

Bank AlJazira

(A Saudi Joint Stock Company)

BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2012 AND REVIEW REPORT**

REVIEW REPORT

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

We have reviewed the accompanying interim consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries as of 30 September 2012, and the related interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2012, and the interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, along with condensed notes from 1 through 14. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements 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". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

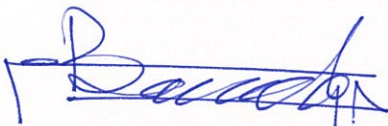
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance 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 13 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 13 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

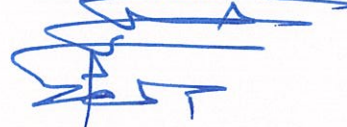
For Ernst & Young



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21 October 2012
5 Dhul Hijjah 1433 H



Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with SAMA		5,451,093	4,379,043	5,391,610
Due from banks and other financial institutions		3,719,134	4,331,024	3,726,050
Investments	5	8,811,159	5,396,915	5,080,134
Loans and advances, net	6	28,314,168	23,307,451	21,783,147
Other real estate, net		660,120	680,778	678,300
Property and equipment, net		455,919	446,829	445,478
Other assets		594,358	356,210	449,767
Total assets		48,005,951	38,898,250	37,554,486
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		1,702,127	1,305,778	686,818
Customers' deposits	7	39,414,683	31,158,531	30,598,067
Other liabilities		797,859	497,078	475,521
Subordinated sukuk		1,000,000	1,000,000	1,000,000
Total liabilities		42,914,669	33,961,387	32,760,406
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Share capital	12	3,000,000	3,000,000	3,000,000
Statutory reserve		1,474,000	1,474,000	1,398,000
General reserve		68,000	68,000	68,000
Other reserve		(24,009)	24,250	4,364
Retained earnings		408,957	6,287	131,938
Proposed dividend		-	160,000	-
Total equity attributable to equity holders of the Parent		4,926,948	4,732,537	4,602,302
Non-controlling interests		164,334	204,326	191,778
Total equity attributable to equity holders of the Parent and non-controlling interest		5,091,282	4,936,863	4,794,080
Total liabilities and equity		48,005,951	38,898,250	37,554,486

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Notes	For the Three Months Ended		For the Nine Months Ended	
	30 September 2012 <u>SR'000</u>	30 September 2011 <u>SR'000</u>	30 September 2012 <u>SR'000</u>	30 September 2011 <u>SR'000</u>
Special commission income	314,559	253,984	887,910	718,082
Special commission expense	(69,910)	(43,951)	(183,578)	(133,153)
Net special commission income	244,649	210,033	704,332	584,929
Fees and commission income, net	110,360	80,576	456,633	257,386
Foreign exchange income, net	6,012	9,756	17,894	19,431
Trading income /(loss) , net	15,056	(12,065)	28,875	2,931
Gains on investment, net	-	300	-	300
Dividend income	398	5,016	5,784	9,719
Other operating income	15,726	97	15,269	3,569
Total operating income	392,201	293,713	1,228,787	878,265
Salaries and employee-related expenses	142,502	122,011	425,074	351,756
Rent and premises-related expenses	17,444	15,726	50,760	46,517
Depreciation	16,206	15,988	48,688	50,497
Other general and administrative expense	49,632	44,701	150,412	139,311
Impairment charge for credit losses, net	35,659	22,723	140,197	62,461
Other operating expenses	437	6,805	10,954	35,120
Total operating expenses	261,880	227,954	826,085	685,662
Net income for the period	130,321	65,759	402,702	192,603
Attributable to:				
Equity holders of the Parent	130,463	66,015	402,670	192,504
Non-controlling interests	(142)	(256)	32	99
Net income for the period	130,321	65,759	402,702	192,603
Earnings per share				
Weighted average number of outstanding shares (in thousands) (note 12)	300,000	300,000	300,000	300,000
Basic and diluted earnings per share (expressed in SR)	0.43	0.22	1.34	0.64

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	30 September 2012 SR'000	30 September 2011 SR'000	30 September 2012 SR'000	30 September 2011 SR'000
Net income for the period	130,321	65,759	402,702	192,603
Other comprehensive (loss) / income:				
Net changes in fair value of investments classified as at Fair Value through other comprehensive income (FVTOCI)	(4,573)	(38,380)	(13,555)	(108,921)
Cash flow hedges:				
Fair value (loss) / gain on cash flow hedge	(5,739)	1,534	(34,188)	3,201
Amount transferred to income statement	(170)	-	(516)	-
Other comprehensive loss for the period	(10,482)	(36,846)	(48,259)	(105,720)
Total comprehensive income for the period	119,839	28,913	354,443	86,883
Attributable to:				
Equity holders of the parent	119,981	29,169	354,411	86,784
Non-controlling interests	(142)	(256)	32	99
Total comprehensive income for the period	119,839	28,913	354,443	86,883

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (UNAUDITED)

	2012	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	Non-controlling interests SR'000	Total SR'000
Balance at 1 January 2012 (audited)		3,000,000	1,474,000	68,000	24,250	6,287	160,000	4,732,537	204,326	4,936,863
Net Income for the period		-	-	-	-	402,670	-	402,670	32	402,702
Other comprehensive loss		-	-	-	(48,259)	-	-	(48,259)	-	(48,259)
Total comprehensive loss/ (income) for the period		-	-	-	(48,259)	402,670	-	354,411	32	354,443
Net changes in non-controlling interest		-	-	-	-	-	-	-	(40,024)	(40,024)
Gross dividend for 2011 (approved)		-	-	-	-	-	(160,000)	(160,000)	-	(160,000)
Balance at 30 September 2012 (unaudited)		3,000,000	1,474,000	68,000	(24,009)	408,957	-	4,926,948	164,334	5,091,282
	2011									
Balance at 1 January 2011 (audited)		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(b))		-	-	-	109,345	(109,345)	-	-	-	-
Net Income for the period		-	-	-	-	192,504	-	192,504	99	192,603
Other comprehensive loss		-	-	-	(105,720)	-	-	(105,720)	-	(105,720)
Total comprehensive (loss) / income for the period		-	-	-	(105,720)	192,504	-	86,784	99	86,883
Net changes in non-controlling interest		-	-	-	-	-	-	-	(98,485)	(98,485)
Balance at 30 September 2011 (unaudited)		3,000,000	1,398,000	68,000	4,364	131,938	-	4,602,302	191,778	4,794,080

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (UNAUDITED)

	2012 <u>SR'000</u>	2011 <u>SR'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period attributable to equity holders of the Parent	402,670	192,504
Adjustments to reconcile net income to net cash from operating activities:		
Trading loss	(28,875)	(2,931)
Gain on investments	-	(300)
Impairment charge for credit losses	140,197	62,461
Depreciation	48,688	50,497
Dividend Income	(5,784)	(9,719)
Property and equipment written off	3,463	-
Loss on sale of property and equipment	-	50
	<u>560,359</u>	<u>292,562</u>
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	(409,384)	(160,082)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition	144,250	266,908
Investment held at fair value through income statement	(279,548)	110,906
Loans and advances	(5,146,914)	(3,141,166)
Other assets	(238,019)	(12,194)
Other real estate, net	20,658	1,500
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	396,349	298,099
Customers' deposits	8,256,152	3,253,149
Other liabilities	258,441	21
	<u>3,562,344</u>	<u>909,703</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of non-trading investments	3,024,880	1,050,300
Acquisition of non-trading investments	(6,187,762)	(1,800,859)
Acquisition of property and equipment	(61,325)	(33,577)
Proceeds from sale of property and equipment	84	45
Dividend received	5,784	9,719
	<u>(3,218,339)</u>	<u>(774,372)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(158,272)	(201)
Issuance of subordinated sukuk	-	1,000,000
Net movements in non-controlling interests	9,293	(98,386)
	<u>(148,979)</u>	<u>901,413</u>
Net cash (used in) / from financing activities		
Net increase in cash and cash equivalents	195,026	1,036,744
Cash and cash equivalents at the beginning of the period	5,971,431	4,905,463
Cash and cash equivalents at the end of the period (note 10)	<u>6,166,457</u>	<u>5,942,207</u>
Special commission received during the period	853,977	683,841
Special commission paid during the period	163,311	138,863
SUPPLEMENTAL NON-CASH INFORMATION		
Net changes in fair values	13,555	(105,720)

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011

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 (21 June 1975). The Bank commenced its business on Shawwal 16, 1396H (9 October 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 (27 July 1976) issued in Jeddah, through its 51 branches (2011: 51 branches) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

Bank AlJazira
AL-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 promulgated 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 31 December 2011 (for changes in accounting policies, see note 4).

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise of the financial statements of Bank AlJazira and its subsidiaries, namely Al-Thoraiya European Equities Fund, Al-Jazira Real Estate Residential Projects Fund, AlJazira Capital Company and Aman Real Estate (collectively referred to as “the Group”). The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Al-Mashareq (Japanese) Equities Fund was consolidated in the financial statements of the Bank up to 31 December 2011. Due to the reduction in ownership interest of the Bank in Al-Mashareq (Global) Equities Fund to 22.06% the Bank has ceased to consolidate this fund with effect from 1 January 2012, 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 equity attributable to the equity holders of the parent.

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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

4. CHANGES IN ACCOUNTING POLICIES

a) Accounting policies

The accounting policies used in preparation of these interim condensed consolidated financial statements are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011, except as follows:

i. Amendments and revisions to existing standards

The amendments and revisions to existing standards as explained in the coming paragraph has had no financial impact on the interim condensed consolidated financial statements of the Bank.

- (a) These amendments emphasis the principle in IAS 34 that the disclosure about significant events and transaction in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair value. The amendments add examples to the list of events or transaction that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.

- (b) Amendments to IFRS 7 – Financial Instruments: Disclosures (Transfers of Financial Assets):

These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

b) Impact of early adoption of IFRS 9 on other reserves and retained earnings

Bank had early adopted IFRS 9 effective 1 January 2011 and the investments are presented in these Financial Statements according to the classifications as per 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, are as follows:

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

b) Impact on other reserves and retained earnings (continued)

	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)

5. INVESTMENTS

	30 September 2012 (Unaudited) <u>SR'000</u>	31 December 2011 (Audited) <u>SR'000</u>	30 September 2011 (Unaudited) <u>SR'000</u>
Fair Value through Income Statement (FVTIS)			
Mandatorily measured at FVTIS	797,803	565,440	1,802,143
Designated as at FVTIS	312,825	293,824	-
	<u>1,110,628</u>	<u>859,264</u>	<u>1,802,143</u>
Fair Value through Other Comprehensive Income (FVTOCI)	284,749	298,317	280,441
Held at amortized cost	7,415,782	4,239,334	2,997,550
Total	<u><u>8,811,159</u></u>	<u><u>5,396,915</u></u>	<u><u>5,080,134</u></u>

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

6. LOANS AND ADVANCES, NET

	30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
Consumer loans	9,859,102	7,230,960	6,706,585
Commercial loans and overdrafts	18,611,669	16,169,005	15,132,424
Others	133,966	87,242	70,896
Performing loans and advances	28,604,737	23,487,207	21,909,905
Non- performing loans and advances	1,055,382	1,030,688	1,062,088
Gross loans and advances	29,660,119	24,517,895	22,971,993
Provision for credit losses	(1,345,951)	(1,210,444)	(1,188,846)
Loans and advances, net	28,314,168	23,307,451	21,783,147

Loans and advances, net, represent Islamic Shariah compliant (non-interest based) financing products comprising of Murabaha, Istisna'a, Ijarah and Tawaraq.

7. CUSTOMERS' DEPOSIT

	30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
Demand	15,803,758	10,052,986	9,555,379
Time	22,694,387	20,639,890	20,610,647
Other	916,538	465,655	432,041
Total	39,414,683	31,158,531	30,598,067

Time deposits comprise the deposits received on Shariah Compliant (non-interest based) Murabaha basis.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

8. 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.

	30 September 2012 (Unaudited) SR'000			31 December 2011 (Audited) SR'000			30 September 2011 (Unaudited) SR'000		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivative used as held for trading:									
Options	9,364	-	2,593,766	14,292	-	2,189,570	-	-	-
Options	-	9,364	2,593,766	-	14,292	2,189,570	-	-	-
Special commission rate swaps	154,846	-	1,920,642	-	-	-	-	-	-
Special commission rate swaps	-	154,846	1,920,642	-	-	-	-	-	-
Total	164,210	164,210	9,028,816	14,292	14,292	4,379,140	-	-	-
Derivative used as fair value hedge:									
Special commission rate swaps	-	-	-	-	-	-	-	(6,388)	187,500
Total	-	-	-	-	-	-	-	(6,388)	187,500
Derivative used as cash flow hedge:									
Special commission rate swaps	35,022	-	850,000	3,715	-	365,000	242	-	93,750
Special commission rate swaps	-	67,431	1,788,125	-	1,430	425,250	-	(154)	187,500
Total	35,022	67,431	2,638,125	3,715	1,430	790,250	242	(154)	281,250

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

8. DERIVATIVES (continued)

Derivative financial instruments held for hedging purposes

The Bank uses Shariah complaint derivatives for hedging purposes in order to reduce its exposure to commission rate risk. This is achieved by hedging specific investments.

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
Letters of guarantee	2,541,628	2,473,018	2,421,742
Letters of credit	832,661	602,881	591,525
Acceptances	432,612	407,612	395,943
Irrevocable commitments to extend credit	1,206,236	664,417	1,907,253
Total	5,013,137	4,147,928	5,316,463

10. CASH AND CASH EQUIVALENTS

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

	30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	3,571,823	2,909,157	4,008,407
Due from banks and other financial institutions with an original maturity of ninety days or less	2,594,634	3,062,274	1,933,800
Total	6,166,457	5,971,431	5,942,207

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

11. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group 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 Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the business segments are recorded based on the Group's transfer pricing methodology. Segment assets and liabilities mainly comprise operating assets and liabilities.

Fund Transfer Pricing

During the year 2011, the Group had 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 Group 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 segment wise results for the period ended 30 September 2012 have been prepared using such methodology and basis. The results for the corresponding period ended 30 September 2011 are also presented accordingly.

For management purposes, the Bank is organized into following main business segments:

Retail banking group

The group offers to the individuals, the Shari'ah complaint solutions; such as current accounts, "Naqaa" time deposits, in addition to financing products such as Personal Finance, Real Estate Finance and credit cards.

Corporate and Institutional banking group

The Group provides solutions for deposits, loans 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 business includes money market, foreign exchange, trading and treasury services. Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

Takaful Ta'awuni

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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

11. OPERATING SEGMENTS (continued)

The Bank's total assets and liabilities at 30 September 2012 and 2011, its total operating income and expenses, and its net income for the nine months then ended, by business segment, are as follows:

30 September 2012 (SR'000)

	Retail Banking (unaudited)	Corporate & Institutional Banking (unaudited)	(SR'000) Brokerage and asset management (unaudited)	Treasury (unaudited)	Takaful Ta'awuni (unaudited)	Others (unaudited)	Total (unaudited)
Total assets	12,507,653	17,164,997	749,963	17,409,437	9,976	163,925	48,005,951
Total liabilities	16,405,285	22,552,209	63,484	3,849,574	43,436	681	42,914,669
Operating income from external customers	456,450	363,657	243,702	158,911	20,043	(13,976)	1,228,787
Inter – segment operating income / (loss)	(175,971)	(23,644)	47,599	156,440	14	(4,438)	-
Total operating income	280,479	340,013	291,301	315,351	20,057	(18,414)	1,228,787
Net special commission	187,360	256,391	7,986	253,286	14	(705)	704,332
Fee and commission income, net	64,686	69,426	278,607	25,567	20,042	(1,695)	456,633
Trading income, net	4,857	3,107	1,880	15,189	-	3,842	28,875
Operating expenses:							
Impairment charge for credit losses, net	76,059	64,138	-	-	-	-	140,197
Depreciation	31,066	4,877	7,146	3,199	2,400	-	48,688
Total operating expenses including non- controlling interest	430,350	189,394	104,390	60,484	42,521	(1,022)	826,117
Net (loss) / income attributable to equity holders of the Bank	(149,871)	150,619	186,911	254,867	(22,464)	(17,392)	402,670

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

11. OPERATING SEGMENTS (continued)

30 September 2011 (SR'000)

	Personal banking (unaudited)	Corporate & Institutional Banking (unaudited)	Brokerage and asset management (unaudited)	Treasury (unaudited)	Takaful Ta'awuni (unaudited)	Others (unaudited)	Total (unaudited)
Total assets	8,457,039	14,587,074	556,180	13,740,936	14,880	198,377	37,554,486
Total liabilities	11,211,316	19,307,250	46,814	2,159,087	29,319	6,620	32,760,406
Operating income from external customers	345,529	338,973	109,926	67,320	28,018	(11,501)	878,265
Inter – segment operating (loss) / income	(113,659)	(15,801)	35,324	97,278	(211)	(2,931)	-
Total operating income	231,870	323,172	145,250	164,598	27,807	(14,432)	878,265
Net special commission	185,551	254,999	8,410	135,378	(211)	802	584,929
Fee and commission income, net	35,194	63,884	133,990	(640)	28,018	(3,060)	257,386
Trading income, net	(5,845)	(3,738)	(54)	7,742	-	4,826	2,931
Operating expenses:							
Impairment charge for credit losses, net	53,199	9,262	-	-	-	-	62,461
Depreciation	30,352	4,903	10,740	1,885	2,617	-	50,497
Total operating expenses including non- controlling interest	362,294	119,749	100,645	47,350	57,688	(1,965)	685,761
Net (loss) / income attributable to equity holders of the Bank	(130,424)	203,423	44,605	117,248	(29,880)	(12,468)	192,504

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012 AND 2011 (continued)

12. SHARE CAPITAL, EARNINGS PER SHARE AND PROPOSED DIVIDEND

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (31 December 2011: 300 million shares of SR 10 each; 30 September 2011: 300 million shares of SR 10 each).

The Earning per share for nine months ended 30 September 2012 was SR 1.34 (2011: 0.64).

13. 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.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the minimum level of 8%.

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.

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Tier I and Tier II Capital and Capital Adequacy Ratios.

	30 September 2012 (Unaudited) SR'000	31 December 2011 (Audited) SR'000	30 September 2011 (Unaudited) SR'000
Credit Risk RWA	35,984,718	30,819,867	28,318,810
Operational Risk RWA	2,102,540	2,102,541	2,043,119
Market Risk RWA	1,527,262	1,785,681	1,785,681
Total Pillar-I RWA	39,614,520	34,708,089	32,147,610
Tier I Capital	4,926,948	4,732,537	4,602,302
Tier II Capital	1,432,926	1,305,864	1,295,205
Total Tier I & II Capital	6,359,874	6,038,401	5,897,507
Capital Adequacy Ratio (%)			
Tier I ratio	12.44	13.64	14.32
Tier I + Tier II ratio	16.05	17.40	18.35

14. COMPARATIVE FIGURES

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