Bank AlJazira

Capital Adequacy Disclosures

As per Basel II Pillar 3

As at December 31, 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 December 31, 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 Shariáh 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 tale 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	23,282,507	1,862,601	74%
Market Risk	713,663	57,093	2%
Operational Risk	2,156,838	172,547	7%
Total -Pillar One	**26,153,008**	**2,092,241**	**83%**
Pillar Two Risks	5,234,738	418,779	17%
Total RWA & Regulatory Capital	**31,387,745**	**2,511,020**	**100%**
Surplus Capital		2,125,547	
Total Tier I & Tier II, available capital		**4,636,567**	

As of December 31, 2009	(SR 000's)
TABLE 1: CAPITAL ADEQAUCY	

The structure of the shareholders' equity is as follows:

Shareholders' Equity	
Share capital	3,000,000
Statutory reserve	1,390,000
General reserve	68,000
Retained earnings	27,867
Tier One Capital	**4,485,867**
Portfolio provision	150,700
Total Tier One and Tier Two Capital	**4,636,567**

	Total capital ratio %	Tier 1 capital ratio%
Top consolidated level	**14.77**	**14.29**

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TABLE 2: CAPITAL STRUCTURE	
Capital Structure (Table 2, (b) to (e))	
As of December 31, 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	1,458,000
Minority interests in the equity of subsidiaries	
Retained earnings	27,867
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	**4,485,867**
Supplementary capital - Tier 2:	
Revaluation gains/reserves	-
Subordinated loan capital	-
Qualifying general provisions	150,700
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	**150,700**
Capital to cover market risks - Tier III	
Short Term Subordinated Debit	
Tier I and Tier II Capital Available for Market Risk	
Total eligible capital	**4,636,567**

As of December 31, 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	3,359,151	-	-
Others	82,830	56,250	4,500
Multilateral Development Banks (MDBs)	-	-	-
Public Sector Entities (PSEs)	77	15	1
Banks and securities firms	7,430,295	2,321,046	185,684
Corporates	15,946,500	15,942,697	1,275,416
Retail non-mortgages	3,191,177	2,588,364	207,069
Small Business Facilities Enterprises (SBFE's)	15,231	8,430	674
Mortgages - Residential	123,862	123,862	9,909
Equity	420,071	420,071	33,606
Others	2,682,663	1,821,765	145,742
Total	**33,251,857**	**23,282,500**	**1,862,601**

As of December 31, 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	-	11,605	45,488	-	57,093
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.

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	Frequency : SA Location : W
As of December 31, 2009	**(SR 000's)**

TABLE 3: CAPITAL ADEQUACY

Capital Requirements for Operational Risk* (Table 3, (e))

Particulars	**Capital requirement**
• Basic indicator approach;	172,547
• Standardized approach;	-
• Alternate standardized approach;	-
• Advanced measurement approach (AMA).	-
Total	**172,547**

Bank AL Jazira is currently applying the Basic Indicator Approach to determine its capital requireme 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.

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As of December 31, 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	14.77%	14.29%

As of December 31, 2009	
TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES	
Credit Risk Exposure (Table 4, (b))	
Portfolios	**As per the Prudential Returns (RWE)**
SAMA and Saudi Government	3,359,151
GCC Sovereign & GCC Central Banks	26,580
Other Sovereigns and Central Banks	56,250
Banks & Securities Firm Exposure	7,430,295
Public Sector Entities (PSEs)	77
Multilateral Development Banks (MDBs)	-
Corporate	15,946,500
Retail SBFEs	15,230
Other Retail Non-Mortgages	3,191,176
Residential Mortgages	123,862
Other Assets	2,682,663
Equities	420,071
GROSS CREDIT EXPOSURE	**33,251,855**

As of December 31, 2009

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
SAMA and Saudi Government	3,359,151	-	-	-	-	-
GCC Sovereign & GCC Central Banks	-	26,580	-	-	-	-
Other Sovereigns and Central Banks	-	-	-	-	-	56,250
Banks & Securities Firm Exposure	4,509,628	2,265,894	433,811	219,826	-	1,136
Public Sector Entities (PSEs)	77	-	-	-	-	-
Corporate	15,574,728	31,103	-	-	-	340,670
Retail SBFEs	15,230	-	-	-	-	-
Other Retail Non-Mortgages	3,185,656	1,024	-	250	-	4,246
Residential Mortgages	123,862	-	-	-	-	-
Other Assets	2,670,792	827	11,044	-	-	-
Equities	418,753	188	-	1,131	-	-
TOTAL	**29,857,877**	**2,325,616**	**444,855**	**221,207**	**-**	**402,302**

(SR 000's)
Total
3,359,151
26,580
56,250
7,430,295
77
15,946,501
15,230
3,191,176
123,862
2,682,663
420,072
33,251,857

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As of December 31, 2009													(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	-	2,386,000	-	-	-	-	-	-	-	-	-	973,151	3,359,151
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	-	-	-	-	26,580	26,580
Other Sovereigns and Central Banks	55,371	-	-	-	-	-	-	-	-	-	-	879	56,250
Banks & Securities Firm Exposure	-	7,314,173	-	-	-	-	-	3,114	-	-	-	113,009	7,430,296
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	77	-	77
Corporate	1,300,367	879,538	40,351	4,370,917	3,260	52,570	1,366,237	3,694,366	254,697	156,548	8,650	3,819,000	15,946,501
Retail SBFEs	-	-	-	-	-	-	4,020	4,046	300	-	-	6,864	15,230
Other Retail Non-Mortgages	4,487	-	36	14,291	-	833	22,609	41,217	73	12,080	1,412,780	1,682,770	3,191,176
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	96,754	27,109	123,863
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,682,663	2,682,663
Equities	-	-	-	-	-	-	-	-	-	-	-	420,071	420,071
TOTAL	**1,360,225**	**10,579,711**	**40,387**	**4,385,208**	**3,260**	**53,403**	**1,392,866**	**3,742,743**	**255,070**	**168,628**	**1,518,261**	**9,752,096**	**33,251,858**

As of December 31, 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	1,059,151	275,000	-	1,075,000	475,000	475,000	-	-	**3,359,151**
GCC Sovereign & GCC Central Banks	-	-	-	-	-	-	-	26,580	**26,580**
Other Sovereigns and Central Banks	-	25,431	-	15,756	14,185	878	-	-	**56,250**
Banks & Securities Firm Exposure	2,395,795	2,087,768	-	1,283,309	1,186,174	477,250	-	-	**7,430,296**
Public Sector Entities (PSEs)	-	-	-	-	-	-	77	-	**77**
Corporate	3,218,438	954,333	5,195	3,338,361	3,779,423	1,414,718	1,443,608	1,792,425	**15,946,501**
Retail SBFEs	8,014	1,302	-	4,742	1,172	-	-	-	**15,230**
Other Retail Non-Mortgages	218,399	45,430	959	92,743	216,315	423,199	207,382	1,986,749	**3,191,176**
Residential Mortgages	-	-	-	-	-	-	215	123,648	**123,863**
Other Assets	2,682,663	-	-	-	-	-	-	-	**2,682,663**
Equities	420,071	-	-	-	-	-	-	-	**420,071**
TOTAL	**10,002,531**	**3,389,264**	**6,154**	**5,809,911**	**5,672,269**	**2,791,045**	**1,651,282**	**3,929,402**	**33,251,858**

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As of December 31, 2009

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		
			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 health services	(22,016)	-	-	-	-	-	-	-	21,256
Manufacturing		-	(1,291)	(86,542)	(165,052)	-	59,577	-	104,161
Agriculture and fishing	-	-	-	-	-	-	-	-	-
Building and construction	(75,973)	-	(40,934)	(2,479)	-	-	1,115	-	85,493
Transportation and communication	-	-	-	-	(124,913)	-	-	(2,247)	-
Services	(64,926)	-	-	-	-	-	-	(30,000)	32,617
Commerce	(6,479)	-	-	-	(610,174)	-	365,970	(3,875)	354,981
Banks and other financial institutions	-	-	(1,957)	-	-	-	-	-	-
Others	(21,904)	-	(36,095)	(8,916)	(10,320)	-	25,698	(1,300)	31,686
Government and quasi government	-	-	-	-	-	-	-	-	-
Consumer loans and credit cards	(17,641)	-		-	-	-	-	(2,850)	12,713
TOTAL	**(208,939)**	**-**	**(80,277)**	**(97,937)**	**(910,459)**	**-**	**452,360**	**(40,272)**	**642,907**

(SR 000's)
General allowances
460
38,501
368
19,894
2,600
985
20,910
3,158
39,206
-
24,618
150,700

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As of December 31, 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	General allowances
		Less than 90	90-180	180-360	Over 360	allowances	
Saudi Arabia	(208,939)	(80,277)	(97,937)	(910,459)	-	642,907	150,700
Other GCC & Middle East							
Europe							
North America							
South East Asia							
Other countries							
TOTAL	**(208,939)**	**(80,277)**	**(97,937)**	**(910,459)**	**-**	**642,907**	**150,700**

BANK ALJAZIRA بنك الجزيرة

As of December 31, 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	446,016	12,331
Utilized for write-offs	(379)	0
Provision reversed to Income	(15,909)	0
Other adjustments	0	0
Transfers between allowances	(30,000)	0
Balance, end of the period	**642,907**	**150,700**

As of December 31, 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	3,359,151	-	-	-	-	-	3,359,151
GCC Sovereign & GCC Central Banks	26,580	-	-	-	-	-	26,580
Other Sovereigns and Central Banks	-	-	-	-	-	56,250	56,250
Banks & Securities Firm Exposure	-	4,829,099	-	2,491,940	-	109,257	7,430,296
Public Sector Entities (PSEs)	-	77	-	-	-	-	77
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Corporate	-	-	-	459,370	-	15,487,131	15,946,501
Retail SBFEs	-	-	-	-	15,230	-	15,230
Other Retail Non-Mortgages	-	-	-	-	2,242,958	948,218	3,191,176
Residential Mortgages	-	-	-	-	-	123,863	123,863
Other Assets	860,898	-	-	-	-	1,821,765	2,682,663
Equities	-	-	-	-	-	420,071	420,071
Unclassified	**4,246,629**	**4,829,176**	**-**	**2,951,310**	**2,258,188**	**18,966,555**	**33,251,858**

As of December 31, 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	4,990,692	925,949
Retail SBFEs	-	-
Other Retail Non-Mortgages	2,226,855	92,055
Residential Mortgages	162,837	-
Other Assets	-	-
Equities	-	-
TOTAL	**7,380,384**	**1,018,004**

As of December 31, 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	-	145,059	568,604	-	713,663

				Frequency : SA Location : W

As of December 31, 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	3,250	3,250	320,107	320,107	0

As of December 31, 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	320,107	3,250
Agriculture and fishing		
Manufacturing		
Mining and quarrying		
Electricity, water, gas and health services		
Building and construction		
Commerce		
Transportation and communication		
Services		
Others		-
Total	**320,107**	**3,250**

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As of December 31, 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 December 31, 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	25,609
Agriculture and fishing	-
Manufacturing	-
Mining and quarrying	-
Electricity, water, gas and health services	-
Building and construction	-
Commerce	-
Transportation and communication	-
Services	-
Others	-
Total	**25,609**