

# Capital Adequacy Disclosures

As per Basel II Pillar 3

As at December 31, 2010

## 1. Executive Summary

The information in the attached tables has been prepared as a result of the implementation of Basel II Accord, as published by the Saudi Arabian Monetary Agency (SAMA) in March 2007. The Basel II Accord introduced "Market Discipline" under Pillar 3 through incorporating transparency disclosures to reflect the various risks faced by banks and the capital adequacy to cover these risks.

Bank AlJazira has already successfully implemented the Basel II Accord as mandated by SAMA with effect from January 1, 2008, adopting the following approaches for each of the risks:

<b>Risk</b>	<b>Approach</b>
Credit risk	Standardized Approach
Market risk	Standardized Approach
Operational risk	Basic Indicator Approach

The Pillar III disclosures have been provided in this document as applicable to the Bank as of December 31, 2010.

## 2. Background

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.

Bank AlJazira  
King Fahd Street, 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 banking services.

The Bank provides to 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.

### 3. Capital Management

The Bank's objectives when managing its 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 well-adequate capital base, all in order to preserve the rights of all stakeholders including; shareholders, depositors, the community and its employees.

The Bank monitors the adequacy of its capital according to the Basel II as adopted by SAMA with modifications appropriate to the local banking industry. These ratios measure capital adequacy by comparing the Bank's eligible capital with its credit risk weighted exposures both for on and off balance sheet assets. In addition to the credit risk, the market risk and operational risk (covered under Pillar 1), other risks are also considered in the capital management such as; liquidity risk, interest rate risks, reputation risks, concentration risk, macroeconomic risk, etc (covered under Pillar 2). SAMA requires the bank to hold the minimum level of the regulatory capital and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

### 4. Summary Capital Requirement

The table below provides a summary of the risk weighted exposures and capital requirements under the various types of risks; furthermore, it details the surplus capital available for Bank AlJazira as an additional buffer and future growth:

**All amounts in thousand Saudi riyals**

<b>Summary of Regulatory Capital Requirements:</b>	<b>RWE</b>	<b>Capital Requirement</b>	<b>%age of Total Requirement</b>
<b>Regulatory Capital Requirements - Pillar One</b>			
Credit Risk	24,804,368	1,984,350	74%
Market Risk	3,046,425	243,714	9%
Operational Risk	2,043,119	163,450	6%
<b>Total - Pillar One</b>	<b>29,893,912</b>	<b>2,391,514</b>	<b>89%</b>
<b>Regulatory Capital Requirements - Pillar Two</b>			
<b>Total - Pillar Two</b>	<b>3,595,738</b>	<b>287,659</b>	<b>11%</b>
<b>Total RWA (Pillar One &amp; Pillar Two)</b>	<b>33,489,649</b>	<b>2,679,173</b>	<b>100%</b>
<b>Surplus Capital</b>		<b>2,020,984</b>	
<b>Total Tier 1 and Tier 2, available capital</b>		<b>4,700,157</b>	

As of December 31, 2010

(SR 000's)

TABLE 1: CAPITAL ADEQUACY

The structure of the shareholders' equity is as follows:

**Shareholders' Equity**

Share capital	3,000,000
Statutory reserve	1,398,000
General reserve	68,000
Other reserve	739
Retained earnings	48,779
Proposed dividend	-
<b>Tier One Capital</b>	<b>4,515,518</b>
Qualifying portfolio provisions	184,639
<b>Total Tier One and Tier Two Capital</b>	<b>4,700,157</b>

	<b>Total capital ratio %</b>	<b>Tier 1 capital ratio%</b>
<b>Top consolidated level</b>	<b>14.03%</b>	<b>13.48%</b>

**TABLE 2: CAPITAL STRUCTURE**  
**Capital Structure (Table 2, (b) to (e))**

**As of December 31, 2010**

**(SR 000's)**

<b>Components of capital</b>	<b>Amount</b>
<b>Core capital - Tier I:</b>	
Eligible paid-up share capital	3,000,000
Shares premium accounts	-
Eligible reserves	1,466,000
Minority interests in the equity of subsidiaries	
Retained earnings	48,779
IAS type adjustments	739
Deductions from Tier I:	
Interim losses during the year	-
Intangible assets (including goodwill)	-
Other country specific deductions from Tier 1 at 50%	-
Regulatory calculation differences deduction from Tier 1 at 50%**	-
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	-
Banking and securities entities not fully consolidated	-
Insurance organizations	-
Commercial organizations	-
<b>Total Tier I</b>	<b>4,515,518</b>
<b>Supplementary capital - Tier 2:</b>	
Revaluation gains/reserves	-
Subordinated loan capital	-
Qualifying general provisions	184,639
Interim profits	-
Deductions from Tier II:	-
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	-
Banking and securities entities not fully consolidated	-
Insurance organizations	-
Commercial organizations	-
Other country specific deductions from Tier 2 at 50%	-
Regulatory calculation differences deduction from Tier 2 at 50%**	-
<b>Total Tier II</b>	<b>184,639</b>
Capital to cover market risks - Tier III	-
Short Term Subordinated Debit	-
Tier I and Tier II Capital Available for Market Risk	-
<b>Total eligible capital</b>	<b>4,700,157</b>

As of December 31, 2010 (SR 000's)

**TABLE 3: CAPITAL ADEQUACY**

**Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (TABLE 3, (b))**

Portfolios	Amount of exposure	RWA	Capital requirements
SAMA and Saudi Government	3,498,442	-	-
Others	135,846	112,791	9,023
Multilateral Development Banks (MDBs)	65,419	32,709	2,617
Public Sector Entities (PSEs)	571	114	9
Banks and securities firms	5,160,608	1,796,165	143,693
Corporates	17,837,901	15,396,871	1,231,750
Retail non-mortgages	6,517,226	5,082,569	406,606
Small Business Facilities Enterprises (SBFE's)	11,435	7,074	566
Mortgages - Residential	142,907	142,769	11,422
Past due exposure	1,323,665	523,368	41,869
Equity	492,078	5,308	425
Others	2,660,591	1,704,630	136,370
<b>Total</b>	<b>37,846,689</b>	<b>24,804,368</b>	<b>1,984,350</b>

Exposures, which include on and off balance sheet exposures after adjustments as per Basel guidelines, are stated at gross values and are therefore not directly comparable with the annual financial statements for the year ended December 31, 2010; which are presented on a net basis.

As of December 31, 2010					(SR 000's)
TABLE 3: CAPITAL ADEQUACY					
Capital Requirements For Market Risk* (822, Table 3, (d))					
	Traded Debt instruments	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	124,086	73,879	45,749	-	243,714
Internal models approach					

The market risk calculation is based on Risk Weighted Assets as determined under the Standardised Approach for Market Risk as per the related SAMA guidelines.

As of December 31, 2010 (SR 000's)	
TABLE 3: CAPITAL ADEQUACY	
Capital Requirements for Operational Risk* (Table 3, (e))	
Particulars	Capital requirement
• Basic indicator approach;	163,450
• Standardized approach;	-
• Alternate standardized approach;	-
• Advanced measurement approach (AMA).	-
<b>Total</b>	<b>163,450</b>

Bank AL Jazira is currently applying the Basic Indicator Approach to determine its capital requirements to cover the operational risks. This basis is applied on Bank's average gross revenue of past three financial years, as adjusted for certain non-regular items in accordance with SAMA guidelines.



As of December 31, 2010

(SR 000's)

**TABLE 3: CAPITAL ADEQUACY**

Capital Adequacy Ratios (TABLE 3, (f))

Particulars	Total capital ratio	Tier 1 capital ratio
	%	
Top consolidated level	14.03%	13.48%

As of December 31, 2010

(SR 000's)

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**
**Credit Risk Exposure (Table 4, (b))**

<b>Portfolios</b>	<b>As per the Prudential Returns (RWE)</b>	<b>Average gross credit risk exposure over the period</b>
SAMA and Saudi Government	3,498,442	3,498,442
GCC Sovereign & GCC Central Banks	23,055	22,964
Other Sovereigns and Central Banks	112,791	175,052
Banks & Securities Firm Exposure	5,146,329	4,834,094
Public Sector Entities (PSEs)	571	406
Multilateral Development Banks (MDBs)	65,419	65,419
Corporate	15,790,809	16,323,443
Retail SBFES	9,996	14,554
Other Retail Non-Mortgages	6,296,846	5,349,475
Residential Mortgages	142,907	142,089
Past Due Exposures	372,211	474,865
Other Assets	2,660,591	2,701,871
Equities	5,308	492,078
<b>GROSS CREDIT EXPOSURE</b>	<b>34,125,275</b>	<b>34,094,752</b>

The above gross credit exposure is being reflected before applying any credit risk mitigation, such as collaterals or guarantees.

As of December 31, 2010

(SR 000's)

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**
**Geographic Breakdown (Table 4, (c))**

Portfolios - ON AND OFF	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
SAMA and Saudi Government	3,498,442	-	-	-	-	-	3,498,442
GCC Sovereign & GCC Central Banks	272	22,783	-	-	-	-	23,055
Other Sovereigns and Central Banks	291	-	-	-	-	112,500	112,791
Banks & Securities Firm Exposure	1,580,779	2,937,090	619,769	3,283	-	5,408	5,146,329
Public Sector Entities (PSEs)	571	-	-	-	-	-	571
Multilateral Development Banks (MDBs)	-	65,419	-	-	-	-	65,419
Corporate	15,388,003	23,684	-	-	-	379,122	15,790,809
Retail SBFES	9,996	-	-	-	-	-	9,996
Other Retail Non-Mortgages	6,290,094	1,394	-	-	-	5,358	6,296,846
Residential Mortgages	142,907	-	-	-	-	-	142,907
Past Due Exposures	372,164	-	-	-	-	47	372,211
Other Assets	2,653,003	594	6,994	-	-	-	2,660,591
Equities	3,250	188	-	1,870	-	-	5,308
<b>TOTAL</b>	<b>29,939,772</b>	<b>3,051,152</b>	<b>626,763</b>	<b>5,153</b>	<b>-</b>	<b>502,435</b>	<b>34,125,275</b>

It can be observed from the above table that 88% of the BAJ Portfolio is concentrated in Saudi Arabia. This is the result of the BAJ overall strategy of business at present.

As of December 31, 2010

(SR 000's)

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**
**Industry Sector Breakdown (Table 4, (d))**

Portfolios	Industry sector												
	Government and quasi government	Banks and other financial Institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
SAMA and Saudi Government	-	2,275,321	-	-	-	-	-	-	-	-	-	1,223,121	3,498,442
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	-	-	-	-	23,055	23,055
Other Sovereigns and Central Banks	-	-	-	-	-	-	-	-	-	-	291	112,500	112,791
Banks & Securities Firm Exposure	-	5,142,948	-	-	-	-	-	3,114	-	-	-	267	5,146,329
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	366	205	571
Multilateral Development Banks (MDBs)	-	65,419	-	-	-	-	-	-	-	-	-	-	65,419
Corporate	1,792,620	96,447	36,837	4,129,756	6,409	35,342	1,506,899	3,245,018	223,847	117,697	175	4,599,762	15,790,809
Retail SBFES	-	-	-	-	-	-	2,356	-	300	-	-	7,340	9,996
Other Retail Non-Mortgages	4,348	1,942	-	16,769	-	79	10,298	4,323	80	4,363	2,526,615	3,728,029	6,296,846
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	115,340	27,567	142,907
Past Due Exposures	-	-	-	-	-	2,863	6,202	299,419	-	33,553	14,963	15,211	372,211
Other Assets	-	6,219	-	-	-	-	-	-	-	-	-	2,654,372	2,660,591
Equities	-	-	-	-	-	-	-	-	-	-	-	5,308	5,308
Unclassified	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1,796,968</b>	<b>7,588,296</b>	<b>36,837</b>	<b>4,146,525</b>	<b>6,409</b>	<b>38,284</b>	<b>1,525,755</b>	<b>3,551,874</b>	<b>224,227</b>	<b>155,613</b>	<b>2,529,389</b>	<b>12,525,098</b>	<b>34,125,275</b>

As of December 31, 2010

(SR 000's)

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**

Residual Contractual Maturity Breakdown (Table 4, (e))

Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	Total
SAMA and Saudi Government	2,163,121	200,000	-	100,000	-	835,321	200,000	-	3,498,442
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	23,055	23,055
Other Sovereigns and Central Banks	-	-	-	75,000	37,500	-	-	291	112,791
Banks & Securities Firm Exposure	2,092,382	1,057,290	-	965,000	40,408	803,750	-	187,499	5,146,329
Public Sector Entities (PSEs)	-	-	-	-	-	39	-	532	571
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	65,419	-	65,419
Corporate	2,088,178	1,309,969	188,494	3,055,470	2,637,111	1,819,671	1,772,453	2,919,463	15,790,809
Retail SBFs	2,928	233	-	2,780	-	4,055	-	-	9,996
Other Retail Non-Mortgages	378,892	166,819	99	191,434	417,888	895,192	332,533	3,913,989	6,296,846
Residential Mortgages	75	-	-	-	-	-	1,585	141,247	142,907
Past Due Exposures	340,826	435	-	3,547	93	1,458	3,986	21,866	372,211
Other Assets	2,660,591	-	-	-	-	-	-	-	2,660,591
Equities	5,308	-	-	-	-	-	-	-	5,308
Unclassified	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>9,732,301</b>	<b>2,734,746</b>	<b>188,593</b>	<b>4,393,231</b>	<b>3,133,000</b>	<b>4,359,486</b>	<b>2,375,976</b>	<b>7,207,942</b>	<b>34,125,275</b>

As of December 31, 2010

(SR 000's)

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES**
**Impaired Loans, Past Due Loans and Allowances (Table 4, (f))**

Industry sector	Impaired loans **	Defaulted *	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90 ***	90-180	180-360	Over 360	Gross charges during the period	Charge-offs during the period	Balance at the end of the period	
Electricity, water, gas and healthservices	22,016	22,016	-	-	-	22,016	-	-	16,744	338
Manufacturing	86,541	86,541	57,404	-	-	86,541	(17,620)	-	86,541	40,325
Agriculture and fishing	-	-	-	-	-	-	-	-	-	361
Building and construction	114,782	156,948	15,342	42,166	-	114,782	-	(1,460)	87,797	40,274
Transportation and communication	-	-	-	-	-	-	(30,745)	-	-	2,257
Services	65,584	68,161	-	2,577	-	65,584	1,111	(392)	33,336	3,381
Commerce	634,999	947,682	-	-	312,683	634,999	372,845	(31,712)	665,516	21,607
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	1,506
Others	-	20,972	77,009	-	20,972	-	-	-	18,356	19,268
Government and quasi government	-	-	-	-	-	-	-	-	-	-
Consumer loans and credit cards	40,176	69,063	60,996	17,686	11,201	40,176	13,804	(9,313)	31,135	55,321
<b>TOTAL</b>	<b>964,098</b>	<b>1,371,384</b>	<b>210,751</b>	<b>62,430</b>	<b>344,856</b>	<b>964,098</b>	<b>339,395</b>	<b>(42,877)</b>	<b>939,425</b>	<b>184,639</b>

\* Defaulted loans represent all loans which are 90 days or more past due and includes impaired loans.

\*\* Impaired loans are those which are 360 days or more overdue.

\*\*\* Loans overdue for 90 days or less are neither considered as impaired nor defaulted and therefore are part of performing portfolio.

As of December 31, 2010 (SR 000's)

**TABLE 4 (STA): CREDIT RISK GENERAL DISCLOSURES**

**Impaired Loans, Past Due Loans And Allowances (Table 4, (g))**

As of December 31, 2010

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	964,098	210,751	62,430	344,856	964,098	939,425	184,639
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Other countries	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>964,098</b>	<b>210,751</b>	<b>62,430</b>	<b>344,856</b>	<b>964,098</b>	<b>939,425</b>	<b>184,639</b>

As of December 31, 2010

(SR 000's)

**TABLE (4 (h)) RECONCILIATION OF CHANGES IN THE ALLOWANCES FOR LOANS  
IMPAIRMENT**

	<b>Specific allowances</b>	<b>General allowances</b>
Balance, beginning of the period	642,907	150,700
Charge-offs taken during the period	339,396	33,939
Utilized for write-offs	(31,775)	-
Provision reversed to Income	(11,103)	-
Other adjustments	-	-
Transfers between allowances	-	-
<b>Balance, end of the period</b>	<b>939,425</b>	<b>184,639</b>



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(SR 000's)

**TABLE 5 (STA): CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH**
**Allocation Of Exposures To Risk Buckets (Table 5, (b))**

Particulars	Risk buckets							Total
	0%	20%	35%	50%	75%	100%	150%	
SAMA and Saudi Government	3,498,442	-	-	-	-	-	-	3,498,442
GCC Sovereign & GCC Central Banks	23,055	-	-	-	-	-	-	23,055
Other Sovereigns and Central Banks	-	-	-	-	-	112,791	-	112,791
Banks & Securities Firm Exposure	-	2,749,701	-	2,300,807	-	95,821	-	5,146,329
Public Sector Entities (PSEs)	-	571	-	-	-	-	-	571
Multilateral Development Banks (MDBs)	-	-	-	65,419	-	-	-	65,419
Corporate	-	-	-	459,370	-	15,331,439	-	15,790,809
Retail SBFES	-	-	-	-	9,996	-	-	9,996
Other Retail Non-Mortgages	-	-	-	-	4,612,288	1,684,558	-	6,296,846
Residential Mortgages	-	-	-	-	-	142,907	-	142,907
Past Due Exposures	-	-	-	-	-	107,388	264,823	372,211
Other Assets	955,962	-	-	-	-	1,704,629	-	2,660,591
Equities	-	-	-	-	-	5,308	-	5,308
Unclassified	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>4,477,459</b>	<b>2,750,272</b>	<b>-</b>	<b>2,825,596</b>	<b>4,622,284</b>	<b>19,184,841</b>	<b>264,823</b>	<b>34,125,275</b>

As of December 31, 2010		(SR 000's)
TABLE 7 (STA): CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH		
Credit Risk Exposure Covered By CRM (Table 7, (b) and (c))		
Portfolios	Covered by	
	Eligible financial collateral	Guarantees
SAMA and Saudi Government	-	-
GCC Sovereign & GCC Central Banks	-	-
Other Sovereigns and Central Banks	-	-
Banks & Securities Firm Exposure	-	-
Multilateral Development Banks (MDBs)	-	-
Corporate	5,702,526	1,040,605
Retail SBFES	-	-
Other Retail Non-Mortgages	1,397,659	92,055
Residential Mortgages	963,168	-
Past Due Exposures	-	-
Other Assets	-	-
Equities	-	-
<b>TOTAL</b>	<b>8,063,353</b>	<b>1,132,660</b>

As of December 31, 2010					(SR 000's)
TABLE 10: MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH					
Level Of Market Risks In Terms Of Capital Requirements (Table 10, (b))					
Risk types	Traded debt instruments	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	124,086	73,879	45,749	-	243,714

As of December 31, 2010

(SR 000's)

**TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS**

**Value Of Investments (Table 13, (b))**

	Un-quoted investments		Quoted investments		
	Value disclosed in Financial Statements	Fair value	Value disclosed in Financial Statements	Fair value	Publicly quoted share values (if materially different from fair value)
Equity investments - AFS	3,250	3,250	388,723	388,723	-

As of December 31, 2010		(SR 000's)
TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS		
Types And Nature of Investments (Table 13, (c))		
Investments	Publicly traded	Privately held
Government and quasi government	-	-
Banks and other financial institutions	388,723	3,250
Agriculture and fishing	-	-
Manufacturing	-	-
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	-
Others	-	-
<b>Total</b>	<b>388,723</b>	<b>3,250</b>

As of December 31, 2010 (SR 000's)	
TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains/Losses (Table 13, (d) and (e))	
Particulars	Amount
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	-
Total unrealized gains (losses)	-
Total latent revaluation gains (losses)*	-
Unrealized gains (losses) included in Capital	-
Latent revaluation gains (losses) included in Capital*	-

\*Not applicable to KSA as of to-date

As of December 31, 2010 (SR 000's)

**TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS**

**Capital Requirements (Table 13, (f))**

<b>Equity grouping</b>	<b>Capital requirements</b>
Government and quasi government	-
Banks and other financial institutions	31,098
Agriculture and fishing	-
Manufacturing	-
Mining and quarrying	-
Electricity, water, gas and health services	-
Building and construction	-
Commerce	-
Transportation and communication	-
Services	-
Others	-
<b>Total</b>	<b>31,098</b>