

Bank AlJazira

Capital Adequacy Disclosures

As per
Basel II Pillar 3

As at June 30, 2009

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:

Risk	Approach
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 June 30, 2009.

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

Summary of Regulatory Capital Requirements:	RWE	Capital	%age of Total
Regulatory Capital Requirements -Pillar One		Requirement	Requirement
Credit Risk	22,872,958	1,829,838	66%
Market Risk	366,475	29,318	1%
Operational Risk	2,959,409	236,753	8%
Total -Pillar One	26,198,842	2,095,908	75%
Pillar Two Risks	8,640,599	691,248	25%
Total RWA	34,839,441	2,787,156	100%
Surplus capital available		2,044,511	
Total Available Capital		4,831,667	

As of June 30, 2009

(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	1,383,000
General reserve	68,000
Retained earnings	242,298
Tier One Capital	4,693,298
Portfolio provision	138,369
Total Tier One and Tier Two Capital	4,831,667

	Total capital ratio %	Tier 1 capital ratio%
Top consolidated level	13.87	13.47

TABLE 2: CAPITAL STRUCTURE
Capital Structure (Table 2, (b) to (e))
As of June 30, 2009
(SR 000's)

TABLE 2: CAPITAL STRUCTURE	
Capital Structure (Table 2, (b) to (e))	
Components of capital	Amount
Core capital - Tier I:	
Eligible paid-up share capital	3,000,000
Shares premium accounts	-
Eligible reserves	1,451,000
Minority interests in the equity of subsidiaries	
Retained earnings	242,298
IAS type adjustments*	-
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	
Total Tier I	4,693,298
Supplementary capital - Tier 2:	
Revaluation gains/reserves	-
Subordinated loan capital	-
Qualifying general provisions	138,369
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%**	
Total Tier II	138,369
Capital to cover market risks - Tier III	
Short Term Subordinated Debit	
Tier I and Tier II Capital Available for Market Risk	
Total eligible capital	4,831,667

As of June 30, 2009

(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	3,762,397	-	-
Others	47,228	18,750	1,500
Multilateral Development Banks (MDBs)	-	-	-
Public Sector Entities (PSEs)	95	19	2
Banks and securities firms	5,747,153	2,076,146	166,092
Corporates	16,201,819	15,858,137	1,268,651
Retail non-mortgages	3,069,583	2,515,127	201,210
Small Business Facilities Enterprises (SBFE's)	5,499	2,504	200
Mortgages - Residential	106,797	106,797	8,544
Past due exposure	5,752	8,830	706
Equity	85,634	85,634	6,851
Others	3,060,605	2,201,014	176,082
Total	32,092,562	22,872,958	1,829,838

As of June 30, 2009

(SR 000's)

TABLE 3: CAPITAL ADEQUACY
Capital Requirements For Market Risk* (822, Table 3, (d))

	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	-	9,491	19,827	-	29,318
Internal models approach					

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

* Capital requirements are to be disclosed only for the approaches used.

Frequency : SA Location : W	
As of June 30, 2009	(SR 000's)
TABLE 3: CAPITAL ADEQUACY	
Capital Requirements for Operational Risk* (Table 3, (e))	
Particulars	Capital requirement
• Basic indicator approach;	236,753
• Standardized approach;	-
• Alternate standardized approach;	-
• Advanced measurement approach (AMA).	-
Total	236,753

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 June 30, 2009			(SR 000's)
TABLE 3: CAPITAL ADEQUACY			
Capital Adequacy Ratios (TABLE 3, (f))			
Particulars	Total capital ratio		Tier 1 capital ratio
	%		
Top consolidated level	13.87		13.47
Bank significant stand alone subsidiary 1			
Bank significant stand alone subsidiary 2			
Bank significant stand alone subsidiary 3			
Bank significant stand alone subsidiary n			

As of June 30, 2009		SR'000	(SR 000's)
TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES			
Credit Risk Exposure (Table 4, (b))			
Portfolios	As per the Prudential Returns (RWE)	Average gross credit risk exposure over the period	
SAMA and Saudi Government	3,762,397	3,762,397	
GCC Sovereign & GCC Central Banks	28,478	29,203	
Other Sovereigns and Central Banks	18,750	31,250	
Banks & Securities Firm Exposure	5,747,152	5,930,365	
Public Sector Entities (PSEs)	95	79	
Multilateral Development Banks (MDBs)	-	24,687	
Corporate	16,207,572	16,550,854	
Retail SBFES	5,499	8,831	
Other Retail Non-Mortgages	3,069,583	3,269,744	
Residential Mortgages	106,797	97,813	
Other Assets	3,060,605	2,910,618	
Equities	85,634	79,706	
GROSS CREDIT EXPOSURE	32,092,562	32,695,547	

As of June 30, 2009

(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	3,762,397	-	-	-	-	-	3,762,397
GCC Sovereign & GCC Central Banks	-	28,478	-	-	-	-	28,478
Other Sovereigns and Central Banks	-	-	-	-	-	18,750	18,750
Banks & Securities Firm Exposure	2,698,582	3,001,419	39,993	6,100	-	1,059	5,747,153
Public Sector Entities (PSEs)	95	-	-	-	-	-	95
Corporate	15,714,332	28,796	-	-	-	464,178	16,207,306
Retail SBFES	5,499	-	-	-	-	-	5,499
Other Retail Non-Mortgages	3,068,683	404	-	250	-	246	3,069,583
Residential Mortgages	106,797	-	-	-	-	-	106,797
Other Assets	3,039,421	-	21,452	-	-	-	3,060,873
Equities	85,634	-	-	-	-	-	85,634
TOTAL	28,481,440	3,059,097	61,445	6,350	-	484,233	32,092,565

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	-	2,675,000	-	-	-	-	-	-	-	-	-	1,087,397	3,762,397
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	-	-	-	-	28,478	28,478
Other Sovereigns and Central Banks	18,750	-	-	-	-	-	-	-	-	-	-	-	18,750
Banks & Securities Firm Exposure	-	5,544,533	-	-	-	-	-	3,113	-	-	-	199,506	5,747,152
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	95	-	95
Corporate	1,181,870	961,371	39,655	4,395,060	4,963	50,054	1,473,478	3,696,421	278,424	140,410	9,396	3,973,704	16,204,806
Retail SBFEs	-	-	-	-	-	-	155	725	300	-	-	4,318	5,498
Other Retail Non-Mortgages	487	-	-	13,844	-	93	23,692	46,178	77	8,110	1,231,749	1,745,356	3,069,586
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	79,789	27,008	106,797
Past Due Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	61,008	3,002,364	3,063,372
Equities	-	-	-	-	-	-	-	-	-	-	-	85,634	85,634
TOTAL	1,201,107	9,180,904	39,655	4,408,904	4,963	50,147	1,497,325	3,746,437	278,801	148,520	1,382,037	10,153,765	32,092,565

As of June 30, 2009

(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	1,087,397	150,000	-	150,000	2,125,000	100,000	150,000	-	3,762,397
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	28,478	28,478
Other Sovereigns and Central Banks	-	-	-	-	-	18,750	-	-	18,750
Banks & Securities Firm Exposure	1,807,222	1,227,650	75,000	1,688,947	531,346	416,988	-	-	5,747,153
Public Sector Entities (PSEs)	-	-	-	-	-	-	88	-	88
Corporate	2,556,619	1,679,870	6,392	2,492,143	2,508,053	3,877,482	1,033,848	2,053,165	16,207,572
Retail SBFES	3,845	530	-	255	627	241	-	-	5,498
Other Retail Non-Mortgages	340,474	22,716	-	67,250	288,563	355,627	140,976	1,853,986	3,069,592
Residential Mortgages	-	-	-	-	-	-	256	106,541	106,797
Other Assets	3,044,224	16,381	-	-	-	-	-	-	3,060,605
Equities	85,635	-	-	-	-	-	-	-	85,635
TOTAL	8,925,416	3,097,147	81,392	4,398,595	5,453,589	4,769,088	1,325,168	4,042,170	32,092,565

AS of June 30, 2009

(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 during the period	Charge-offs during the period	Balance at the end of the period	
Electricity, water, gas and health services	22,016	0	0	-	-	-	-	-	21,256	551
Manufacturing	0	0	166,238	-	-	-	44,584	-	44,584	34,402
Agriculture and fishing	0	0	0	-	-	-	-	-	-	301
Building and construction	107,827	0	0	-	-	-	-	-	85,698	19,520
Transportation and communication	0	0	0	-	-	-	-	-	-	2,385
Services	65,584	0	0	-	-	-	-	-	62,617	1,288
Commerce	17,795	0	124,913	-	-	-	268	-	18,499	18,690
Banks and other financial institutions	0	0	0	-	-	-	-	-	-	8,352
Others	6,946	0	0	-	-	-	-	-	5,988	27,696
Government and quasi government	0	0	0	-	-	-	-	-	-	-
Consumer loans and credit cards	52,798	0	-	-	-	-	2,550	175	43,820	25,184
TOTAL	272,966	0	291,151	-	-	-	47,402	175	282,462	138,369

As of June 30, 2009							(SR 000's)
TABLE 4 (STA): CREDIT RISK GENERAL DISCLOSURES							
Impaired Loans, Past Due Loans And Allowances (Table 4, (g))							
As of June 30, 2009							
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	272,966	291,151	-	-	-	282,462	138,369
Other GCC & Middle East							
Europe							
North America							
South East Asia							
Other countries							
TOTAL	272,966	291,151	-	-	-	282,462	138,369

As of June 30, 2009		(SR 000's)
TABLE (4 (h)) RECONCILIATION OF CHANGES IN THE ALLOWANCES FOR LOANS IMPAIRMENT		
	Specific allowances	General allowances
Balance, beginning of the period	243,179	138,369
Charge-offs taken during the period	47,402	
Utilized for write-offs	(175)	
Provision reversed to Income	(7,945)	
Other adjustments	0	
Transfers between allowances	0	0
Balance, end of the period	282,462	138,369

AS OF JUNE 30, 2009

(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%	
SAMA and Saudi Government	3,762,397	-	-	-	-	-	3,762,397
GCC Sovereign & GCC Central Banks	28,478	-	-	-	-	-	28,478
Other Sovereigns and Central Banks	-	-	-	-	-	18,750	18,750
Banks & Securities Firm Exposure	-	2,815,038	-	2,837,952	-	94,163	5,747,153
Public Sector Entities (PSEs)	-	95	-	-	-	-	95
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Corporate	-	-	-	459,370	-	15,748,206	16,207,576
Retail SBFES	-	-	-	-	5,499	-	5,499
Other Retail Non-Mortgages	-	-	-	-	2,052,416	1,017,165	3,069,581
Residential Mortgages	-	-	-	-	-	106,797	106,797
Other Assets	859,794	-	-	-	-	2,200,811	3,060,605
Equities	-	-	-	-	-	85,634	85,634
Unclassified	-	-	-	-	-	-	-
TOTAL	4,650,669	2,815,133	-	3,297,322	2,057,915	19,271,526	32,092,565

As of June 30, 2009
(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	6,089,286	-
Retail SBFES	-	-
Other Retail Non-Mortgages	936,060	74,619
Residential Mortgages	-	87,928
Past Due Exposures	-	-
Other Assets	-	-
Equities	-	-
TOTAL	7,025,346	162,547

As of June 30, 2009					(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	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	-	118,638	247,838	-	366,475

Frequency : SA

Location : W

As of June 30, 2009

(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	2,250	2,250	1,318	1,318	0

As of June 30, 2009		(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	1,318	2,250
Agriculture and fishing	-	-
Manufacturing	-	-
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	-
Others	-	-
Total	1,318	2,250

As of June 30, 2009 (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	20,729
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 to date

As of June 30, 2009		(SR 000's)
TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS		
Capital Requirements (Table 13, (f))		
Equity grouping		Capital requirements
Government and quasi government		
Banks and other financial institutions		105
Agriculture and fishing		-
Manufacturing		-
Mining and quarrying		-
Electricity, water, gas and health services		-
Building and construction		-
Commerce		-
Transportation and communication		-
Services		-
Others		-
Total		105