BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

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REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2017, the interim condensed consolidated statements of income and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 16 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
License Number 414

for KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
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Dhul Qadah 1, 1438H
Corresponding to July 24, 2017

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Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000 (Restated)
ASSETS				
Cash and balances with SAMA	11	**5,285,288**	5,196,815	4,389,367
Due from banks and other financial institutions		**1,173,631**	1,337,778	1,793,901
Investments	5	**17,337,446**	16,292,744	16,434,134
Positive fair value of derivatives	9	**130,510**	128,718	146,317
Loans and advances, net	6	**40,971,326**	42,098,695	44,212,411
Investment in an associate	7	**128,944**	129,977	125,880
Other real estate, net		**445,149**	62,012	36,031
Property and equipment, net		**783,477**	701,659	698,554
Other assets		**748,466**	370,970	430,648
Total assets		**67,004,237**	66,319,368	68,267,243
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**6,465,296**	3,545,112	6,643,988
Customers' deposits	8	**49,169,757**	51,602,354	50,729,768
Negative fair value of derivatives	9	**335,928**	333,718	474,598
Subordinated Sukuk	14	**2,005,852**	2,006,471	2,006,649
Other liabilities		**697,055**	728,187	705,642
Total liabilities		**58,673,888**	58,215,842	60,560,645
EQUITY				
Share capital	13	**5,200,000**	4,000,000	4,000,000
Statutory reserve		**1,945,105**	1,945,105	1,727,119
General reserve		**68,000**	68,000	68,000
Other reserves		**(212,104)**	(211,790)	(333,751)
Retained earnings		**1,329,348**	2,302,211	2,245,230
Total equity		**8,330,349**	8,103,526	7,706,598
Total liabilities and equity		**67,004,237**	66,319,368	68,267,243

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Notes	For the three month period ended 30 June 2017 SR'000	For the three month period ended 30 June 2016 SR'000	For the six month period ended 30 June 2017 SR'000	For the six month period ended 30 June 2016 SR'000
Special commission income		**611,965**	577,058	**1,224,703**	1,092,725
Special commission expense		**(158,524)**	(192,541)	**(337,280)**	(338,111)
Net special commission income		**453,441**	384,517	**887,423**	754,614
Fees and commission income, net		**168,798**	162,597	**334,102**	328,871
Exchange income, net		**34,276**	25,671	**62,193**	54,442
Trading income, net		**1,921**	4,700	**3,138**	1,180
Dividend income		**22**	-	**49**	-
Gain on sale of other real estate		**-**	-	**-**	210,518
Other operating income		**114**	2,378	**1,272**	3,483
Total operating income		**658,572**	579,863	**1,288,177**	1,353,108
Salaries and employee-related expenses		**217,133**	219,493	**435,484**	435,284
Rent and premises-related expenses		**35,159**	32,238	**69,937**	63,262
Depreciation and amortisation		**21,589**	20,406	**42,137**	40,267
Other general and administrative expenses		**105,002**	101,272	**200,486**	199,996
Impairment charge for credit losses, net	6	**61,937**	30,671	**108,746**	58,395
Other operating expenses		**138**	267	**442**	929
Total operating expenses		**440,958**	404,347	**857,232**	798,133
Income from operating activities		**217,614**	175,516	**430,945**	554,975
Share in net income of an associate		**2,548**	2,001	**5,185**	3,851
Net income for the period		**220,162**	177,517	**436,130**	558,826
Basic and diluted earnings per share for the period (expressed in SR)	13	**0.42**	0.34	**0.84**	1.07

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

Yaser Yullah

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Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three month period ended		For the six month period ended	
	30 June 2017 SR'000	30 June 2016 SR'000	**30 June 2017 SR'000**	30 June 2016 SR'000
Net income for the period	**220,162**	177,517	**436,130**	558,826
Other comprehensive income:				
Net other comprehensive income to be reclassified to interim consolidated statement of income in subsequent periods:				
Cash flow hedges:				
Fair value loss on cash flow hedges	**(15,310)**	(68,336)	**(1,442)**	(160,070)
Net amount transferred to interim consolidated statement of income	**14**	157	**143**	314
Net other comprehensive income not to be reclassified to interim consolidated statement of income in subsequent periods:				
Net changes in fair value and gain on sale of investments classified as at Fair Value Through Other Comprehensive Income (FVTOCI)	**556**	97	**1,694**	(246)
Other comprehensive (loss) / income for the period	**(14,740)**	(68,082)	**395**	(160,002)
Total comprehensive income for the period	**205,422**	109,435	**436,525**	398,824

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Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 (UNAUDITED)

	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 SR'000
Balance at 1 January 2017 (audited)		**4,000,000**	**1,945,105**	**68,000**	**(211,790)**	**2,302,211**	-	**8,103,526**
Net income for the period		-	-	-	-	436,130	-	436,130
Other comprehensive income, net		-	-	-	395	-	-	395
Total comprehensive income for the period		-	-	-	395	436,130	-	436,525
Zakat and income tax	4(a)	-	-	-	-	(17,673)	-	(17,673)
Share in Zakat of an associate		-	-	-	-	(93)	-	(93)
Issue of bonus shares	13	1,200,000	-	-	-	(1,200,000)	-	-
Proposed dividend	19	-	-	-	-	(200,000)	200,000	-
Dividend paid		-	-	-	-	-	(191,227)	(191,227)
Adjustments in proposed dividend		-	-	-	-	8,773	(8,773)	-
Other	17	-	-	-	(709)	-	-	(709)
Balance at 30 June 2017 (unaudited)		**5,200,000**	**1,945,105**	**68,000**	**(212,104)**	**1,329,348**	-	**8,330,349**
Balance at 1 January 2016 (audited)		4,000,000	1,727,119	68,000	(172,656)	1,791,006	-	7,413,469
Net income for the period		-	-	-	-	558,826	-	558,826
Other comprehensive loss, net		-	-	-	(160,002)	-	-	(160,002)
Total comprehensive (loss) / income for the period		-	-	-	(160,002)	558,826	-	398,824
Share in Zakat of an associate		-	-	-	-	(180)	-	(180)
Other	17	-	-	-	(1,093)	-	-	(1,093)
Balance at 30 June 2016 (unaudited), previously reported		4,000,000	1,727,119	68,000	(333,751)	2,349,652	-	7,811,020
Reclassification of zakat and income tax	18	-	-	-	-	(84,726)	-	(84,726)
Effect of changes in accounting policy	4(a)	-	-	-	-	(19,696)	-	(19,696)
Balance at 30 June 2016 (unaudited), restated		4,000,000	1,727,119	68,000	(333,751)	2,245,230	-	7,706,598

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Chairman

Nabil Al-Hoshan
CEO and Managing Director

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Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 (UNAUDITED)

	Notes	2017 SR'000	2016 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period		**436,130**	558,826
Adjustments to reconcile net income to net cash from operating activities:			
Trading income, net		**(3,138)**	(1,180)
Impairment charge for credit losses, net		**108,746**	58,395
Share in net income of an associate		**(5,185)**	(3,851)
Depreciation and amortisation		**42,137**	40,267
Dividend income		**(49)**	-
Loss on sale / write off of property and equipment		**1**	3,416
		578,642	655,873
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**87,720**	(45,213)
Due from banks and other financial institutions maturing after three month from the date of acquisition		**(499,055)**	343,750
Investments held at fair value through income statement		**(1)**	128,637
Positive fair value of derivatives		**(1,792)**	51,194
Loans and advances		**1,018,623**	(2,096,959)
Other real estate, net		**(383,137)**	8,095
Other assets		**(377,496)**	(175,722)
Net (decrease) / increase in operating liabilities:			
Due to banks and other financial institutions		**2,920,184**	2,586,677
Customers' deposits		**(2,432,597)**	964,575
Negative fair value of derivatives		**2,210**	102,645
Other liabilities		**(27,225)**	(84,616)
Net cash from operating activities		**886,076**	2,438,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of non-trading investments		**524,683**	136,749
Acquisition of non-trading investments		**(1,566,246)**	(5,425,739)
Investment in an associate		**6,125**	6,125
Acquisition of property and equipment		**(124,138)**	(63,250)
Proceeds from sale of property and equipment		**182**	101
Dividends received		**49**	-
Net cash used in investing activities		**(1,159,345)**	(5,346,014)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Subordinated Sukuk	14	**-**	2,000,000
Payment of Subordinated Sukuk	14	**(619)**	(1,000,287)
Zakat and income tax paid		**(23,122)**	(43,328)
Dividends paid		**(189,999)**	(15)
Net cash (used in) /from financing activities		**(213,740)**	956,370
Net decrease in cash and cash equivalents		**(487,009)**	(1,950,708)
Cash and cash equivalents at the beginning of the period		**3,796,821**	4,913,830
Cash and cash equivalents at the end of the period	11	**3,309,812**	2,963,122
Special commission income received during the period		**1,245,457**	1,073,916
Special commission expense paid during the period		**381,268**	476,317
Supplemental non-cash information			
Net changes in fair value and transfers to the interim consolidated statement of income		**(1,299)**	(159,756)

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

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

1. GENERAL

These interim condensed financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (31 December 2016: 80 branches, 30 June 2016: 78 branches) and 48 Fawri Remittance Centers (31 December 2016: 41, 30 June 2016: 33 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

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

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

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

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 30 June 2017**	Ownership (direct and indirect) 31 December 2016	Ownership (direct and indirect) 30 June 2016
Subsidiary					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage and asset management	**100%**	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%	100%
Associate					
AlJazira Takaful Ta'wuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%	35%

2. BASIS OF PREPARATION

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

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

Accordingly, these interim condensed consolidated financial statements has been prepared using IAS 34, 'Interim Financial Reporting' and SAMA guidance for the accounting of Zakat and income tax as described above.

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

The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2016.

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

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

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

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

3. BASIS OF CONSOLIDATION

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

a) Subsidiaries

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

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

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

b) Non-controlling interests

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

c) Transactions eliminated on consolidation

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

3. BASIS OF CONSOLIDATION (continued)

d) Associates

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

As a result of the change in the accounting policy for Zakat and income tax, in the Interim Consolidated Statement of Financial Position “other liabilities” are higher and “retained earnings” are lower as at 30 June 2016, by SR 19.7 million than previously reported due to recording of Zakat and income tax liability for the period ended 30 June 2016.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Amendments to existing standards

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

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

(c) Accounting standards not yet applicable

- Following new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting period and have not been early adopted by the Group. The Group has yet to assess the impact of these new standards and interpretations:

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

5. INVESTMENTS

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Fair Value Through Income Statement (FVTIS) - designated as at FVTIS	**95,694**	92,556	233,599
Fair Value Through Other Comprehensive Income (FVTOCI)	**13,418**	11,724	11,374
Held at amortised cost	**17,228,334**	16,188,464	16,189,161
Total	**17,337,446**	16,292,744	16,434,134

6. LOANS AND ADVANCES, NET

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Consumer loans	**17,764,707**	17,650,960	17,388,361
Commercial loans and overdrafts	**23,012,623**	24,329,749	26,699,120
Others	**407,911**	390,555	378,376
Performing loans and advances	**41,185,241**	42,371,264	44,465,857
Non- performing loans and advances	**529,138**	483,999	374,921
Total loans and advances	**41,714,379**	42,855,263	44,840,778
Impairment allowance for credit losses	**(743,053)**	(756,568)	(628,367)
Loans and advances, net	**40,971,326**	42,098,695	44,212,411

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

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Balance at the beginning of the period	**756,568**	614,604	614,604
Impairment charge for credit losses, net	**145,034**	224,026	84,273
Bad debts written off	**(146,498)**	(128,882)	(65,784)
Reversal / recoveries of amounts previously impaired	**(12,051)**	(29,536)	(4,726)
Allowance written back upon restructuring of loan	**-**	76,356	-
Balance at the end of the period	**743,053**	756,568	628,367

The "impairment charge for credit losses", net in the Interim Consolidated Statement of Income amounting to SR 108.75 million (30 June 2016: SR 58.39 million) was net of recoveries of SR 24.24 million (30 June 2016: SR 21.15 million) from the amounts previously written off.

7. INVESTMENT IN AN ASSOCIATE

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

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 30 June 2017 was SR 341.4 million (31 December 2016: SR 368.1 million; 30 June 2016: SR 356.6 million) based on Tadawul market price.

8. CUSTOMERS' DEPOSITS

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Demand	**25,866,980**	25,522,256	24,664,171
Time	**21,627,343**	25,167,027	25,189,648
Other	**1,675,434**	913,071	875,949
Total	**49,169,757**	51,602,354	50,729,768

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

9. DERIVATIVES

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

	30 June 2017 (Unaudited) SR'000			31 December 2016 (Audited) SR'000			30 June 2016 (Unaudited) SR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Options	**4,440**	**4,440**	**1,117,847**	24,464	24,464	2,178,472	40,232	40,232	3,757,129
Special commission rate swaps	**82,456**	**82,456**	**5,714,913**	66,788	66,788	5,942,128	71,146	71,146	6,183,453
Foreign exchange swaps	**635**	**11**	**191,574**	-	1,392	187,500	268	260	826,575
Structured deposits	**13,447**	**13,447**	**1,650,000**	4,168	4,168	1,650,000	4,380	4,380	1,650,000
Total	**100,978**	**100,354**	**8,674,334**	95,420	96,812	9,958,100	116,026	116,018	12,417,157
Held as cash flow hedge:									
Special commission rate swaps	**-**	**201,274**	**3,950,625**	-	194,261	5,624,063	-	318,114	5,624,063
Total	**100,978**	**301,628**	**12,624,959**	95,420	291,073	15,582,163	116,026	434,132	18,041,220
Special commission	**29,532**	**34,300**	**-**	33,298	42,645	-	30,291	40,466	-
Total	**130,510**	**335,928**	**12,624,959**	128,718	333,718	15,582,163	146,317	474,598	18,041,220

The negative fair values of special commission rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2016: April 2044, 30 June 2016: April 2044). The cash flow hedges of special commission rate swap were highly effective in offsetting the variability of special commission expenses. Fair value loss on cash flow hedges amounting to SR 1.44 million (31 December 2016: 36.2 million, 30 June 2016: SR 160.07 million) included in the Interim Consolidated Statement of Comprehensive Income comprised of net unrealized loss of SR 7.01 million (30 June 2016: SR 160.07 million) and realized gain of SR 5.57 million (30 June 2016: nil).

9. DERIVATIVES (continued)

During the period, the Bank sold certain of its special commission rate swaps used for cash flows hedge. However, the gain would continue to be classified in Interim Consolidated Other Comprehensive Income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain will be reclassified to Interim Consolidated Statement of Income in the period when the cash flows pertaining to hedged items will affect the Interim Consolidated Statement of Income.

During the period, an amount of SR 0.14 million (30 June 2016: 0.31 million) is transferred from Statement of Other Comprehensive Income to “special commission expense” in the interim Condensed Consolidated Statement of Income.

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

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

	30 June 2017 (Unaudited) SR’000	31 December 2016 (Audited) SR’000	30 June 2016 (Unaudited) SR’000
Letters of credit	**967,756**	972,992	802,125
Letters of guarantee	**4,250,067**	4,144,274	4,306,776
Acceptances	**671,193**	611,960	618,485
Irrevocable commitments to extend credit	**148,125**	150,000	110,000
Total	**6,037,141**	5,879,226	5,837,386

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

The assessments for the years 2012 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue and disclosure of which might affect the bank’s position in this matter.

11. CASH AND CASH EQUIVALENTS

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

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**2,635,236**	2,459,043	1,594,221
Due from banks and other financial institutions with an original maturity of three month or less from the date of acquisition	**674,576**	1,337,778	1,368,901
Total	**3,309,812**	3,796,821	2,963,122

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

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000
Cash and cash equivalents as per Statement of Cash Flows	**3,309,812**	3,796,821	2,963,122
Statutory deposit	**2,650,052**	2,737,772	2,795,146
Due from banks and other financial institutions with original maturity of three month or less from the date of acquisition	**(674,576)**	(1,337,778)	(1,368,901)
Cash and balances with SAMA at end of the period	**5,285,288**	5,196,815	4,389,367

12. OPERATING SEGMENTS

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

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

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

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

12. OPERATING SEGMENTS (continued)

Personal banking
Deposit, credit and investment products for individuals.

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

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

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

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

The Group's total assets and liabilities at 30 June 2017 and 30 June 2016, its total operating income and expenses, and its net income for the six month period then ended, by operating segment, are as follows:

12. OPERATING SEGMENTS (continued)

30 June 2017 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	20,115,994	21,058,247	24,268,884	1,378,987	53,181	128,944	67,004,237
Total liabilities	36,585,015	12,493,477	8,901,870	640,345	53,181	-	58,673,888
Inter - segment operating income /(loss)	2,271	(52,157)	50,743	(857)	-	-	-
Total operating income	549,705	295,391	423,001	89,344	9,874	(79,138)	1,288,177
Net special commission income	317,489	194,503	358,620	19,707	306	(3,202)	887,423
Fee and commission income, net	173,620	93,011	871	65,564	9,567	(8,531)	334,102
Trading income, net	-	-	-	3,138	-	-	3,138
Share in net income of an associate	-	-	-	-	-	5,185	5,185
Impairment charge for credit losses, net	(6,156)	(102,590)	-	-	-	-	(108,746)
Depreciation and amortisation	(23,260)	(5,267)	(9,343)	(3,866)	(401)	-	(42,137)
Total operating expenses	(430,477)	(211,113)	(136,708)	(70,618)	(10,310)	1,994	(857,232)
Net income / (loss)	119,228	84,278	286,293	18,726	(436)	(71,959)	436,130

12. OPERATING SEGMENTS (continued)

30 June 2016 (SR'000)

	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Management	Takaful Ta'awuni	Others	Total
Total assets	20,616,032	24,282,780	22,703,125	477,604	61,822	125,880	68,267,243
Total liabilities	25,801,040	23,034,819	11,590,060	72,904	61,822	-	60,560,645
Inter - segment operating (loss) / income	(16,437)	(45,253)	58,147	3,543	-	-	-
Total operating income	497,203	231,405	364,188	104,903	9,263	146,146	1,353,108
Net special commission income	296,060	157,059	298,348	4,132	276	(1,261)	754,614
Fee and commission income, net	151,393	66,263	7,401	96,129	8,960	(1,275)	328,871
Trading (loss)/income, net	(406)	150	366	1,633	-	(563)	1,180
Share in net income of an associate	-	-	-	-	-	3,851	3,851
Impairment charge for credit losses, net	(2,301)	(56,094)	-	-	-	-	(58,395)
Depreciation and amortisation	(20,865)	(7,520)	(7,791)	(3,606)	(485)	-	(40,267)
Total operating expenses	(396,873)	(201,226)	(114,937)	(75,652)	(11,439)	1,994	(798,133)
Net income / (loss)	100,330	30,179	249,251	29,251	(2,176)	151,991	558,826

13. SHARE CAPITAL AND EARNINGS PER SHARE

The shareholders of the Bank in their Extra Ordinary General Assembly Meeting held on 10 April 2017 approved the increase in the Bank's share capital from SR 4 billion to SR 5.2 billion through the issuance of bonus shares to shareholders of the Bank (three shares for every ten shares held). The legal formalities relating to the increase in share capital completed during second quarter of the year. Accordingly the authorized, issued and fully paid share capital of the Bank consists of 520 million shares of SR 10 each (31 December 2016: 400 million shares of SR 10 each; 30 June 2016: 400 million shares of SR 10 each).

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

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

	For the three month period ended		**For the six month period ended**	
	30 June 2017 SR'000	30 June 2016 SR'000 (Restated)	**30 June 2017 SR'000**	30 June 2016 SR'000 (Restated)
Profit attributable to ordinary share holders				
For basic and diluted earnings per share	**220,162**	177,517	**436,130**	558,826
	Shares	Shares (Restated)	**Shares**	Shares (Restated)
Weighted-average number of ordinary shares				
For basic and diluted earnings per share	**520,000,000**	520,000,000	**520,000,000**	520,000,000
Basic and diluted earnings per share (in SR)	**0.42**	0.34	**0.84**	1.07

14. SUBORDINATED SUKUK

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

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

		30 June 2017 (SR'000) Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value:				
FVTIS - Mutual Funds	**95,121**	**95,121**	**-**	**95,121**
FVTIS – Equities	**573**	**573**	**-**	**573**
FVTOCI - Equities	**9,981**	**9,981**	**-**	**9,981**
Derivatives	**130,510**	**-**	**130,510**	**130,510**
Total	**236,185**	**105,675**	**130,510**	**236,185**
Financial liabilities measured at fair value:				
Derivatives	**335,928**	**-**	**335,928**	**335,928**

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

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

		30 June 2016 (SR'000)		
		Fair Value		
	Carrying Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVTIS - Mutual Funds	232,289	232,289	-	232,289
FVTIS - Equities	1,310	1,310	-	1,310
FVTOCI - Equities	7,936	7,936	-	7,936
Derivatives	146,317	-	146,317	146,317
Total	387,852	241,535	146,317	387,852
Financial liabilities measured at fair value:				
Derivatives	474,598	-	474,598	474,598

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

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

There were no changes in valuation techniques during the period.

Investments amounting to SR 3.44 million (31 December 2016: SR 3.44 million, 30 June 2016: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

	30 June 2017 (SR'000)		31 December 2016 (SR'000)	
	Amortised cost	**Fair value**	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**1,173,631**	**1,174,238**	1,337,778	1,338,102
Investment held at amortised cost	**17,228,334**	**17,240,796**	16,188,464	16,207,079
Loans and advances, net	**40,971,326**	**42,822,671**	42,098,695	43,467,763
Total	**59,373,291**	**61,237,705**	59,624,937	61,012,944
Financial liabilities:				
Due to banks and other financial institutions	**6,465,296**	**6,465,968**	3,545,112	3,545,375
Customers' deposits	**49,169,757**	**49,164,628**	51,602,354	51,615,457
Total	**55,635,053**	**55,630,596**	55,147,466	55,160,832

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

16. CAPITAL ADEQUACY

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

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

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

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

16. CAPITAL ADEQUACY (continued)

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000	30 June 2016 (Unaudited) SR'000 (Restated)
Credit Risk RWA	**47,001,959**	48,372,180	50,808,998
Operational Risk RWA	**4,879,475**	4,750,113	4,614,063
Market Risk RWA	**906,989**	1,129,288	1,010,638
Total Pillar-I RWA	**52,788,423**	54,251,581	56,433,699
Tier I Capital	**8,544,549**	8,304,283	8,031,592
Tier II Capital	**2,408,383**	2,470,299	2,472,904
Total Tier I and II Capital	**10,952,932**	10,774,582	10,504,496
Capital Adequacy Ratio (%)			
Tier I ratio	**16.19%**	15.31%	14.23%
Total Tier I and II Capital	**20.75%**	19.86%	18.61%

17. ISSUANCE OF RIGHT SHARES

With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SR 3 billion through a right issue. The increase is conditional on obtaining the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price of the shares and numbers. Included in the "other reserves" are total expenses of SR 18.83 million (31 December 2016: SR 18.12 million, 30 June 2016: SR 15.56 million) incurred in respect of the legal and professional matters for right issue.

18. ZAKAT DUE FROM SHAREHOLDERS

Until 31 December 2015, the Zakat and income tax paid or accrued relating to years where dividends were not declared, were presented as receivable from shareholders with a view to recover out of future dividends. However, as Zakat and tax liability ultimately impacts retained earnings of the Group and as no dividends were declared for the years 2012 through 2015, and for better presentation, the Bank charged the Zakat and income tax amount to retained earnings as at 31 December 2016. Consistent with the presentation followed as of 31 December 2016, the cumulative amount of SR 84.73 million included in other receivables as of 30 June 2016, was charged to retained earnings in the Interim Consolidated Statement of Changes in Equity.

19. PROPOSED DIVIDEND

During the period, the Bank paid final cash dividend of SR 200 million equal to SR 0.5 per share, net of zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on April 10, 2017.

20. COMPARATIVE FIGURES

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

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 23 July 2017.