**	**54,815**	-	**79,014**	79,394
Disposals	-	-	**(6,409)**	-	**(6,409)**	(43,300)
Balance at the end of the year	**5,040**	**244,792**	**476,226**	-	**726,058**	653,453
Net book value						
At December 31, 2015	**152,529**	**202,042**	**160,677**	**163,840**	**679,088**	
At December 31, 2014	156,385	168,686	134,663	139,186		598,920

9. OTHER ASSETS

	2015 SR'000	2014 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**12,931**	7,108
Investments	**70,780**	71,007
Loans and advances	**310,374**	306,791
Derivatives	**20,656**	16,918
Total accrued special commission receivable	**414,741**	401,824
Advances, prepayments and other receivables	**133,151**	166,026
Positive fair value of derivatives (note 10)	**176,855**	239,279
Margin deposits against derivatives	**153,356**	248,925
Others	**49,607**	72,617
Total	**927,710**	1,128,671

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.

b) Options (Wa'ad Fx)

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

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

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 explain in note 2(f) to these consolidated financial statement.

10. DERIVATIVES (continued)

10.2 Held for hedging purposes (continued)

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:

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

2014 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash out flows (liabilities)	77,580	173,170	233,983	5,282,196

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

	2015 **SR'000**	2014 SR'000
Special commission income	**704**	899
Special commission expense	**(1,331)**	(1,742)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(627)**	(843)

During December 31, 2014, the discontinuation of hedge accounting due to the disposal of both the hedging instruments and the hedged items, resulted in the reclassification of the related cumulative losses of SR 1.976 million from equity to the consolidated statement of income. This amount is included in the losses above. During the year, no discontinuation of hedge accounting took place.

10. DERIVATIVES (continued)

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	**(147,181)**	(3,061)
Losses from change in fair value recognised directly in equity, net (effective portion)	**(18,684)**	(146,939)
Losses removed from equity and transferred to consolidated statement of income	**627**	2,819
Balance at the end of the year	**(165,238)**	(147,181)

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.

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
Total	**176,855**	**334,899**	**15,140,571**	**431,156**	**2,226,554**	**7,471,195**	**5,011,666**	**15,978,370**

10. DERIVATIVES (continued)

2014
SR'000

	Positive fair value	Negative fair value	Notional amount	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading								
Options	59,133	59,133	5,187,560	983,866	2,283,694	1,920,000	-	4,158,876
Forwards	-	-	-	-	-	-	-	129,464
FX swaps	-	-	599,344	544,008	55,336	-	-	394,034
Special commission rate swaps	179,802	179,802	5,939,438	-	-	3,333,122	2,606,316	5,201,026
Held as cash flow hedges:								
Special commission rate swaps	344	139,704	3,186,563	-	-	304,688	2,881,875	2,214,651
Total	239,279	378,639	14,912,905	1,527,874	2,339,030	5,557,810	5,488,191	12,098,051

During the year, December 31, 2015 and December 31, 2014, there were no ineffectiveness in the cash flow hedges.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 SR'000	2014 SR'000
Current accounts	**35,682**	63,239
Money market deposits from banks and other financial institutions	**3,318,946**	3,673,237
SAMA cash borrowing	**699,883**	-
Total	**4,054,511**	3,736,476

12. CUSTOMERS' DEPOSITS

	2015 SR'000	2014 SR'000
Demand	**24,945,426**	26,436,759
Time	**23,495,593**	27,129,743
Other	**1,232,580**	1,002,771
Total	**49,673,599**	54,569,273

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

Other customers' deposits include SR 753.31 million (2014: SR 445million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2015 SR'000	2014 SR'000
Demand	**1,083,143**	605,906
Time	**4,155,957**	2,877,273
Other	**13,270**	47,518
Total	**5,252,370**	3,530,697

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

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

14. OTHER LIABILITIES

	2015 **SR'000**	2014 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**39,854**	36,937
Customers' deposits	**91,594**	90,835
Subordinated Sukuk	**6,936**	7,037
Total accrued special commission payable	**138,384**	134,809
AlJazira Philanthropic Program (see note below)	**45,218**	49,433
Accounts payable	**241,224**	215,403
Dividend payable	**27,055**	26,604
Negative fair value of derivatives (note 10)	**334,899**	378,639
Other	**335,775**	285,246
Total	**1,122,555**	1,090,134

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 (2014: 400 million shares of SR 10 each).

The shareholder of the Bank in their meeting held on May 20, 2014 (corresponding to 21 Rajab 1435) approved the increase in the share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). The legal formalities relating to the increase in share capital have been completed.

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

	2015	2014
Saudi shareholders	**91.88%**	92.23 %
Non Saudi shareholder - National Bank of Pakistan Limited	**5.83%**	5.83 %
Non Saudi shareholder - others	**2.29%**	1.94 %

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 321.62 million has been transferred from net income (2014: SR 143 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

2015	Cash flow hedges SR' 000	Fair value reserve SR' 000	Right issue costs (see below) 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**
Others	-	-	(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)**

During the year, with an aim to strengthen the capital base of the Bank, the Board of Directors recommended to issue ordinary shares amounting SR 3 billion through a right issue. The issue is conditional of obtaining necessary approvals from the relevant authorities and of the General Assembly. As of December 31, 2015, the Bank incurred right issue costs amounting to SR 14.47 million. These costs will be deducted from the proceeds of the right issue. Management expects to complete the right issue during 2016.

17. OTHER RESERVES (continued)

2014	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	(3,061)	4,710	1,649
Net change in fair value	(146,939)	1,154	(145,785)
Transfer to consolidated statement of income	2,819	-	2,819
Net movement during the year	(144,120)	1,154	(142,966)
Balance at end of the year	(147,181)	5,864	(141,317)

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2015, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2015, the Group had capital commitments of SR 123.45 million (2014: SR 105.28 million) in respect of the construction of branches and IT related projects.

c) Credit related commitments and contingencies

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

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

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

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

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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 does 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)		
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**

			(SR'000)		
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	823,316	231,128	-	-	1,054,444
Letters of guarantee	740,846	1,922,450	959,060	62,649	3,685,005
Acceptances	330,387	-	-	-	330,387
Irrevocable commitments to extend credit	-	-	76,167	110,007	186,174
Total	1,894,549	2,153,578	1,035,227	172,656	5,256,010

The outstanding unused portion of commitments as at December 31, 2015, which can be revoked unilaterally at any time by the Group, amounts to SR 4.01 billion (2014: SR 3.58 billion).

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

	2015 SR'000	2014 SR'000
Corporate	**6,008,048**	5,174,893
Banks and other financial institutions	**14,718**	81,117
Total	**6,022,766**	5,256,010

18. COMMITMENTS AND CONTINGENCIES (continued)

d) Operating lease commitments

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

	2015 SR'000	2014 SR'000
Less than 1 year	**22,479**	9,711
1 to 5 years	**35,327**	30,611
Over 5 years	**37,590**	16,184
Total	**95,396**	56,506

19. NET SPECIAL COMMISSION INCOME

	2015 SR'000	2014 SR'000
Special commission income		
Investments held as amortised cost	**291,797**	314,886
Due from banks and other financial institutions	**37,579**	33,419
Derivatives	**155,435**	118,626
Loans and advances	**1,650,668**	1,487,938
Total	**2,135,479**	1,954,869
Special commission expense		
Due to banks and other financial institutions	**23,990**	22,544
Customers' deposits	**270,281**	284,759
Subordinated Sukuk	**26,400**	27,357
Derivatives	**213,014**	172,043
Others	**1,254**	3,084
Total	**534,939**	509,787
Net special commission income	**1,600,540**	1,445,082

20. FEES AND COMMISSION INCOME, NET

	2015 SR'000	2014 SR'000
Fees and commission income		
Local share trading	**261,799**	364,476
Takaful Ta'wuni (insurance) wakala fees	**20,877**	21,976
Loan commitment and management fees	**171,112**	205,532
Trade finance	**56,015**	48,989
International share trading	**3,477**	5,566
Mutual funds fees	**42,918**	32,962
Fees from ATM transactions	**72,032**	31,099
Fees from remittance business	**35,885**	8,494
Others	**62,901**	62,701
Total fees and commission income	**727,016**	781,795
Fees and commission expense		
Brokerage fees	**(97,117)**	(133,689)
Takaful Ta'wuni – sales commission	**(30)**	(54)
Total	**629,869**	648,052

21. TRADING INCOME, NET

	2015 SR'000	2014 SR'000
Equities	**1,398**	9,261
Mutual funds	**718**	11,472
Derivatives	**9,055**	9,711
Total	**11,171**	30,444

Trading income includes unrealized losses of SR 2.61 million (2014: Unrealised income of SR 17.39 million).

22. DIVIDEND INCOME

	2015 SR'000	2014 SR'000
Dividend income on investments	**1,874**	2,670

23. GAIN ON SALE OF OTHER REAL ESTATE

During the year, the Group sold a land with a carrying value of SR 615.97 million (2014: SR 12.39 million) previously included under "other real estate, net". The sale proceed of land amounting to SR 1,188.62 million (2014: SR 42.16 million) resulted in gain of SR 572.65 million (2014: SR 29.77 million).

24. GAIN ON NON-TRADING INVESTMENTS

	2015 SR'000	2014 SR'000
Held as amortised cost investments	**250**	3,684

25. OTHER OPERATING INCOME

	2015 SR'000	2014 SR'000
Gain / (loss) on sale of property and equipment	**3,299**	(884)
Other	**11,807**	10,603
Total	**15,106**	9,719

26. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2015 and December 31, 2014 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, 2015 and December 31, 2014 was 400 million.

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

27. ZAKAT AND INCOME TAX

The Bank has filed its Zakat returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (DZIT). The Bank has received Zakat assessments for the year(s) up to 2011 raising additional demands aggregating to SR 462.2 million. The above additional exposure is mainly on account of disallowance of certain long term investments by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat assessment for the years 2012 to 2014 have not been finalized by the DZIT and the Bank is not be able to determine reliably the impact of such assessments.

The estimated Zakat and Tax for the year ended 2015 booked in these financial statements amounted to SR 31.06 million (2014: SR 13.71 million) and SR 15.39 million (2014: SR 6.79 million) respectively.

28. CASH AND CASH EQUIVALENTS

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

	2015 SR'000	2014 SR'000
Cash and balances with SAMA, excluding statutory deposit	**978,111**	3,688,663
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**3,922,788**	3,240,241
Total	**4,900,899**	6,928,904

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

	2015 SR'000	2014 SR'000
Cash and cash equivalents at beginning of the year	**4,900,899**	6,928,904
Statutory deposit (note 3)	**2,749,933**	2,863,478
Due from banks and other financial institutions with original maturity of 90 days or less	**(3,922,788)**	(3,240,241)
Cash and cash equivalents at end of the year	**3,728,044**	6,552,141

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 business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and operating 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 and medium sized business and institutional customers.

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

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

Takaful Ta'wuni
Takaful Ta'wuni provides protection and saving products services and is fully Shari'ah compliant and is a substitute for conventional life insurance products.

The current Takaful segment represents the insurance portfolio which will be transferred to AlJazira Takaful Ta'wuni (ATT) at an agreed value and date duly approved by SAMA. The details related to ATT are more fully explained in note 7 and note 40 to these consolidated financial statements.

Others
Others include investment in associate, inter segment income and expense eliminations and gain on sale of property.

29. OPERATING SEGMENTS (continued)

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)

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
Trading, fee and commission income, net	197,934	135,416	26,267	260,709	20,847	(133)	641,040
Net special commission	616,500	427,306	550,080	7,044	489	(879)	1,600,540
Total operating income	893,937	577,674	672,324	270,727	21,338	485,521	2,921,521
Share of profit of an associate	-	-	-	-	-	3,103	3,103
Operating expenses:							
- 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

29. OPERATING SEGMENTS (continued)

(SR'000)

2014	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	18,939,307	23,577,234	23,138,752	766,188	6,860	125,588	66,553,929
Total liabilities	26,094,025	24,601,413	9,563,292	92,322	44,831	-	60,395,883
Trading, fee and commission income, net	177,280	124,759	20,954	333,129	21,922	452	678,496
Net special commission	510,214	411,911	514,781	9,733	295	(1,852)	1,445,082
Total operating income	739,724	558,507	614,794	346,388	22,217	(55,385)	2,226,245
Share of profit of an associate	-	-	-	-	-	3,839	3,839
Operating expenses:							
- impairment charge for credit losses, net	(117,527)	(265,580)	-	-	-	-	(383,107)
- depreciation	(42,586)	(18,830)	(8,211)	(7,813)	(1,954)	-	(79,394)
Total operating expenses	(761,182)	(601,277)	(124,745)	(150,235)	(24,854)	4,676	(1,657,617)
Net (loss) / income	(21,458)	(42,770)	490,049	196,153	(2,637)	(46,870)	572,467

29. OPERATING SEGMENTS (continued)

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

	(SR'000)						
2015	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'wuni**	**Others**	**Total**
Assets	**19,293,382**	**22,979,775**	-	**15,525,283**	-	-	**57,798,440**
Commitments and contingencies	-	**3,349,545**	-	**-**	-	-	**3,349,545**
Derivatives	-	-	-	**151,406**	-	-	**151,406**

	(SR'000)						
2014	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	18,565,313	22,903,405	-	16,421,616	-	-	57,890,334
Commitments and contingencies	-	3,517,319	-	-	-	-	3,517,319
Derivatives	-	-	-	149,129	-	-	149,129

Credit exposure comprises the carrying value of the consolidated statement of financial position 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 a 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.

30. CREDIT RISK (continued)

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, 2015 and December 31, 2014. 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.

30. CREDIT RISK (continued)

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.

30. CREDIT RISK (continued)

a) Credit quality of financial assets

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

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2015	**Consumer**	**Commercial**	**Others**	**Subtotal**		**Total**
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	6,409,403	-	6,409,403	4,691,538	11,100,941
Standard – medium risk	-	12,630,806	-	12,630,806	-	12,630,806
Standard – unclassified	15,943,667	4,372,874	350,845	20,667,386	-	20,667,386
Sub total - standard	15,943,667	23,413,083	350,845	39,707,595	4,691,538	44,399,133
Special mention	-	1,791,966	-	1,791,966	-	1,791,966
Sub total	15,943,667	25,205,049	350,845	41,499,561	4,691,538	46,191,099
Past due but not impaired						
Less than 30 days	35,870	429,788	-	465,658	-	465,658
30-60 days	18,209	282	-	18,491	-	18,491
60-90 days	46,105	2,750	-	48,855	-	48,855
Over 90 days	34,042	56,143	-	90,185	-	90,185
Total performing	16,077,893	25,694,012	350,845	42,122,750	4,691,538	46,814,288
Less: collective allowance	(209,891)	(241,082)	-	(450,973)	-	(450,973)
Net performing	15,868,002	25,452,930	350,845	41,671,777	4,691,538	46,363,315
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

30. CREDIT RISK (continued)

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

	SR'000 Loans and advances					
2014	Consumer	Commercial	Others	Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,390,105	-	5,390,105	4,908,991	10,299,096
Standard – medium risk	-	12,235,464	-	12,235,464	-	12,235,464
Standard – unclassified	14,740,324	7,091,648	284,539	22,116,511	-	22,116,511
Sub total - standard	14,740,324	24,717,217	284,539	39,742,080	4,908,991	44,651,071
Special mention	-	1,505,997	-	1,505,997	-	1,505,997
Sub total	14,740,324	26,223,214	284,539	41,248,077	4,908,991	46,157,068
Past due but not impaired						
Less than 30 days	78,734	129,543	-	208,277	-	208,277
30-60 days	12,741	1,404	-	14,145	-	14,145
60-90 days	8,645	4,166	-	12,811	-	12,811
Over 90 days	28,047	1,831	-	29,878	-	29,878
Total performing	14,868,491	26,360,158	284,539	41,513,188	4,908,991	46,422,179
Less: collective allowance	(182,828)	(232,553)	-	(415,381)	-	(415,381)
Net performing	14,685,663	26,127,605	284,539	41,097,807	4,908,991	46,006,798
Non-performing						
Total non-performing	223,416	146,444	-	369,860	-	369,860
Less: Specific allowance	(172,674)	(50,442)	-	(223,116)	-	(223,116)
Net-non performing	50,742	96,002	-	146,744	-	146,744

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.

30. CREDIT RISK (continued)

Performing loans as at December 31, 2015 include renegotiated loans restructured due to deterioration in the borrower's financial position of SR 1.73 billion (2014: SR 1.52 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.

Performing	**2015** **SR'000**	2014 SR'000
High grade (AAA – BBB)	**9,867,396**	9,857,548
Unrated	**961,749**	1,068,786
Total performing and overall investments	**10,829,145**	10,926,334

As at December 31, 2015 and December 31, 2014, no impairment was required against investments held as amortised cost.

30. CREDIT RISK (continued)

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		
2015	On-balance sheet position, net of allowances for impairment SR'000	Off-balance sheet 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	**15,926,557**	**-**	**15,926,557**
Share trading	**2,439,825**	**-**	**2,439,825**
Other	**3,080,769**	**488,531**	**3,569,300**
Maximum exposure	**41,863,473**	**6,022,766**	**47,886,239**
Less: collateral for performing and non-performing	**(17,298,954)**	**(2,475,084)**	**(19,774,038)**
Net maximum exposure	**24,564,519**	**3,547,682**	**28,112,201**

30. CREDIT RISK (continued)

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

	Maximum exposure		
2014	On-balance sheet position, net of allowances for impairment SR'000	Off-balance sheet credit – related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	1,126,076	24,351	1,150,427
Banks and other financial institutions	630,365	616,820	1,247,185
Agriculture and fishing	-	2,490	2,490
Manufacturing	6,170,870	616,265	6,787,135
Mining and quarrying	80,684	76,537	157,221
Electricity, water, gas and health services	-	1,477	1,477
Building and construction	1,358,372	2,208,114	3,566,486
Commerce	9,147,818	692,053	9,839,871
Transportation and communication	218,190	64,562	282,752
Services	506,636	153,710	660,346
Consumer loans and credit cards	14,736,405	-	14,736,405
Share trading	3,406,431	-	3,406,431
Other	3,862,704	799,631	4,662,335
Maximum exposure	41,244,551	5,256,010	46,500,561
Less: collateral for performing and non-performing	(18,039,570)	(2,298,877)	(20,338,447)
Net maximum exposure	23,204,981	2,957,133	26,162,114

d) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2015 SR'000	2014 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**4,691,538**	4,908,991
Investments (note 5)	**11,201,821**	11,334,970
Loans and advances, net (note 6)	**41,863,473**	41,244,551
Other assets - margin deposits against derivatives and accrued special commission receivable (note 9)	**568,097**	650,749
Total assets	**58,324,929**	58,139,261
Contingencies and commitments, net (note 18)	**3,547,682**	2,957,133
Derivatives - positive fair value, net (note 10)	**176,855**	239,279
Total maximum exposure	**62,049,466**	61,335,673

31. GEOGRAPHICAL CONCENTRATION

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

(SR'000)

2015 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	3,728,044	-	-	-	-	-	3,728,044
Due from banks and other financial institutions	3,210,942	939,416	378,934	131,568	1,569	29,109	4,691,538
Investments	11,193,450	188	-	8,183	-	-	11,201,821
Loans and advances, net	41,859,547	3,797	-	-	-	129	41,863,473
Investment in an associate	128,334	-	-	-	-	-	128,334
Total	**60,120,317**	**943,401**	**378,934**	**139,751**	**1,569**	**29,238**	**61,613,210**
Commitments and contingencies	**5,690,982**	**241,127**	**58,591**	**13,932**	**17,533**	**600**	**6,022,765**
Credit exposure (credit equivalent)							
Commitments and contingencies	3,137,501	121,297	58,591	13,932	17,533	600	3,349,454
Derivatives	83,181	3,050	22,346	42,829	-	-	151,406

Certain international mutual funds domicile in the Kingdom of Saudi Arabia has been classified under international category in note 5(a) to these financial statements has been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

31. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2014 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	6,552,141	-	-	-	-	-	6,552,141
Due from banks and other financial institutions	3,729,887	569,273	84,292	523,776	387	1,376	4,908,991
Investments	11,327,788	188	-	6,994	-	-	11,334,970
Loans and advances, net	41,236,791	7,594	-	-	-	166	41,244,551
Investment in an associate	125,588	-	-	-	-	-	125,588
Total	62,972,195	577,055	84,292	530,770	387	1,542	64,166,241
Commitments and contingencies	4,957,586	253,376	29,108	3,385	12,155	400	5,256,010
Credit exposure (credit equivalent) Commitments and contingencies	3,229,954	135,590	59,649	85,177	6,749	200	3,517,319
Derivatives	81,976	3,050	22,547	41,556	-	-	149,129

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	
	2015 SR' 000	2014 SR' 000	**2015 SR' 000**	2014 SR' 000
Kingdom of Saudi Arabia	**355,327**	369,860	**614,604**	638,497

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:

	2015 **SR'000**	2014 SR'000
US Dollar	**26,350**	11,265
Euro	**18,951**	14,646
Pound Sterling	**15,269**	27,864
Japanese Yen	**46,768**	40,827

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

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

Currency	**2015**		2014	
	Increase/ decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
Euro	**± 12.26**	**± 2,323**	± 6.27	± 918
Pound Sterling	**± 8.54**	**± 1,304**	± 5.71	± 1,591
Japanese Yen	**± 8.2**	**± 3,835**	± 7.98	± 3,258

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:

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

	2015		2014	
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	**± 5.91%**	**± 2,946**	± 4.17	± 2,118
Al Khair	**± 5.66%**	**± 1,784**	± 5.12	± 1,612
Al Mashareq	**± 9.07%**	**± 4,086**	± 7.12	± 2,809
Al Qawafel	**± 17.06%**	**± 17,474**	± 2.37	± 2,534
Global Emerging Market	**± 5.66%**	**± 1,619**	± 5.12	± 1,701
Others	**± 17.06%**	**± 11,008**	± 2.37	± 1,605

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, 2015 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2015		2014	
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	**± 17.06%**	**± 6,666**	± 2.37	± 1,628

32. MARKET RISK (continued)

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, 2015 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2015**		2014	
	Increase / decrease in basis points	**Sensitivity of special commission income SR’000**	Increase / decrease in basis points	Sensitivity of special commission income SR’000
SR	± 25	± **10,089**	± 25	± 5,726
USD	± 25	± **3,260**	± 25	± 1,652
AED	± 25	± **2**	± 25	± 3

32. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

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

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

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

	(SR'000)						
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	**14,999**	**-**	**-**	**-**	**3,713,045**	**3,728,044**	**-**
Due from banks and other financial institutions	**3,186,250**	**768,750**	**-**	**-**	**736,538**	**4,691,538**	**0.49%**
Investments	**3,849,347**	**487,243**	**304,846**	**6,187,709**	**372,676**	**11,201,821**	**2.68%**
Loans and advances, net	**13,194,862**	**17,574,921**	**10,665,569**	**77,358**	**350,763**	**41,863,473**	**3.97%**
Total assets	**20,245,458**	**18,830,914**	**10,970,415**	**6,265,067**	**5,173,022**	**61,484,876**	

32. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

	(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	**4,014,133**	**-**	**-**	**-**	**40,378**	**4,054,511**	**0.61%**
Customers' deposits	**15,270,913**	**7,237,978**	**986,702**	**-**	**26,178,006**	**49,673,599**	**1.03%**
Subordinated Sukuk	**1,000,000**	**-**	**-**	**-**		**1,000,000**	**2.64%**
Equity	**-**	**-**	**-**	**-**	**7,413,469**	**7,413,469**	**-**
							-
Total liabilities and Equity	**20,285,046**	**7,237,978**	**986,702**	**-**	**33,631,853**	**62,141,579**	
On-balance sheet Gap	**(39,588)**	**11,592,936**	**9,983,713**	**6,265,067**	**(28,458,831)**	**(656,703)**	
Commission rate sensitivity – off balance sheet	**1,500,000**	**1,686,563**	**(304,688)**	**(2,881,875)**	**-**	**-**	
Total commission rate sensitivity gap	**1,460,412**	**13,279,499**	**9,679,025**	**3,383,192**	**(28,458,831)**	**(656,703)**	
Cumulative commission rate sensitivity gap	**1,460,412**	**14,739,911**	**24,418,936**	**27,802,128**	**(656,703)**	**(1,313,406)**	

	(SR'000)						
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	2,960,000	-	-	-	3,592,142	6,552,142	-
Due from banks and other financial institutions	3,443,750	656,250	-	-	808,991	4,908,991	0.42%
Investments	3,845,840	587,939	304,846	6,187,709	408,636	11,334,970	2.64%
Loans and advances, net	13,366,928	17,896,589	9,464,707	231,787	284,539	41,244,550	3.82%
Total assets	23,616,518	19,140,778	9,769,553	6,419,496	5,094,308	64,040,653	

32. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2014	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	3,673,166	-	-	-	63,310	3,736,476	0.39%
Customers' deposits	16,739,991	10,269,442	120,310	-	27,439,530	54,569,273	0.93%
Subordinated Sukuk	-	-	1,000,000	-	-	1,000,000	2.69%
Equity	-	-	-	-	6,158,046	6,158,046	-
Total liabilities and Equity	20,413,157	10,269,442	1,120,310	-	33,660,886	65,463,795	
On-balance sheet Gap	3,203,361	8,871,336	8,649,243	6,419,496	(28,566,578)	(1,423,142)	
Commission rate sensitivity – off balance sheet	1,500,000	1,686,563	(304,688)	(2,881,875)	-	-	
Total commission rate sensitivity gap	4,703,361	10,557,899	8,344,555	3,537,621	(28,566,578)	(1,423,142)	
Cumulative commission rate sensitivity gap	4,703,361	15,261,260	23,605,815	27,143,436	(1,423,142)	(2,846,284)	

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.

32. MARKET RISK (continued)

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

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The 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:

	2015 SR' 000 Long / (Short)	2014 SR'000 Long /(Short)
USD	**470,928**	912,003
AED	**11,480**	15,520

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2015. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2015**		2014	
	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	**±235**	±0.05	±456
AED	±0.05	**±6**	±0.05	±8

32. MARKET RISK (continued)

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

iii) EQUITY PRICE RISK

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

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVTOCI at December 31, 2015 and December 31, 2014 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	2015		2014	
	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	**±5.66%**	**±463**	±5.12%	±358

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 75% of the value of Murabaha placements with SAMA.

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

33. LIQUIDITY RISK (continued)

The liquidity ratio during the year was as follows:

	2015 %	2014 %
As at December 31	**20**	29
Average during the year	**27**	28
Highest	**35**	34
Lowest	**20**	22

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2015 and December 31, 2014 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)					
	On demand	**with in 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
As at December 31, 2015						
Due to banks and other financial institutions	**40,378**	**4,371,412**	**-**	**-**	**-**	**4,411,790**
Customers' deposits	**23,953,831**	**17,171,333**	**8,272,398**	**474,115**	**-**	**49,871,677**
Subordinated Sukuk	**-**	**1,013,503**	**-**	**-**	**-**	**1,013,503**
Derivatives	**-**	**434,999**	**2,299,056**	**7,664,151**	**5,318,445**	**15,716,652**
Total undiscounted financial liabilities	**23,994,209**	**22,991,247**	**10,571,454**	**8,138,266**	**5,318,445**	**71,013,622**
Financial liabilities						
As at December 31, 2014						
Due to banks and other financial institutions	63,240	3,684,774	-	-	-	3,748,014
Customers' deposits	26,457,926	18,332,229	10,390,020	117,612	-	55,297,787
Subordinated Sukuk	-	6,587	13,176	1,006,588	-	1,026,351
Derivatives	-	1,619,717	2,304,007	5,621,670	5,566,802	15,112,196
Total undiscounted financial liabilities	26,521,166	23,643,307	12,707,203	6,745,870	5,566,802	75,184,348

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

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

(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	-	-	-	-	-	-	3,728,044	3,728,044
Due from banks and other financial institutions	-	3,922,788	3,922,788	768,750	-	768,750	-	4,691,538
Investments	-	41,056	41,056	2,826,456	7,961,633	10,788,089	372,676	11,201,821
Loans and advances, net	9,478,962	12,666,566	22,145,528	11,641,835	8,076,110	19,717,945	-	41,863,473
Total assets	9,478,962	16,630,410	26,109,372	15,237,041	16,037,743	31,274,784	4,100,720	61,484,876
Liabilities and shareholders' equity								
Due to banks and other financial institutions	-	4,054,511	4,054,511	-	-	-	-	4,054,511
Customers' deposits	5,018,609	14,135,033	19,153,642	5,791,784	-	5,791,784	24,728,173	49,673,599
Subordinated Sukuk	1,000,000	-	1,000,000	-	-	-	-	1,000,000
Shareholders' equity	-	-	-	-	-	-	7,413,469	7,413,469
Total liabilities and shareholders' equity	6,018,609	18,189,544	24,208,153	5,791,784	-	5,791,784	32,141,642	62,141,579

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2014	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	-	-	-	-	-	-	6,552,141	6,552,141
Due from banks and other financial institutions	-	3,443,750	3,443,750	656,250	-	656,250	808,991	4,908,991
Investments	-	-	-	1,925,474	9,000,860	10,926,334	408,636	11,334,970
Loans and advances, net	8,712,061	12,718,570	21,430,631	10,971,540	8,842,380	19,813,920	-	41,244,551
Total assets	8,712,061	16,162,320	24,874,381	13,553,264	17,843,240	31,396,504	7,769,768	64,040,653
Liabilities and shareholders' equity								
Due to banks and other financial institutions	-	3,673,237	3,673,237	-	-	-	63,239	3,736,476
Customers' deposits	5,313,808	15,367,747	20,681,555	7,040,256	-	7,040,256	26,847,462	54,569,273
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Shareholders' equity	-	-	-	-	-	-	6,158,056	6,158,056
Total liabilities and shareholders' equity	5,313,808	19,040,984	24,354,792	8,040,256	-	8,040,256	33,068,757	65,463,805

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.

The fair values of financial instruments, except for investments as amortised cost, are not significantly different from the carrying values included in the consolidated financial statements (refer note 5(d)). The fair values of loans and advances, commission bearing customer deposits, subordinated Sukuk, due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the duration of due from and due to banks. The estimated fair values of other investments held at amortised cost are based on quoted market prices, when available or pricing models when used in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5 (d).

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

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.

	2015 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS				
Mutual Funds	**321,981**	-	-	**321,981**
Equities	**39,075**	-	-	**39,075**
FVTOCI				
Equities	**8,182**	-	-	**8,182**
Derivatives	-	**176,855**	-	**176,855**
Total	**369,238**	**176,855**	-	**546,093**
Financial liabilities				
Derivatives	-	**334,899**	-	**334,899**
Total	-	**334,899**	-	**334,899**

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	2014 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS				
Mutual funds	329,530	-	-	329,530
Equities	68,674	-	-	68,674
FVTOCI				
Equities	6,994	-	-	6,994
Derivatives	-	239,279	-	239,279
Total	405,198	239,279	-	644,477
Financial liabilities				
Derivatives	-	378,639	-	378,639
Total	-	378,639	-	378,639

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

During the year, there were no transfers between levels in 2015 and 2014. New investments acquired during the year are classified under the relevant levels.

Investments amounting to SR 3.44 million (2014: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

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:

	2015 SR' 000	2014 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**625**	492
Due to banks and other financial institutions	**340**	186
Commitments and contingencies	**600**	2,245
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**402,909**	798,446
Customers' deposits	**89,918**	4,491,008
Other receivables	**--**	13,118
Commitments and contingencies	**4,202**	34,148

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

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

	2015 SR' 000	2014 SR'000
Special commission income	**21,979**	14,668
Special commission expense	**53,887**	44,852
Fees and commission income	**32**	74
Directors' remuneration	**5,267**	6,080

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

	2015 SR' 000	2014 SR'000
Short-term employee benefits	**84,803**	74,890
Termination benefits	**21,669**	18,141

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

Categories of employees	**Number of employees**	**2015** **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**	**89,697**
Total	**2,953**	**730,855**	**87,236**	**818,090**
Variable compensation (accrual basis) other employee related benefits		**116,174**		
Other employee related benefits		**61,872**		
Total salaries and employee-related expenses		**908,901**		

Categories of employees	Number of employees	2014 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	34,396	12,700	47,096
Employees involved in control functions	131	49,056	4,954	54,010
Employees involved in risk taking activities	186	59,580	11,628	71,208
Other employees	1,950	388,633	47,690	436,323
Outsourced employees	496	60,348	2,025	62,373
Total	2,780	592,013	78,997	671,010
Variable compensation (accrual basis) other employee related benefits		97,683		
Other employee related benefits		32,176		
Total salaries and employee-related expenses		721,872		

36. COMPENSATION (continued)

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 2015 amounted to SR 195.6 million (2014: SR 152.48 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 new Basel III Framework:

	2015		2014	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**7,578,707**	**13.79%**	6,299,361	11.79%
Supplementary capital (Tier 2)	**1,121,227**	**-**	1,209,132	-
Core and supplementary capital (Tier 1 + Tier 2)	**8,699,934**	**15.83%**	7,508,493	14.05%

37. CAPITAL ADEQUACY (continued)

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.

	2015 **SR '000**	2014 SR '000
Credit risk	**49,807,212**	48,209,708
Operational risk	**3,952,088**	3,481,813
Market risk	**1,215,251**	1,750,988
Total pillar-1 – risk weighted assets	**54,974,551**	53,442,509

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.

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES (continued)

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 27.9 billion (2014: SR 34.1 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 2.6 billion (2014: SR 2.3 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**	
	Al- Mashareq Japanese Equities Fund	19.45%	237,792
	Al- Thoraiya European Equities Fund	23.54%	212,768
	AlJazira Global Emerging Markets Fund	76.21%	37,944
	AlJazira Diversified Conservative Fund	93.34%	10,718
	AlJazira GCC Equity Fund	67.83%	32,957
	Al-Jazira Residential Projects Fund	43.64%	42,290

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**
Al – Mashareq Japanese Equities Fund	45,049
Al Thoraiya European Equities Fund	49,854
AlJazira Global Emerging Markets Fund	28,608
AlJazira Diversified Conservative Fund	9,956
AlJazira GCC Equity Fund	22,185
AlJazira Residential Projects Fund	16,734

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, 2015. 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 brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2016.

		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
IFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities : Applying the Consolidation Exception	1 January 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016

42. COMPARATIVE FIGURES

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

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on Jumada Al Awal 6, 1437H (corresponding to February 15, 2016).

44. BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.baj.com.sa and in its annual report, as required by SAMA.

BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND AUDITORS' REPORT

EY
Building a better working world

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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.

INDEPENDENT AUDITORS' REPORT (continued)

Key Audit Matters (contineud)

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: o 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 o an assessment of the Group's exposure to certain industries affected by economic conditions.	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.

Title of risk	The key audit matter	Audit response
	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.	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 samle 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. 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

Title of risk	The key audit matter	Audit response
		• 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.
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	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.

Title of risk	The key audit matter	Audit response
	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.	• 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 relvant 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.

Independent Auditors' Report
To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)
on the Audit of the Consolidated Financial Statements (continued)

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.

Independent Auditors' Report
To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)
on the Audit of the Consolidated Financial Statements (continued)

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.

- 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.

KPMG Al Fozan & Partners

Independent Auditors' Report
To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)
on the Audit of the Consolidated Financial Statements (continued)

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
Jumada Al-Akhirah 07, 1438H

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Bank AlJazira

(A Saudi Joint Stock Company)

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

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

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira
(A Saudi Joint Stock Company)

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

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

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

Bank AlJazira
(A Saudi Joint Stock Company)

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

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira
(A Saudi Joint Stock Company)

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)
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)

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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 incorporation	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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

i. Subsidiaries (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

ii. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

- 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.

ii. Contractual cash flows of financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment 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 regularly to reduce any difference between loss estimates and actual loss experience.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iv. Fair value of financial instruments (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

v. Impairment of non-financial assets (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue /expense recognition (continued)

Special commission income and expenses (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Sale and repurchase agreements (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

ii. 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.

iii. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

iii. Investment in equity instruments designated as fair value through other comprehensive income (FVTOCI) (continued)

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Zakat and income tax (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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			
Mutual funds	**61,881**	**30,052**	**91,933**
Equities	**623**	**-**	**623**
	62,504	**30,052**	**92,556**
ii) FVTOCI			
Equities	**3,250**	**8,474**	**11,724**
iii) Amortised cost			
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

5. INVESTMENTS (continued)

	2015 SR'000 Domestic	International	Total
ii) FVTOCI			
Equities	3,250	8,370	11,620
iii) Amortised cost			
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

5. INVESTMENTS (continued)

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**

6. LOANS AND ADVANCES, NET (continued)

2015	SR'000 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**	**Commercial**	**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')	-	**76,356**	**76,356**
Balance at the end of the year	**260,756**	**495,812**	**756,568**

2015	SR'000 Consumer	Commercial	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

6. LOANS AND ADVANCES, NET (continued)

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**

6. LOANS AND ADVANCES, NET (continued)

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.

6. LOANS AND ADVANCES, NET (continued)

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.

b) Options (Wa'ad Fx)

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

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

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.

10. DERIVATIVES (continued)

10.2 Held for hedging purposes (continued)

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)

10. DERIVATIVES (continued)

	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

10. DERIVATIVES (continued)

2015
SR'000

	Positive fair value	Negative fair value	Notional amount	Notional amounts by term to maturity: 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.

12. CUSTOMERS' DEPOSITS (continued)

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)**

17. OTHER RESERVES (continued)

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

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 risk.

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

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

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

			(SR'000)		
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).

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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.

27. ZAKAT AND INCOME TAX (continued)

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).

29. OPERATING SEGMENTS (continued)

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

29. OPERATING SEGMENTS (continued)

(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

29. OPERATING SEGMENTS (continued)

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.

30. CREDIT RISK (continued)

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.

30. CREDIT RISK (continued)

a) Credit quality of financial assets

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

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2016	**Consumer**	**Commercial**	**Others**	**Subtotal**		**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**

30. CREDIT RISK (continued)

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

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2015	Consumer	Commercial	Others	Subtotal		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.

30. CREDIT RISK (continued)

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.

Performing	**2016** **SR'000**	2015 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.

30. CREDIT RISK (continued)

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

30. CREDIT RISK (continued)

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

	Maximum exposure		
2015	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:

	(SR'000)						
2016	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

31. GEOGRAPHICAL CONCENTRATION (continued)

(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

31. GEOGRAPHICAL CONCENTRATION (continued)

2015	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SR'000)						
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

31. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2015	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	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

31. GEOGRAPHICAL CONCENTRATION (continued)

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	2015	**2016**	2015
	SR' 000	SR' 000	**SR' 000**	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.

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and 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.

Currency	**2016**		2015	
	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

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

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

32. MARKET RISK (continued)

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.

Currency	**2016**		2015	
	Increase / decrease in basis points	**Sensitivity of special commission income SR'000**	Increase / decrease in basis points	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

32. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

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

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

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

	(SR'000)						
2016	**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	

32. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

(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	-	-	

32. MARKET RISK (continued)

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

(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	

32. MARKET RISK (continued)

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

(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.

32. MARKET RISK (continued)

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

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The 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.

Currency	**2016**		2015	
	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

32. MARKET RISK (continued)

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

iii) EQUITY PRICE RISK

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

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as 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:

Market index	**2016**		2015	
	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.

33. LIQUIDITY RISK (continued)

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

33. LIQUIDITY RISK (continued)

	(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.

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

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

(SR' 000)

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

Bank AlJazira

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33. LIQUIDITY RISK (continued)

	(SR' 000)							
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

33. LIQUIDITY RISK (continued)

(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

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33. LIQUIDITY RISK (continued)

(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
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**

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	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.

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

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.

35. RELATED PARTY TRANSACTIONS (continued)

	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**		

36. COMPENSATION (continued)

	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 expenses		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

39. UNCONSOLIDATED ENTITIES (continued)

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.

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

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-Awwal 1438H (corresponding to 26 February 2017).

BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

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

Al Fozan & Partners
Certified Public Accountants
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 on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2017 and the related interim condensed consolidated statements of income and other comprehensive income for the three months and nine months for the periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended and the notes from 1 to 21, which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.

Other regulatory matter

As required by SAMA, certain capital adequacy information has been disclosed in note 16 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
License Number 414

for KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
Certified Public Accountant
License Number 371

Safar 5, 1439H
Corresponding to October 25, 2017

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000 (Restated)
ASSETS				
Cash and balances with SAMA	11	**3,841,706**	5,196,815	3,824,369
Due from banks and other financial institutions		**474,093**	1,337,778	1,039,928
Investments	5	**20,401,371**	16,292,744	16,474,009
Positive fair value of derivatives	9	**113,964**	128,718	122,959
Loans and advances, net	6	**40,926,323**	42,098,695	43,194,709
Investment in an associate	7	**131,789**	129,977	127,888
Other real estate, net		**445,046**	62,012	36,031
Property and equipment, net		**775,282**	701,659	694,585
Other assets		**418,758**	370,970	437,813
Total assets		**67,528,332**	66,319,368	65,952,291
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**6,216,824**	3,545,112	4,612,232
Customers' deposits	8	**49,676,106**	51,602,354	50,334,950
Negative fair value of derivatives	9	**267,541**	333,718	520,301
Subordinated Sukuk	14	**2,025,792**	2,006,471	2,027,744
Other liabilities		**734,765**	728,187	655,069
Total liabilities		**58,921,028**	58,215,842	58,150,296
EQUITY				
Share capital	13	**5,200,000**	4,000,000	4,000,000
Statutory reserve		**1,945,105**	1,945,105	1,727,119
General reserve		**68,000**	68,000	68,000
Other reserves		**(154,339)**	(211,790)	(396,708)
Retained earnings		**1,548,538**	2,302,211	2,403,584
Total equity		**8,607,304**	8,103,526	7,801,995
Total liabilities and equity		**67,528,332**	66,319,368	65,952,291

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Notes	For the three month period ended 30 September 2017 SR'000	30 September 2016 SR'000	For the nine month period ended 30 September 2017 SR'000	30 September 2016 SR'000
Special commission income		632,946	622,926	1,857,649	1,715,651
Special commission expense		(162,863)	(215,716)	(500,143)	(553,827)
Net special commission income		470,083	407,210	1,357,506	1,161,824
Fees and commission income, net		162,646	141,355	496,748	472,324
Exchange income, net		44,870	24,177	107,063	78,619
Trading income, net		6,052	2,586	9,190	3,766
Gain on sale of other real estate		630	-	630	210,518
Dividend income		-	32	49	32
Other operating income		787	-	2,059	1,385
Total operating income		685,068	575,360	1,973,245	1,928,468
Salaries and employee-related expenses		208,704	227,554	644,188	662,838
Rent and premises-related expenses		33,217	34,806	103,154	98,068
Depreciation and amortisation		22,055	20,334	64,192	60,601
Other general and administrative expenses		110,354	105,400	310,840	305,396
Impairment charge for credit losses, net	6	85,429	28,633	194,175	87,028
Other operating expenses		782	145	1,224	1,074
Total operating expenses		460,541	416,872	1,317,773	1,215,005
Income from operating activities		224,527	158,488	655,472	713,463
Share in net income of an associate		3,105	2,198	8,290	6,049
Net income for the period		227,632	160,686	663,762	719,512
Basic and diluted earnings per share for the period (expressed in SR)	13	0.44	0.31	1.28	1.38

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three month period ended		For the nine month period ended	
	30 September 2017 SR'000	30 September 2016 SR'000	**30 September 2017 SR'000**	30 September 2016 SR'000
Net income for the period	**227,632**	160,686	**663,762**	719,512
Other comprehensive income:				
Net other comprehensive income to be reclassified to interim consolidated statement of income in subsequent periods:				
Cash flow hedges:				
Fair value gain / (loss) on cash flow hedges	**56,549**	(63,939)	**55,107**	(224,009)
Net amount transferred to interim consolidated statement of income	**50**	156	**193**	470
Net other comprehensive income not to be reclassified to interim consolidated statement of income in subsequent periods:				
Net changes in fair value and gain on sale of investments classified as at Fair Value Through Other Comprehensive Income (FVTOCI)	**1,182**	837	**2,876**	591
Other comprehensive income / (loss) for the period	**57,781**	(62,946)	**58,176**	(222,948)
Total comprehensive income for the period	**285,413**	97,740	**721,938**	496,564

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Proposed Dividend SR'000	Total equity SR'000
Balance at 1 January 2017 (audited)		4,000,000	1,945,105	68,000	(211,790)	2,302,211	-	8,103,526
Net income for the period		-	-	-	-	663,762	-	663,762
Other comprehensive income, net		-	-	-	58,176	-	-	58,176
Total comprehensive income for the period		-	-	-	58,176	663,762	-	721,938
Zakat and income tax	4(a)	-	-	-	-	(25,854)	-	(25,854)
Share in zakat of an associate		-	-	-	-	(354)	-	(354)
Issue of bonus shares	13	1,200,000	-	-	-	(1,200,000)	-	-
Proposed dividend	19	-	-	-	-	(200,000)	200,000	-
Dividend paid		-	-	-	-	-	(191,227)	(191,227)
Adjustments in proposed dividend		-	-	-	-	8,773	(8,773)	-
Other	17	-	-	-	(725)	-	-	(725)
Balance at 30 September 2017 (unaudited)		5,200,000	1,945,105	68,000	(154,339)	1,548,538	-	8,607,304
Balance at 1 January 2016 (audited)		4,000,000	1,727,119	68,000	(172,656)	1,791,006	-	7,413,469
Net income for the period		-	-	-	-	719,512	-	719,512
Other comprehensive loss, net		-	-	-	(222,948)	-	-	(222,948)
Total comprehensive (loss) / income for the period		-	-	-	(222,948)	719,512	-	496,564
Share in zakat of an associate		-	-	-	-	(369)	-	(369)
Other	17	-	-	-	(1,104)	-	-	(1,104)
Balance at 30 September 2016 (unaudited), previously reported		4,000,000	1,727,119	68,000	(396,708)	2,510,149	-	7,908,560
Reclassification of zakat and income tax	18	-	-	-	-	(81,188)	-	(81,188)
Effect of changes in accounting policy	4(a)	-	-	-	-	(25,377)	-	(25,377)
Balance at 30 September 2016 (unaudited), restated		4,000,000	1,727,119	68,000	(396,708)	2,403,584	-	7,801,995

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Notes	2017 SR'000	2016 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		663,762	719,512
Adjustments to reconcile net income to net cash from operating activities:			
Trading income, net		(9,190)	(3,766)
Impairment charge for credit losses, net		194,175	87,028
Share in net income of an associate		(8,290)	(6,049)
Depreciation and amortisation		64,192	60,601
Dividend income		(49)	(32)
Loss on sale / write off of property and equipment		81	3,472
		904,681	860,766
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(78,425)	52,331
Due from banks and other financial institutions maturing after three month from the date of acquisition		(166,132)	768,750
Investments held at fair value through income statement		1,746	129,184
Positive fair value of derivatives		14,754	74,552
Loans and advances		978,197	(1,107,890)
Other real estate, net		(383,034)	8,095
Other assets		(47,788)	(184,453)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,671,712	554,921
Customers' deposits		(1,926,248)	569,757
Negative fair value of derivatives		(66,177)	148,348
Other liabilities		62,206	(195,177)
Net cash from operating activities		1,965,492	1,679,184
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of non-trading investments		524,683	136,749
Acquisition of non-trading investments		(4,625,866)	(5,463,575)
Investment in an associate		6,125	6,125
Acquisition of property and equipment		(138,096)	(79,671)
Proceeds from sale of property and equipment		200	101
Dividends received		49	32
Net cash used in investing activities		(4,232,905)	(5,400,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Subordinated Sukuk	14	19,321	2,027,744
Payment of Subordinated Sukuk		-	(1,006,936)
Zakat and income tax paid		(25,246)	(46,866)
Dividends paid		(190,013)	(22)
Net cash (used in) /from financing activities		(195,938)	973,920
Net decrease in cash and cash equivalents		(2,463,351)	(2,747,135)
Cash and cash equivalents at the beginning of the period		3,796,821	4,913,830
Cash and cash equivalents at the end of the period	11	1,333,470	2,166,695
Special commission income received during the period		1,798,296	1,594,137
Special commission expense paid during the period		493,031	691,960
Supplemental non-cash information			
Net changes in fair value and transfers to the interim consolidated statement of income		55,300	(223,539)

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

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

1. GENERAL

These interim condensed financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (31 December 2016: 80 branches, 30 September 2016: 78 branches) and 48 Fawri Remittance Centers (31 December 2016: 41, 30 September 2016: 36 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

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

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

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

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 30 September 2017**	Ownership (direct and indirect) 31 December 2016	Ownership (direct and indirect) 30 September 2016
Subsidiary					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage and asset management	**100%**	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%	100%
*Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank.	**100%**	-	-
*Al Jazira Securities Limited	Cayman Islands	Carryout Shari'ah compliant derivative and capital market transactions	**100%**	-	-

1. GENERAL (continued)

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 30 September 2017**	Ownership (direct and indirect) 31 December 2016	Ownership (direct and indirect) 30 September 2016
Associate					
AlJazira Takaful Ta'wuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%	35%

*These entities have not yet commenced their commercial operations.

2. BASIS OF PREPARATION

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

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

Accordingly, these interim condensed consolidated financial statements have been prepared using IAS 34, 'Interim Financial Reporting' and SAMA guidance for the accounting of zakat and income tax as described above.

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

The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2016.

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

2. BASIS OF PREPARATION (continued)

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

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

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

3. BASIS OF CONSOLIDATION

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

a) Subsidiaries

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

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

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

b) Non-controlling interests

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

3. BASIS OF CONSOLIDATION (continued)

c) Transactions eliminated on consolidation

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

d) Associates

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

As a result of the change in the accounting policy for zakat and income tax, in the Interim Consolidated Statement of Financial Position “other liabilities” are higher and “retained earnings” are lower as at 30 September 2016, by SR 25.38 million than previously reported due to recording of zakat and income tax liability for the period ended 30 September 2016.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(b) Amendments to existing standards

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

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

  The above amendment has no financial impact on the interim condensed consolidated financial statements of the Group in the current period or prior period and is expected to have no significant effect in future periods.

(c) Accounting standards not yet applicable

- Following new accounting standards and interpretations have been published that are not mandatory for 30 September 2017 reporting period and have not been early adopted by the Group. The Group has yet to assess the impact of these new standards and interpretations:

  - IFRS 15 – "Revenue from Contracts with Customers" - The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  - IFRS 9 "Financial Instruments" – The Group has already early adopted the measurement part. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

  - IFRS 16 – "Leases" – The new Standard is based on the principal that a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

5. INVESTMENTS

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Fair Value Through Income Statement (FVTIS) - designated as at FVTIS	**100,000**	92,556	235,638
Fair Value Through Other Comprehensive Income (FVTOCI)	**14,600**	11,724	12,212
Held at amortised cost	**20,286,771**	16,188,464	16,226,159
Total	**20,401,371**	16,292,744	16,474,009

6. LOANS AND ADVANCES, NET

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Consumer loans	**17,891,400**	17,650,960	17,618,956
Commercial loans and overdrafts	**22,851,160**	24,329,749	25,444,678
Others	**416,361**	390,555	384,116
Performing loans and advances	**41,158,921**	42,371,264	43,447,750
Non- performing loans and advances	**508,661**	483,999	491,685
Total loans and advances	**41,667,582**	42,855,263	43,939,435
Impairment allowance for credit losses	**(741,259)**	(756,568)	(744,726)
Loans and advances, net	**40,926,323**	42,098,695	43,194,709

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

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Balance at the beginning of the period	**756,568**	614,604	614,604
Impairment charge for credit losses, net	**240,911**	224,026	130,769
Bad debts written off	**(242,423)**	(128,882)	(66,621)
Reversal / recoveries of amounts previously impaired	**(13,797)**	(29,536)	(10,382)
Allowance written back upon restructuring of loan	**-**	76,356	76,356
Balance at the end of the period	**741,259**	756,568	744,726

The "impairment charge for credit losses", net in the Interim Consolidated Statement of Income amounting to SR 194.18 million (30 September 2016: SR 87.03 million) was net of recoveries of SR 32.94 million (30 September 2016: SR 33.36 million) from the amounts previously written off.

7. INVESTMENT IN AN ASSOCIATE

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

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 30 September 2017 was SR 377.9 million (31 December 2016: SR 368.1 million; 30 September 2016: SR 270.48 million) based on Tadawul market price.

8. CUSTOMERS' DEPOSITS

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Demand	**26,070,153**	25,522,256	23,694,417
Time	**22,489,693**	25,167,027	25,798,643
Other	**1,116,260**	913,071	841,890
Total	**49,676,106**	51,602,354	50,334,950

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (CONTINUED)

9. DERIVATIVES

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

	30 September 2017 (Unaudited) SR'000			31 December 2016 (Audited) SR'000			30 September 2016 (Unaudited) SR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Options	**2,424**	**2,424**	**747,531**	24,464	24,464	2,178,472	32,039	32,039	2,982,277
Special commission rate swaps	**73,376**	**73,376**	**6,025,913**	66,788	66,788	5,942,128	49,558	49,558	6,054,390
Foreign exchange swaps	**1,067**	**-**	**191,768**	-	1,392	187,500	-	761	187,500
Structured deposits	**7,080**	**7,080**	**2,450,000**	4,168	4,168	1,650,000	7,940	7,940	1,650,000
Total	**83,947**	**82,880**	**9,415,212**	95,420	96,812	9,958,100	89,537	90,298	10,874,167
Held as cash flow hedge:									
Special commission rate swaps	**-**	**145,150**	**3,250,625**	-	194,261	5,624,063	-	382,053	5,624,063
Total	**83,947**	**228,030**	**12,665,837**	95,420	291,073	15,582,163	89,537	472,351	16,498,230
Special commission	**30,017**	**39,511**	**-**	33,298	42,645	-	33,422	47,950	-
Total	**113,964**	**267,541**	**12,665,837**	128,718	333,718	15,582,163	122,959	520,301	16,498,230

The negative fair values of special commission rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2016: April 2044, 30 September 2016: April 2044). The cash flow hedges of special commission rate swap were highly effective in offsetting the variability of special commission expenses. Fair value gain on cash flow hedges amounting to SR 55.1 million (31 December 2016: loss of 36.2 million, 30 September 2016: loss of SR 224.01 million) included in the Interim Consolidated Statement of Comprehensive Income comprised of net unrealized gain of SR 49.1 million (30 September 2016: loss of SR 224.01 million) and realized gain of SR 6 million (30 September 2016: nil).

9. DERIVATIVES (continued)

b) During the period, the Bank sold certain of its special commission rate swaps used for cash flows hedge. However, the gain would continue to be classified in Interim Consolidated Other Comprehensive Income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain will be reclassified to Interim Consolidated Statement of Income in the period when the cash flows pertaining to hedged items will affect the Interim Consolidated Statement of Income.

During the period, an amount of SR 0.19 million (30 September 2016: 0.47 million) is transferred from Statement of Other Comprehensive Income to "special commission expense" in the interim Condensed Consolidated Statement of Income.

c) Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Al Jazira Securities Limited and intends to transfer all of its PRS derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed among the Bank, the SPV and one of the counter party. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believe that existing hedging relationships continue to be effective.

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

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

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Letters of credit	**819,834**	972,992	760,422
Letters of guarantee	**4,214,905**	4,144,274	4,276,629
Acceptances	**539,920**	611,960	517,464
Irrevocable commitments to extend credit	**150,000**	150,000	120,833
Total	**5,724,659**	5,879,226	5,675,348

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES (continued)

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

The assessments for the years 2012 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the zakat base, in line with the assessments finalized by GAZT for the years referred above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue and disclosure of which might affect the bank's position in this matter.

11. CASH AND CASH EQUIVALENTS

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

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**1,025,509**	2,459,043	1,126,767
Due from banks and other financial institutions with an original maturity of three month or less from the date of acquisition	**307,961**	1,337,778	1,039,928
Total	**1,333,470**	3,796,821	2,166,695

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

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000
Cash and cash equivalents as per Statement of Cash Flows	**1,333,470**	3,796,821	2,166,695
Statutory deposit	**2,816,197**	2,737,772	2,697,602
Due from banks and other financial institutions with original maturity of three month or less from the date of acquisition	**(307,961)**	(1,337,778)	(1,039,928)
Cash and balances with SAMA at end of the period	**3,841,706**	5,196,815	3,824,369

12. OPERATING SEGMENTS

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

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2016.

For management 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 businesses and institutional customers.

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

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

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

The Group's total assets and liabilities at 30 September 2017 and 30 September 2016, its total operating income and expenses, and its net income for the nine month period then ended, by operating segment, are as follows:

12. OPERATING SEGMENTS (continued)

30 September 2017 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	20,037,659	20,884,918	24,931,406	1,487,309	55,251	131,789	67,528,332
Total liabilities	36,467,181	13,244,779	8,400,526	753,291	55,251	-	58,921,028
Inter - segment operating (loss) / income	(3,525)	(75,077)	86,471	(7,869)	-	-	-
Total operating income	847,275	423,007	691,847	131,522	14,543	(134,949)	1,973,245
Net special commission income	472,333	279,109	574,697	32,854	450	(1,937)	1,357,506
Fee and commission income, net	273,933	130,818	8,145	88,760	14,091	(18,999)	496,748
Trading income, net	-	-	-	9,190	-	-	9,190
Share in net income of an associate	-	-	-	1,184	-	7,106	8,290
Impairment charge for credit losses, net	(18,924)	(175,251)	-	-	-	-	(194,175)
Depreciation and amortisation	(35,669)	(8,043)	(14,143)	(5,734)	(603)	-	(64,192)
Total operating expenses	(655,185)	(339,274)	(205,752)	(104,478)	(16,075)	2,991	(1,317,773)
Net income / (loss)	192,090	83,733	486,095	28,228	(1,532)	(124,852)	663,762

12. OPERATING SEGMENTS (continued)

30 September 2016 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	20,201,193	23,359,415	21,705,119	496,399	62,277	127,888	65,952,291
Total liabilities	25,664,487	22,733,190	9,611,941	78,401	62,277	-	58,150,296
Inter - segment operating (loss) / income	(24,372)	(72,060)	92,477	3,955	-	-	-
Total operating income	727,507	355,455	567,437	142,105	15,103	120,861	1,928,468
Net special commission income	443,134	237,361	476,365	6,543	424	(2,003)	1,161,824
Fee and commission income, net	214,048	106,841	7,679	130,380	14,651	(1,275)	472,324
Trading income / (loss), net	(406)	150	366	4,219	-	(563)	3,766
Share in net income of an associate	-	-	-	-	-	6,049	6,049
Impairment charge for credit losses, net	(3,349)	(83,679)	-	-	-	-	(87,028)
Depreciation and amortisation	(31,514)	(10,180)	(12,868)	(5,336)	(703)	-	(60,601)
Total operating expenses	(607,577)	(292,575)	(187,145)	(111,445)	(19,254)	2,991	(1,215,005)
Net income / (loss)	119,930	62,880	380,292	30,660	(4,151)	129,901	719,512

13. SHARE CAPITAL AND EARNINGS PER SHARE

The shareholders of the Bank in their Extra Ordinary General Assembly Meeting held on 10 April 2017 approved to increase the Bank's share capital from SR 4 billion to SR 5.2 billion through the issuance of bonus shares to shareholders of the Bank (three shares for every ten shares held). The legal formalities relating to the increase in share capital completed during second quarter of the year. Accordingly, the authorized, issued and fully paid share capital of the Bank consists of 520 million shares of SR 10 each (31 December 2016: 400 million shares of SR 10 each; 30 September 2016: 400 million shares of SR 10 each).

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

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

	For the three month period ended		**For the nine month period ended**	
	30 September 2017 SR'000	30 September 2016 SR'000 (Restated)	**30 September 2017 SR'000**	30 September 2016 SR'000 (Restated)
Profit attributable to ordinary share holders				
For basic and diluted earnings per share	**227,632**	160,686	**663,762**	719,512
	Shares	Shares (Restated)	**Shares**	Shares (Restated)
Weighted-average number of ordinary shares				
For basic and diluted earnings per share	**520,000,000**	520,000,000	**520,000,000**	520,000,000
Basic and diluted earnings per share (in SR)	**0.44**	0.31	**1.28**	1.38

14. SUBORDINATED SUKUK

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

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

		30 September 2017 (SR'000) Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value:				
FVTIS - Mutual Funds	**99,469**	**99,469**	**-**	**99,469**
FVTIS – Equities	**531**	**531**	**-**	**531**
FVTOCI - Equities	**11,163**	**11,163**	**-**	**11,163**
Derivatives	**113,964**	**-**	**113,964**	**113,964**
Total	**225,127**	**111,163**	**113,964**	**225,127**
Financial liabilities measured at fair value:				
Derivatives	**267,541**	**-**	**267,541**	**267,541**

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

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 September 2016 (SR'000)			
	Carrying		Fair Value	
	Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVTIS - Mutual Funds	235,047	235,047	-	235,047
FVTIS – Equities	591	591	-	591
FVTOCI - Equities	8,774	8,774	-	8,774
Derivatives	122,959	-	122,959	122,959
Total	367,371	244,412	122,959	367,371
Financial liabilities measured at fair value:				
Derivatives	520,301	-	520,301	520,301

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

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

There were no changes in valuation techniques during the period.

Investments amounting to SR 3.44 million (31 December 2016: SR 3.44 million, 30 September 2016: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

	30 September 2017 (SR'000)		31 December 2016 (SR'000)	
	Amortised cost	**Fair value**	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**474,093**	**474,248**	1,337,778	1,338,102
Investment held at amortised cost	**20,286,771**	**20,299,214**	16,188,464	16,207,079
Loans and advances, net	**40,926,323**	**42,379,299**	42,098,695	43,467,763
Total	**61,687,187**	**63,152,761**	59,624,937	61,012,944
Financial liabilities:				
Due to banks and other financial institutions	**6,216,824**	**6,218,304**	3,545,112	3,545,375
Customers' deposits	**49,676,106**	**49,668,031**	51,602,354	51,615,457
Total	**55,892,930**	**55,886,335**	55,147,466	55,160,832

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

16. CAPITAL ADEQUACY

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

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

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

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

16. CAPITAL ADEQUACY (continued)

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 September 2016 (Unaudited) SR'000 (Restated)
Credit Risk RWA	**49,054,396**	48,372,180	49,469,549
Operational Risk RWA	**4,943,887**	4,750,113	4,678,538
Market Risk RWA	**873,253**	1,129,288	1,209,713
Total Pillar-I RWA	**54,871,536**	54,251,581	55,357,800
Tier I Capital	**8,752,830**	8,304,283	8,177,771
Tier II Capital	**2,407,888**	2,470,299	2,493,597
Total Tier I and II Capital	**11,160,718**	10,774,582	10,671,368
Capital Adequacy Ratio (%)			
Tier I ratio	**15.95%**	15.31%	14.77%
Total Tier I and II Capital	**20.34%**	19.86%	19.28%

17. ISSUANCE OF RIGHT SHARES

With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SR 3 billion through a right issue. The increase is conditional on obtaining the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price of the shares and numbers. Included in the "other reserves" are total expenses of SR 18.84 million (31 December 2016: SR 18.12 million, 30 September 2016: SR 15.58 million) incurred in respect of the legal and professional matters for right issue.

18. ZAKAT DUE FROM SHAREHOLDERS

Until 31 December 2015, the zakat and income tax paid or accrued relating to years where dividends were not declared, were presented as receivable from shareholders with a view to recover out of future dividends. However, as zakat and tax liability ultimately impacts retained earnings of the Group and as no dividends were declared for the years 2012 through 2015, and for better presentation, the Bank charged the zakat and income tax amount to retained earnings as at 31 December 2016. Consistent with the presentation followed as of 31 December 2016, the cumulative amount of SR 81.19 million included in other receivables as of 30 September 2016, was charged to retained earnings in the Interim Consolidated Statement of Changes in Equity.

19. PROPOSED DIVIDEND

During the period, the Bank paid final cash dividend of SR 200 million equal to SR 0.5 per share, net of zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on April 10, 2017.

20. COMPARATIVE FIGURES

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

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 23 October 2017.