

Bank Aljazira (A Saudi Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2008 AND REVIEW REPORT

# Review Report

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

We have reviewed the accompanying interim consolidated balance sheet of Bank AlJazira ("the Bank") and its subsidiaries as of September 30, 2008, and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and the consolidated statements of changes in equity and cash flows and the notes from 1 to 9 for the nine-month period then ended.

## 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 9 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 9 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

For PricewaterhouseCoopers  
Al Juraid



By:  
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Registration Number 369

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By:  
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Registration Number 168

October 15, 2008  
Shawal 16, 1429 H

# CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	September 30, 2008 (Unaudited) SR'000	December 31, 2007 (Audited) SR'000	September 30, 2007 (Unaudited) SR'000
<b>ASSETS</b>				
Cash and balances with SAMA		1,594,217	1,490,783	764,588
Due from banks and other financial institutions		2,902,083	3,662,768	2,579,261
Investments	4	3,702,923	4,963,619	3,804,636
Loans and advances, net		14,088,020	9,879,236	8,257,314
Other real estate, net		75,797	75,797	80,127
Property and equipment, net		469,004	459,303	445,577
Other assets		570,596	1,032,482	415,698
<b>Total assets</b>		<b>23,402,640</b>	<b>21,563,988</b>	<b>16,347,201</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		1,207,023	716,690	220,781
Customer deposits		16,858,944	15,647,087	11,213,630
Other liabilities		464,407	411,122	373,265
<b>Total liabilities</b>		<b>18,530,374</b>	<b>16,774,899</b>	<b>11,807,676</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>				
Share capital	8	3,000,000	2,250,000	2,250,000
Statutory reserve		1,327,000	1,327,000	1,125,000
General reserve		68,000	68,000	68,000
Other reserve		37,541	142,493	59,630
Retained earnings		339,215	775,104	951,640
Proposed dividend		-	135,000	-
<b>Total equity attributable to equity holders of the parent</b>		<b>4,771,756</b>	<b>4,697,597</b>	<b>4,454,270</b>
Minority interests in mutual fund subsidiaries		100,510	91,492	85,255
<b>Total shareholders' equity and minority interests</b>		<b>4,872,266</b>	<b>4,789,089</b>	<b>4,539,525</b>
<b>Total liabilities and equity</b>		<b>23,402,640</b>	<b>21,563,988</b>	<b>16,347,201</b>

The accompanying notes 1 to 9 form an integral part of these interim condensed consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	SR'000	SR'000	SR'000	SR'000
Special commission income	286,098	228,596	809,852	660,946
Special commission expense	(131,746)	(82,037)	(320,814)	(219,902)
<b>Net special commission income</b>	<b>154,352</b>	<b>146,559</b>	<b>489,038</b>	<b>441,044</b>
Fees from banking services, net	117,791	138,813	432,305	570,819
Exchange income, net	3,752	3,949	12,789	11,222
Trading (loss)/income, net	(22,899)	3,531	(21,115)	15,372
Dividend income	4,202	3,283	10,532	9,885
Gain on non-trading investments, net	-	24,644	4,003	47,145
Other operating income	90	1,071	2,807	4,858
<b>Total operating income</b>	<b>257,288</b>	<b>321,850</b>	<b>930,359</b>	<b>1,100,345</b>
Salaries and employee-related expenses	101,926	100,017	323,805	261,838
Rent and premises-related expenses	15,757	14,060	47,438	39,022
Depreciation	19,086	15,378	55,169	42,199
Other general and administrative expense	49,418	58,074	154,119	136,372
(Reversal of) / charge for provision for credit losses, net	(116)	(1,270)	25,087	(24,944)
Impairment of available for sale investments	10,281	-	10,281	-
Other operating expenses	82	856	449	2,129
<b>Total operating expenses</b>	<b>196,434</b>	<b>187,115</b>	<b>616,348</b>	<b>456,616</b>
<b>Net income for the period</b>	<b>60,854</b>	<b>134,735</b>	<b>314,011</b>	<b>643,729</b>
Loss attributable to minority interests	18	267	100	1,010
<b>Net income for the period attributable to equity holders of the parent</b>	<b>60,872</b>	<b>135,002</b>	<b>314,111</b>	<b>644,739</b>
<b>Earnings per share</b>				
Weighted average number of outstanding shares (in thousands) (note 8)	300,000	300,000	300,000	300,000
<b>Basic and diluted earnings per share (expressed in SR)</b>	<b>0.20</b>	<b>0.45</b>	<b>1.047</b>	<b>2.15</b>

The accompanying notes 1 to 9 form an integral part of these interim condensed consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

<u>2008</u>	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserve SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total equity attributable to equity holders of the parent SR'000	Minority inter- ests in mutual fund subsidiaries SR'000	Total SR'000
<b>Balance at January 1, 2008 (audited)</b>	<b>2,250,000</b>	<b>1,327,000</b>	<b>68,000</b>	<b>142,493</b>	<b>775,104</b>	<b>135,000</b>	<b>4,697,597</b>	<b>91,492</b>	<b>4,789,089</b>
Net changes in fair values of available-for-sale investments	-	-	-	(111,230)	-	-	(111,230)	-	(111,230)
Transfer to consolidated statements of income	-	-	-	6,278	-	-	6,278	-	6,278
Net loss directly recognized in equity	-	-	-	(104,952)	-	-	(104,952)	-	(104,952)
Net income for the period	-	-	-	-	314,111	-	314,111	(100)	314,011
Total recognised income and expense for the period	-	-	-	(104,952)	314,111	-	209,159	(100)	209,059
Bonus share issue (note 8)	750,000	-	-	-	(750,000)	-	-	-	-
Gross dividend for 2007 (approved)	-	-	-	-	-	(135,000)	(135,000)	-	(135,000)
Net changes in minority interests in mutual fund subsidiaries	-	-	-	-	-	-	-	9,118	9,118
<b>Balance at September 30, 2008 (unaudited)</b>	<b>3,000,000</b>	<b>1,327,000</b>	<b>68,000</b>	<b>37,541</b>	<b>339,215</b>	<b>-</b>	<b>4,771,756</b>	<b>100,510</b>	<b>4,872,266</b>
<b>Balance at January 1, 2007 (audited)</b>	<b>1,125,000</b>	<b>1,125,000</b>	<b>68,000</b>	<b>169,444</b>	<b>1,431,901</b>	<b>274,500</b>	<b>4,193,845</b>	<b>56,307</b>	<b>4,250,152</b>
Net changes in fair values of available-for-sale investment	-	-	-	(62,669)	-	-	(62,669)	-	(62,669)
Transfer to consolidated statements of income	-	-	-	(47,145)	-	-	(47,145)	-	(47,145)
Net loss directly recognized in equity	-	-	-	(109,814)	-	-	(109,814)	-	(109,814)
Net income for the period	-	-	-	-	644,739	-	644,739	(1,010)	643,729
Total recognised income and expense for the period	-	-	-	(109,814)	644,739	-	534,925	(1,010)	533,915
Bonus share issue (note 8)	1,125,000	-	-	-	(1,125,000)	-	-	-	-
Gross dividend for 2006 (approved)	-	-	-	-	-	(274,500)	(274,500)	-	(274,500)
Net changes in minority interests in mutual fund subsidiaries	-	-	-	-	-	-	-	29,958	29,958
<b>Balance at September 30, 2007 (unaudited)</b>	<b>2,250,000</b>	<b>1,125,000</b>	<b>68,000</b>	<b>59,630</b>	<b>951,640</b>	<b>-</b>	<b>4,454,270</b>	<b>85,255</b>	<b>4,539,525</b>

The accompanying notes 1 to 9 form an integral part of these interim condensed consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

	2008 <u>SR'000</u>	2007 <u>SR'000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	3 14,111	644,739
Adjustments to reconcile net income to net cash from operating activities:		
Trading loss/(income), net	2 1,115	(15,372)
Gain on non-trading investments, net	(4,003)	(47,145)
Provision for credit losses, net	33,673	-
Depreciation	55,169	42,199
Loss on sale of property and equipment	28	-
Impairment of available for sale investments	10,281	-
	<u>430,374</u>	<u>624,421</u>
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA	(620,283)	73,585
Due from banks and other financial institutions maturing after ninety days	(432,851)	(216,255)
Investments held for trading	481,040	590,151
Loans and advances	(4,242,457)	(1,986,194)
Other real estate, net	-	2,600
Other assets	461,886	(79,347)
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	490,333	47,221
Customers' deposits	1,211,857	296,542
Other liabilities	62,714	(25,938)
Net cash used in operating activities	<u>(2,157,387)</u>	<u>(673,214)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of non-trading investments	1,135,126	71,753
Purchase of non-trading investments	(491,636)	(3,281,369)
Purchase of property and equipment	(64,907)	(93,365)
Proceed from sale of property and equipment	9	-
Dividend received	3,821	-
Net cash from (used in) investing activities	<u>582,413</u>	<u>(3,302,981)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(144,429)	(247,371)
Net movements in minority interests	9,018	28,948
Net cash used in financing activities	<u>(135,411)</u>	<u>(218,423)</u>
Net decrease in cash and cash equivalents	(1,710,385)	(4,194,618)
Cash and cash equivalents at the beginning of the period	3,891,962	6,543,525
Cash and cash equivalents at the end of the period (Note 6)	<u>2,181,577</u>	<u>2,348,907</u>
Special commission received during the period	<u>814,669</u>	<u>584,529</u>
Special commission paid during the period	<u>278,428</u>	<u>238,808</u>
<b>SUPPLEMENTAL NON-CASH INFORMATION</b>		
Net changes in fair values	<u>(104,952)</u>	<u>(109,814)</u>

The accompanying notes 1 to 9 form an integral part of these interim condensed consolidated financial statements.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (continued)

### 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 25 branches (2007: 24 branches) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

Bank AlJazira  
Khalid Bin Al-Walid 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.

During 2008, the Bank has formed a new capital market company, namely, AlJazira Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution no. 2-38-2007 dated 8 Rajab 1428H (July 22, 2007), and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177603 dated 17 Rabi Awal 1429H (March 26, 2008). The Bank has 99.99% direct ownership interest in the subsidiary, AlJazira Capital Company, and an indirect ownership of 0.01% (the indirect ownership is held on behalf and for the beneficial interest of the Bank by minority shareholders). The activities of Brokerage Division of the Bank have been taken over by the AlJazira Capital Company, with effect from April 1, 2008.

In accordance with new regulatory requirements in Saudi Arabia, all banks are also required to spin-off asset management and advisory services into a new entity to be licensed by the Capital Market Authority ("CMA"). Accordingly, the

Bank has obtained a further license from the CMA. The actual transfer of the activities/operations is expected to take place during the remaining period of 2008, after incorporation of the related entity.

### 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 should be read in conjunction with the annual financial statements for the year ended December 31, 2007.

These interim condensed consolidated financial statements comprise the accounts of Bank AlJazira and its subsidiaries, namely Al Khair, Al Thoraiya and Al Mashareq Mutual Funds, and AlJazira Capital Company, after elimination of all material inter-group transactions.

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

### 3. 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, 2007 as described in the annual consolidated financial statements for the year ended December 31, 2007.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (continued)

## 4. INVESTMENTS

	September 30, 2008 (Unaudited) SR'000	December 31, 2007 (Audited) SR'000	September 30, 2007 (Unaudited) SR'000
Held for trading	195,368	701,344	200,104
Other investments held at amortised cost	3,188,120	3,843,630	3,293,630
Available for sale	319,435	399,895	292,152
Held to maturity	-	18,750	18,750
<b>Total</b>	<b><u>3,702,923</u></b>	<b><u>4,963,619</u></b>	<b><u>3,804,636</u></b>

## 5. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	September 30, 2008 (Unaudited) SR'000	December 31, 2007 (Audited) SR'000	September 30, 2007 (Unaudited) SR'000
Letters of guarantee	2,234,017	1,438,373	1,207,057
Letters of credit	649,470	319,834	446,498
Acceptances	186,773	118,927	154,133
Irrevocable commitments to extend credit	1,487,317	334,956	593,138
Other	-	3,931	3,931
<b>Total</b>	<b><u>4,557,577</u></b>	<b><u>2,216,021</u></b>	<b><u>2,404,757</u></b>

## 6. CASH AND CASH EQUIVALENTS

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

	September 30, 2008 (Unaudited) SR'000	December 31, 2007 (Audited) SR'000	September 30, 2007 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	313,595	830,444	289,646
Due from banks and other financial institutions maturing within ninety days	1,867,982	3,061,518	2,059,261
<b>Total</b>	<b><u>2,181,577</u></b>	<b><u>3,891,962</u></b>	<b><u>2,348,907</u></b>



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (continued)

## 7. BUSINESS SEGMENTS

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

For management purposes, the Bank is organized into four major 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 Al-Jazira Capital Company).

### Treasury Banking

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

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

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.

The Bank's total assets and liabilities at September 30, 2008 and 2007, its total operating income and expenses, and its net income for the nine months then ended, by business segment, are as follows:

### September 30, 2008 (SR'000)

	Personal banking (Unaudited)	Corporate banking (Unaudited)	Brokerage (Unaudited)	Treasury and other (Unaudited)	Total (Unaudited)
Total assets	2,917,687	11,899,654	503,348	8,081,951	23,402,640
Total liabilities	8,900,277	2,010,933	43,205	7,575,959	18,530,374
Total operating income	248,788	344,396	275,748	61,427	930,359
Total operating expenses net of minority interests	200,801	110,168	196,054	109,225	616,248
Net income / (loss)	47,987	234,228	79,694	(47,798)	314,111

### September 30, 2007 (SR'000)

	Personal banking (Unaudited)	Corporate banking (Unaudited)	Treasury and other (Unaudited)	Total (Unaudited)
Total assets	1,371,817	7,536,318	7,439,066	16,347,201
Total liabilities	7,323,979	2,259,040	2,224,657	11,807,676
Total operating income	743,954	171,535	184,856	1,100,345
Total operating expenses net of Minority interests	347,870	42,231	65,505	455,606
Net income	396,084	129,304	119,351	644,739

In prior period, brokerage operations were reported under personal banking.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (continued)

### 8. 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, 2007: 225 million shares of SR 10 each; September 30, 2007: 225 million shares of SR 10 each).

A bonus issue of 75 million share of SR 10 each (one share for every three shares held) was approved by the shareholders in their extraordinary general assembly meeting held on April 16, 2008 for holders of record as of that date. The Bank obtained the regulatory approval in this respect and the bonus shares were issued on April 19, 2008.

Previously, a bonus issue of 112.5 million shares of SR 10 each (one share for every one share held) was approved by the shareholders in their extraordinary general assembly meeting held on April 30, 2007 for holders of record as of that date. The Bank obtained the regulatory approval in this respect and the bonus shares were issued on May 5, 2007.

As required by International Accounting Standard 33 – Earnings Per Share, earnings per share for the period ended September 30, 2007 has been adjusted retrospectively to reflect the issue of bonus shares during 2008.

### 9. 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 the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets and commitments at a weighted amount to reflect their relative risk. 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%.

SAMA has issued guidance regarding implementation of Basel II disclosures effective January 1, 2008; consequently comparatives have not been presented.

### September 30, 2008 (unaudited)

	Total capital ratio %	Tier 1 capital ratio %
Top consolidated level	<u>14.72</u>	<u>14.31</u>