BANK ALJAZIRA بنك الجزيرة

مصرفية إسلامية حديثة

Annual Report 2010

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

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

HRH Price Naif Bin Abdulaziz Al-Saud
Second Deputy Prime Minister
and Minister of the Interior

Contents

Head Office

King Road P.O. Box: 6277, Jeddah 21442, Kingdom of Saudi Arabia, Tel.: (+966) 2 609 8888, Fax: (+966) 2 609 8881
SWIFT: BAJZSAJE, E-mail: info@baj.com.sa, www.baj.com.sa

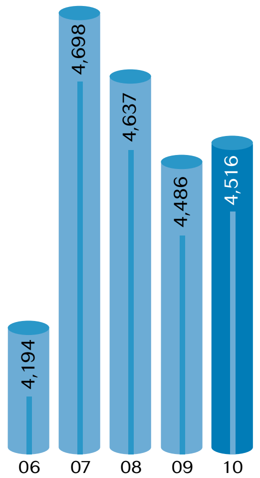
بسم الله الرحمن الرحيم

In the Name of ALLAH, the Most Gracious, the Most Merciful

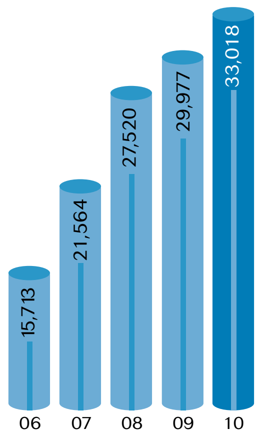
Financial Highlights

(In SAR millions, except where noted)	2010	2009	2008	2007	2006
Loans and advances, net	18,704	15,504	15,133	9,879	6,271
Total assets	33,018	29,977	27,520	21,564	15,713
Customer deposits	27,345	22,143	20,900	15,647	10,917
Shareholders' equity	4,516	4,486	4,637	4,698	4,194
Net special commission income	717	668	631	595	477
Fee income	265	376	538	698	1,878
Gains (losses) on investments and others	173	127	(32)	154	260
Total operating income	1,155	1,171	1,137	1,477	2,615
Net income	29	28	222	805	1,974
Net income growth (%)	5,0	(87,6)	(72,4)	(59,2)	125,8
Return on average equity (%)	0,64	0,60	4,76	18,11	57,52
Return on average assets (%)	0,09	0,10	0,91	4,32	13,21
Earnings per share (SAR)	0,10	0,09	0,74	2,68	8,77

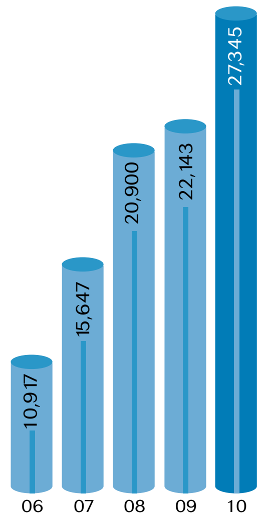
Financial Highlights



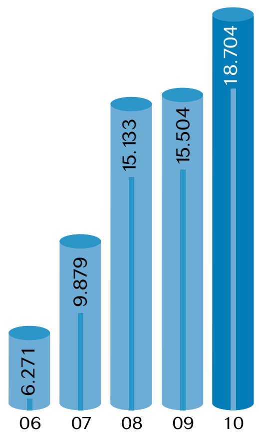
Shareholders' Equity SR millions



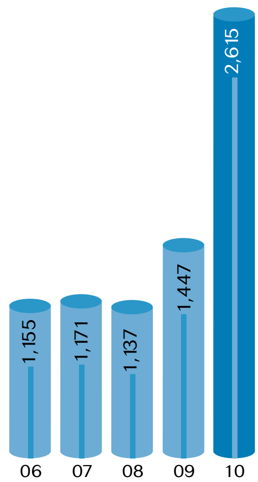
Total Assets SR millions



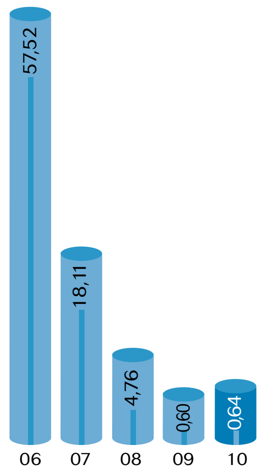
Customer Deposits SR millions



Net Loans and Advances SR millions



Operating Income SR millions



Return on Average Equity Percent

OUR MISSION

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

Board of Directors

Taha A. Al-Kuwaiz
Chairman of the Board

Abdul Majeed I. Al-Sultan

Abdullah S. Kamel

Tarek O. Al-Kasabi

Khalid O. Al-Baltan

Mohammed A. Al-Angari

Khalifa A. Al-Mulhem

Mohammed A. Al-Hagbani

Hisham A. Al-Sheikh

Chairman's Statment

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

Dear Bank Aljazira's Shareholders,

On behalf of the Bank's Board of Directors, it is my pleasure to present Bank Aljazira's annual report and financial statements for the financial year ended 31 December 2010.

In spite of the challenges the Saudi banking sector saw during 2010, Bank Aljazira (BAJ) continued to achieve qualitative progress and consecutive successes within its strategic vision towards transforming into a multi-specialist Shari'ah compliant financial group. BAJ adopted a series of initiatives to diversify its sources of income, attract competent human resources and upgrade their potentials, and enhance its infrastructure to support the bank's performance in the area of information technology and bank operations as per the best international standards in this regard.

Pursuant to the remarkable progress that BAJ made to solidify its effective presence in the banking domain, we continued to exert efforts in 2010 through expanding our branch net and sustaining our footage in new areas, relocating some ATMs to new more profitable locations, and supporting personal and corporate banking sectors by additional services and products in response to market requirements and customers' needs so as to maximize our profits. Although the results of the year were not up to the expectations, we ended 2010 stronger, well equipped and ready to overcome challenges and take advantage of the existing and potential market opportunities. We built a solid platform with all technical, financial and human capital capabilities that will take us to unprecedented horizons in the near future.

BAJ continued to execute its strategic plan, AFAQ2012, with steady steps and made excellent progress in this regard through the implementation of a set of projects and initiatives which positively affected all business sectors of the bank; including support services, customer reach portals, delivery channels, and information technology related systems and applications in a way that would reinforce the bank's readiness and capabilities to capture any new market opportunities during the coming period.

The remarkable improvement in the performance of bank's business sectors could obviously be seen in the growth of profits by 7% and reduction of credit losses despite the sizable provisions. The net income reached SR 29 million while assets increased by 10% to reach SR 33 billion by yearend. At the meantime, BAJ sustained its investment portfolio recoding a growth percent of 6%.

It is worth mentioning that the number of customers grew by 42%, with a corresponding rise in deposits by 23%, to reach SR 27.3 billion, underlining that we are adopting the right approach, offering products and services that meet market requirements and customers' needs, and indicating the extent of customer's confidence in the bank. The personal banking sector is on top of our strategic priorities to effectively transform the bank into a Shari'ah compliant financial group through continual and direct response to market requirements and ability to innovate unique products reinforcing the banks' presence in the banking Industry.

Our strong and successful entry into mortgage business is an evident indicator of BAJ's leadership in capturing market opportunities within this vital industry. In addition, BAJ through "Aljazira Capital" maintained its leadership position in the local share trading activity and sustained its universal presence via the recently launched service "Global" enabling our clients to access and trade in UAE and USA stock markets. Similarly, our Takaful Ta'awuni new born company has promising opportunities.

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

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

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

Taha Abdullah Al-Kuwaiz
Chairman

Our key objective is to serve our customers to the best standards wherever they are. BAJ exerts all efforts to reinforce its presence through expanding its branch net and upgrading its alternative delivery channels. BAJ branches were increased 100% to reach 50 within one year and half only.

Chief Executive Officer's Foreword

Bank Aljazira (BAJ) saw a series of strategic challenges in 2010 which procreated prosperous leaps in all the bank's sectors, including the great success that BAJ achieved in attracting competent human resources and sustaining the Saudization ratio, in a way that ensures upgrading the bank's performance to achieve its ambitious goals.

BAJ continued to overcome several difficulties and challenges; which commonly affect the local, regional and international markets, and confidently continued to execute its strategy towards diversification of income sources and capturing market proper opportunities to sustain its presence in the banking, financial and investment domains and its competitive capabilities. Thus, BAJ has expanded its activities in the promising real estate finance sector through launching a range of various housing finance and real estate investment programs that meet customers' needs and market requirements, and attained 5% of the market share since the launch of its real estate finance products in Saudi Arabia. The annual sales of such products exceeded 20% of the total market size in 2010.

In addition, BAJ continued to expand its branch net as a strategic initiative commenced in mid of 2009. The bank's total branches reached 50 by end of 2010 representing an increase of 100%. This successful step was supported by our ATM expansion and readiness ratio which hit 97%. Simultaneously, BAJ replaced some ATM locations by other more profitable locations.

With regard to electronic banking, BAJ performed a range of initiatives geared towards upgrading its electronic channels which were spurred with additional services to maintain the superior performance of the bank within this vital sector. Moreover, BAJ continued to exert efforts to widen its clients' base through offering innovative products and solutions in all sectors such as personal and commercial finance programs which played a significant role in recoding a qualitative increase in clients at 42% in 2010.

In addition, BAJ through "Aljazira Capital" maintained its leadership position in the local share trading activity for the sixth consecutive year by attaining an approximate market share of 16%. Also, Aljazira Capital launched "Global" service enabling our customers to access and trade in UAE and USA stock markets. At the meantime, BAJ completed the development of an integrated automated platform to handle personal finance and treasury operations in a precise and fast mood, and continued at the same time to enhance its infrastructure with respect to information technology, bank operations and/or monitoring systems through the use of modern tools and best practices.

In line with its strategic transformation into a multi-specialist financial group, BAJ is looking forward to achieving qualitative leaps in 2011 through inaugurating new branches and installing more ATMs to sustain the bank's presence. Also, we will focus on providing superior electronic banking and credit cards offerings through a modern automated application backed by qualified human resources to ensure smooth and accurate processing. At the same time, we are looking forward to increasing our market share in financing small to medium businesses, upgrading and offering more treasury products that satisfy customers' needs and market requirements in a way that would convert treasury from a mere cash management center to a profit center. BAJ will maximize its efforts to increase its market share from mortgage and personal finance sector and build a robust base of clients. We will also exert all efforts to promote awareness about the monitoring and control systems and importance of cost reduction, and we will continue to extend support to charitable societies. Also, we will continue to maintain our leadership position in share trading through offering distinguished services by Aljazira Capital and enhancing "Global" service to access new markets.

Finally I would like to take this opportunity to extend my thanks and appreciation to the Board of Directors, bank's shareholders and customers for their trust, and to all Aljazira Financial Group's employees for their continual efforts and dedication that would procreate more growth and prosperity in the near future.

Nabil Dawoud Alhoshan
Chief Executive Officer

Executive Management

Nabil D. Alhoshan
Chief Executive Officer

Ziad T. Aba Al-Khail
CEO, Aljazira Capital

Tarek A. Al Shubaily
GM, Human Resources Group

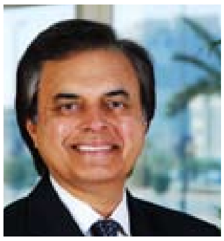
Sager Nadershah
GM, Retail Banking Group

Dr. Mohammed Al Ghamdi
GM, Shari'ah Group

Ibrahim Al-Hurabi
GM, Internal Audit Group

Rizwan Shakoor
Chief Financial Officer

Yasser Al Hedaithy
GM, Treasury Group



Shahid Malik
Chief Risk Officer

Dr. Fahid Al-Olyan
Executive Manager, CSR Program

Khalid Al-Miqrin
GM, Legal Group & Corporate Secretary

Fahed Al Aqeel
GM, Transformation Group

Osama Al-Ibrahim
GM,Corporate Banking Group

Sameeulhaq Thanvi
GM, Takaful Ta'awuni Group

Board of Directors' Report

The Board of Directors is pleased to present the Bank's annual report and consolidated financial statements for the financial year ending 31 December 2010.

Financial Performance

During the last two years the world saw a worldwide economic and financial crisis, and the impact of this was mostly felt in the financial sector. The Saudi banking sector has emerged almost unscathed during this period. However, it would be realistic to expect that during such a turbulent period, the credit portfolio would be impacted to a certain extent, and this fact was apparent in terms of higher credit provisioning by financial institutions in general.

Banks across Saudi Arabia booked higher levels of provisioning and this resulted in improving the NPLs coverage ratio. The NPLs of the Banks in Kingdom had increased by over 145% during 2009 over 2008 unveiling a sudden surge in the NPLs mainly related to a few particular sectors. This trend has to some extent continued in 2010, and in order to strengthen the coverage ratio that had gone down to below 100% due to the rise in NPLs in 2009. Although this provisioning has had its impacts on the bottom line, the quality of the loan portfolio in the balance sheet is expected to attract a much better and positive note from credit rating analysts. The provisioning coupled with the collaterals held for NPLs, has pushed up the coverage ratio way above the 100% level.

Nonetheless, Bank Aljazira has shown resilience in weathering the global downturn and was successful in continuing its trend in diversifying its revenue streams, growing its balance sheet, widening its customer base, expanding its market share and reach through alternative delivery channels, adding new products, and decreasing its dependency on a single source in its Asset/Liability management and revenue generation.

In 2010 as well as in 2009, the Bank had two factors significantly impacting its net income. These include the higher provisions, and the year on year decreasing local share brokerage fee income due to reduced market activity. The Bank has exercised extreme caution during 2009 and 2010 in building its credit portfolio to obviate the booking of any risky assets.

The Bank's relatively new and smaller retail lending book has performed very well in terms of quality as well as growth. Retail book grew from SAR 2.0 billion to SR 4.5 billion, a 125% year-on-year growth.

Due to higher spreads derived from Retail lending activity combined growth in current account balances, the net special commission income has increased from SAR 668 million in 2009 to SAR 717 million in 2010, an increase of 7%.

Historically brokerage income from local share trading has been a large portion of fee income however going forward, this component decreased by SAR 105 million, or 50% during 2010 as compared to 2009, resulting from the overall decrease in the trading volumes. The second major component is the loan management and trade finance services fee income, which has also been lower by SAR 4 million, mainly due to the Banks very cautious approach towards granting credit facilities in corporate sector.

Exchange income grew 15%, from SAR16 million in 2009 to SAR 18 million in 2010. The SPAN related and other fee income has shown an increase of SAR 16 million, or 32%. Fee income from Takaful business line was lower by SAR 9 million, mainly due to lower business activity during the year and due to Takaful's conversion to an independent public listed entity that will result in spin-off of its activities from the Bank and its formation as separate corporate entity. Trading income totaled SAR 28 million, and was lower in current year by SAR 11 million, mainly due to lower gains from the Bank's seed capital investments in its international equity mutual funds, resulting from the international equity market performance in 2010 as compared to that in 2009.

Income from FVIS financial instruments was higher, being SAR 68 million, as compared to SAR 42 million in the previous year. This item represents mark-to-market impact on the instruments held by Bank, which are local equities. Other Operating Income during the year was SAR 48 million as compared to SAR 7 million during 2009; the increase mainly represents the gains realized from sale of the other real estates, previously acquired by the Bank in settlement of loans. As a result of the above, the total operating income remained lower in 2010 by SAR 16 million or 1% only.

In order to support the Bank's expansion under its Four-Year strategic plan that was finalized during 2010, the total operating expenses excluding the provision for credit losses, increased by 4% only. In line with its conservative approach to mitigate and manage credit risks, the Bank charged a net provision for credit losses of SR 362 million, compared to SR 412 million during 2009. The coverage against non-performing loans (NPLs) reached 85% during 2010 compared to 65% in 2009, and while accounting for the collaterals held by the Bank for such NPLs, the coverage ratio is 135%.

Based on the above, the net income increased by 7% to reach SR 29 million, compared to SR 27 million, while earnings per share improved from SR 0.09 in 2009 to SR 0.10 in 2010. Table 1 depicts the Bank's financial performance for the period from 2006 to 2010.

Table 1: FINANCIAL PERFORMANCE – CORE BANKING PERFORMANCE

SR'000	2006	2007	2008	2009	2010
Special commission income	749,677	908,968	1,114,431	961,241	868,346
Special commission expenses	(273,030)	(313,847)	(483,010)	(293,460)	(151,093)
Net special commission income	476,647	595,121	631,421	667,781	717,253
Fees from banking services:					
Loan commitment and management fee	31,797	48,897	51,617	32,884	31,710
Trade Finanace	13,733	15,528	21,072	24,930	21,791
Others	8,625	20,371	42,607	50,614	64,330
Total fees	54,155	84,796	115,296	108,428	177,831
Exchange income	6,563	17,232	21,708	15,837	18,184
Divided Income	13,377	12,385	11,532	5,122	10,394
Other operated income	5,424	5,673	2,806	6,835	48,454
Total operating income	556,166	715,207	782,763	804,003	912,116
Growth over previous year (%)	66.5%	28.6%	9.4%	2.7%	13.4%

Financial Position

As of end of 2010, the Bank's total assets reached SR 33 billion, compared to SR 30 billion, representing an increase of 10% over 2009. Placements with other banks and other financial institutions totaled SR 5.56 billion, lower by 23% compared to SR 7.2 billion in 2009. Investment book closed at SR 4.5 billion, higher by 6% from the last year. Investments in various categories aggregated to SAR 4.5 billion in 2010 compared to SAR 4.3 billion, ending higher by 6% than that of the previous year. The investments mainly include the Murabaha with SAMA and commodity based funds of other local banks. Investments decisions are mainly governed by Bank's risk diversification strategy, but some of the investments also serve the liquidity management of the Bank as well since these are treated as liquid.
Customer financing, net, at the year-end totaled SAR 18.7 billion, registering an impressive growth of 21% over SAR 15.5 billion in 2009, the bank further diversified the loan portfolio over various economic sectors and broadened the client base, thus lowering the concentration of risk.
Table 2 highlights the growth achieved in the loan portfolio over the last five years. It also reflects the Bank's prudent approach in managing the credit risks inherent in the portfolio through the conservative credit monitoring and provisioning policy; whereby the non-performing loans to gross loans have decreased from 7.5% in 2009 to 6.7% in 2010, whereas the coverage for Non- Performing Loans has reached to 85% in 2010 from 65% in 2009. Considering the collaterals held by the Bank against its non-performing portfolio, the coverage ratio is 135%. The NPLs as at year-end 2010 totaled SAR 1.33 billion as compared to SAR 1.22 billion as at the end of 2009.
Customer Deposits have significantly increased by 23% to a total of SAR 27.3 billion, compared to SAR 22.1 billion in 2009. Very healthy sign is that the demand deposits also grew by 23% during 2010 rising from SR 6.6 billion in 2009 to SAR 8.1 billion in 2010. This impressive and sustainable growth results mostly from the retail banking network expansion and addition of new products. Bank expects further growth in current account deposits that will help the Bank in the competitive lending environment.

Table 2: CUSTOMER DEPOSITS

SR millions	2006	2007	2008	2009	2010
Demand deposits	6,394	5,544	5,322	6,053	7,522
Time deposits					
Time deposits (Corporate)	2,019	6,372	10,701	11,026	14,363
Time deposits (Retail)	2,316	3,126	4,701	4,507	4,870
Total Time deposits	4,335	9,489	15,402	15,533	19,233
Others	188	605	176	557	590
Total Customers' deposits	10,917	15,647	20,900	22,143	27,345
% growth of customers' deposits	0.9%	43.3%	33.6%	5.9%	23.5%

Profits from Subsidiaries

The Bank's subsidiaries include; Aljazira Capital, Al-Thoriya (European) Equities Fund, Al-Khair(global) Equities Fund, and Al-Mashareq (Japanese) Equities Fund (the mutual funds), and Aman Real Estate Development Company. All the subsidiaries are registered locally. The profit/(loss) of Aljazira Capital and the Funds have been consolidated in the Bank's financial statements. Aman Real Estate and Development Company is a not-for-profit organization, and hence there was no profit (loss) consolidated in these financial statements.

Zakat, Tax, and other Governmental Payments

The Bank has made the following payments during the year in respect of the cited captions;

Zakat (against 2009)	SAR 3.54 million
Income tax and withholding tax	SAR 2.10 million
GOSI (including Bank and the employees)	SAR 34.60 million
Visa, Iqama and related services, etc.,	SAR 1.26 million

The zakat amount due for 2010 has been estimated at SAR 892 thousand that is attributable to Saudi Shareholders. The Bank has adequate provision in the books to settle the final zakat demand. An amount of SAR 442 thousand has been estimated as income tax liability attributable to non-Saudi shareholder, and is ultimately borne by the non-Saudi shareholder himself.

Basis of Financial Statements Preparation

The Bank's financial consolidated statements are prepared following the International Financial Reporting Standards, Accounting Standards for Commercial Banks promulgated by SAMA, the provisions of Banking Control Law, Regulations for Companies, and Bank's Articles of Association. The Bank's books of accounts have been maintained properly.

Major Developments

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

As an integral part of the Bank's continual effort to attract professionals with leadership skills and multi experiences in banking and financial areas so as to achieve the Bank's vision towards building a multi-specialist bank compliant with Shari'ah rules, Mr. Nabil Alhoshan was appointed as the Chief Executive Officer of the Bank on the 1st of August 2010. It is worth mentioning that Mr. Alhoshan is a seasoned Saudi banking veteran with over 26 years of banking business and leadership experience. He assumed several executive positions in ANB, SAMBA Group, and SABB, in addition to several Board Memberships. As of his joining, the Bank saw a restructuring effort in line with market requirements and customer needs. Effort is on-going to attract required professionals in order to upgrade the Bank's performance and achieve more qualitative progress with respect to services and products.

Shareholder's Equity

Shareholder's equity ended the year at SR 4,516 million and earnings per share was SR 0.10. The capital adequacy ratio for the Risk Weighted Assets for Pillar One under the Basel II regime reached 15.11% for its Tier 1, and 15.72% for its Tier 1 & Tier 2 equity respectively.

Future Planning

The Bank's vision about its future direction is very clear and strong. There have been significant developments during 2010 in terms of growth as well as strengthening the organizational structure. The Bank has resolved to continue to reinforce its current activities. It will also capture new opportunities in the market to further diversify its revenue stream and consolidate its market share within our anticipation that the credit risks will decrease in 2011 in comparison to the last few years.

Major Business Lines

Bank Aljazira's activities comprise five main lines: Retail Banking, Corporate Banking, Brokerage, Treasury, and Takaful. The Bank's services are conducted through a network of 50 branches spread in all main cities of the Kingdom of Saudi Arabia. Table 3 details information on assets, liabilities, total operating expenses, and net profit for each sector, while Table 4 depicts the geographic distribution of income within the Kingdom.

Table 3: SUMMARY FINANACIAL STATEMENT

SR'000	Personal Banking	Corporate Banking	Brokerage	Treasury and others	Total
Total assets	6,228,876	13,986,811	571,767	12,230,767	33,018,221
Total liabilities	11,310,121	3,151,604	14,168	13,736,646	28,212,539
Total operating income	347,547	582,486	117,214	107,819	1,155,066
Inter – segment operating income/(loss)	4,529	(72,999)	44,097	24,373	-
Total operating income	352,076	509,487	161,311	132,192	1,155,066
Net special commission income/(loss)	237,323	506,306	-	(26,376)	717,253
Fee and commission income, net	30,239	54,740	149,059	31,433	265,471
Trading income, net	-	-	371	27,433	27,804
Operating expenses include:					
Charge for provision for credit losses, net	32,351	329,881	-	-	362,232
Impairment of other financial assets	-	-	-	-	-
Depreciation	37,719	5,787	15,961	21,801	81,268
Total operating expenses and minority interests	401,831	442,128	162,599	119,596	1,126,154
Net income/(loss)	(49,755)	67,359	(1,288)	12,596	28,912

Table 4: DISTRIBUTION OF INCOME WITHIN SAUDI ARABIA

SR'000	Central	Eastern	Western	Head Office	Total
Total operating income	388,331	161,387	324,973	280,375	1,155,066
Total operating expenses and minority interests	(100,963)	(38,197)	(82,666)	(542,096)	(763,922)
Net operating income / (loss)	287,368	123,190	242,307	(261,721)	391,144
Charge for provision for credit losses, net	(7,277)	(290,008)	(64,947)	-	(362,232)
Impairment of other financial assets	-	-	-	-	-
Net income / (loss)	280,091	(166,818)	177,360	(261,721)	28,912

Retail Banking Group

Our focus during 2010 was on enhancing and expanding delivery channels as well as increasing our reach by adding 2 new branches reaching 50 branches; in addition to 15 lady sections. In the same time we have introduced other sales & service channels such as hunters, direct sales, tele-sales, real estate agents, and signed up with several real estate developers. In order to make those channels effective, we have created innovative asset and deposit products that have enabled them to contribute to a high value growth across different segments.

Another key focus was in acquiring, motivating and retaining the right talent supported by effective training programs, performance management tools and rewards program that proved successful in enabling them to acquire customers and deliver service right from the first time.

As a result, we achieved a staggering growth in assets as we doubled our asset book within 1 year's time from SAR 2.76 billion in 2009 to SAR 5.54 billion in 2010, an increase of 100%. Liabilities too, recorded a net annual growth of 12% from SAR 10.46 billion in 2009 to SAR 11.73 billion in 2010. Our customer base grew by 36,525 customers reaching 124,163 an increase of 42% over 2009.

Our ATM network business continued to show positive trends as availability reached 97% (Best in class). We also focused on increasing revenue by developing and rolling out a model that have resulted in 18% reduction in our operating expense i.e. from SAR 55.9 million in 2009 to SAR 49.8 million in 2010, and an increase of 9% in revenue i.e. from SAR 35.5 million in 2009 to SAR 38.2 million in 2010. Moreover, we optimized our ATMs by reducing our site rents and moving to profitable locations, bringing the total to 308 machines.

Although BAJ have best in class Online banking platform already, we've upgraded the look and feel and continued to introduce new services including MOI, SADAD and Credit Card services that allowed our customers to conduct their banking needs around the clock 24/7. This reflected in 10,000 new subscriptions and an increase in financial transactions from 194,000 to 294,000.

We have also added the point of sales services to the client offering menu, where we launched state of the art EMV, PCI, Span 2 compliance that is supported by the latest chip technology.

Retail banking will continue to expand on the effective channels and introduce targeted innovative products to support the aggressive forecasted growth and achieve strategic objectives. It will also roll out certification programs that will upgrade the knowledge and enhance the distribution model value, which will go hand in hand with an increased geographical footprint and a far better presence in the untapped markets.

Corporate Banking Group

Corporate banking has maintained a stable and growing customer base during 2010. A new unit was created to handle Public Sector clients and the unit to service Financial Institutions clients was strengthened. The priority during 2010 was to grow the number of products sold to each customer with a strong emphasis on Cash Management, Trade Services and Treasury products. The Relationship Managers of the Corporate Banking Group focused on broadening existing relationships as well as bringing in new clients.

The Corporate Bank's activities are concentrated in the 3 major metropolitan areas of the Kingdom - Riyadh, Jeddah and Dammam - with the required expertise and resources in each of the 3 regional offices to handle the banking needs of the customers in each region.

Promoting the presence of Bank Aljazira in syndication business, the Syndication Division had a very successful year by being appointed as a Mandated Lead Arranger and securing most coveted roles for Islamic Facility Agencies after severely competing with leading local and international banks for landmark Shari'ah compliant transactions. All these achievements have enhanced Bank Aljazira's profile in the syndication and project finance market.

Another milestone for the Corporate Bank in 2010 was the setting up of a Commercial Business Unit to serve small and medium sized enterprises. Going forward this customer segment will be a top priority for BAJ.

Treasury Group

The Group continues to add more Shari'ah compliant products. Customer deposits increased from SAR 22.1 billion in 2009, up to SAR 27,3 billion year end 2010, and successfully managed to improve loans to deposit ratio down to 68% from 70% in 2009. The Group conservatively grew its investment portfolio by 3.8% in line with bank's general market risk approach.

The Group continuously strives to achieve better understanding of our customer needs, consequently develops its Shari'ah complaint product range in partnership with Corporate and Retail Banking Groups as well as working seamlessly to deliver structured and more sophisticated solutions to our customers. During 2010, the Group embarked on implementing a full front to back solution which includes market and credit risk modules; and in line with its growth plans a full Treasury Branch will open in Riyadh in 2011.

Aljazira Capital

The year 2010 can be considered pivotal for Aljazira Capital (AJC). Despite the unstable market conditions, AJC succeeded in maintaining the Equity Market leadership in the Kingdom with 15.93% market share to continue its leadership for the sixth year in row.

AJC focused its efforts in 2010 to strengthen its brokerage capabilities and at the same time to lay the cornerstone for Asset Management Business to achieve the strategic direction of diversifying sources of income. In this context, AJC has rolled out its Brokerage Global Trading Platform, which widened the online brokerage capability to include regional and international markets. In 2010, AJC has launched the UAE markets and US markets in addition to the Saudi Market. Additional Regional and International Markets are planned to be introduced in the near future.

2010 has also witnessed a comprehensive operations consolidation, and organizational restructuring to ensure containment of expenses, and enhancement of business conduct. While AJC is currently offering 5 different funds to its clients, the Company plans, during 2011, to introduce two new funds; an Emerging Markets Fund, and a Real Estate Fund. Plans also include the launch of Discretionary Portfolio Management products. In addition, the company will be working to develop a Fixed Income Instrument.

AJC is looking to 2011 optimistically. We hope that the global economy will start recovering, and begin a new upward cycle. Accordingly the Financial Markets will pickup and overcome the negative momentum that dominated previous years.

Takaful Taáwuni

Bank Aljazira was the first banking institution in the Kingdom to introduce its own protection & savings products in 2001 as a fully-fledged Shari'ah compliant alternative to conventional life insurance products. Since then, Takaful Ta'awuni has assumed a market leading position in the life insurance industry in the Kingdom, in terms of volumes of policies sold and innovation, and has undergone rapid growth in order to satisfy increasing demand for Shari'ah compliant life insurance in the Kingdom.

According to the 2009 Saudi Insurance Market Report, as at 31 December 2009, the Bank's Takaful Ta'awuni operations accounted for around 28 percent of the Protection & Savings sector (life insurance) market in the Kingdom. Among other things, the division's success can be attributed to the effective implementation of its «agency distribution model» to actively sell its products and services across the Kingdom via its 11 Takaful sales offices in the Kingdom.

A highlight of 2010 was the progress made in the operational & regulatory segregation of the division from the bank pursuant to insurance regulations in Saudi Arabia. Key developments were focused on infrastructure readiness of the new company to support operational performance after issuance of the insurance license by SAMA. One of the major components of this infrastructure development was the significant upgrade to the core life application system which will improve operational efficiency manifold.

During 2010, an increased focus was given to the qualitative enhancements of existing products and services. Using the last 10 years pioneering experience in the Saudi market, TTD re-engineered existing core products to be further aligned to customers' needs. Pursuant to regulatory requirements, an improved version of TTD's flagship product, the "Individual Retirement" contract, has been filed with the regulator for approval before it is introduced into the market. In addition, five supplementary contracts have also been filed for product approval to the regulator.

Finance Management Group

The financial management and control function of the bank has been significantly strengthened with the induction of senior and middle management Finance professionals with extensive international and domestic experience.
The Group's function are mainly geared towards developing strategic financial road map for the medium and long term financial performance of the bank in line with the managements and board's key priorities. In addition the Group is instrumental in safeguarding the assets and financial interests of the bank. Compliance with International Accounting Standards, fulfilling the requirements of domestic regulatory bodies is a key responsibility of the Group, and in this context maintenance of accurate financial records, periodic reporting to the regulators, the board and shareholders forms a core activity and responsibility of the group.
Saudi Arabian Monetary Agency, Department of Zakat and Taxation, and Capital Markets Authority are the main regulatory bodies that the Group is continuously engaged with, in addition to, managing Internal and External Audits.
The Group is continuously developing, maintaining, implementing and upgrading Financial and Management information systems to generate accurate and timely information to manage the bank's activity, exercise appropriate financial control and regulate the business. A result of the Finance Group's effort in implementing state of the art system was bringing the COGNOS system online in 2010 which provides up to date information to the businesses at all performance levels and has also assisted us in automating our Budgeting and Planning processes.

Human Capital Group

The group is a strategic partner to all the business functions, encompassing the entire scope of strategic and administrative HC functions, responsible for the identification, management, administration, guidance and oversight of all HC requirements and issues, including consultative and advisory input on all Compensation, Benefits, Recruitment, Training, Talent Management, HRMS, Staff and Government Relations, and regulatory HC practices oversight and compliance.
The Human Capital Group is also firmly focused on attracting, absorbing, developing, and retaining Saudi talent, and to maintaining a high Saudization ratio, which hit 89% by the end of 2010. This area is chief among BAJ's core values and a highlight of its leading position in this field. Accordingly, the BAJ Human Capital Group provides a variety of training opportunities to undergraduates across the Kingdom, who fulfill BAJ's criteria for long term Human Capital investment and retention, to help develop and prepare them for their upcoming real-life challenges after graduation, through custom designed and structured development courses.

Support Group

The Support Group was able to contribute positively to BAJ Strategic Plan in 2010 by leading multiple major initiatives. The following is a summary of the Group's achievements in 2010:

- Achieved certification against an internationally accepted Quality Management Standard (ISO 9001:2008). This achievement is in line with BAJ strategy to enhance existing banking services and processes.
- Upgraded BAJ banking systems and network components to align with the expansion of branches, ATM's, products and transactions.
- Expanded the features of corporate and individuals banking services. These include Corporate Payroll service (Rawatebcom), Implemented technology and processes necessary for the deployment of Smart (chip) debit and credit cards, enhancing Aljazira Online Trade and online banking services.
- Introduced an integrated and a customizable technology solution to improve the management decision making efficiency and hence shortened the time to market cycle. Also, provided data warehousing and data mining technical solutions to support management in making timely and informed business decisions.
- Achieved compliance certification against PCI-DSS (Payment Card Industry–Data Security Standard) which is a globe security regulation mandated by SAMA and credit card schemes to implement adequate security controls over access to customers' credit and debit cards and their account information. In addition, the security infrastructure and processes were reviewed and enhanced to ensure maximum resilience of BAJ's systems and network against cyber attacks.
- Completed the asset registrar of the bank's fixed assets and implemented necessary business processes to ensure accuracy and completeness of finance fixed asset register. Contributed significantly to various cost reduction initiatives. In addition to introducing an Electronic Item Catalog (EIC) application for internal control and addressed the potential cost saving on expense items such as IT maintenance contracts and all other procured product/services.

Risk Management

Risk Management plays a key role in supporting the business units in achieving their financial targets within the defined risk appetite. It is also involved in the development of new products and business segment that help to strengthen the Bank's franchise. Effective risk control tools and risk mitigation techniques have protected the Bank against various risks and resulted in a relatively low ratio of non-performing loans.

A major reorganization of the Risk Group took place in 2009 and this was further executed during 2010. Market risk and Retail risk experts were hired to strengthen the risk management team and to further meet the challenges of bank's strategic direction. Key objectives of 2010 were to enhance risk oversight; take a prudent approach to managing risks; provide focus on key risk areas; especially when they span different products or businesses; to streamline functions and improve response times; and to take a proactive approach to risk origination, risk management, and risk differentiation.

The major achievements during 2010 include enhancement of credit risk internal rating system, expansion in market risk oversight and increased operational risk awareness across the organization. The new structure has provided the Bank with enhanced capabilities to identify, evaluate, and manage risks consistent with the Basel II accords, SAMA guidelines and best industry practices.

Shari'ah Group

Shari'ah Group continued its efforts to create awareness about Islamic banking and finance. The Islamic image of the Bank was promoted by the Group with the full support of the Shari'ah Board throughout the year through the dissemination of core concepts about Islamic banking within and outside the Bank.

The Group provided support services to all internal and external stakeholders of the Bank. During 2010 a total of 70 written inquiries were received and 94 replies, instructions and guidelines provided; main support was extended in the form of review of Shari'ah compliant Islamic Product contracts and offerings of Retail Banking, Corporate Banking and Treasury groups. In view of the Treasury's strategy to build rapid institutional relationships, Shari'ah Group provided a counter strategy group to meet their immediate objectives without sacrificing the quality of Shari'ah Compliance. Some of the product proposals initiated last year by the Shari'ah Group have been conceptually accepted by the business stakeholders and are at different stages of implementation.

The Group conducted Shari'ah compliance audit of Bank's transactions and reported the gaps observed in its internal reports to all related internal stakeholders. The Shari'ah Compliance Division's strategy this year was to create awareness among the new joiners and staff by advising them to rectify unintentional mistakes, errors and omissions rather than booking the same in our regular internal Shari'ah audit reports. This approach helped to bring down the non Shari'ah compliance issues to a minimum manageable level.

Six Shari'ah Board meetings were arranged during 2010, a total of 14 issues were presented to the Shari'ah Board and 8 resolutions made. The Shari'ah compliance reports are presented to the Shari'ah Board periodically and a consolidated report is submitted at the year end.

The Group's Research and Development Center played a leading role in identifying and changing the conventional terminology used in the Bank's annual report to be in line with our Islamic Banking business terminologies in coordination with Finance Group. This was a long outstanding project for the last three years that took place during this year by removing all technical hurdles in compliance with the directives of the Shari'ah Board's observations. The Research and Development Center resolved the monitoring issue of some of the special accounts by developing the Crystal reports tool with the collaboration of IT to get reports as and when required. Also, the center drafted the minimum Shari'ah governance structure in line with the Bank's corporate governance framework. The draft of the enhanced Shari'ah Board charter incorporates Shari'ah Group's general policy and procedure guidelines that are expected to be completed, reviewed and presented to the Board of Directors during the first half of 2011. The target is to reduce Shari'ah approval turnaround time and increase efficiency to timely serve all internal and external stakeholders' inquires related to Islamic Banking and Finance issues.

After the creation of Jazira Takaful Taáwunni and Aljazira Capital subsidiaries, it was a Capital Market Authority (CMA) requirement to provide professional Shari'ah governance services through a Services Level Agreement (SLA) between the Bank and its subsidiaries. Both Shari'ah governance end to end professional services proposals were made by the Shari'ah Group and sent to both subsidiaries in line with CMA requirement.

Internal Audit Group

Internal Audit's role is to assist the Board and senior management by evaluating the processes of risk management, internal control and governance. The group provides analysis, recommendations and information to safeguard the Bank's assets and protect the interests of shareholders, customers, directors and employees.

In 2010, the number and scope of audits was increased. A more comprehensive Risk Based approach was adopted. While several significant changes to products and policies were reviewed and recommended. The Internal Audit continues to extend its audit scope to areas such as Operations, Investment, Risk and Information Technology.

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

Compliance Group

During 2010, the Compliance Group successfully recruited 3 professionals who assisted a great deal in developing and implementing a Board approved Corporate Compliance Policy, formed a management-level Compliance Committee along with its Charter, approved by the Board. The Annual Compliance Report for the year 2009 was submitted to Saudi Arabian Monetary Agency through the Chairman of the Board. In addition, a detailed Compliance Program, Annual Compliance Plan and the Compliance Risk Management Framework were developed, reviewed and approved by the Compliance Committee. Most of SAMA requirements of were published in the Compliance Manual.

The Group's team continued to carry out its routine tasks; such as monitoring the efficient implementation of compliance policy and compliance function within the Bank; review new policies and procedures. The Bank's policies and procedures have been collected for further updates, training program to improve compliance culture has been developed and will be rolled over during 2011. Both actions will enable the Bank to achieve regulator's full requirements.

Transformation and Strategy Group

To take the Bank to the next level of operation, management has embraced on an ambitious transformation plan called AFAQ-2012, which defines a list of strategic initiatives designed to achieve our long-term vision to become a multi-specialist Shari'ah compliant bank by the year 2012. The Transformation and Strategy Group is dedicatedly working for effective implementation and delivery of all projects, and identify potential business opportunities.

The Group consists of the Strategy team, which is in charge of identifying and analyzing business opportunities and recommending appropriate initiatives that will boost the Bank's profitability, and the Transformation team, which controls and monitors AFAQ-2012 projects through the Program Management Office. It also identifies the processes to be optimized to offer a better quality of services to customers and improve our profitability through the Business Process Re-engineering function. The Transformation team also monitors quality across the Bank through the Quality Management function.

Credit Ratings

Table 5 illustrates the credit ratings achieved by the Bank.

Table 5: CREDIT RATINGS

Description	Capital Intelligenc Financials as of 31-12-09	Moody's Financials as of 30-09-09	Fitch Financials as of 31-12-09
Foreign currencies risk – short term	A2		F2
Foreign currencies risk – long term	BBB+		A-
Financial strength rating	BBB+	D+	
Support rating	2		1
Outlook rating	Stable	Stable	Stable
Bank deposits		A3/P-2	
Sovereign risk – short term	A1+		F1+
Sovereign risk – long term	AA -		AA -

Dividends
The Board of Directors has not recommended any distribution out of current year's profits.

Statutory Appropriations
The statutory appropriation of SAR 8 million has been made from current profits to the Statutory Reverse in accordance with Article 13 of the Banking Control Law.

Long-Term Borrowing
There were no long-term borrowings in 2010 as well as in 2009.

Bank Dealings with Board Members, Chief Executive Officer and Chief Financial Officer
Notwithstanding the information included in Note 34 in the Audited Financial Statements "Related Party Transactions" that have been conducted according to the same terms and conditions same as if transacted with independent third parties, there are no substantial interests for the Board members, the Chief Executive Officer or Chief Financial Officer. Further, there are or were no such contracts with any of the vendors wherein any of the Board Member, CEO, CFO or any associate thereof has or had any material interests.

Corporate Governance

Dividend Policy
The Bank distributes profits to the shareholders in accordance with Article (45) of the Statute of the Bank as follows:

The company's annual net profits will be distributed after deduction of general expenses and other costs, and allotting of reserves for doubtful debts and losses on investments and contingent obligations which the Board of Directors may considers necessary in accordance with the provisions of the Banking Control Law, as follows:

(A) The due amounts of Zakat required from Saudi shareholders, and the tax imposed on non-Saudis shall be calculated in accordance with the effective regulations of the Kingdom of Saudi Arabia. The company has to pay these amounts to the competent authorities and the deduction of Zakat paid for the Saudis from their share in net profit. Likewise, the paid tax on non- Saudis shall be deducted from their share in net profit.

(B) At least 25% of the net profit balance will be transferred after deduction of Zakat and the tax, as stated in the above paragraph (a) to the legal reserve until the said reserve becomes at least equal to the paid-up capital.

(C) After deducting the legal reserve, Zakat and the tax, an amount of the remaining profits, not less than (5%) of the paid-up capital shall be allotted for distribution to shareholders from both Saudis and non-Saudis, provided that the distribution should be made on the basis of the paid-up value of shares of Saudis and non-Saudis as proposed by the Board of Directors and determined the General Assembly. If the remaining amounts of the profits become due to any of the concerned shareholders, they may not claim to be paid in the following year or the years to come and the General Assembly as well may not decide to distribute a percentage of profits more than had been proposed by the Board of Directors.

(D) The remainder amount would be used after the allocation of the amounts mentioned in paragraphs (1, 2.3) above as proposed by the Board of Directors and decided by the General Assembly.

(E) The percentage of shares owned by both Saudis and non-Saudis shall be maintained when calculating the necessary allocations from net profits against the legal reserve and other reserves after deduction of Zakat and taxes. Each of the two shareholder groups, whose contribution to the reserves is made according to their shares in the capital and the said shares shall be deducted from net profit.

Governance

Bank Aljazira is strictly abide by the rules of corporate governance that realize the strict implementation of the overall internal control systems, policies of transparency and commitment to the principles of risk management. The Bank also strives to comply the overall business with regulations and laws of the Kingdom and to continuously bring in the latest performance criteria for the global banking in terms of overseeing the banking performance, including the directives of Saudi Arabian Monetary Agency (SAMA), the Saudi Capital Market Authority (CMA), Ministry of Commerce and Industry, and all requirements and recommendations issued by the Basel Committee.

On the basis of paragraphs (c) of Article I and Para (a) of Article IX of the Rules of Corporate Governance in the Kingdom of Saudi Arabia issued by the CMA, Bank Aljazira applies all the provisions contained in the regulations with the exception of Article 6 (b) relating to cumulative voting, which has not become mandatory until now.

All principles of corporate governance issued by the Financial Market Authority are also included in the corporate governance regulations of the Bank in a detailed manner to ensure monitoring and control of their effectiveness, develop and modify as needed by the Board of Directors.

SAMA, CMA, GOSI and Municipalities have imposed fines on the bank and subsidiaries with a total of SAR 3,42 million during 2010.

A- Board of Directors

The Board of Directors consists of (9) members, including (6) independent and (3) non-executive. The Board held four meetings in 2010 and (five meetings in 2009), as detailed in Table 6.

Table 6: BOARD OF DIRECTORS – MEETINGS ATTENDANCE

Member's name	Capacity	1st mtg 16/1/10	2nd mtg 31/3/10	3rd mtg 30/6/10	4th mtg 16/1/10	Total
Mr. Taha Abdullah Al-Kuwaiz	(independent)	1	1	1	1	4
Mr. Abdullah Saleh Kamel	(independent)	1	_	_	1	2
Abdul Majeed Ibrahim Al-Sultan	(non-executive)	1	1	1	1	4
Mr. Mohammed Abdullah Al-Hagbani	(non-executive)	1	1	1	1	4
Mr. Khalid Omar Al-Baltan	(independent)	1	1	1	1	4
Engineer Tarek Othman Al-Kasabi	(non-executive)	1	_	1	1	3
Mr. Khalifa Abdul Latif Al-Mulhem	(independent)	1	1	1	1	4
Mr. Mohamed Abdullah Al-Angari	(independent)	1	1	_	1	3
Mr. Hisham Abdul Malik Al-Sheikh	(independent)	1	1	_	1	3

The Board of Directors controls in general the Bank's performance and operation through periodic meetings throughout the year, develops policies and ensures proper implementation. The Board also reviews periodically the effectiveness of existing regulations and internal control procedures and monitors the major operations of the bank to make sure that the general policies and risk management strategies which had been developed by the Board are satisfactorily implemented. Through the Audit Committee, the Board also reviews the financial situation of the bank with the external auditors to ensure the integrity of financial performance and full compliance with the laws and regulations as well as accounting standards applicable in Saudi Arabia. The Board assumes its statutory responsibility for the accuracy of financial statements and that they fairly reflect the financial position and results of its operations and the extent of compliance in all its operations with legal regulations laid down by the Shari'ah Board of the Bank.

Members of the Board of Directors of Bank Aljazira who are also board members in the Saudi joint stock companies listed in the Trading System (Tadawul) on 31 December 2010 are as detailed in Table 7.

Table 7: BOARD OF DIRECTORS' MEMBERSHIPS IN OTHER JOINT-STOCK COMPANIES

Member's name	Membership in other's joint- stock companies boards of directors
Mr. Taha Abdullah Al-Kuwaiz	Saudi Kayan Petrochemical Company - Member of the Board of Directors
Mr. Abdullah Saleh Kamel	Asir Company - Chairman of the Board Amlak International for Real Estate Development and Finance - Chairman of the Board Saudi Research Group - Member of the Board of Directors Emaar the Economic City - Member of the Board of Directors
Abdul Majeed Ibrahim Al-Sultan	Qassim Cement Company - Member of the Board of Directors
Mr. Mohammed Abdullah Al-Hagbani	National Petrochemical Company - Member of Board of Directors Representative of the General Organization for Social Insurance
Mr. Khalid Omar Al-Baltan	--
Engineer Tarek Othman Al-Kasabi	Aseer Co. - Member of the Board of Directors
Mr. Khalifa Abdul Latif Al-Mulhem	Advanced Polypropylene Company - Chairman of the Board Nama Chemicals Company - Member of the Board of Directors Riyadh Cement Company - Member of the Board of Directors
Mr. Mohamed Abdullah Al-Angari	--
Mr. Hisham Abdul Malik Al-Sheikh	--

It should be noted that the members of the Board of Directors had been elected by the Ordinary General Assembly «Forty-fourth» in its meeting held on 04 Muharram 1431H corresponding to 21 December 2009 at the headquarters of the Bank in Jeddah, for the current tenure which began on 01 January 2010 for a period of three years effective up to 31 December 2010. Table 8 details the major shareholders but non-members of the Board of Directors and Table 9 depicts change in the percentage of shares ownership of the major shareholders who are members of the Board of Directors.

Table 8: MAJOR SHAREHOLDERS BUT NON-MEMBERS OF THE BOARD

s.	Name	Number of shares owned	Percentage of ownership to the total share capital
1	Rashed Al- Abad al Rahman Al-Rashed & Sons	66,791,880	22,26%
2	National Bank of Pakistan	17,500,000	05,83%
3	Sheikh Saleh Abdullah Mohammed Kamel	15,000,000	05,00%

Table 9: CHANGE IN THE PERCENTAGE OF SHARES OWNERSHIP OF THE MAJOR SHAREHOLDERS WHO ARE MEMBERS OF THE BOARD

In the beginning of the year		During the year		At the end of the year	
Number of shares	Percentage of ownership to the share capital amounting to 300,000,000 shares	Net change in number of shares	Percentage of change	Total acquisition	Total Percentage of ownership to the share capital amounting to 300,000,000 shares
99,291,880	33,01%	_	_	99,291,880	33,01%

Change in the percentage of shares ownership of the Chairman and members of the Board & Senior Executives of the Bank and their spouses and dependent children:

The Board of Directors consists of (9) members representing the legal persons, natural persons and representatives of the Board in their personal capacity. There is no evidence to show the ownership of shares in Bank Aljazira for any of the senior bank executives or their spouses or their dependent children. Table 10 illustrates shares owned by members of the Board and their ownership interest.

Table 10: SHARES OWNED BY MEMBERS OF THE BOARD AND THEIR OWNERSHIP INTEREST

S	Name	Number of shares	Percent of ownership to the total share capital
1	Mr. Taha Abdullah Al-Kuwaiz	174,333	0,06%
2	Mr. Abdullah Saleh Kamel Al Tafeeq Develop House. LTD	10,005,000 2,692,578	03,34% 0,90%
3	Eng. Abdul Majeed Ibrahim Al-Sultan Etihad Brothers Development Co.	63,000 19,781,816	0,02% 06,59%
4	General Organization for Social Insurance - (represented in the Board of Directors by Mr. Mohammed Abdullah Al-Hagbani)	12,275,138	04,09%
5	Mr. Khalid Omar Al-Baltan	11,990,320	04,00%
6	Eng. Tariq Al-Kasabi	8,999	0,00%
7	Mr. Khalifa Abdul Latif Al-Mulhem	1,256,451	0,42%
8	Mr. Mohamed Abdullah Al-Angari	526,000	0,18%
9	Mr. Hisham Abdul Malik Al-Sheikh	10,000	0,00%

Table 11 illustrates change in the percentage of shares ownership of members of the Board and their ownership interest during 2010.

Table 11: CHANGE IN THE PERCENTAGE OF SHARES OWNERSHIP OF MEMBERS OF THE BOARD AND THEIR OWNERSHIP INTEREST

In the beginning of the year		During the year		At the end of the year	
Number of shares	Percentage of ownership to the share capital amounting to 300,000,000 shares	Net change in number of shares	Percentage of change %	Total acquisition	Total Percentage of ownership to the share capital amounting to 300,000,000 shares
59,065,635	19,69%	344,000	- 0,59%	58,721,635	19,58%

B – Board Committees

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

1 - Executive Committee

The Executive Committee consists of members selected by the Board of Directors and chaired by the chairperson at this tenure of the Board. The Board of Directors determines the jurisdiction and powers. It is the responsibility of the Executive Committee in accordance with the delegated powers to monitor the implementation of the strategy and policies set by the Board of Directors, risk management and control of the bank's performance, recommend the budget and action plan submitted for the fiscal year and to make sure of the extent of Board's policies implementation, in addition to monitoring the efficiency of standards and internal control policies implementation.

The Executive Committee for the current tenure has been formed in the Board Meeting held on 01 Safar 1431 H (corresponding to 16 January 2010), where the Committee held nine meetings during 2010 (eleven meetings in 2009), attended by members of the Committee as described in Table 12.

Table 12: THE EXECUTIVE COMMITTEE

Name	Functional Duties	Meetings Attended
Mr. Taha A. Al-Kuwaiz	Chairman	9
Engineer T. Al-Qasabi	Member	8
Eng. Abdul Majeed I. Al-Sultan	Member	9
Mr. Khalifa A. Al-Mulhem	Member	9
Mr. Khalid O. Al-Baltan	Member	7

2- Audit Committee

The Audit Committee plays a key role in helping the Board of Directors to deliver the statutory duties of financial, accounting and audit risk limits in addition to auditing tasks and coordination with external auditors of the bank. The Committee shall review the quarterly financial statements, assist the Board in carrying out evaluation and annual review of the effectiveness of internal controls, and identify potential risks and develop strategic plans to address them.

The results of the annual efficiency audit of the internal control procedures of the Bank have reflected excellent levels. In this regard, the Bank adopts all policies and procedures required by various statutory bodies in addition to international practices.

The Audit Committee consists of the chairperson to be chosen from the non-executive members of the board and three independent members from outside the Bank. The meetings of the Audit Committee shall be attended by the Chief of Internal Audit Group and Chief Financial Officer on constant basis. The meetings are also attended by the CEO and senior executives when needed. The Audit Committee was formed for the current tenure of the Board on 04 July 2010, where the Committee held three meetings during 2010 (nine meetings in 2009), attended by the Chairperson and Members, as shown in Table 13.

Table 13: THE AUDIT COMMITTEE

Name	Functional Duties	Meetings Attended
Mr. Mohammed A. Al-Hagbani	Chairman	3
Mr. Faraj M. Abuthunain	Member	3
Mr. Majed A. Al- Haqeel	Member	3

3- Nominations and Remuneration Committee

Following the issuance of the Corporate Governance Bylaw of Bank Al- Jazira, this Committee was formed under the Board of Directors Council. The attachment (G) in the Corporate Governance Bylaw depicts how to form this Committee as well as its powers and responsibilities and all with regard to its work in accordance with the requirements of the regulation of corporate governance issued by the CMA.

The duties and terms of reference of the Nominations and Remuneration Committee shall be focused on writing up recommendations for the Board about nominations to the Board of Directors in accordance with the set policies and standards. Its duties also include the annual review of the required skills for the membership of Board and to review the structure of the Board of Directors and make recommendations on the needed changes. The Committee also checks up on an annual basis the independency of independent members and addressing any conflict of interest if the member of Board of Directors serves in another company. The Committee shall make its recommendations for the nomination on the basis of appropriate skills, abilities and qualifications required. It is also in charge of developing and reviewing policies, rewards and compensation of board members and senior executives.

The forty second Extraordinary General Assembly held on 10 of Rabi II 1429H (16 April 2008) ratified the rules for selecting members for the Nomination and Remuneration Committee and the Committee's functions according to Article XV of the CMA and in accordance with the recommendation of the Board of Directors.
The Nomination and Remuneration Committee was formed for the current tenure in the Board's meeting held on 01 Safar 1431H (corresponding to 16 January 2010), where the Committee held five meetings during 2010 (two meetings during 2009), attended by the Chairman and members of the Committee as described in Table 14.

Table 14: THE NOMINATION AND REMUNERATION COMMITTEE

Name	Functional Duties	Meetings Attended
Mr. Taha A. Al-Kuwaiz	Chairman	5
Eng. Tariq O. Al-Kasabi	Member	5
Mr. Hisham A. Al-Sheikh	Member	5

4- Risk Management Committee

This committee was formed in 2009 to deliver the responsibilities of the Board of Directors concerning the supervision of risks inherent in the operations of the Bank and the controls over such risks. The Committee held one meeting in 2009 and did not hold any meeting during 2010.

C - Payments to the Board Members and Senior Executives:

The Bank shall pay the expenses and remuneration for attending the meetings of the Board of Directors and members of the subcommittees. The total of these payments during 2010 for members of the Board of Directors and five senior executives, including Chief Executive Officer and Chief Financial Officer is detailed in Table 15.

Table 15: REMUNERATION AND ALLOWANCES PAID TO MEMBERS OF THE BOARD AND FIVE SENIOR EXECUTIVES, INCLUDING THE CEO AND CHIEF FINANCIAL OFFICER

Statement	Executive Board Members	Non- executive Board Members	**(SAR thousands)** Payments to five senior executives, including CEO & CFO
Salaries and compensations	_		8,865
Allowances	_	702	1,022
Periodic and annual bonuses	_	_	4,350
Incentive plans	_	_	1,625
Any compensation or benefits payable on a monthly or annual basis	–	–	–
Total	_	702	15,862

D – Shareholders General Assembly Meetings Held during 2010:

During 2010, the only meeting held was a general assembly meeting No. 45 which took place on 14 April 2010 (corresponding to 29th Rabi al thani 1431). The meeting approved the 2009 audited financial statements and other related business on agenda.

External Auditors

The external auditors are responsible for auditing Bank Aljazira's final accounts and financial statements. At its 45th meeting on 14 April 2010 (corresponding to 29th Rabi al thani 1431), the General Assembly resolved to re-appoint Ernst & Young and replace the co-auditors M/S PricewaterhouseCoopers with Deliotte & Toche Bakr AbulKhair &co; as the official auditors of the Bank's accounts for 2010.

Social Responsibility

Bank Aljazira pays special attention to the communities that it serves. Through its dedicated 'Khair Aljazira le Ahl Aljazira' program, that was initiated with a contribution of SAR 100 million during 2006. The Bank implements a range of activities designed to support less-privileged sections of the community. In 2010, the Bank disbursed SAR 6.23 million to various beneficiaries. The Program has funds of SAR 83 million in its account.

'Khair Aljazira Le Ahl Aljazira' program is fully supported by the Bank's management. The Community Social Responsibility Division (CSR) continues to collaborate with charitable societies and training centers Kingdom-wide to offer numerous activities and programs which would sustain the development of Saudi individuals.

In 2010, BAJ played a vital role in training the Saudi young men and women and qualifying them for market through its support to the professional and apprenticeship programs and " Biedaiah " program, a training program ending with employment. Also, BAJ supported the training of the needy on computer skills through financing the blind and deaf training programs in collaboration with specialist societies and centers. In addition, BAJ financed a number of small business projects for the benefit of productive families. Young men and women from these needy families were trained in a variety of professions that would improve their living standards and create a steady income for them.

BAJ has given a special attention to the development of computer labs in a number of charitable societies in support of their members towards using the modern technology. Also, the CSR held a number of cultural activities for boys and girls of needy families, in an effort to add a touch of joy to their life.

'Khair Aljazira Le Ahl Aljazira' offered a number of activities and functions to community members in different regions and cities of the Kingdom. In total, these benefited approximately 3,200 young people. Besides being a founding member of the Prince Salman Center for Disability Research, BAJ extended its support to Jeddah flood victims.

Gratitude

The Board of Directors would like to take this opportunity to express their thanks and gratitude for the wise vision of the government under the leadership of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud, and to his Royal Highness, Prince Sultan Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General.

We also extend our thanks to the Ministry of Finance and National Economy, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency and the Saudi Capital Market Authority for their constructive directives, consideration and continued support of the Bank's progress.

Finally, we would like to take this opportunity to extend our heartfelt thanks and appreciation to our shareholders, customers and associates for their confidence and support. We would also like to reiterate our appreciation of our management and staff for their devotion and dedication, without which we would not have achieved these excellent results.

Board of Directors

Shari'ah Advisory Board's Report

Riyadh, 13th February 2011

Dear Bank Aljazira Shareholders,

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

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

Bank Aljazira's Shari'ah Board also examined the Financial Statements for the period ending on 31st December 2010, as well as principles observed, transaction contracts made and products introduced by the Bank during the same period, so that the Shari'ah Board can deliver opinion, fatwa, guidance and necessary decisions.

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

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

1) Contracts, operations and transactions made by the Bank during the above mentioned period covered by this report are in the whole compliant with Islamic Shari'ah. Directions were given for correction, where required.
2) All gains made through Shari'ah non-compliant sources or methods have been deposited in separate accounts to be disposed of on charitable purposes.
3) The Board noticed that the Bank is still using accounting terminology such as loans, advances and deposits (with reference to Murabaha) in their Financial Statements and notes. Therefore, the Board again urges the Bank's Management to comply with Shari'ah terminology that conforms to the actually used formulas.
4) The Board noticed that the Bank is still keeping SAMBA shares acquired as a settlement with a client although the Board has confirmed the necessity for disposal of such shares as soon as possible. Thus, the Board re-urges and requests the Bank to quickly sell those shares and transfer any amount in excess of the debit to the charitable purpose account.
5) The Board was not certain about the way Shari'ah Zakat was calculated in the Bank's 2009 Financial Statements. The Bank should task the chartered accountant to prepare the Bank's Zakat Base in accordance with Shari'ah criteria, to calculate the amount of Zakat due on each share, and to present the same to the Shari'ah Board for approval. This remark was also made in our report last year.

May Allah guide us to the right path.

Sheikh Abdulla Bin Suleiman Al-Mane'e
Chairman

Dr. Abdulla Bin Mohammed Al-Mutlaq
Member

Dr. Mohammed Ali Al-Guari
Member

Dr. Hamza Bin Hussain Al-Feir
Member

Dr. Abdulsattar Abu Ghudah
Member

Dr. Mohammed Bin Said Al-Ghamdi
Rappoteur

"Baity" .. BAJ's Housing Finance Program

BANK ALJAZIRA بنك الجزيرة

BAJ is always responsive to its customers' needs and market requirements through offering distinguished services and products.

For investment purposes, BAJ purchase you a building and you repay from the rent value.

WESTERN REGION

Makkah Mukarama
Aziziah Branch
Tel : (+966) 2 557 1010
Fax : (+966) 2 553 1655
Al Shawqiya Branch
Tel : (+966) 2 539 1826
Fax : (+966) 2 538 2493

Madinah Munawara
Tel : (+966) 4 845 1111
Fax : (+966) 4 845 1953
Madinah Munawara Branch (Ladies)
Tel : (+966) 4 845 1956
Fax : (+966) 4 845 1952

Jeddah
Prince Sultan St. Branch
Tel : (+966) 2 607 5450
Fax : (+966) 2 607 5450 Ext. 208
Prince Sultan St. Branch (Ladies)
Tel : (+966) 2 607 0828
Fax : (+966) 2 607 0125
Tahlia St. Branch
Tel : (+966) 2 2610725
Fax : (+966) 2 2610485
Tahlia St. Branch (Ladies)
Tel : (+966) 2 2610730
Fax : (+966) 2 2610731
Al Musa'adia Branch
Tel : (+966) 2 661 0120
Fax : (+966) 2 661 0108
Al Musa'adia Branch (Ladies)
Tel : (+966) 2 667 3700
Fax : (+966) 2 226 2600
Al Balad Branch
Tel : (+966) 2 648 5533
Fax : (+966) 2 648 4599
Khalid Bin Al-Waleed St. Branch
Tel : (+966) 2 651 8070
Fax : (+966) 2 651 8070 Ext. 1012
Al Nahda Branch
Tel : (+966) 2 609 8500
Fax : (+966) 2 234 6838
Al Nahda Branch (Ladies)
Tel : (+966) 2 609 8520
Fax : (+966) 2 234 7227
Alaya Branch
Tel : (+966) 2 694 9224
Fax : (+966) 2 694 9117
Al Salama Branch
Tel : (+966) 2 657 5730
Fax : (+966) 2 653 3860
Al Safa Branch
Tel : (+966) 2 673 6712
Fax : (+966) 2 673 6874
King Fahd St. Branch
Tel : (+966) 2 659 7749
Fax : (+966) 2 659 7251
Al Samer Branch
Tel : (+966) 2 271 6058
Fax : (+966) 2 272 1870
Al Rabwa Branch
Tel : (+966) 2 682 7683
Fax : (+966) 2 683 6578

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

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

EASTERN REGION

Dammam
Dammam Branch
Tel : (+966) 3 832 1272
(+966) 3 8335049
Fax : (+966) 3 834 3314
Jarir Branch
Tel : (+966) 3 842 1961
Fax : (+966) 3 841 7226
Al Jalawea Branch
Tel : (+966) 3 8153394
Fax : (+966) 3 8153379
Al Faisaliah Branch
Tel : (+966) 3 811 6653
Fax : (+966) 3 811 6702
Al Khaleej Branch
Tel : (+966) 3 834 6928
Fax : (+966) 3 8348156
Al Doha Branch
Tel : (+966) 3 891 6148
Fax : (+966) 3 891 2059

Al Khobar
Al-Hada District Branch
Tel : (+966) 3 882 0040
Fax : (+966) 3 887 8653
Al-Hada District Branch (Ladies)
Tel : (+966) 3 882 8848
Fax : (+966) 3 882 8722

King khaled ST. Branch
Tel : (+966) 3 8942512
Fax : (+966) 3 8985330

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

Qateef
Qateef Branch
Tel : (+966) 3 854 5463
Fax : (+966) 3 8529920
Qateef Branch (Ladies)
Tel : (+966) 3 852 9900
Fax : (+966) 3 852 9877

Al-Ahsa
Al Hofuf Branch
Tel : (+966) 3 586 3555
Fax : (+966) 3 585 4019
Al Shahabiya Branch
Tel : (+966) 3 589 3952
Fax : (+966) 3 588 9078
Al Nakheel Branch
Tel : (+966) 3 575 4310
Fax : (+966) 3 536 4987

CENTRAL REGION

Riyadh

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Al - Hasaan Bin Ali
Tel : (+966) 1 2543845
Fax : (+966) 1 2543843

AlShefa Branch
Tel : (966) 1 2715589
Fax : (966) 1 2715590

Qasim

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

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

SOUTHERN REGION

Khamis Mushait

King Khaled Road Branch
Tel : (+966) 7 221 6465
Fax : (+966) 7 220 4230

King Khaled Road Branch (Ladies)
Tel : (+966) 7 221 6465
Fax : (+966) 7 235 1022

Abha

King Saud Road Branch
Tel : (+966) 7 226 0798
Fax : (+966) 7 229 6243

Najran

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

Jizan

Airport st. Branch
Tel : (+966) 7 322 8594
Fax : (+966) 7 322 8601

WESTREN & SOUTHERN REGIONS

Jeddah
Al Musa'adia Investment Center
Tel: (+966) 2 6606020
Al Musa'adia Investment Center (Ladies)
Tel: (+966) 2 6683600
Al Nahda Investment Center
Tel: (+966) 2 6098888
Makkah Mukarama
Maka (Aziziah) Investment Center
Tel: (+966) 2 5572020
Madinah Mukarama
Madinah Munawara Investment Center
Tel: (+966) 4 8451111
Al Taif
Taif Investment Center
(+966) 2 7409692

Abha
King Saud St. Investment Center
Tel: (+966) 7 2260851
Khamis Mushait
Khamis Mushait Investment Center
Tel: (+966) 7 2219580
Najran
Najran Service Center
Tel: (+966) 7 5230421
Jizan
Jizan Service Center
Tel: (+966) 7 3228594

CENTRAL REGION

King Fahd Road Investment Center
Tel: (+966) 1 2256133
King Fahd Road Service Center (Ladies)
Tel: (+966) 1 2256481
Uqba Bin Nafe' St. Investment Center
Tel: (+966) 1 2781416
Al Nafal Investment Center
Tel: (+966) 1 2751086
Al Suwadi-Badiah Investment Center
Tel: (+966) 1 4288749

Olaya Service Center
Tel: (+966) 1 2051388
Olaya Investment Center (Ladies)
Tel: (+966) 1 2051388
Al Riyan Investment Center
Tel: (+966) 1 2083316
Al Riyan Service Center (Ladies)
Tel: (+966) 1 2083316

EASTERN REGION

Al Khobar
Al Hada Investment Center
Tel: (+966) 3 8820040
Dammam
Dammam Investment Center
Tel: (+966) 3 8321272
Jubail
Jubail Investment Center
Tel: (+966) 3 3471398

Qatif
Qatif Investment Center
Tel: (+966) 3 8545463
Hafouf
Hafouf Investment Center
Tel: (+966) 3 5861590
Faisalia Service Center
Tel: (+966) 3 8116653

QASSEM REGION

Onaizah Investment Center
Tel: (+966) 6 3617547
Buraidah
Buraidah Investment Center
Tel: (+966) 3 3835230

TAKAFUL TA'AWUNI التكافل التعاوني

WESTERN REGION

Headquarter
Mosaedia Center, 1st floor
P.O. Box 6277
Jeddah 21442, KSA
Tel : (+966) 2 668 8877
Fax : (+966) 2 667 7284
Jeddah
KBW Building, 3rd floor
Tel : (+966) 2 651 8070
Fax : (+966) 2 651 8070 Ext. 4110
Mosaedia Center (Ladies), 1st floor
Tel : (+966) 2 668 8877
Fax : (+966) 2 661 8474

Makkah Mukarama
Al Rajhi Center (Ladies), 3rd floor
Tel : (+966) 2 561 3980
Fax : (+966) 2 561 3988
Madinah Mukarama
Ghouth Tower, 6th floor
Tel : (+966) 4 822 1574
Fax : (+966) 4 828 3925
Ghouth Tower (Ladies), 7th floor
Tel : (+966) 4 822 1572
Fax : (+966) 4 821 2147

EASTERN REGION

Dammam
Al Khuraiji Building, Ground floor
Tel : (+966) 3 831 1717
Fax : (+966) 3 831 1776
Al Khuraiji Building (Ladies),
Ground floor
Tel : (+966) 3 833 8330
Fax : (+966) 3 834 9966
Khobar
Al Shaikh Center, 1ST floor
Tel : (+966) 3 8823804
Fax : (+966) 3 887 0587
Hofuf
Al Mousa Center, Ground floor
Tel : (+966) 3 585 4747
Fax : (+966) 3 585 4419

CENTRAL REGION

Riyadh
Olaya Center, Mezzanine
Tel : (+966) 1 215 7500
Fax : (+966) 1 215 7004
Olaya Center (Ladies), 2nd floor
Tel : (+966) 1 215 7400
Fax : (+966) 1 215 7430

BAJ is keen to contribute to the community's welfare by supporting charitable societies and activities through «Khair Aljazera Le Ahl Aljazera» program funded with SR100 million in 2006.

Independent Auditors' Report

Deloitte.

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

Ernst & Young

P.O. Box 1997
Jeddah 21441
Saudi Arabia

To the Shareholders of Bank AlJazira:

We have audited the accompanying consolidated financial statements of Bank AlJazira (the Bank) and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and explanatory notes from 1 to 40 for the year then ended. We have not audited Note 41, nor the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

Opinion

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

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence Number 356 73

for Deloitte & Touche
Bakr Abulkhair & Co.

Husam H. Sadagah
Certified Public Accountant
Licence Number 73

January 16, 2011
Safar 12, 1432 H

Financial Statments

December 31, 2010 and 2009

Contents

Consolidated Statement of Financial Position

As at December 31, 2010 and 2009

	Notes	2010 SR'000	2009 SR'000
ASSETS			
Cash and balances with SAMA	3	2,607,890	1,405,183
Due from banks and other financial institutions	4	5,579,852	7,235,983
Investments	5	4,546,171	4,283,681
Loans and advances, net	6	18,704,442	15,504,094
Other real estate, net	6	679,800	691,667
Property and equipment, net	7	462,493	501,051
Other assets	8	437,573	354,945
Total assets		33,018,221	29,976,604
LIABILITIES AND EQUITY LIABILITIES			
Due to banks and other financial institutions	10	388,719	2,690,639
Customers' deposits	11	27,344,918	22,142,476
Other liabilities	12	478,902	449,155
Total liabilities		28,212,539	25,282,270
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	13	3,000,000	3,000,000
Statutory reserve	14	1,398,000	1,390,000
General reserve	14	68,000	68,000
Other reserve	15	739	-
Retained earnings		48,779	27,867
Total equity attributable to equity holders of the parent		4,515,518	4,485,867
Non-controlling interest		290,164	208,467
Total equity attributable to equity holders of the parent and non-controlling interest		4,805,682	4,694,334
Total liabilities and equity		33,018,221	29,976,604

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

Consolidated Income Statement

For the years ended December 31, 2010 and 2009

	Notes	2010 SR'000	2009 SR'000
Special commission income	17	868,346	961,241
Special commission expense	17	(151,093)	(293,460)
Net special commission income		717,253	667,781
Fees and commission income, net	18	265,471	376,341
Foreign exchange income, net		18,184	15,837
Trading income	19	27,804	36,552
Income from FVIS financial instruments		67,506	41,839
Dividend income	20	10,394	5,122
Gain on non-trading investments, net	21	-	20,729
Other operating income	22	48,454	6,835
Total operating income		1,155,066	1,171,036
Salaries and employee-related expenses		434,004	391,994
Rent and premises-related expenses		64,597	59,043
Depreciation	7	81,268	82,896
Other general and administrative expenses		175,014	180,237
Charge for provision for credit losses, net	6	362,232	412,088
Impairment charge for other financial assets	5 & 15	-	5,392
Other operating expenses	23	9,376	11,832
Total operating expenses		1,126,491	1,143,482
Net income for the year		28,575	27,554
Attributable to:			
Equity holders of the parent		28,912	27,524
Non-controlling interest		(337)	30
Earning per share (expressed in SR per share)		28,575	27,554
Basic and diluted earnings per share	24	0.10	0.09

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

Consolidated Income Statement

For the years ended December 31, 2010 and 2009

	2010 SR'000	2009 SR'000
Net income for the year	28,575	27,554
Other comprehensive income / (loss):		
Net changes in fair value of available for sale investments	739	18,478
Transfer to consolidated income statement:		
Gain on disposal of available for sale investments	-	(20,729)
Impairment charge for available for sale investments	-	5,392
Other comprehensive income for the year	739	3,141
Total comprehensive income for the year	29,314	30,695
Attributable to:		
Equity holders of the parent	29,651	30,665
Non-controlling interest	(337)	30
Total comprehensive income for the year	29,314	30,695

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

Consolidated Statements Of Changes In Equity

For the years ended December 31, 2010 and 2009

2010	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserve SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total equity attributable to equity holders of the parent SR'000	Non-controlling interest SR'000	Total SR'000
Balance at January 1, 2010		3,000,000	1,390,000	68,000	-	27,867	-	4,485,867	208,467	4,694,334
Net income / (loss) for the year		-	-	-	-	28,912	-	28,912	(337)	28,575
Other comprehensive income		-	-	-	739	-	-	739	-	739
Total comprehensive income / (loss)		-	-	-	739	28,912	-	29,651	(337)	29,314
Transfer to statutory reserve	14	-	8,000	-	-	(8,000)	-	-	-	-
Net changes in non-controlling interest		-	-	-	-	-	-	-	82,034	82,034
Balance at December 31, 2010		3,000,000	1,398,000	68,000	739	48,779	-	4,515,518	290,164	4,805,682
2009										
Balance at January 1, 2009		3,000,000	1,383,000	68,000	(3,141)	188,943	-	4,636,802	101,021	4,737,823
Net income for the year		-	-	-	-	27,524	-	27,524	30	27,554
Other comprehensive income		-	-	-	3,141	-	-	3,141	-	3,141
Total comprehensive income		-	-	-	3,141	27,524	-	30,665	30	30,695
Transfer to statutory reserve	14	-	7,000	-	-	(7,000)	-	-	-	-
Proposed gross dividend for 2008	25	-	-	-	-	(170,100)	170,100	-	-	-
Gross dividend for 2008 (approved)		-	-	-	-	-	(170,100)	(170,100)	-	(170,100)
Zakat and income tax relating to a subsidiary for 2008		-	-	-	-	(10,586)	-	(10,586)	-	(10,586)
Zakat and income tax relating to a subsidiary for 2009		-	-	-	-	(14,000)	-	(14,000)	-	(14,000)
Zakat and income tax relating to a subsidiary reimbursed by the shareholders		-	-	-	-	13,086	-	13,086	-	13,086
Net changes in non-controlling interest		-	-	-	-	-	-	-	107,416	107,416
Balance at December 31, 2009		3,000,000	1,390,000	68,000	-	27,867	-	4,485,867	208,467	4,694,334

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

Consolidated Statements Of Cash Flows

For the years ended December 31, 2010 and 2009

	Notes	2010 SR'000	2009 SR'000
OPERATING ACTIVITIES			
Net income for the year attributable to equity holders of the parent		28,912	27,524
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income	19	(27,804)	(36,552)
Income from FVIS financial instruments		(67,506)	(41,839)
Gain on non-trading investments, net	21	-	(20,729)
Depreciation	7	81,268	82,896
Loss on disposal of property and equipment, net		615	192
Property and equipment written off		-	1,354
Charge for provision for credit losses, net	6	362,232	412,088
Impairment charge for other financial assets	15	-	5,392
		377,717	430,326
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(249,970)	(7,099)
Due from banks and other financial institutions maturing after ninety days of acquisition		1,611,074	(2,350,266)
Investments held for trading		(985,264)	(351,871)
Loans and advances		(3,562,580)	(1,665,343)
Other real estate, net		11,867	(8,267)
Other assets		(82,628)	390,898
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,301,920)	1,323,994
Customers' deposits		5,202,442	1,242,108
Other liabilities		29,850	(86,735)
Net cash from / (used in) operating activities		50,588	(1,082,255)
INVESTING ACTIVITIES			
Proceeds from maturity and sale of non-trading investments		3,393,750	3,936,402
Purchase of non-trading investments		(2,585,321)	(2,593,000)
Purchase of property and equipment	7	(43,490)	(92,444)
Proceeds from sale of property and equipment		165	454
Dividend received		10,394	5,736
Net cash from investing activities		775,498	1,257,148
FINANCING ACTIVITIES			
Dividends paid		(103)	(160,579)
Net movements in non-controlling interest		81,697	107,446
Net cash from / (used in) financing activities		81,594	(53,133)
Net increase in cash and cash equivalents		907,680	121,760
Cash and cash equivalents at the beginning of the year		3,997,783	3,876,023
Cash and cash equivalents at the end of the year	26	4,905,463	3,997,783
Special commission received during the year		882,798	1,089,773
Special commission paid during the year		155,556	355,559
SUPPLEMENTAL NON-CASH INFORMATION			
Net changes in fair values		739	3,141
Real estate acquired in settlement of loans and advances	6 (e)	-	607,603
Equity securities acquired in settlement of loans and advances	5 & 6 (e)	-	274,711

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

1. GENERAL

Bank AlJazira (the Bank) is a Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia and operates under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah, through its 50 branches (2009: 48 branches) in the Kingdom of Saudi Arabia and employed 1,616 staff (2009: 1,795 staff). The Bank's Head Office is located at the following address:

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

The objective of the Bank is to provide a full range of banking services.

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

In accordance with new regulatory requirements in Saudi Arabia, the Bank has transferred asset management activities to AlJazira Capital Company during 2009.

The Bank's subsidiaries are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) December 31, 2010	Ownership (direct and indirect) December 31, 2009
Al-Mashareq Japanese Equities Fund	Saudi Arabia	Mutual fund	27%	32%
Al-Khair Global Equities Fund	Saudi Arabia	Mutual fund	20%	23%
Al-Thoraiya European Equities Fund	Saudi Arabia	Mutual fund	32%	39%
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Real Estate	Saudi Arabia	Holding and managing collateral on behalf of the Bank	98%	98%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Bank's consolidated financial statements for the year ended December 31, 2009 as described in the annual consolidated financial statements for the year ended December 31, 2009, except for the amendments to IAS 27 (amended) as mentioned below, effective from January 1, 2010.

(i) IAS 27 (Amended) 'Consolidated and separate financial statements':

The amendment requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss.

b) Basis of presentation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

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

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

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

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

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

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

d) Critical accounting judgments, estimates and assumptions

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

i) Impairment for credit losses on loans and advances

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

ii) Impairment of available-for-sale equity investments

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

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

iii) Classification of held-to-maturity investments

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

iv) Going concern

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

e) Settlement date accounting

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

f) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at fair value. All derivatives, are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

g) Foreign currencies

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

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

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

h) Offsetting financial instrument

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

i) Revenue recognition

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated income statement on an effective yield basis and include premiums amortised and discounts accreted during the year.

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

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

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

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis.

Dividend income is recognised when declared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Sale and repurchase agreements

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

k) Investments

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

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

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

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

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

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

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

ii) Available for sale

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

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.
Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

iv) Other investments held at amortised cost

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

l) Loans and advances

Loans and advances are non-derivative financial assets originated by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. These are derecognised when either the borrower repays the obligation or the loans are sold or written off, or substantially all the risk and rewards of ownership are transferred.
All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held at FVIS.
Following initial recognition, loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at cost less any amount written off and provisions for impairment.
For presentation purposes, provision for credit losses is deducted from loans and advances.

m) Impairment of financial assets

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

i) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount.
The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.
In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.
For financial assets at amortised cost, the carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of financial assets (continued)

ii) Impairment of financial assets held at fair value

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

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

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

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

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

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

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of past due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due loans and advances and the current fair value of related properties, less any costs to sell.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated income statement.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

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

p) Liabilities

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

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

q) Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

r) Provisions

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

s) Accounting for leases

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

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

t) Cash and cash equivalents

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

u) Derecognition of financial instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Zakat and income tax

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

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

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

w) Fiduciary assets

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

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

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

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

3. CASH AND BALANCES WITH SAMA

	2010 SR'000	2009 SR'000
Cash in hand	444,769	346,032
Statutory deposit	1,223,121	973,151
Current account	940,000	86,000
Total	2,607,890	1,405,183

In accordance with the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month. 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

	2010 SR'000	2009 SR'000
Current accounts	97,391	321,029
Money market placements	5,482,461	6,914,954
Total	5,579,852	7,235,983

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

5. INVESTMENTS

a) Investments are classified as follows:

i) Held at FVIS

	Domestic		International		Total	
	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000
Equities	384,055	316,549	-	-	384,055	316,549

ii) Held for trading

	Domestic		International		Total	
	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000
Equities	2,611	2,240	398,300	307,410	400,911	309,650
Mutual funds (Murabaha funds)	1,509,207	597,794	-	-	1,509,207	597,794
	1,511,818	600,034	398,300	307,410	1,910,118	907,444

iii) Available for sale

	Domestic		International		Total	
	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000
Equities	3,250	3,250	2,057	1,318	5,307	4,568

iv) Other investments held at amortised cost

	Domestic		International		Total	
	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000
Murabaha investments	1,335,321	2,300,000	-	-	1,335,321	2,300,000
Floating rate notes	911,370	736,370	-	18,750	911,370	755,120
Other investments held at amortised cost	2,246,691	3,036,370	-	18,750	2,246,691	3,055,120
Total investments	4,145,814	3,956,203	400,357	327,478	4,546,171	4,283,681

5. INVESTMENTS (continued)

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

	2010			2009		
	Quoted SR'000	Unquoted SR'000	Total SR'000	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	-	1,335,321	1,335,321	-	2,300,000	2,300,000
Floating rate notes	911,370	-	911,370	755,120	-	755,120
Equities	786,835	3,438	790,273	627,329	3,438	630,767
Mutual fund (Murabaha funds)	1,509,207	-	1,509,207	597,794	-	597,794
Investments	3,207,412	1,338,759	4,546,171	1,225,123	3,058,558	4,283,681

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

	2010				2009			
	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Murabaha investments	1,335,321	-	-	1,335,321	2,300,000	-	-	2,300,000
Floating rate notes	911,370	1,463	(10,888)	901,945	755,120	1,463	(9,507)	747,076
Total	2,246,691	1,463	(10,888)	2,237,266	3,055,120	1,463	(9,507)	3,047,076

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

	2010 SR'000	2009 SR'000
Government and quasi Government	1,335,321	2,318,750
Corporate	1,314,151	1,047,151
Banks and other financial institutions	1,896,699	917,780
Total	4,546,171	4,283,681

During 2009, the Bank acquired equity securities in settlement of a loan of a customer. The management designated these securities as at fair value through income statement.

Held for trading represents Shari'ah compliant equity and other investments, having a carrying value of SR 1,910.1 million (2009: SR 907.4 million), which have been measured at fair value.

Available-for-sale (AFS) includes Shari'ah compliant equity investments, having a carrying value of SR 5.3 million (2009: SR 4.6 million) which have been measured at fair value, except for SR 3.4 million (2009: SR 3.4 million) which have been measured at cost as their fair value cannot be reliably measured, due to the absence of an active market and non-availability of observable market prices for a similar instrument.

Other investments held at amortised costs comprise murabaha investments of SR 1,335 million (2009: SR 2,300 million) and Sukuk investments of SR 911 million (2009: SR 755.1 million) that are carried at amortised cost. The fair values of these investments are not significantly different from their carrying values. The Sukuk investments (floating rate notes disclosed in 5(b)) are quoted in a market that is not active.

e) During 2010, the Bank has recorded an impairment loss of SR Nil (2009: SR 5.4 million) for available for sale equity investments.

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

6. LOANS AND ADVANCES, NET

a) Loans and advances, net comprise the following:

	SR'000			
2010	Consumer	Commercial	Others	Total
Performing loans and advances – gross	4,500,902	13,923,255	74,014	18,498,171
Non-performing loans and advances – net	58,746	1,271,589	-	1,330,335
Total loans and advances	4,559,648	15,194,844	74,014	19,828,506
Provision for credit losses (specific and portfolio)	(70,234)	(1,053,830)	-	(1,124,064)
Loans and advances, net	4,489,414	14,141,014	74,014	18,704,442

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

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

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

	(SR'000)			
2010	Consumer	Commercial	Others	Total
Balance at the beginning of the year	37,332	756,275	-	793,607
Provided during the year, net	34,325	339,010	-	373,335
Bad debts written off	(64)	(31,711)	-	(31,775)
Reclassification	243	(243)	-	-
Recoveries of amounts previously provided	(1,602)	(9,501)	-	(11,103)
Balance at the end of the year	70,234	1,053,830	-	1,124,064

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

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

	2010 SR'000	2009 SR'000
Addition during the year, net	373,335	422,360
Recoveries of amounts previously provided	(11,103)	(9,922)
Recoveries of debts previously written off	-	(350)
Charge for provision for credit losses, net	362,232	412,088

6. LOANS AND ADVANCES, NET (continued)

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

2010	Performing SR'000	Non performing,net SR'000	Credit loss provision SR'000	Loans and advances, net SR'000
Government and quasi Government	131,250	-	-	131,250
Banks and other financial institutions	150,211	-	-	150,211
Agriculture and fishing	36,019	-	-	36,019
Manufacturing	4,021,138	86,541	(86,541)	4,021,138
Mining and quarrying	6,409	-	-	6,409
Electricity, water, gas and health services	33,699	16,744	(16,744)	33,699
Building and construction	4,016,014	130,914	(87,797)	4,059,131
Commerce	2,154,622	943,141	(665,516)	2,432,247
Transportation and communication	225,076	-	-	225,076
Services	337,185	65,175	(33,336)	369,024
Consumer loans and credit cards	4,500,902	58,746	(24,648)	4,535,000
Share trading	970,716	8,102	(6,487)	972,331
Other	1,914,930	20,972	(18,356)	1,917,546
	18,498,171	1,330,335	(939,425)	18,889,081
Portfolio provision	-	-	(184,639)	(184,639)
Total	18,498,171	1,330,335	(1,124,064)	18,704,442

2009	Performing SR'000	Non performing, net SR'000	Credit loss provision SR'000	Loans and advances, net SR'000
Government and quasi Government	-	-	-	-
Banks and other financial institutions	325,073	-	-	325,073
Agriculture and fishing	37,867	-	-	37,867
Manufacturing	4,120,500	251,593	(104,161)	4,267,932
Mining and quarrying	3,260	-	-	3,260
Electricity, water, gas and health services	47,281	21,256	(21,256)	47,281
Building and construction	3,302,031	73,603	(85,493)	3,290,141
Commerce	2,152,951	751,599	(354,981)	2,549,569
Transportation and communication	267,628	-	-	267,628
Services	379,829	60,922	(32,617)	408,134
Consumer loans and credit cards	2,098,529	25,458	(12,713)	2,111,274
Share trading	631,203	6,838	(6,770)	631,271
Other	1,714,213	26,067	(24,916)	1,715,364
	15,080,365	1,217,336	(642,907)	15,654,794
Portfolio provision	-	-	(150,700)	(150,700)
Total	15,080,365	1,217,336	(793,607)	15,504,094

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

e) Collateral acquired in settlement of loans and advances:

During 2009, the Bank acquired land amounting to SR 607.6 million and equity securities amounting to SR 274.7 million, in settlement of loans and advances of customers. The land acquired has been classified under other Real Estate. The Bank has ascertained that the fair value of such land exceeds the value of the loan settled. The equity securities have been classified under Investments held at FVIS (note 5).

7. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	Leasehold improvements SR'000	Furniture, equipment and vehicles SR'000	Capital work in progress SR'000	Total 2010 SR'000	Total 2009 SR'000
Cost						
Balance at the beginning of the year	190,484	235,907	384,729	26,806	837,926	750,595
Additions	-	9,321	10,214	23,955	43,490	92,444
Transfers	-	19,782	10,862	(30,644)	-	-
Disposals	-	-	(1,162)	(514)	(1,676)	(3,759)
Write off	-	-	-	-	-	(1,354)
Balance at the end of the year	190,484	265,010	404,643	19,603	879,740	837,926
Accumulated depreciation						
Balance at the beginning of the year	4,282	84,900	247,693	-	336,875	257,092
Charge for the year	152	26,394	54,722	-	81,268	82,896
Disposals	-	-	(896)	-	(896)	(3,113)
Balance at the end of the year	4,434	111,294	301,519	-	417,247	336,875
Net book value						
At December 31, 2010	186,050	153,716	103,124	19,603	462,493	
At December 31, 2009	186,202	151,007	137,036	26,806		501,051

8. OTHER ASSETS

	2010 SR'000	2009 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	13,876	21,897
Investments	4,425	38,267
Loans and advances	186,016	165,881
Total accrued special commission receivable	204,317	226,045
Advances and prepayments	68,419	90,529
Other	164,837	38,371
Total	437,573	354,945

9. DERIVATIVES

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

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.

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

	2010 SR'000			2009 SR'000		
	Fair value	Notional amount	Maturity 1-5 years	Fair value	Notional amount	Maturity 1-5 years
Held for trading:						
Special commission rate swap	1,915	187,500	187,500	-	-	-

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 SR'000	2009 SR'000
Current accounts	43,707	15,939
Money market deposits from banks and other financial institutions	345,012	2,674,700
Total	388,719	2,690,639

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

11. CUSTOMERS' DEPOSITS

	2010 SR'000	2009 SR'000
Demand	7,522,240	6,053,111
Time	19,233,171	15,532,640
Other	589,507	556,725
Total	27,344,918	22,142,476

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

Other customers' deposits include SR 318 million (2009: SR 423 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2010 SR'000	2009 SR'000
Demand	352,948	217,801
Time	3,700,343	4,489,516
Other	49,053	39,308
Total	4,102,344	4,746,625

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

12. OTHER LIABILITIES

	2010 SR'000	2009 SR'000
Accrued special commission payable:		
Banks and other financial institutions	479	4,606
Customers' deposits	62,149	82,039
Total accrued special commission payable	62,628	86,645
AlJazira Philanthropic Program (see note below)	83,004	89,327
Accounts payable	164,512	166,502
Provision for indirect facilities	11,245	11,245
Other	157,513	95,436
Total	478,902	449,155

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

For this purpose, the Bank contributed SR 100 million to this program during 2006. The movement during current year is due to payments made during the year 2010.

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

13. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (2009: 300 million shares of SR 10 each).

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

	2010	2009
Saudi shareholders	94.17 %	94.17 %
Non Saudi shareholder - National Bank of Pakistan	5.83 %	5.83 %

14. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 8 million has been transferred from net income for 2010 (2009: SR 7 million). The statutory reserve is currently not available for distribution.

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

15. OTHER RESERVE

	Available for sale investments 2010 SR'000	Available for sale investments 2009 SR'000
Balance at the beginning of the year	-	(3,141)
Net changes in fair values	739	18,478
Transfer to consolidated income statement		
Gain on non-trading investments, net (see note 21)	-	(20,729)
Impairment charge for other financial assets	-	5,392
	-	(15,337)
Net movements during the year	739	3,141
Balance at the end of the year	739	-

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2010, there were legal proceedings of a routine nature outstanding against the Bank. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2010, the Bank had capital commitments of SR 18.3 million (2009: SR 11.7 million) in respect of the construction of branches.

c) Credit related commitments and contingencies

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

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

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

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

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

	(SR'000)				
2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	407,682	165,514	-	-	573,196
Letters of guarantee	909,516	747,065	579,264	6,902	2,242,747
Acceptances	115,661	-	-	-	115,661
Irrevocable commitments to extend credit	-	-	176,745	1,624,376	1,801,121
Total	1,432,859	912,579	756,009	1,631,278	4,732,725

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

The outstanding unused portion of commitments as at December 31, 2010, which can be revoked unilaterally at any time by the Bank, amounts to SR 1.1 billion (2009: SR 2.1 billion).

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

	2010 SR'000	2009 SR'000
Corporate	4,299,050	3,393,701
Banks and other financial institutions	133,675	134,566
Government and quasi Government	300,000	-
Total	4,732,725	3,528,267

d) Operating lease commitments

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

	2010 SR'000	2009 SR'000
Less than 1 year	2,661	4,845
1 to 5 years	1,579	7,225
Over 5 years	1,349	1,744
Total	5,589	13,814

17. NET SPECIAL COMMISSION INCOME

	2010 SR'000	2009 SR'000
Special commission income		
Investment:		
Other investments held at amortised costs	25,303	124,897
Due from banks and other financial institutions	50,933	102,338
Loans and advances	792,110	734,006
Total	868,346	961,241
Special commission expense		
Due to banks and other financial institutions	8,287	15,158
Customers' deposits	134,658	269,429
Other	8,148	8,873
Total	151,093	293,460
Net special commission income	717,253	667,781

18. FEES AND COMMISSION INCOME, NET

	2010 SR'000	2009 SR'000
Fee and commission income		
Local share trading, net	105,641	211,148
Takaful Ta'awuni (insurance) wakala fee	38,883	52,875
Loan commitment and management fee	31,710	32,884
Trade finance	21,791	24,930
International share trading, net	4,102	11,716
Mutual funds fee	3,423	1,741
Fee from ATM transactions	37,312	35,202
Others	27,018	15,412
Total fee and commission income	269,880	385,908
Fee and commission expense		
Takaful Ta'awuni – sales commission	(4,409)	(9,567)
Net	265,471	376,341

The trading income relating to equities is net of non-controlling interest amounting to SR 19.08 million (2009: SR 44.2 million).

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

19. TRADING INCOME

	2010 SR'000	2009 SR'000
Equities	7,198	25,490
Mutual fund (Murabaha)	11,826	5,326
Dividends on equity investments held for trading	6,865	5,736
Special commission rate swap (derivative)	1,915	-
Total	27,804	36,552

The trading income relating to equities is net of non-controlling interest amounting to SR 19.08 million (2009: SR 44.2 million).

20. DIVIDEND INCOME

	2010 SR'000	2009 SR'000
Investments held at FVIS and available for sale	10,394	5,122

21. GAIN ON NON-TRADING INVESTMENTS, NET

	2010 SR'000	2009 SR'000
Available for sale investments	-	20,729

22. OTHER OPERATING INCOME

	2010 SR'000	2009 SR'000
Rental income	40	207
Gain on sale of other real estate	45,831	-
Other (see note below)	2,583	6,628
Total	48,454	6,835

Other category mainly includes SR Nil (2009: SR 4 million) representing accruals no longer required and therefore written back during the year.

23. OTHER OPERATING EXPENSES

	2010 SR'000	2009 SR'000
Other operating expenses	9,376	11,832

24. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during 2010 was 300 million (2009: 300 million).

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

25. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

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

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax, respectively, as follows:

a) Saudi shareholders:

The zakat attributable to Saudi shareholders for 2010 amounted to SR 892 thousand (2009: Nil).

b) Non-Saudi shareholder:

The income tax payable on the current year's share of income for Non-Saudi shareholder amounted to SR 442 thousand (2009: Nil).

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

26. CASH AND CASH EQUIVALENTS

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

	2010 SR'000	2009 SR'000
Cash and balances with SAMA, excluding statutory deposit (note 3)	1,384,769	432,032
Due from banks and other financial institutions with an original maturity of ninety days or less	3,520,694	3,565,751
Total	4,905,463	3,997,783

27. OPERATING SEGMENTS

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

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

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

For management purposes, the Bank is organized into following main 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.
Brokerage and asset management	Provides shares brokerage and asset management services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).
Treasury and Other	Treasury includes money market, trading and treasury services. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds.Other operations of the Bank comprise other residual businesses, none of which constitutes a separately reportable segment.

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

27. OPERATING SEGMENTS (continued)

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

	(SR'000)				
2010	Personal Banking	Corporate banking	Brokerage and asset management	Treasury and other	Total
Total assets	6,228,876	13,986,811	537,846	12,264,688	33,018,221
Total liabilities	11,276,200	3,151,604	48,089	13,736,646	28,212,539
Operating income from external customers	347,547	582,486	117,214	107,819	1,155,066
Inter – segment operating income / (loss)	4,529	(72,999)	44,097	24,373	-
Total operating income	352,076	509,487	161,311	132,192	1,155,066
Net special commission income	237,323	506,306	-	(26,376)	717,253
Fee and commission income, net	30,239	54,740	149,059	31,433	265,471
Trading income	-	-	371	27,433	27,804
Operating expenses include:					
- Charge for provision for credit losses, net	32,351	329,881	-	-	362,232
- Impairment charge for other financial assets	-	-	-	-	-
- Depreciation	37,719	5,787	15,961	21,801	81,268
Total operating expenses including non-controlling interest	401,831	442,128	162,599	119,596	1,126,154
Net (loss) / income	(49,755)	67,359	(1,288)	12,596	28,912

	(SR'000)				
2009	Personal Banking	Corporate banking	Brokerage and asset management	Treasury and other	Total
Total assets	3,384,580	13,534,044	556,712	12,501,268	29,976,604
Total liabilities	10,324,745	1,997,904	55,028	12,904,593	25,282,270
Operating income from external customers	196,868	614,821	224,577	134,770	1,171,036
Inter – segment operating income / (loss)	55,841	(107,516)	8,888	42,787	-
Total operating income	252,709	507,305	233,465	177,557	1,171,036
Net Special commission income	109,858	547,280	-	10,643	667,781
Fee and commission income, net	48,717	54,710	230,687	42,227	376,341
Trading income	-	-	756	35,796	36,552
Operating expenses include:					
- Charge for provision for credit losses, net	1,920	410,168	-	-	412,088
- Impairment charge for other financial assets	-	-	-	5,392	5,392
- Depreciation	42,280	9,876	18,608	12,132	82,896
Total operating expenses including non-controlling interest	336,767	515,726	190,623	100,396	1,143,512
Net (loss) / income	(84,058)	(8,421)	42,842	77,161	27,524

27. OPERATING SEGMENTS (continued)

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

	(SR'000)				
2010	Personal banking	Corporate banking	Brokerage and asset management	Treasury and other	Total
Consolidated statement of financial position assets	5,589,300	13,296,788	9,250	7,845,271	26,740,609
Commitments and contingencies	-	1,866,449	-	175,000	2,041,449
Derivatives	-	-	-	1,875	1,875

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

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

28. CREDIT RISK

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

For loans and advances and off-balance sheet financing to borrowers, the bank assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with counterparties, the Bank uses external ratings as assessed by major rating agencies.
The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Bank manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 16. The information on banks maximum credit exposure by operating segment is given in note 27.

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other property and equipment. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Bank holds real estate collateral against transfer of title deed as collateral. Collateral generally is not held over due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2010 and 2009.

The Bank uses an internal credit classification and review system to manage the credit risk within its loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio (standard-low risk: risk ratings 1 to 3; standard-medium risk: risk ratings 4 to 6 and special mention; risk rating 7) and three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific provisions for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Bank's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Portfolio provisions are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit gradings allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Bank's Internal Audit Division independently reviews the overall system on a regular basis.

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

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

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

28. CREDIT RISK (continued)

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

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

	SR'000					
	Loans and advances				Due from Banks and Other Financial Institutions	Total
2010	Consumer	Commercial	Others	Sub total		
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	1,822,052	-	1,822,052	5,579,852	7,401,904
Standard – medium risk	-	9,159,394	-	9,159,394	-	9,159,394
Standard – unclassified	4,399,389	1,028,184	74,014	5,501,587	-	5,501,587
Sub total - standard	4,399,389	12,009,630	74,014	16,483,033	5,579,852	22,062,885
Special mention	-	1,798,929	-	1,798,929	-	1,798,929
Sub total	4,399,389	13,808,559	74,014	18,281,962	5,579,852	23,861,814
Past due but not impaired						
Less than 30 days	85,629	66,545	-	152,174	-	152,174
30-60 days	3,269	31,595	-	34,864	-	34,864
60-90 days	4,926	12,441	-	17,367	-	17,367
Over 90 days	7,689	4,115	-	11,804	-	11,804
Total	4,500,902	13,923,255	74,014	18,498,171	5,579,852	24,078,023
Less: portfolio provision	(45,586)	(139,053)	-	(184,639)	-	(184,639)
Net performing	4,455,316	13,784,202	74,014	18,313,532	5,579,852	23,893,384
Non Performing						
Total non Performing	58,746	1,271,589	-	1,330,335	-	1,330,335
Less: Specific provision	(24,648)	(914,777)	-	(939,425)	-	(939,425)
Less: Collateral	(8,888)	(512,131)	-	(521,019)	-	(521,019)
Net non performing	25,210	(155,319)	-	(130,109)	-	(130,109)

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

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

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

Performing loans as at December 31, 2010 include renegotiated loans of SR 768 million (2009: SR 357 million). The special mention category includes loans and advances that are also performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that may, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention loans and advances would not expose the Bank to sufficient risk to warrant a worse classification.

28. CREDIT RISK (continued)

b) Credit quality of financial assets (Investments)

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

	2010 SR'000	2009 SR'000
Performing		
High grade (AAA – BBB)	1,654,811	2,444,490
Standard grade (BA1 – B2)	-	-
Sub-standard grade (BA3 – C)	-	18,750
Unrated	591,880	591,880
Total performing	2,246,691	3,055,120
Less: portfolio provision	-	-
Net performing	2,246,691	3,055,120
Overall Investments (excluding equities and mutual fund), net	2,246,691	3,055,120

As at December 31, 2010 and 2009, no provision was required for the impairment in the value of investments (excluding investment in equities and mutual fund).

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

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

	Maximum exposure		
2010	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Government and quasi Government	131,250	300,000	431,250
Banks and other financial institutions	148,704	133,675	282,379
Agriculture and fishing	35,658	1,637	37,295
Manufacturing	3,980,813	869,455	4,850,268
Mining and quarrying	6,345	61,876	68,221
Electricity, water, gas and health services	33,361	1,724	35,085
Building and construction	4,018,857	2,158,952	6,177,809
Commerce	2,410,640	371,799	2,782,439
Transportation and communication	222,819	28,194	251,013
Services	365,643	98,920	464,563
Consumer loans and credit cards	4,489,414	-	4,489,414
Share trading	962,596	-	962,596
Other	1,898,342	695,248	2,593,590
Maximum exposure	18,704,442	4,721,480	23,425,922
Less: collateral for performing and non performing	(8,195,713)	(1,132,660)	(9,328,373)
Net maximum exposure	10,508,729	3,588,820	14,097,549

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

2009	Maximum exposure On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Government and quasi Government	-	-	-
Banks and other financial institutions	321,916	134,566	456,482
Agriculture and fishing	37,499	11,359	48,858
Manufacturing	4,227,913	373,661	4,601,574
Mining and quarrying	3,228	-	3,228
Electricity, water, gas and health services	46,822	5,532	52,354
Building and construction	3,258,072	1,168,690	4,426,762
Commerce	2,528,659	585,475	3,114,134
Transportation and communication	265,029	4,271	269,300
Services	404,446	107,463	511,909
Consumer loans and credit cards	2,086,655	-	2,086,655
Share trading	625,140	-	625,140
Other	1,698,715	1,126,005	2,824,720
Maximum exposure	15,504,094	3,517,022	19,021,116
Less: collateral for performing and non performing	(6,113,917)	(1,018,004)	(7,131,921)
Net maximum exposure	9,390,177	2,499,018	11,889,195

29. GEOGRAPHICAL CONCENTRATION

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

	(SR'000)						
2010	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances With SAMA	2,597,251	-	-	-	10,639	-	2,607,890
Due from banks and other financial institutions	2,690,001	2,824,944	58,451	3,256	2,759	441	5,579,852
Investments	4,145,814	188	160,918	74,872	142,620	21,759	4,546,171
Loans and advances, net	18,592,556	111,886	-	-	-	-	18,704,442
Total	28,025,622	2,937,018	219,369	78,128	156,018	22,200	31,438,355
Liabilities							
Due to banks and other financial institutions	315,012	39,316	4,111	29,561	-	719	388,719
Customers' deposits	27,344,918	-	-	-	-	-	27,344,918
Total	27,659,930	39,316	4,111	29,561	-	719	27,733,637
Commitments and Contingencies	4,606,270	26,432	96,010	-	-	4,013	4,732,725
Credit exposure (credit equivalent)							
Commitments and contingencies	1,971,929	18,703	48,005	-	-	2,812	2,041,449
Derivatives	-	-	1,875	-	-	-	1,875
2009							
Assets							
Cash and balances With SAMA	1,395,862	-	-	-	9,321	-	1,405,183
Due from banks and other financial institutions	4,115,500	2,836,312	63,886	219,800	164	321	7,235,983
Investments	3,956,203	188	138,689	49,576	105,386	33,639	4,283,681
Loans and advances, net	15,411,287	56,186	-	-	-	36,621	15,504,094
Total	24,878,852	2,892,686	202,575	269,376	114,871	70,581	28,428,941
Liabilities							
Due to banks and other financial institutions	2,589,950	77,398	22,908	33	-	350	2,690,639
Customers' deposits	22,142,476	-	-	-	-	-	22,142,476
Total	24,732,426	77,398	22,908	33	-	350	24,833,115
Commitments and Contingencies	3,490,630	32,360	4,398	-	-	879	3,528,267
Credit exposure (credit equivalent)							
Commitments and							
contingencies	1,960,869	17,180	2,199	-	-	439	1,980,687
Derivatives	-	-	-	-	-	-	-

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

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

	Non performing loans, net		Provision for credit losses	
	2010 SR' 000	2009 SR' 000	2010 SR' 000	2009 SR' 000
Kingdom of Saudi Arabia	1,330,335	1,217,336	1,124,064	793,607

30. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.
The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Bank's Board of Directors sets limits for the acceptable level of risk in trading book.
The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK TRADING BOOK

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

i) CURRENCY RISK

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

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

	2010 SR'000	2009 SR'000
US Dollar	14,303	13,744
EURO	17,152	21,159
GBP	18,112	14,987
YEN	36,110	32,190

30. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) CURRENCY RISK (continued)

The table below indicates the extent to which the Bank was exposed to currency risk at December 31, 2010 on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi riyal with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Bank to mitigate the effect of such changes.

	2010		2009	
Currency	Increase in currency rate in %	Effect on net income SR'000	Increase in currency rate in %	Effect on net income SR'000
US Dollar	+0.375	54	+0.375	52
EURO	+9.84	1,688	+12.5	2,645
GBP	+8.81	1,596	+14.2	2,128
YEN	+8.77	3,167	+15.0	4,829

ii) EQUITY PRICE RISK

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

The financial instruments included in the trading portfolio are equity securities held by three mutual funds that are subsidiaries of the bank, murabaha investments (mutual fund) and equity securities held by AlJazira Capital Company. The bank manages the risk relating to the murabaha investment by monitoring changes in net asset value of the murabaha investments. The investments in equity securities held by the subsidiaries of the bank are managed by the bank in conjunction with professional investment advisors, and the equity price risk is monitored by the bank on a portfolio basis for each mutual fund. The effect on the consolidated income statement as a result of a change in the fair value of equity instruments held for trading at December 31, 2010 and 2009 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2010		2009	
Portfolio	Increase / decrease in equity price %	Effect on consolidated income statement SR'000	Increase / decrease in equity price %	Effect on consolidated income statement SR'000
Al Thoraiya	+8.9	3,842	+23.64	9,867
Al Khair	+8.18	2,089	+15.06	3,456
Al Mashareq	-3.15	(1,097)	+20.97	6,716

The effect on the consolidated income statement as a result of a change in the fair value of murabaha investments held for trading at December 31, 2010 and 2009 due to reasonably possible change in the net asset value (NAV) of the fund, with all other variables held constant, is as follows:

	2010		2009	
Portfolio	Increase / decrease in NAV %	Effect on consolidated income statement SR'000	Increase / decrease in NAV %	Effect on consolidated income statement SR'000
Murabaha investments	+0.50	7,546	+0.50	2,989
Murabaha Investments	-0.25	(3,773)	-0.25	(1,494)

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

The effect on income statement as a result of a change in the fair value of equity instruments held at FVIS at December 31, 2010 and 2009 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2010		2009	
	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
Tadawul	7.79	29,918	19.37	61,316

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

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

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Bank's consolidated income statement. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2010. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Bank to mitigate the effect of such changes.

Currency	2010		2009	
	Increase / decrease in basis point	Sensitivity of special commission income SR'000	Increase / decrease in basis point	Sensitivity of special commission income SR'000
SR	+25	2,425	+25	7,251
SR	-25	(2,425)	-25	(7,251)
USD	+25	(785)	+25	(4,394)
USD	-25	785	-25	4,394
QAR	+25	1,412	+25	1,354
QAR	-25	(1,412)	-25	(1,354)

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

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

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

30. MARKET RISK (continued)

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

i) SPECIAL COMMISSION RATE RISK (continued)

	SR'000						
2010	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	-	-	-	-	2,607,890	2,607,890	-
Due from banks and other financial institutions	4,319,553	1,162,908	-	-	97,391	5,579,852	1.19%
Investments	2,720,577	1,035,321	-	-	790,273	4,546,171	1.02%
Loans and advances, net	5,304,747	6,825,729	5,964,121	218,935	390,910	18,704,442	4.57%
Other real estate, net	-	-	-	-	679,800	679,800	-
Property and equipment, net	-	-	-	-	462,493	462,493	-
Other assets	-	-	-	-	437,573	437,573	-
Total assets	12,344,877	9,023,958	5,964,121	218,935	5,466,330	33,018,221	-
Liabilities and equity							
Due to banks and other financial institutions	180,012	165,000	-	-	43,707	388,719	0.46%
Customers' deposits	13,981,128	4,838,472	413,626	-	8,111,692	27,344,918	0.95%
Other liabilities	-	-	-	-	478,902	478,902	-
Equity including non-controlling interests	-	-	-	-	4,805,682	4,805,682	-
Total liabilities and Equity	14,161,140	5,003,472	413,626	-	13,439,983	33,018,221	-
On-balance sheet gap	(1,816,263)	4,020,486	5,550,495	218,935	(7,973,653)	-	-
Commission rate sensitivity – off balance sheet	187,500	-	(187,500)	-	-	-	-
Total commission rate sensitivity gap	(1,628,763)	4,020,486	5,362,995	218,935	(7,973,653)	-	-
Cumulative commission rate sensitivity gap	(1,628,763)	2,391,723	7,754,718	7,973,653	-	-	-

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

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

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.

30. 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 Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

	2010 SR' 000	2009 SR'000
	Long (short)	Long (short)
US Dollar	(66,015)	(309,451)
Qatari Riyals	566,335	563,426

The table below indicates the extent to which the Bank was exposed to currency risk at December 31, 2010 on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi riyal with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Bank to mitigate the effect of such changes.

	2010		2009	
Currency	Increase in currency rate in %	Effect on net income SR'000	Increase in currency rate in %	Effect on net income SR'000
US Dollar	+0.05	(33)	+0.05	(155)
Qatari Riyals	+0.05	283	+0.05	282

iii) EQUITY PRICE RISK

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

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments held as available-for-sale at December 31, 2010 and 2009 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2010		2009	
Market index	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	8%	150	-	-

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

31. LIQUIDITY RISK

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

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

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

	2010 %	2009 %
As at 31 December	42	49
Average during the period	39	32
Highest	48	42
Lowest	35	43

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (b) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31. LIQUIDITY RISK (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

	(SR' 000)					
	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities						
As at 31 December 2010						
Due to banks and other financial institutions	43,719	180,406	165,739	-	-	389,864
Customers' deposits	7,529,199	14,507,278	4,410,955	1,045,826	-	27,493,258
Total undiscounted financial liabilities 2010	7,572,918	14,687,684	4,576,694	1,045,826	-	27,883,122
Financial liabilities						
As at 31 December 2009						
Due to banks and other financial institutions	15,964	2,675,850	-	-	-	2,691,814
Customers' deposits	6,104,073	11,417,720	4,005,101	782,989	-	22,309,883
Total undiscounted financial liabilities 2009	6,120,037	14,093,570	4,005,101	782,989	-	25,001,697

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

b) Maturity analysis of assets and liabilities

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

2010	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
	(SR' 000)					
Assets						
Cash and balances with SAMA	-	-	-	-	2,607,890	2,607,890
Due from banks and other financial institutions	1,766,778	3,115,329	697,745	-	-	5,579,852
Investments	300,000	227,064	1,544,627	175,000	2,299,480	4,546,171
Loans and advances, net	2,533,647	6,476,595	5,861,465	3,441,825	390,910	18,704,442
Other real estate, net	-	-	-	-	679,800	679,800
Property and equipment, net	-	-	-	-	462,493	462,493
Other assets	276,678	136,321	20,223	2,686	1,665	437,573
Total assets	4,877,103	9,955,309	8,124,060	3,619,511	6,442,238	33,018,221
Liabilities and equity						
Due to banks and other financial institutions	135,000	210,000	-	-	43,719	388,719
Customers' deposits	4,042,446	10,861,224	4,329,501	-	8,111,747	27,344,918
Other liabilities	37,370	24,739	519	-	416,274	478,902
Equity including non-controlling interests	-	-	-	-	4,805,682	4,805,682
Total liabilities and equity	4,214,816	11,095,963	4,330,020	-	13,377,422	33,018,221
2009						
Assets						
Cash and balances with SAMA	-	-	-	-	1,405,183	1,405,183
Due from banks and other financial institutions	2,231,641	3,721,288	1,283,054	-	-	7,235,983
Investments	1,368,750	190,000	1,496,370	-	1,228,561	4,283,681
Loans and advances, net	2,403,460	6,711,783	3,652,355	2,162,067	574,429	15,504,094
Other real estate, net	-	-	-	-	691,667	691,667
Property and equipment, net	-	-	-	-	501,051	501,051
Other assets	137,751	143,009	68,986	2,975	2,224	354,945
Total assets	6,141,602	10,766,080	6,500,765	2,165,042	4,403,115	29,976,604
Liabilities and equity						
Due to banks and other financial institutions	2,006,006	668,669	-	-	15,964	2,690,639
Customers' deposits	3,257,387	8,785,507	3,489,746	-	6,609,836	22,142,476
Other liabilities	46,124	30,534	640	-	371,857	449,155
Equity including non-controlling interests	-	-	-	-	4,694,334	4,694,334
Total liabilities and equity	5,309,517	9,484,710	3,490,386	-	11,691,991	29,976,604

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

2010 (SR'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held at FVIS	384,055	-	-	384,055
Held for trading	1,910,118	-	-	1,910,118
Available for sale	1,869	-	3,438	5,307
Derivatives	-	1,915	-	1,915
Total	2,269,042	1,915	3,438	2,301,395

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

33. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted at market rates. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

33. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted at market rates. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2010 SR' 000	2009 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	207	207
Due to banks and other financial institutions	579	455
Commitments and contingencies	2,711	200
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	1,226,861	1,375,454
Customers' deposits	4,010,653	3,422,770
Commitments and contingencies	2,111	26,653

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:

	2010 SR' 000	2009 SR' 000
Special commission income	59,751	63,355
Special commission expense	47,305	57,378
Fees and commission income, net	528	166
Directors' remunerations	702	4,104

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

	2010 SR' 000	2009 SR' 000
Short-term employee benefits	38,583	40,202
Termination benefits	14,084	23,551

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

34. COMPENSATION

Categories of employees	Number of employees	Fixed compensation SR' 000	Variable compensation SR' 000	Total SR' 000
Senior Executives that require SAMA no objection	12	14,695	7,217	21,912
Employees involved in Control Function	111	27,766	3,957	31,724
Employees involved in Risk taking activities	83	31,489	5,929	37,418
Other employees	1,342	272,165	56,263	328,428
Outsourced employees	68	14,475	48	14,523
Total	1,616	360,590	73,414	434,004

34. COMPENSATION (continued)

The compensation and benefits program philosophy (continued)

The Compensation and benefits program of Bank AlJazira is designed to attract, motivate and retain the best talent to support robust business performance, and achieve superior business strategy goals, aims and objectives, while managing and mitigating any associated risks, and ensuring due compliance with all regulatory requirements and mandates.

The spirit and letter of the Bank's compensation philosophy is to reasonably and accurately reward and recognize staff for achieving their personal best highest level of customer services and satisfaction, according to objective market benchmarks, and to specific organizational and individual performance measures, while being mindful and considerate of the operational and behavioral risks associated with certain compensation levels and practices, and their short and long term impact on the performance of the organization as a whole.

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 Bank to keep abreast of the local and regional market conditions relating to bank staff employed in the Kingdom, which are contrasted to cyclical performance levels, and mitigated for any associated risks.

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

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

Compensation governance

Compensation governance is the domain and responsibility of the Board Compensation and Nomination Committee (BCNC) of Board of Directors (BoD), who is responsible for approving the overall design and oversight of all aspects of the compensation system and shall bear ultimate and final regulatory compliance responsibility and accountability in this respect, as mandated by SAMA regulations, including any associated compensation risk elements that need to be controlled in order to mitigate any risks associated with short and long term growth and stability accountability, as well as any excessive risk taking practices that may occur as a result of lax risk controls, as defined by regulatory, banking convention and oversight stipulations, with respect to compensation practices.

Cash and monetary compensation principles

Bank Management has determined wages in accordance with approved wages structure, while taking into consideration each job's responsibilities, duties, educational qualifications, professional experience, competencies, skills and personal aptitude, in an organizational pyramid comprised of several hierarchical tiers, with each tier defined by a numerical value, commonly referred to as a pay grade. Each Grade tier is further subdivided into a beginning, mid-point, and a maximum range, with actual salaries falling at any point within the given range, according to the incumbent's qualifications and/or experience, and their pay mix ratio, along lines common to the banking industry, and local banking compensation practices, as outlined by SAMA. All elements of Compensation risk have been accounted for into these fixed and variable, or performance based pay ratios in a manner fully consistent with prudent compensation risk mitigation.

The Board compensation and nomination committee (BCNC)

Purpose

The BCNC is responsible for ensuring that the compensation structure for the Bank's top executives supports and reflects the Bank's corporate goals, while concurrently rewarding the executives in a way that is both competitive within the industry with respect to the relevant market, and is directly linked and tied to the achievements of robust performance targets based on measures consistent with shareholder interests over the short, medium and long terms, while being mindful of appropriate risk levels and risk mitigation practices. The BSNC is also responsible for vetting all nominations at CEO and executive committee levels, and all executives requiring SAMA appointment ratification.

Composition

The principles of "Independent and/or Non-Executive Membership" as defined and mandated by SAMA are applied to the composition and membership of the BCC, as ratified by The Board of Directors (BoD). Meaning:

a) The Committee shall consist of at least three (3) members.
b) All members of the Committee shall be non-executive and independent members of the BoD.

General responsibilities

The BCNC is an integral part of the overall governance responsibilities of the Board of Directors and is founded to enhance the Bank's corporate integrity while boosting shareholder confidence levels. The full terms of reference of the BCNC are published in the Bank's official governance documentation. Authorities of the BCNC include full oversight of the Bank's compensation system's design, functionality and competitive efficacy, as well as the evaluation of compensation levels for the remuneration of key executives of the Bank, and determination of the bonus pool based on risk adjusted profit of the Bank, and the alignment of the Compensation Policy with the SAMA Rules on Compensation practices, principles and standards.

Risk mitigation

The BCNC works closely with the Bank's Risk Management Committee and Chief Risk Officer in the evaluation of the incentives created by the compensation system. In that process the committee ensures that the pay mix and level of compensation of employees reflects an effective alignment of compensation with prudent risk taking, including difficult to measure risks such as liquidity risk, reputation risk and cost of capital., while being mindful of the size of the variable compensation pools and their allocation within the Bank and their sensitivity to risk time horizons. This also includes the variable compensation of senior executives whose appointment is subject to no objection by SAMA, as well as other employees whose actions have a material impact on the risk exposure of the Bank shall be determined in line with the standards indicated in the SAMA Guidelines and Implementation Standards issued in this respect. A subdued or negative financial performance of the Bank for the period under consideration generally leads to a considerable contraction of the total variable compensation, taking into account both current compensation and reductions in payouts of amounts previously earned, including claw back and holdback arrangements.

35. CAPITAL ADEQUACY

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern and to maintain a strong capital base.
The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

	2010		2009	
	Eligible Capital SR '000	Capital Adequacy Ratio %	Eligible Capital SR '000	Capital Adequacy Ratio %
Core capital (Tier 1)	4,515,518	15.11%	4,485,867	17.15
Supplementary capital (Tier 2)	184,639		150,700	
Core and supplementary capital (Tier 1 + Tier 2)	4,700,157	15.72%	4,636,567	17.73

Tier 1 capital of the Bank at the year end comprises share capital, statutory, other reserves, retained earnings, proposed dividend and non-controlling interest less other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio provisions (collective provisions) less prescribed deductions.
The Bank has implemented Basel II effective January 1, 2008 as stipulated by SAMA. The Bank uses the Standardized approach of Basel II to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Bank's Risk Management Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	2010 SR '000	2009 SR '000
Credit risk	24,804,376	23,282,507
Operational risk	2,043,119	2,156,838
Market risk	3,046,425	713,663
Total pillar-1 – risk weighted assets	29,893,920	26,153,008

36. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary AlJazira Capital Company (AJC) (note 1) offers investment management and advisory services to its customers, compliant with the principle of Shari'ah (non-interest based). These services include portfolio management on discretionary and non discretionary basis and management of investment funds in conjunction with professional investment advisors. Five such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund and Al-Qawafel commodities Fund. All are open-ended mutual funds for Saudi and foreign nationals. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund and Al-Mashareq Japanese Equities Fund invest in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha. The financial statements of Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, and Al-Mashareq Japanese Equities Fund are consolidated with these financial statements.

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

The asset held by the Bank under the investment management and brokerage services are totalling to SR 1.07 billion (2009: SR 0.84 billion).

37. TAKAFUL TA'AWUNI DIVISION

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

38. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

39. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on January 16, 2011 (Safar 11, 1432H).

40. COMPARATIVE FIGURES

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

41. BASEL II PILLAR 3 DISCLOSURES

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

The accompanying notes 1 to 41 from an integral part of these consolidated financial statements.

SCOPE OF APPLICATION

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

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

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

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

1. AlJazira Capital Company (JAZC):

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

2. Aman Real Estate:

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

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

The other three entities namely Al-Mashareq, Al-Khair and Al-Thoraiya are the international mutual funds operated by the Bank; all are incorporated in Saudi Arabia. The Bank consolidates these funds for accounting purposes due to Bank's holding of units in these funds and the control indirectly through its subsidiary AlJazira Capital Company. Due to the nature of the funds business of units being subscribed to and/or redeemed on a daily basis and since the risk associated with the third parties' units do not affect the financial position of the Bank; these funds are not consolidated for regulatory purposes. Furthermore, the Bank's own units held are part of the Held for Trading Investments and are considered for the purpose of calculating capital adequacy under Pillar I.

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

CAPITAL STRUCTURE

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

	SR"000
Tier One Capital:	
Share capital	3,000,000
Eligible reserve	1,466,000
Retained earnings	48,779
IAS type adjustments	739
Deduction from Tier I:	
Reciprocal holding of bank capital at 50% deduction	-
Total Tier One Capital Tier Two Capital:	4,515,518
Portfolio provision	184,639
Total Tier One and Tier Two Capital	4,700,157

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

1. Eligible share capital

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

CAPITAL STRUCTURE (continued)

2. Eligible reserve

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

3. Eligible retained earnings

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

4. Portfolio provision

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

CAPITAL ADEQUACY

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

A. Primary Capital Objectives

- Core Capital Purpose

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

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

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

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

a. Minimum regulatory capital requirements (Directors ICAAP); or

b. Minimum Supervisory ICAAP Guidance (SAMA's ICAAP assessment)

- **External Credit Rating**

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

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

ii. Support the issue of medium term, 3-7 year, Sukuks, Shari'ah compliant commercial paper and Musharaka programs are proposed to consist of sound ring-fenced income generating assets.

B. Specific Capital Objectives

- Investment Capital

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

- Trading Services

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

i. Credit Risk Capital for Shari'ah compliant financing services are:

a. Tawarq and Murabaha contracts. Products descriptions are Dinar, Naqa'a and Tamam;

b. Trade financing advances – Letters of Credit/Guarantees;

c. Istisna' a contracts; and

d. Ijara transactions.

ii. Market Risk Capital for Shari'ah compliant trading are:
a. Treasury trading;
b. Musharaka.
iii. Operational Risk Capital
The specific objective of providing payment, transaction and professional services exposing BAJ to operational risk failures.

RISK EXPOSURE AND ASSESSMENT GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS

A. Risk Management

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

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

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

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

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

i. Risk Management Organization

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

ii. Scope and Nature of Risk Reporting Tools

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

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

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

iii. Risk Management Processes

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

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS (continued)
B. Methodology and Assumptions
i. Current Methodology and Assumptions

The current methodology adopted by the Bank on the implementation of SAMA requirements for implementation of Basel II is structured in two phases. The Bank elected Internal Capital Adequacy Assessment Plan (ICAAP) methodology for the implementation program is to calculate Pillar 1 capital requirements and then add the Pillar 2 assessments.
The Pillar 1 risks (credit, market and operational) have been assessed under the following approaches:

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

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

ii. Future Methodology

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

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

The development and implementation of the infrastructure and resources are expected to enhance the risk management capabilities and capacity. The key risks assumed by the Bank in its daily operations are outlined below:

1. Credit Risk
Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. Credit risk arises in the Bank's normal course of business.
The Bank utilizes the standardized approach for Pillar 1 credit risk. The parameters used for risk weighted assets represent the rates approved by the supervisory authority.
The Bank uses external rating (where available) from Fitch and Moody's to supplement internal rating during the process of determining the credit limits of the counterparties. Unrated exposures are risk weighted as supervisory authority guidelines for capital adequacy purposes. The Bank uses the guidelines issued by supervisory authority to map the credit assessment ratings provided by eligible external credit assessment institutions (ECAL's) to determine risk weighted exposures.

Credit Risk Management Strategy

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits, and approval structures which guide the day to day initiation and management of the Bank's credit risk exposure. This approach comprises credit limits that are established for all customers or credit and product programs after a careful assessment of their creditworthiness.
Standing procedures, outlined in the Bank's credit policy manual, require that all credit proposals be subjected to detailed screening by the Risk Group pending submission to the Management Credit Committee and/or Executive Credit Committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Bank's exposure with their risk appetite.
In addition, all credit facilities are continually monitored based on periodical review of the credit performance and obligor rating.

Key Features of Corporate Credit Risk Management

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

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

Key Features of Consumer Credit Risk Management

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

Bank Credit Risk Monitoring

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

Credit risk is monitored on an ongoing basis with formal quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance.
A specialized team handles the management and collection of problem credit facilities.

Credit Risk - Impairment

In managing its portfolio, the Bank utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligator's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on "Standard" quality is assessed to be higher than that for the exposures classified within the "High" quality range.
The Bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non-performing. Each borrower is rated on an internal risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics and account conduct. An independent credit unit reviews the assigned ratings periodically. Exposures falling below a certain classification threshold (8 to 10) are considered to be impaired and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on portfolio basis for group of similar credits that are not individually identified as impaired.

Past-due and Impairment Provisions

Credit facilities are classified as "past due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.
A credit facility is considered as "impaired" if the profit or principal installments are past due for more than 90 days, or if the carrying amount of the facility is greater than its estimated recoverable value. The principle of materiality should be taken into consideration when determining an event of default.
Past-due and impaired facilities are managed and monitored as "irregular facilities" and are classified into the following four categories which are then used to guide the provisioning process:

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

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS (continued)

1. Credit Risk (continued)

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

Standardized Approach and Supervisory Risk Weights

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

Credit Risk Mitigation

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

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

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

The Bank's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk which is implemented through customer and economic sector limit structures. This risk is managed by diversification of the portfolio which is implemented through client, industry, geographic and product.
Risk transfer in the form of syndicated loans or risk participation arrangements with other banks is common practices to limit the banks' exposure.

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

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

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

Management of Credit Collateral and Valuation

The main types of collateral accepted by the Bank are:
1. Real state
2. Quoted shares
3. Cash
4. Bank guarantees
5. Acknowledged assignment of contracts proceeds

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

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

2. Market Risk – Standardized Approach

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

Market Management Framework
The market risk management framework governs the Bank's trading and non-trading related market risk. Market risk stemming from trading activities is managed by the relevant group. The management and oversight of market risk inherent within the Bank's non-trading activities is the primary responsibility of the Bank's Asset and Liability Committee. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.
All instruments and exposures that were subject to market risk were assessed using the standardized approach for Pillar I market risk

Monitoring of "Market" Risk from "Trading" Activities
The Bank's risk management function independently monitors the trading market risk exposure to derive quantitative measures specifically for market risk under normal market conditions.

Monitoring of Non-Trading Market Risk in the "Banking" Activities
The Bank's key non-trading market risk is the sensitivity of its net commission income to movements in commission rates. Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates.
Currently, the Bank uses the following risk measures and limits to identify measure and monitor the market risk in the trading and banking book:

- Open Position limits;
- Commission rate sensitivity;
- Commission rate gaps;
- Maturity gaps; and
- Liquidity ratios limit.

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

31 December 2010	+25bp	-25bp
31 December 2009	+25bp	-25bp

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

Liquidity Risk
Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the group to maintain adequate liquidity at all times.
The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily by Treasury to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of the liabilities.
The Bank uses a mixed approach of cash flow match approach and liquid assets approach. Under the cash flow approach the Bank attempts to match the cash outflow against the contractual cash inflow leaving around one month cash requirements at all times to absorb unexpected cash movement. The excess liquidity for over one month is managed on the basis of liquid asset approach and as per SAMA guidelines.
To address these risks, management seeks to diversify funding sources to match the growth of its assets with funding.
The Bank has to maintain liquid assets of at least 20% of deposit liabilities in the form of cash or assets that can be converted into cash within a period not exceeding 30 days.
In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA. The Bank has the ability to raise additional funds through repo facilities with SAMA.
The market risk department is in the process of implementing an advanced financial risk management system that will enable the Bank to measure and monitor the risk more effectively and frequently. It will provide tools to enable sophisticated what-if-analyses at various levels of the Bank's portfolios and its trading and banking book. Further, it will allow dynamic simulation, scenario analysis, back and stress test at various levels of granularities of portfolio.

RISK EXPOSURE AND ASSESSMENT
GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS (continued)
2. Market Risk – Standardized Approach (continued)

Foreign Exchange Risk
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures and in total for both over night and intra-day positions which are monitored daily. Assets are typically funded in the same currency to minimize exchange exposures. Appropriate segregation of duties exists between the front and back office functions, while compliance with position limits is monitored on an ongoing basis.

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

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

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

Compliance self assessment guidelines have been developed for all key controls to ensure that the controls are deployed as required. All key controls are tested by the Unit Head and reports are sent to Risk Management to update CARE data base. Internal Audit is also required to independently verify during annual audits that all controls are working as desired.

Periodically, a risk summary report is generated that shows gaps in the control environment, critical risks not fully mitigated and recommendations pending for enhancement of systems and controls. This report is used by the management to evaluate operational risk governance and provide guidance on the strategy and approach.
The Bank's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Bank's services for laundering money or financing terrorism. The bank's "anti money laundering" and "combating terrorism financing" initiatives are regularly reviewed to ensure compliance with local regulatory requirements and international best practices.

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

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

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

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

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

www.baj.com.sa
800 244 9999