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# **BANK ALJAZIRA**

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2010 AND REVIEW REPORT**

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**REVIEW REPORT**

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

We have reviewed the accompanying interim condensed consolidated financial statements of the Bank AlJazira ("the Bank") and its subsidiaries as at September 30, 2010, comprising the consolidated statement of financial position as at September 30, 2010, and the related consolidated statement of income and consolidated statement of comprehensive income for the three-month and nine-month periods ended September 30, 2010 and the consolidated statements of changes in equity and cash flows for the nine-month period then ended, along with condensed notes 1 through 12.

**Management's Responsibility for the Consolidated Financial Statements**

These interim condensed consolidated financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency (SAMA) and with International Accounting Standard No. 34 "Interim Financial Reporting" and submitted to us together with all the information and explanations which we required.

**Scope of Review**

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with generally accepted standards in Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with applicable Accounting Standards for Financial Institutions issued by the SAMA and with International Accounting Standard No. 34.

**Other Regulatory Matters**

As required by SAMA, certain capital adequacy information has been disclosed in Note 12 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 12 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.


for Ernst & Young

By:   
Ahmed I. Reda  
Certified Public Accountant  
Licence Number 356

October 6, 2010  
Shawal 27, 1431 H



for Deloitte & Touche  
Bakr Abulkhair & Co.

By:   
Husam H. Sadagah  
Certified Public Accountant  
License Number 73



# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   | <u>Notes</u> | <b>September<br/>30, 2010<br/>(Unaudited)<br/>SR'000</b> | <b>December<br/>31, 2009<br/>(Audited)<br/>SR'000</b> | <b>September<br/>30, 2009<br/>(Unaudited)<br/>SR'000</b> |
|---|--------------|--|---|--|
| <b>ASSETS</b>   |              |  |   |  |
| Cash and balances with SAMA   |              | <b>1,664,928</b>   | 1,405,183   | 1,804,569  |
| Due from banks and other financial institutions   |              | <b>4,098,841</b>   | 7,235,983   | 5,244,692  |
| Investments   | 5            | <b>4,313,087</b>   | 4,283,681   | 4,916,428  |
| Loans and advances, net   |              | <b>18,265,342</b>  | 15,504,094  | 15,599,254   |
| Other real estate, net  | 6            | <b>679,800</b>   | 691,667   | 683,299  |
| Property and equipment, net   |              | <b>478,567</b>   | 501,051   | 491,706  |
| Other assets  |              | <b>350,900</b>   | 354,945   | 420,470  |
| <b>Total assets</b>   |              | <b><u>29,851,465</u></b>                                 | <b><u>29,976,604</u></b>                              | <b><u>29,160,418</u></b>                                 |
| <b>LIABILITIES AND EQUITY</b>   |              |  |   |  |
| <b>LIABILITIES</b>  |              |  |   |  |
| Due to banks and other financial institutions   |              | <b>2,016,307</b>   | 2,690,639   | 1,569,218  |
| Customers' deposits   |              | <b>22,608,814</b>  | 22,142,476  | 22,192,432   |
| Other liabilities   |              | <b>430,137</b>   | 449,155   | 444,016  |
| <b>Total liabilities</b>  |              | <b><u>25,055,258</u></b>                                 | <b><u>25,282,270</u></b>                              | <b><u>24,205,666</u></b>                                 |
| <b>EQUITY ATTRIBUTABLE TO EQUITY<br/>HOLDERS OF THE PARENT</b>                                    |              |  |   |  |
| Share capital   | 11           | <b>3,000,000</b>   | 3,000,000   | 3,000,000  |
| Statutory reserve   |              | <b>1,390,000</b>   | 1,390,000   | 1,383,000  |
| General reserve   |              | <b>68,000</b>  | 68,000  | 68,000   |
| Other reserve   |              | <b>881</b>   | -   | -  |
| Retained earnings   |              | <b>83,922</b>  | 27,867  | 314,587  |
| <b>Total equity attributable to equity holders<br/>of the parent</b>                              |              | <b><u>4,542,803</u></b>                                  | <b><u>4,485,867</u></b>                               | <b><u>4,765,587</u></b>                                  |
| Non-controlling interest  |              | <b>253,404</b>   | 208,467   | 189,165  |
| <b>Total equity attributable to equity holders<br/>of the parent and non-controlling interest</b> |              | <b><u>4,796,207</u></b>                                  | <b><u>4,694,334</u></b>                               | <b><u>4,954,752</u></b>                                  |
| <b>Total liabilities and equity</b>   |              | <b><u>29,851,465</u></b>                                 | <b><u>29,976,604</u></b>                              | <b><u>29,160,418</u></b>                                 |

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

|   | <u>Notes</u> | <u>For the Three Months</u> |                  | <u>For the Nine Months</u> |                  |
|---|--------------|-----------------------------|------------------|----------------------------|------------------|
|   |              | <u>Ended</u>                |                  | <u>Ended</u>               |                  |
|   |              | <u>September</u>            | <u>September</u> | <u>September</u>           | <u>September</u> |
|   |              | <u>30, 2010</u>             | <u>30, 2009</u>  | <u>30, 2010</u>            | <u>30, 2009</u>  |
|   |              | <u>SR'000</u>               | <u>SR'000</u>    | <u>SR'000</u>              | <u>SR'000</u>    |
| Special commission income                                     |              | 211,130                     | 224,276          | 637,971                    | 758,853          |
| Special commission expense                                    |              | (35,781)                    | (62,362)         | (106,408)                  | (237,873)        |
| <b>Net special commission income</b>                          |              | <b>175,349</b>              | <b>161,914</b>   | <b>531,563</b>             | <b>520,980</b>   |
| Fees and commission income, net                               |              | 54,076                      | 76,308           | 197,823                    | 294,535          |
| Foreign exchange income, net                                  |              | 4,666                       | 3,946            | 14,504                     | 11,997           |
| Trading income, net   |              | 15,156                      | 16,335           | 11,744                     | 30,661           |
| Income from FVIS financial instrument                         |              | 37,622                      | 98,371           | 78,479                     | 98,371           |
| Dividend income   |              | 5,643                       | 250              | 10,394                     | 5,054            |
| Gains on non-trading investments, net                         |              | -                           | -                | -                          | 20,729           |
| Other operating income  | 6b           | 93                          | 1,039            | 48,398                     | 1,853            |
| <b>Total operating income</b>                                 |              | <b>292,605</b>              | <b>358,163</b>   | <b>892,905</b>             | <b>984,180</b>   |
| Salaries and employee-related expenses                        |              | 97,049                      | 97,296           | 298,955                    | 287,470          |
| Rent and premises-related expenses                            |              | 16,369                      | 15,516           | 48,116                     | 41,433           |
| Depreciation  |              | 20,332                      | 21,000           | 61,169                     | 62,536           |
| Other general and administrative expense                      |              | 43,007                      | 36,257           | 128,821                    | 128,063          |
| Charge for provision for credit losses, net                   |              | 93,358                      | 115,676          | 297,181                    | 154,783          |
| Impairment of other financial assets                          |              | -                           | -                | -                          | 5,392            |
| Other operating expenses                                      |              | 890                         | 2,912            | 2,877                      | 10,991           |
| <b>Total operating expenses</b>                               |              | <b>271,005</b>              | <b>288,657</b>   | <b>837,119</b>             | <b>690,668</b>   |
| <b>Net income for the period</b>                              |              | <b>21,600</b>               | <b>69,506</b>    | <b>55,786</b>              | <b>293,512</b>   |
| <b>Attributable to:</b>                                       |              |                             |                  |                            |                  |
| Equity holders of the parent                                  |              | 22,133                      | 69,789           | 56,055                     | 293,244          |
| Non-controlling interest                                      |              | (533)                       | (283)            | (269)                      | 268              |
|   |              | <b>21,600</b>               | <b>69,506</b>    | <b>55,786</b>              | <b>293,512</b>   |
| <b>Earnings per share</b>                                     |              |                             |                  |                            |                  |
| Weighted average number of outstanding shares (in thousands)  |              | 300,000                     | 300,000          | 300,000                    | 300,000          |
| <b>Basic and diluted earnings per share (expressed in SR)</b> |              | <b>0.07</b>                 | <b>0.23</b>      | <b>0.19</b>                | <b>0.98</b>      |

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

|  | <u>For the Three Months Ended</u>                    |  | <u>For the Nine Months Ended</u>                     |  |
|--|--|--|--|--|
|  | <u>September</u><br><u>30, 2010</u><br><u>SR'000</u> | <u>September</u><br><u>30, 2009</u><br><u>SR'000</u> | <u>September</u><br><u>30, 2010</u><br><u>SR'000</u> | <u>September</u><br><u>30, 2009</u><br><u>SR'000</u> |
| Net income for the period                                      | <u>21,600</u>  | <u>69,506</u>  | <u>55,786</u>  | <u>293,512</u>                                       |
| <b>Other comprehensive income:</b>                             |  |  |  |  |
| Net changes in fair value of available<br>for sale investments | -  | -  | 881  | 18,478   |
| <b>Transfer to consolidated income<br/>statement:</b>          |  |  |  |  |
| Gains on non-trading investments, net                          | -  | -  | -  | (20,729)   |
| Impairment charge for available for sale<br>investments        | -  | -  | -  | 5,392  |
| <b>Other comprehensive income<br/>for the period</b>           | <u>-</u>   | <u>-</u>   | <u>881</u>   | <u>3,141</u>   |
| <b>Total comprehensive income<br/>for the period</b>           | <u><u>21,600</u></u>                                 | <u><u>69,506</u></u>                                 | <u><u>56,667</u></u>                                 | <u><u>296,653</u></u>                                |
| <b>Attributable to:</b>  |  |  |  |  |
| Equity holders of the parent                                   | 22,133   | 69,789   | 56,936   | 296,385  |
| Non-controlling interest                                       | (533)  | (283)  | (269)  | 268  |
| <b>Total comprehensive income for the<br/>period</b>           | <u><u>21,600</u></u>                                 | <u><u>69,506</u></u>                                 | <u><u>56,667</u></u>                                 | <u><u>296,653</u></u>                                |

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

|  | Share<br>capital<br>SR'000 | Statutory<br>reserve<br>SR'000 | General<br>reserve<br>SR'000 | Other<br>reserve<br>SR'000 | Retained<br>earnings<br>SR'000 | Proposed<br>dividend<br>SR'000 | Total equity<br>attributable to<br>equity holders<br>of the parent<br>SR'000 | Non-controlling<br>interest<br>SR'000 | Total<br>SR'000  |
|--|----------------------------|--------------------------------|------------------------------|----------------------------|--------------------------------|--------------------------------|--|---------------------------------------|------------------|
| <b>2010</b>  |                            |                                |                              |                            |                                |                                |  |                                       |                  |
| Balance at January 1, 2010 (audited)   | 3,000,000                  | 1,390,000                      | 68,000                       | -                          | 27,867                         | -                              | 4,485,867  | 208,467                               | 4,694,334        |
| Total comprehensive income / (loss) for the period                           | -                          | -                              | -                            | 881                        | 56,055                         | -                              | 56,936   | (269)                                 | 56,667           |
| Net changes in non-controlling interest                                      | -                          | -                              | -                            | -                          | -                              | -                              | -  | 45,206                                | 45,206           |
| <b>Balance at September 30, 2010 (unaudited)</b>                             | <b>3,000,000</b>           | <b>1,390,000</b>               | <b>68,000</b>                | <b>881</b>                 | <b>83,922</b>                  | <b>-</b>                       | <b>4,542,803</b>   | <b>253,404</b>                        | <b>4,796,207</b> |
| <b>2009</b>  |                            |                                |                              |                            |                                |                                |  |                                       |                  |
| Balance at January 1, 2009 (audited)   | 3,000,000                  | 1,383,000                      | 68,000                       | (3,141)                    | 188,943                        | -                              | 4,636,802  | 101,021                               | 4,737,823        |
| Total comprehensive income for the period                                    | -                          | -                              | -                            | 3,141                      | 293,244                        | -                              | 296,385  | 268                                   | 296,653          |
| Proposed gross dividend for 2008   | -                          | -                              | -                            | -                          | (170,100)                      | 170,100                        | -  | -                                     | -                |
| Gross dividend for 2008 (approved)   | -                          | -                              | -                            | -                          | -                              | (170,100)                      | (170,100)  | -                                     | (170,100)        |
| Zakat and income tax relating to a subsidiary                                | -                          | -                              | -                            | -                          | (10,586)                       | -                              | (10,586)   | -                                     | (10,586)         |
| Zakat and income tax relating to a subsidiary reimbursed by the shareholders | -                          | -                              | -                            | -                          | 13,086                         | -                              | 13,086   | -                                     | 13,086           |
| Net changes in non-controlling interest                                      | -                          | -                              | -                            | -                          | -                              | -                              | -  | 87,876                                | 87,876           |
| <b>Balance at September 30, 2009 (unaudited)</b>                             | <b>3,000,000</b>           | <b>1,383,000</b>               | <b>68,000</b>                | <b>-</b>                   | <b>314,587</b>                 | <b>-</b>                       | <b>4,765,587</b>   | <b>189,165</b>                        | <b>4,954,752</b> |

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

|   | 2010<br>SR'000     | 2009<br>SR'000   |
|---|--------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                    |                  |
| Net income for the period attributable to equity holders of the parent                                  | 56,055             | 293,244          |
| Adjustments to reconcile net income to net cash form (used in) operating activities:                    |                    |                  |
| Trading income, net   | (11,744)           | (30,661)         |
| Income from FVIS financial instruments  | (78,479)           | (98,371)         |
| Gains on non-trading investments, net   | -                  | (20,729)         |
| Charge for provision for credit losses, net   | 297,181            | 154,783          |
| Depreciation  | 61,169             | 62,536           |
| Loss on sale of property and equipment  | 615                | 44               |
| Impairment of other financial assets  | -                  | 5,392            |
|   | <u>324,797</u>     | <u>366,238</u>   |
| <b>Net (increase) decrease in operating assets:</b>   |                    |                  |
| Statutory deposit with SAMA   | (161,668)          | (139,102)        |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | 1,355,011          | (483,311)        |
| Investments held for trading  | (792,446)          | (333,023)        |
| Loans and advances  | (3,058,429)        | (1,503,198)      |
| Other real estate   | 11,867             | 101              |
| Other assets  | 4,045              | 325,373          |
| <b>Net increase (decrease) in operating liabilities:</b>  |                    |                  |
| Due to banks and other financial institutions   | (674,332)          | 202,573          |
| Customers' deposits   | 466,338            | 1,292,064        |
| Other liabilities   | (18,915)           | (77,941)         |
| <b>Net cash used in operating activities</b>  | <u>(2,543,732)</u> | <u>(350,226)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                    |                  |
| Proceeds from maturity and sale of non-trading investments  | 2,893,750          | 1,561,401        |
| Purchase of non-trading investments   | (2,050,000)        | (817,000)        |
| Purchase of property and equipment  | (39,465)           | (60,919)         |
| Proceed from sale of property and equipment   | 165                | 136              |
| Dividend received   | 10,394             | 3,783            |
| <b>Net cash from investing activities</b>   | <u>814,844</u>     | <u>687,401</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                    |                  |
| Dividends paid  | (103)              | (160,512)        |
| Net movements in minority interests   | 44,937             | 88,144           |
| <b>Net cash from/(used in) financing activities</b>   | <u>44,834</u>      | <u>(72,368)</u>  |
| Net (decrease) / increase in cash and cash equivalents  | <u>(1,684,054)</u> | <u>264,807</u>   |
| Cash and cash equivalents at the beginning of the period  | 3,997,783          | 3,876,023        |
| <b>Cash and cash equivalents at the end of the period (Note 9)</b>                                      | <u>2,313,729</u>   | <u>4,140,830</u> |
| Special commission received during the period   | <u>656,094</u>     | <u>779,367</u>   |
| Special commission paid during the period   | <u>(133,387)</u>   | <u>277,229</u>   |
| <b>SUPPLEMENTAL NON-CASH INFORMATION</b>  |                    |                  |
| Net changes in fair values  | 881                | 3,141            |
| Real estate acquired in settlement of loans and advances  | -                  | 607,603          |
| Shares acquired in settlement of loans and advances   | -                  | 274,711          |

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

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### 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 49 branches (2009: 36 branches) in the Kingdom of Saudi Arabia. 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 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.

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

### 2. BASIS OF PREPARATION

The Bank prepares these interim condensed consolidated financial statements in accordance with the applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency (SAMA) and IAS 34 – Interim Financial Reporting. 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.

These interim condensed consolidated financial statements do not include all information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2009.

These interim condensed consolidated financial statements were approved by the Board of Directors on October 6, 2010.

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

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

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### 3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries, namely Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, AlJazira Capital Company and Aman Real Estate (collectively referred to as “the Bank”). The financial statements of the subsidiaries are prepared for the same reporting period 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, so as to obtain benefits from its activities, generally accompanying an ownership interest 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 period, if any, are included in the interim consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Non-Controlling interests represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the interim consolidated income statements and within equity in the interim consolidated balance sheet, separately from parent shareholders' equity.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim consolidated financial statements

### 4. ACCOUNTING POLICIES

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

- 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.

The Bank has adopted the amended standard with retrospective effect which had no impact on the financial position and financial performance of the Bank.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 5. INVESTMENTS

|  | September<br>30, 2010<br>(Unaudited)<br><u>SR'000</u> | December<br>31, 2009<br>(Audited)<br><u>SR'000</u> | September<br>30, 2009<br>(Unaudited)<br><u>SR'000</u> |
|--|---|--|---|
| Held for trading                         | 1,701,240   | 907,444  | 883,678   |
| Other investments held at amortised cost | 2,211,370   | 3,055,120  | 3,655,120   |
| Available for sale                       | 5,449   | 4,568  | 4,548   |
| Held as FVIS                             | 395,028   | 316,549  | 373,082   |
| <b>Total</b>                             | <b>4,313,087</b>                                      | <b>4,283,681</b>                                   | <b>4,916,428</b>                                      |

### 6. OTHER REAL ESTATE, NET

- During 2009, the Bank acquired other real estate in settlement of a loan of a customer amounting to SR 607.6 million. The Bank has ascertained that the fair value of the other real estate acquired exceeds the carrying value of the loan settled.
- During June 2010, the Bank has disposed off other real estate amounting to SR 11.87 million, which resulted in a gain of SR 45.83 million.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 7. DERIVATIVES

The table below sets out the positive and negative fair values of the Bank'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 Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

|                          | September 30, 2010     |                        |                    | December 31, 2009      |                        |                    | September 30, 2009     |                        |                    |
|--------------------------|------------------------|------------------------|--------------------|------------------------|------------------------|--------------------|------------------------|------------------------|--------------------|
|                          | (Unaudited)            |                        |                    | (Audited)              |                        |                    | (Unaudited)            |                        |                    |
|                          | Positive<br>fair value | Negative<br>fair value | Notional<br>amount | Positive<br>fair value | Negative<br>fair value | Notional<br>amount | Positive<br>fair value | Negative fair<br>value | Notional<br>amount |
|                          | SR'000                 | SR'000                 |                    | SR'000                 | SR'000                 |                    | SR'000                 | SR'000                 |                    |
| <b>Held for trading:</b> |                        |                        |                    |                        |                        |                    |                        |                        |                    |
| Profit rate swaps        | -                      | (1,655)                | 187,500            | -                      | -                      | -                  | -                      | -                      | -                  |
| <b>Total</b>             | -                      | (1,655)                | 187,500            | -                      | -                      | -                  | -                      | -                      | -                  |

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 8. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

The Bank's credit related commitments and contingencies are as follows:

|  | <b>September<br/>30, 2010<br/>(Unaudited)<br/>SR'000</b> | <b>December<br/>31, 2009<br/>(Audited)<br/>SR'000</b> | <b>September<br/>30, 2009<br/>(Unaudited)<br/>SR'000</b> |
|--|--|---|--|
| Letters of guarantee                     | 2,172,895  | 2,183,076   | 2,174,863  |
| Letters of credit                        | 625,356  | 433,108   | 641,182  |
| Acceptances                              | 127,461  | 556,249   | 574,361  |
| Irrevocable commitments to extend credit | 184,566  | 355,834   | 133,960  |
| <b>Total</b>                             | <b>3,110,278</b>   | <b>3,528,267</b>                                      | <b>3,524,366</b>   |

### 9. CASH AND CASH EQUIVALENTS

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

|  | <b>September<br/>30, 2010<br/>(Unaudited)<br/>SR'000</b> | <b>December<br/>31, 2009<br/>(Audited)<br/>SR'000</b> | <b>September<br/>30, 2009<br/>(Unaudited)<br/>SR'000</b> |
|--|--|---|--|
| Cash and balances with SAMA,<br>excluding statutory deposit  | 530,109  | 432,032   | 699,415  |
| Due from banks and other financial institutions<br>with an original maturing of ninety days or<br>less | 1,783,620  | 3,565,751   | 3,441,415  |
| <b>Total</b>   | <b>2,313,729</b>   | <b>3,997,783</b>                                      | <b>4,140,830</b>   |

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

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### 10. BUSINESS 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 its performance.

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

Transactions between the business 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 business 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**

Provides shares brokerage 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 business segments based on a pool rate, which approximates the marginal cost of funds.

Other operations of the Bank comprise funds management and other residual businesses, none of which constitutes a separately reportable segment.

The Bank's total assets and liabilities at September 30, 2010 and 2009, its total operating income and expenses, and its net income for the nine months then ended, by business segment, are as follows:

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 10. BUSINESS SEGMENTS (continued)

#### September 30, 2010 (SR'000)

|  | Personal<br>banking<br>(Unaudited) | Corporate<br>banking<br>(Unaudited) | Brokerage<br>(Unaudited) | Treasury<br>and other<br>(Unaudited) | Total<br>(Unaudited) |
|--|------------------------------------|-------------------------------------|--------------------------|--------------------------------------|----------------------|
| Total assets   | 5,523,207                          | 14,169,918                          | 578,371                  | 9,579,969                            | 29,851,465           |
| Total liabilities  | 10,478,894                         | 2,207,618                           | 27,929                   | 12,340,817                           | 25,055,258           |
| Operating income from<br>external customers                    | 252,709                            | 436,165                             | 92,016                   | 112,015                              | 892,905              |
| Inter-segment operating<br>income / (loss)                     | 4,774                              | (54,610)                            | 33,580                   | 16,256                               | -                    |
| Total operating income   | 257,483                            | 381,555                             | 125,596                  | 128,271                              | 892,905              |
| Charge for provision for<br>credit losses, net                 | 26,593                             | 270,588                             | -                        | -                                    | 297,181              |
| Depreciation   | 27,381                             | 4,358                               | 12,073                   | 17,357                               | 61,169               |
| Total operating expenses<br>net of non-controlling<br>interest | 282,816                            | 353,612                             | 119,842                  | 80,580                               | 836,850              |
| Net (loss) / income  | (25,333)                           | 27,943                              | 5,754                    | 47,691                               | 56,055               |

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 10. BUSINESS SEGMENTS (continued)

September 30, 2009 (SR'000)

|   | Personal<br>banking<br>(Unaudited) | Corporate<br>banking<br>(Unaudited) | Brokerage<br>(Unaudited) | Treasury<br>and other<br>(Unaudited) | Total<br>(Unaudited) |
|---|------------------------------------|-------------------------------------|--------------------------|--------------------------------------|----------------------|
| Total assets  | 3,557,504                          | 13,009,983                          | 844,809                  | 11,748,122                           | 29,160,418           |
| Total liabilities                                     | 9,950,056                          | 1,408,030                           | 194,412                  | 12,653,168                           | 24,205,666           |
| Operating income from<br>external customers           | 141,849                            | 486,261                             | 215,345                  | 140,725                              | 984,180              |
| Inter-segment operating<br>income / (loss)            | 52,010                             | (87,732)                            | 559                      | 35,163                               | -                    |
| Total operating income                                | 193,859                            | 398,529                             | 215,904                  | 175,888                              | 984,180              |
| Charge for provision for<br>credit losses, net        | (38)                               | 154,821                             | -                        | -                                    | 154,783              |
| Impairment of other<br>financial assets               | -                                  | -                                   | -                        | 5,392                                | 5,392                |
| Depreciation  | 31,553                             | 7,401                               | 14,446                   | 9,136                                | 62,536               |
| Total operating expenses<br>net of minority interests | 244,040                            | 233,071                             | 142,136                  | 71,689                               | 690,936              |
| Net (loss) / income                                   | (50,181)                           | 165,458                             | 73,768                   | 104,199                              | 293,244              |

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (continued)

### 11. SHARE CAPITAL AND DIVIDENDS

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (December 31, 2009: 300 million shares of SR 10 each; September 30, 2009: 300 million shares of SR 10 each).

On January 6, 2009, the Board of Directors proposed a gross dividend for the year 2008 of SR 170.1 million, which was approved by the shareholders in their annual general assembly meeting held on April 19, 2009.

### 12. 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<br>SR '000 | Capital<br>Adequacy<br>Ratio % | Eligible Capital<br>SR '000 | Capital<br>Adequacy<br>Ratio % |
|   | (unaudited)                 | (unaudited)                    | (unaudited)                 | (unaudited)                    |
| Core capital (Tier 1)                               | 4,542,803                   | 15.70                          | 4,765,587                   | 17.41                          |
| Supplementary capital (Tier 2)                      | 180,000                     |                                | 138,369                     |                                |
| Core and supplementary capital<br>(Tier 1 + Tier 2) | 4,722,803                   | 16.33                          | 4,903,956                   | 17.93                          |