

# **Bank AlJazira**

(A Saudi Joint Stock Company)

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## **BANK ALJAZIRA**

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2011 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 Bank AlJazira ("the Bank") and its subsidiaries as at March 31, 2011, comprising the consolidated statement of financial position as at March 31, 2011, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and cash flows for the three-month period then ended, along with condensed notes 1 through 15.

### **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.

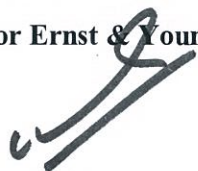
### **Conclusion**

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 SAMA and with International Accounting Standard No. 34.

### **Other Regulatory Matters**

As required by SAMA, certain capital adequacy information has been disclosed in Note 14 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 14 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**For Ernst & Young**



Ahmed I. Reda  
Certified Public Accountant  
Licence Number 356

April 26, 2011  
Jumad Awal 22, 1432 H



**For Deloitte & Touche  
Bakr Abulkhair & Co.**



Husam H. Sadagah  
Certified Public Accountant  
Licence Number 73



# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		March 31, 2011 (Unaudited) <u>SR'000</u>	December 31, 2010 (Audited) <u>SR'000</u>	March 31, 2010 (Unaudited) <u>SR'000</u>
	<u>Notes</u>			
<b>ASSETS</b>				
Cash and balances with SAMA		3,411,785	2,607,890	1,376,313
Due from banks and other financial institutions		6,427,694	5,579,852	4,334,860
Investments	6	4,618,160	4,546,171	4,215,694
Loans and advances, net		19,942,197	18,704,442	16,338,949
Other real estate, net	7	678,950	679,800	691,667
Property and equipment, net		456,354	462,493	490,738
Other assets		377,615	437,573	342,431
<b>Total assets</b>		<b>35,912,755</b>	<b>33,018,221</b>	<b>27,790,652</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		928,060	388,719	3,430,965
Customers' deposits		28,758,408	27,344,918	19,202,924
Subordinated sukuk	8	1,000,000	-	-
Other liabilities		485,235	478,902	428,361
<b>Total liabilities</b>		<b>31,171,703</b>	<b>28,212,539</b>	<b>23,062,250</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>				
Share capital	13	3,000,000	3,000,000	3,000,000
Statutory reserve		1,398,000	1,398,000	1,390,000
General reserve		68,000	68,000	68,000
Other reserve		81,804	739	-
Retained earnings		1,720	48,779	40,478
<b>Total equity attributable to equity holders of the parent</b>		<b>4,549,524</b>	<b>4,515,518</b>	<b>4,498,478</b>
Non-controlling interests		191,528	290,164	229,924
<b>Total equity attributable to equity holders of the parent and non-controlling interest</b>		<b>4,741,052</b>	<b>4,805,682</b>	<b>4,728,402</b>
<b>Total liabilities and equity</b>		<b>35,912,755</b>	<b>33,018,221</b>	<b>27,790,652</b>

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements



# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	<b>Three Months Ended</b>	
	<b>March</b>	<b>March</b>
	<b>31, 2011</b>	<b>31, 2010</b>
	<b><u>SR'000</u></b>	<b><u>SR'000</u></b>
Special commission income	224,951	207,425
Special commission expense	(41,717)	(38,988)
<b>Net special commission income</b>	<b>183,234</b>	<b>168,437</b>
Fees and commission income, net	75,611	67,662
Foreign exchange income, net	4,313	6,046
Trading income	8,390	9,278
Dividend income	4,703	-
Income from FVIS financial instrument	-	53,397
Other operating income	10	277
<b>Total operating income</b>	<b>276,261</b>	<b>305,097</b>
Salaries and employee-related expenses	111,928	102,000
Rent and premises-related expenses	15,721	15,604
Depreciation	18,624	20,299
Other general and administrative expense	50,189	44,447
(Reversal of) / charge for provision for credit losses, net	(4,248)	110,000
Other operating expenses	22,107	340
<b>Total operating expenses</b>	<b>214,321</b>	<b>292,690</b>
<b>Net income for the period</b>	<b>61,940</b>	<b>12,407</b>
<b>Attributable to:</b>		
Equity holders of the parent	62,286	12,611
Non-controlling interest	(346)	(204)
<b>Net income for the period</b>	<b>61,940</b>	<b>12,407</b>
<b><u>Earnings per share</u></b>		
Weighted average number of outstanding shares (in thousands) (note 13)	300,000	300,000
<b>Basic and diluted earnings per share (expressed in SR)</b>	<b>0.21</b>	<b>0.04</b>



# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	<b>Three Months Ended</b>	
	<b>March</b>	<b>March</b>
	<b>31, 2011</b>	<b>31, 2010</b>
	<b><u>SR'000</u></b>	<b><u>SR'000</u></b>
Net income for the period	<u>61,940</u>	<u>12,407</u>
<b>Other comprehensive (loss) / income:</b>		
Net changes in fair value of investments classified as at Fair value through other comprehensive income (FVTOCI)	(28,280)	-
<b>Other comprehensive loss for the period</b>	<u>(28,280)</u>	<u>-</u>
<b>Total comprehensive income for the period</b>	<u><u>33,660</u></u>	<u><u>12,407</u></u>
<b>Attributable to:</b>		
Equity holders of the parent	34,006	12,611
Non-controlling interests	(346)	(204)
<b>Total comprehensive income for the period</b>	<u><u>33,660</u></u>	<u><u>12,407</u></u>

# Bank AlJazira

(A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

<u>2011</u>	<u>capital</u> <u>SR'000</u>	<u>Statutory</u> <u>reserve</u> <u>SR'000</u>	<u>General</u> <u>reserve</u> <u>SR'000</u>	<u>Other</u> <u>reserve</u> <u>SR'000</u>	<u>Retained</u> <u>earnings</u> <u>SR'000</u>	<u>Total equity</u> <u>attributable to</u> <u>equity holders</u> <u>of the parent</u> <u>SR'000</u>	<u>Non-controlling</u> <u>interests</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
<b>Balance at January 1, 2011 (audited)</b>	3,000,000	1,398,000	68,000	739	48,779	4,515,518	290,164	4,805,682
Effect of the early adoption of IFRS 9 (note 4(ii))	-	-	-	109,345	(109,345)	-	-	-
Total comprehensive (loss) / income for the period	-	-	-	(28,280)	62,286	34,006	(346)	33,660
Net changes in non-controlling interest	-	-	-	-	-	-	(98,290)	(98,290)
<b>Balance at March 31, 2011 (unaudited)</b>	<u>3,000,000</u>	<u>1,398,000</u>	<u>68,000</u>	<u>81,804</u>	<u>1,720</u>	<u>4,549,524</u>	<u>191,528</u>	<u>4,741,052</u>
<u>2010</u>								
<b>Balance at January 1, 2010 (audited)</b>	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	-	-	-	-	12,611	12,611	(204)	12,407
Net changes in non-controlling interest	-	-	-	-	-	-	21,661	21,661
<b>Balance at March 31, 2010 (unaudited)</b>	<u>3,000,000</u>	<u>1,390,000</u>	<u>68,000</u>	<u>-</u>	<u>40,478</u>	<u>4,498,478</u>	<u>229,924</u>	<u>4,728,402</u>

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.



# Bank AlJazira

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## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (UNAUDITED)

	<b>2011</b>	<b>2010</b>
	<b><u>SR'000</u></b>	<b><u>SR'000</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period attributable to equity holders of the parent	62,286	12,611
Adjustments to reconcile net income to net cash from operating activities:		
Trading income	(8,390)	(9,278)
Gain on non-trading investments, net	-	(53,397)
(Reversal of) / charge for provision for credit losses, net	(4,248)	110,000
Depreciation	18,624	20,299
Dividend Income	(4,703)	-
Loss on sale of property and equipment	-	21
Property and equipment written off	-	518
	<u>63,569</u>	<u>80,774</u>
<b>Net (increase) / decrease in operating assets:</b>		
Statutory deposit with SAMA	(5,604)	(17,540)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition	41,922	517,315
Investments held for trading	-	(520,355)
Investment held at fair value through profit and loss	108,121	-
Other real estate, net	850	-
Loans and advances	(1,233,507)	(944,855)
Other assets	59,958	12,514
<b>Net increase / (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions	539,341	740,326
Customers' deposits	1,413,490	(2,939,552)
Other liabilities	6,394	(20,719)
<b>Net cash from / (used in) operating activities</b>	<u>994,534</u>	<u>(3,092,092)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of non-trading investments	300,000	1,368,750
Purchase of non-trading investments	(500,000)	(725,000)
Purchase of property and equipment	(12,485)	(10,577)
Proceeds from sale of property and equipment	-	52
Dividends received	4,703	7,267
<b>Net cash (used in) / from investing activities</b>	<u>(207,782)</u>	<u>640,492</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(61)	(75)
Issuance of subordinated sukuk	1,000,000	-
Net movements in non-controlling interests	(98,636)	21,457
<b>Net cash from financing activities</b>	<u>901,303</u>	<u>21,382</u>
Net increase/ (decrease) in cash and cash equivalents	1,688,055	(2,430,218)
Cash and cash equivalents at the beginning of the period	4,905,463	3,997,783
<b>Cash and cash equivalents at the end of the period (note 11)</b>	<u>6,593,518</u>	<u>1,567,565</u>
Special commission received during the period	<u>228,835</u>	<u>184,985</u>
Special commission paid during the period	<u>54,190</u>	<u>59,582</u>
<b>SUPPLEMENTAL NON-CASH INFORMATION</b>		
Net changes in fair values	<u>(28,280)</u>	<u>-</u>

The accompanying notes 1 to 15 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 THREE MONTHS ENDED MARCH 31, 2011 AND 2010

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### 1. GENERAL

Bank AlJazira (the “Bank”) is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan’s branches in the Kingdom of Saudi Arabia and operates under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah, through its 50 branches (2010: 48 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.

### 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 International Accounting Standard (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 disclosures 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, 2010 (for changes in accounting policies, see note 4).

These interim condensed consolidated financial statements were approved by the Board of Directors on April 12, 2011.

These 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 THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries, namely 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.

Al-Khair Global Equities Fund was consolidated in the financial statements of the Bank up to 31 December 2010. Due to the reduction in ownership interest of the Bank in Al-Khair Global Equities Fund to 18.67%, the Bank has ceased to consolidate this fund with effect from 1 January 2011, as management believes that the control is transferred from the Bank.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from their 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 statement and within equity in the interim consolidated statement of financial position, 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 these interim consolidated financial statements.

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 4. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in preparation of these interim condensed consolidated financial statements are consistent with those of the previous financial year, except for early adoption of International Financial Reporting Standard (IFRS) 9 with effect from 1 January 2011 (see note 4 (i)), and the adoption of the following:

The International Accounting Standards Board (IASB) has issued the following new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee interpretations (IFRIC) that are effective for periods starting on or after the dates mentioned below:

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective date</i>
IAS 24	Related Party Transactions (Revised)	1 January 2011
IFRS 1	Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRS 7	Amendment to IFRS 7 Financial Instruments: Disclosures	1 July 2011
IAS 32	Amendments to IAS 32 Classification of Rights Issues	1 February 2010
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instrument	1 July 2010
IAS 1	Amendments to clarify disaggregation of changes in each component of equity	1 January 2011
IAS 34	Amendments emphasise the disclosures about significant events and transactions in interim periods	1 January 2011
Various standards	Amendments resulting from May 2010 Annual Improvements to IFRS	Various

The adoption of the above new and amended standards and interpretations applicable to the Bank, other than IFRS 9 as explained below, did not have any significant impact on these consolidated financial statements of the Bank.

#### (i) EARLY ADOPTION OF IFRS 9

With effect from 1 January 2011, the Bank has applied IFRS 9 “Financial Instruments” as issued in November 2009 and revised in October 2010, and the related consequential amendments in advance of its effective date (annual periods beginning on or after 1 January 2013), as earlier application is permitted. The date of initial application of IFRS 9 (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities) is 1 January 2011 in accordance with the transitional provisions of IFRS 9. The Bank has voluntarily adopted this standard, as this is considered to result in a presentation that better reflects the performance and operations of the Bank.

The Bank has not restated comparative information as permitted by the transitional provisions of IFRS 9 and has recognised impact of early adoption of IFRS 9 as at 1 January 2011, in the opening retained earnings and other reserves as of that date (see note 4(ii) for quantification of the impact).



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (i) EARLY ADOPTION OF IFRS 9 (continued)

IFRS 9 (phase 1) has been applied by the Bank for the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the International Accounting Standards Board (IASB). As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

#### Old Accounting Treatment

Up to 31 December 2010, the Bank's financial assets were accounted for under IAS 39 (Financial Instruments: Recognition and Measurement) as disclosed in detail in the annual consolidated financial statements of the Bank for the year ended 31 December 2010. The classification of financial assets under IAS 39 was as follows:

<i>Description of financial assets</i>	<i>Classification under IAS 39</i>
<ul style="list-style-type: none"><li>• Equity investments not held for trading and classified as available for sale</li><li>• Equity investments not held for trading but designated as at FVIS on initial recognition</li><li>• Equity investments held for trading</li><li>• Mutual Funds held for trading</li><li>• Investments in Sukuk and Murabaha classified as other investments held at amortised cost</li><li>• Loans and advances, net</li><li>• Due from banks and other financial institutions</li></ul>	<ul style="list-style-type: none"><li>• Available for sale</li><li>• Designated as at FVIS on initial recognition</li><li>• FVIS (held for trading)</li><li>• FVIS (held for trading)</li><li>• Loans and advances (held at amortised cost)</li><li>• Loans and advances (held at amortised cost)</li><li>• Loans and advances (held at amortised cost)</li></ul>

For derivatives, see notes 5 and 9.

On the sale of investments in equity instruments classified as available for sale, cumulative gain or loss previously recognised in shareholders' equity was required to be included in the consolidated income statement.

Where there was objective evidence of impairment in investment in equity instruments, an impairment charge was required to be booked through the consolidated income statement (as a transfer from other reserves), where there was a significant or prolonged decline in fair value below cost.

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (i) EARLY ADOPTION OF IFRS 9 (continued)

The Bank had no financial assets classified as held to maturity as at 31 December 2010.

Investment securities with fixed or determinable payments that were not quoted in an active market were classified as "Other investments held at amortised cost".

#### New Accounting Treatment

##### Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

<i>Description of Financial Assets</i>	<i>Previous classification under IAS 39</i>	<i>Classification/ designation under IFRS 9</i>
• Equity investments not held for trading and previously classified as available for sale	Available for sale	Fair Value through Other Comprehensive Income (FVTOCI)
• Equity investments not held for trading but previously designated as at FVIS on initial recognition	Designated as at FVIS on initial recognition	Fair Value through Other Comprehensive Income (FVTOCI)
• Equity investments held for trading	FVIS (held for trading)	Fair Value through Income Statement (FVTIS)
• Mutual Funds held for trading	FVIS (held for trading)	Fair Value through Income Statement (FVTIS)
• Investments in Sukuk and Murabaha classified as other investments held at amortised cost	Loans and advances (held at amortised cost)	Amortised cost
• Loans and advances, net	Loans and advances (held at amortised cost)	Amortised cost
• Due from banks and other financial institutions	Loans and advances (held at amortised cost)	Amortised cost

For derivatives, see notes 5 and 9.



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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (i) EARLY ADOPTION OF IFRS 9 (continued)

##### (a) Investment in debt instruments classified as at amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in consolidated income statement.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

##### (b) Financial assets classified as at Fair Value through Income Statement (FVTIS)

Investments in equity instruments are classified as at FVTIS, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see note 4 (i) (c) below)

Debt instruments that do not meet the amortised cost criteria are measured at FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTIS are measured at fair value through income statement. A debt instrument may be designated as at FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instrument as at FVTIS on the date of initial application of IFRS 9 (i.e. 1 January 2011)

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTIS on initial recognition is not allowed.



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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (i) EARLY ADOPTION OF IFRS 9 (continued)

##### (b) Financial assets classified as at fair value through Income Statement (FVTIS) (continued)

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in consolidated income statement.

Interest income on debt instruments as at FVTIS is included in the consolidated income statement

Dividend income on investments in equity instruments at FVTIS is recognised in consolidated income statement when the Bank's right to receive the dividends is established in accordance with IAS 18 - Revenue and is included in the consolidated income statement.

##### (c) Investment in equity instruments designated as at Fair Value through Other Comprehensive Income (FVTOCI)

On initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset or financial liability is held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. The cumulative gain or loss will not be reclassified to consolidated income statement on disposal of the investments.

The Bank has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Banks's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in consolidated income statement.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (i) EARLY ADOPTION OF IFRS 9 (continued)

##### Financial liabilities

Financial liabilities carried at amortised cost under IAS 39 have been classified and measured at amortised cost using the effective interest method under IFRS 9 and no changes in the classification and measurement have been made.

One major change in the classification and measurement of financial liabilities under IFRS 9 relates to the accounting for changes in fair value of a financial liability (designated as at Fair Value through Income Statement (FVTIS)) attributable to changes in the credit risk of that liability. For financial liabilities that are designated as at FVTIS, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated income statement. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to consolidated income statement. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTIS was recognised in the income statement.

At 31 December 2010, there were no financial liabilities designated by the Bank as at Fair Value Through Income Statement. On the date of initial application of IFRS 9 (i.e. 1 January 2011), the Bank has also not designated any financial liability as at FVTIS.

#### (ii) IMPACT OF EARLY ADOPTION OF IFRS 9

The impact of the early adoption on the opening retained earnings and other reserves classified in equity as at 1 January 2011, and on the classification of financial assets as at 1 January 2011, is as follows:

##### Impact on other reserves and retained earnings

	Carrying amount as at 31 December 2010 <u>SR'000</u>	Carrying amount as at 1 January 2011 upon adoption of IFRS 9 <u>SR'000</u>	Impact of early adoption <u>SR'000</u>
Other reserves	739	110,084	109,345
Retained earnings	48,779	(60,566)	(109,345)



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (ii) IMPACT OF EARLY ADOPTION OF IFRS 9 (continued)

##### Impact on other reserve and retained earnings (continued)

Cumulative fair value gains of SR 109.34 million recognised in the consolidated income statement for periods up to 31 December 2010, in relation to the Bank's investment in equity shares previously designated as at FVIS under IAS 39, have been reclassified from opening retained earnings as at 1 January 2011 to other reserves as at 1 January 2011 (see impact on classification of financial asset below for more details).

Had the Bank not early adopted IFRS 9, the net income for the three months ended 31 March 2011 would have been lower by SR 28.28 million, retained earnings as at 31 March 2011 would have been higher by SR 81.06 million and other reserves in equity as at 31 March 2011 would have been lower by SR 81.06 million.

Had the Bank not early adopted IFRS 9, the basic and diluted earnings per share for the three months ended 31 March 2011 would have been SR 0.11 per share.

##### Impact on classification of financial assets

The adoption of IFRS 9 has resulted in a change in the classification of financial assets, although this has not impacted the value of those financial assets.



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (ii) IMPACT OF EARLY ADOPTION OF IFRS 9 (continued)

Description of financial assets	Previous classification under IAS 39	Carrying amount as at 31 December 2010 SR'000	Classification/ designation under IFRS 9 SR'000	Carrying amount as at 1 January 2011 SR'000
• Equity investments not held for trading and previously classified as available for sale	Available for sale	5,307	Fair Value through Other Comprehensive Income (FVTOCI)	5,307
• Equity investments not held for trading but previously designated as at FVIS on initial recognition	Designated as at FVIS on initial recognition	384,055	Fair Value through Other Comprehensive Income (FVTOCI) – see note below	384,055
• Equity investments held for trading	FVIS (held for trading)	400,911	Fair Value through Income Statement (FVTIS)	400,911
• Mutual Funds held for trading	FVIS (held for trading)	1,509,207	Fair Value through Income Statement (FVTIS)	1,509,207
• Investments in Sukuk and Murabaha classified as other investments held at amortised cost	Loans and advances (held at amortised cost)	2,246,691	Amortised cost	2,246,691
• Loans and advances, net	Loans and advances (held at amortised cost)	18,704,442	Amortised cost	18,704,442
• Due from banks and other financial institutions	Loans and advances (held at amortised cost)	5,579,852	Amortised cost	5,579,852

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 4. CHANGES IN ACCOUNTING POLICIES (continued)

#### (ii) IMPACT OF EARLY ADOPTION OF IFRS 9 (continued)

##### Impact on classification of financial assets (continued)

The Bank's investment in equity shares that were previously designated as at FVIS under IAS 39, have been designated as FVTOCI under IFRS 9 as at 1 January 2011, as the new classification is considered to result in a presentation that better reflects the performance and operations of the Bank (also see note 6).

##### Impact on classification of financial liabilities

As stated earlier, financial liabilities carried at amortised cost under IAS 39 have been classified and measured at amortised cost using the effective interest method under IFRS 9 and no changes in the classification and measurement have been made.

For derivatives, see notes 5 and 9. In respect of derivatives, there is no impact of the early adoption on the interim condensed consolidated financial statements of the Bank.

### 5. HEDGE ACCOUNTING

During the quarter ended 31 March 2011, the Bank has entered into a fair value hedge relationship that qualifies for special hedge accounting under IAS 39.

At inception of the hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

In addition, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. It is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedges are used to hedge the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss.



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 5. HEDGE ACCOUNTING (continued)

For designated and qualifying fair value hedge, the change in the fair value of a hedging derivative is recognized in the consolidated income statement in 'trading income, net'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'trading income, net'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the Effective interest rate (EIR). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

The Bank has not entered into any cash flow hedge arrangement as at 31 March 2011.

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 6. INVESTMENTS

	March 31, 2011 (Unaudited) <u>SR'000</u>	
Classification under IFRS 9 (see note below):		
Fair Value through Income Statement (FVTIS)	1,810,386	
Fair Value through Other Comprehensive Income (FVTOCI)	361,082	
Held at amortised cost	<u>2,446,692</u>	
<b>Total</b>	<b><u>4,618,160</u></b>	

	December 31, 2010 (Audited) <u>SR'000</u>	March 31, 2010 (Unaudited) <u>SR'000</u>
Classification under IAS 39 (see note below):		
Designated as at FVIS	384,055	369,947
FVIS (held for trading)	1,910,118	1,429,809
Available for sale	5,307	4,568
Other investments held at amortised cost	<u>2,246,691</u>	<u>2,411,370</u>
<b>Total</b>	<b><u>4,546,171</u></b>	<b><u>4,215,694</u></b>

As explained in detail in note 4 (i), the Bank has early adopted IFRS 9 with effect from 1 January 2011. The balances as at 31 December 2010 and 31 March 2010 have not been restated as permitted by the transitional provisions of IFRS 9.

The outstanding balance of investments held at FVTOCI, as at 31 March 2011, includes an amount of SR 355.8 million relating to equity investments previously designated as at FVIS on initial recognition under IAS 39 (see note 4 (ii)). On this investment, a dividend income of SR 4.7 million was recognized during the three months ended 31 March 2011, which has been disclosed in the consolidated income statement.

### 7. 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.



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 8. SUBORDINATED SUKUK

On 29 March 2011, the Bank issued 1,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on 29 March and 29 September each year until 29 March 2021, on which date the Sukuk will expire. The Sukuk are due in 2021 with a step up in margin to 550 basis point in 2016. The Bank has a call option which can be exercised after 29 March 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated 28 March 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi stock exchange (Tadawul).

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 9. DERIVATIVES

The table below sets out the 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.

	March 31, 2011 (Unaudited) SR'000		December 31, 2010 (Audited) SR'000		March 31, 2010 (Unaudited) SR'000	
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Derivative used as held for trading:</b>						
Special commission rate swaps	-	-	-	1,915	-	-
<b>Total</b>	-	-	-	1,915	-	-
<b>Derivative used as fair value hedge:</b>						
Special commission rate swaps	3,811	-	187,500	-	-	-
<b>Total</b>	3,811	-	187,500	-	-	-



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 9. DERIVATIVES (continued)

#### Derivative financial instruments held for hedging purposes

The bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate risk. This is achieved by hedging specific fixed rate loans and advances.

Fair value hedges are used by the bank to protect it against changes in the fair value of loans and advances due to movements in interest rates. For the period ended 31 March 2011, the bank recognised a net gain of SR 1.9 million (2010 : Nil) on the hedging instruments and net loss on hedged items of SR 2 million (2010 : Nil).

### 10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<b>March 31, 2011 (Unaudited) SR'000</b>	<b>December 31, 2010 (Audited) SR'000</b>	<b>March 31, 2010 (Unaudited) SR'000</b>
Letters of guarantee	2,175,503	2,242,747	2,226,232
Letters of credit	696,844	573,196	564,417
Acceptances	226,808	115,661	570,337
Irrevocable commitments to extend credit	1,764,216	1,801,121	1,079,956
<b>Total</b>	<b>4,863,371</b>	<b>4,732,725</b>	<b>4,440,942</b>

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 11. CASH AND CASH EQUIVALENTS

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

	<b>March 31, 2011 (Unaudited) SR'000</b>	<b>December 31, 2010 (Audited) SR'000</b>	<b>March 31, 2010 (Unaudited) SR'000</b>
Cash and balances with SAMA, excluding statutory deposit	<b>2,183,060</b>	1,384,769	385,622
Due from banks and other financial institutions with an original maturity of ninety days or less	<b>4,410,458</b>	3,520,694	1,181,943
<b>Total</b>	<b>6,593,518</b>	4,905,463	1,567,565

### 12. OPERATING 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 their 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 and asset management**

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

#### **Treasury**

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.



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

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### 12. OPERATING SEGMENTS (continued)

#### **Takaful Ta'awuni Division**

Takaful Ta'awuni division provides protection and saving products services and is fully Shariah compliant and is substitute to conventional life insurance products.

#### **Fund Transfer Pricing**

During the period, the Bank has redefined and modified its funds transfer pricing system in order to achieve the objective of better product pricing, profitability and liquidity management. The assigned transfer rate within the operating segments is based on its maturity and prevailing commission rates. Long maturity pools receive a long-term commission rate, while short-term pools receive a transfer rate reflective of their shorter tenor. The Bank has developed an assumption based model for each class of asset and liability and the pricing is applied to the funds accordingly. The pricing is based on the market rate prevailing at the time of transaction.

The Bank's total assets and liabilities at March 31, 2011 and 2010, its total operating income and expenses, and its net income for the three months then ended, by business segment, are as follows:

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 12. OPERATING SEGMENTS (continued)

#### March 31, 2011 (SR'000)

	Personal banking (Unaudited)	Corporate banking (Unaudited)	Brokerage and asset management (Unaudited)	Treasury (Unaudited)	Takaful Ta'awuni Division (Unaudited)	Total (Unaudited)
Total assets	7,215,742	14,215,160	575,209	13,874,163	32,481	35,912,755
Total liabilities	10,877,573	2,756,316	44,701	17,456,796	36,317	31,171,703
Fee and commission income, net	5,935	17,575	43,317	(791)	9,575	75,611
Trading income	-	-	-	8,390	-	8,390
Total operating income	66,287	102,530	46,484	51,443	9,517	276,261
Charge for (reversal of) provision for credit losses, net	10,144	(14,392)	-	-	-	(4,248)
Depreciation	10,250	2,042	3,246	2,191	895	18,624
Total operating expenses net of non-controlling interests	110,713	27,111	33,669	9,879	32,603	213,975
Net (loss) / income	(44,426)	75,419	12,815	41,564	(23,086)	62,286



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 12. OPERATING SEGMENTS (continued)

March 31, 2010 (SR'000)

	Personal banking (Unaudited)	Corporate banking (Unaudited)	Brokerage and asset management (Unaudited)	Treasury (Unaudited)	Takaful Ta'awuni Division (Unaudited)	Total (Unaudited)
Total assets	4,041,801	13,660,703	569,373	9,438,580	80,195	27,790,652
Total liabilities	10,362,657	1,591,365	32,974	11,050,868	24,386	23,062,250
Fee and commission Income, net	5,670	11,405	37,659	(771)	13,699	67,662
Trading income	-	-	268	9,010	-	9,278
Total operating income	91,081	136,466	40,816	23,145	13,589	305,097
Charge for provision for credit losses, net	2,145	107,855	-	-	-	110,000
Depreciation	8,772	1,412	4,037	5,103	975	20,299
Total operating expenses net of non-controlling interests	86,516	133,632	42,287	18,401	11,650	292,486
Net (loss) / income	4,565	2,834	(1,471)	4,744	1,939	12,611

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (continued)

### 13. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (December 31, 2010: 300 million shares of SR 10 each; March 31, 2010: 300 million shares of SR 10 each).

### 14. 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%.

	2011		2010	
	Eligible Capital SR '000	Capital Adequacy Ratio %	Eligible Capital SR '000	Capital Adequacy Ratio %
Core capital (Tier 1)	4,549,524	14.41	4,498,478	16.24
Supplementary capital (Tier 2)	1,200,139		160,700	
Core and supplementary capital (Tier 1 + Tier 2)	5,749,663	18.22	4,659,178	16.82

### 15. COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period.