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# **BANK ALJAZIRA**

**(A Saudi Joint Stock Company)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED  
30 SEPTEMBER 2013 AND REVIEW REPORT**

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**REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**To the Shareholders of Bank AlJazira:  
(A Saudi Joint Stock Company)**Introduction**

We have reviewed the accompanying interim consolidated statements of financial position of Bank AlJazira (“the Bank”) and its subsidiaries (collectively referred to as the “Group”) as of 30 September 2013, and the related interim consolidated statements of income and comprehensive income for the three month and nine month periods ended 30 September 2013, the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended, along with condensed notes from 1 through 17. We have not reviewed note 16, nor the information related to “Basel III – Capital Structure” cross-referenced therein, which is not required to be within the scope of our review. 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” (IAS 34). 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.

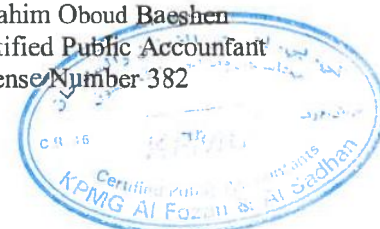
**Conclusion**

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 Institution issued by SAMA and with IAS 34.

**Other Regulatory Matters**

As required by SAMA, certain capital adequacy information has been disclosed in Note 15 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 15 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

The comparative information shown in these interim condensed consolidated financial statements were audited / reviewed by Ernst & Young and another auditor, whose audit / review report contained unqualified opinion / conclusion.

**For Ernst & Young**Husam Faisal Bawared  
Certified Public Accountant  
License Number 393**KPMG Al Fozan & Al Sadhan**Ebrahim Oboud Baeshen  
Certified Public Accountant  
License Number 38227 October 2013  
22 Dhul Hijja 1434 H

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2013 (Unaudited) SR'000	31 December 2012 (Audited) SR'000 (Restated)	30 September 2012 (Unaudited) SR'000 (Restated)
	Notes			
<b>ASSETS</b>				
Cash and balances with SAMA		4,660,214	7,082,421	5,418,239
Due from banks and other financial institutions		4,927,580	3,138,622	3,719,134
Investments	5	8,697,650	8,994,394	8,707,205
Loans and advances, net	6	35,394,178	29,896,782	28,314,168
Investment in an associate	7	121,489	-	-
Other real estate, net		673,135	660,446	660,120
Property and equipment, net		499,556	466,103	455,919
Other assets		555,737	542,634	566,185
<b>Total assets</b>		<b>55,529,539</b>	<b>50,781,402</b>	<b>47,840,970</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		2,749,264	3,286,044	1,702,127
Customers' deposits	8	45,552,972	40,675,290	39,414,683
Other liabilities		679,019	808,215	797,212
Subordinated sukuk		1,000,000	1,000,000	1,000,000
<b>Total liabilities</b>		<b>49,981,255</b>	<b>45,769,549</b>	<b>42,914,022</b>
<b>EQUITY</b>				
Share capital		3,000,000	3,000,000	3,000,000
Statutory reserve		1,599,500	1,599,500	1,474,000
General reserve		68,000	68,000	68,000
Other reserves		(20,317)	(37,644)	(24,009)
Retained earnings		901,101	381,997	408,957
<b>Total equity</b>		<b>5,548,284</b>	<b>5,011,853</b>	<b>4,926,948</b>
<b>Total liabilities and equity</b>		<b>55,529,539</b>	<b>50,781,402</b>	<b>47,840,970</b>

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Note	For the Three Months Ended		For the Nine Months Ended	
		30 September 2013 SR'000	30 September 2012 SR'000 (Restated)	30 September 2013 SR'000	30 September 2012 SR'000 (Restated)
Special commission income		400,073	314,559	1,129,871	887,910
Special commission expense		(76,945)	(69,910)	(239,062)	(183,578)
<b>Net special commission income</b>		<b>323,128</b>	244,649	<b>890,809</b>	704,332
Fees and commission income, net		108,763	110,927	349,664	458,329
Exchange income, net		8,368	6,012	26,571	17,894
Trading income, net		25,977	14,207	44,581	25,033
Dividend income		2,221	398	6,407	5,784
Gains on non-trading investments		-	-	23,432	-
Other operating income		3,423	15,726	21,501	14,797
<b>Total operating income</b>		<b>471,880</b>	391,919	<b>1,362,965</b>	1,226,169
Salaries and employee-related expenses		159,567	142,502	461,394	425,074
Rent and premises-related expenses		22,972	17,444	62,278	50,760
Depreciation		17,732	16,206	52,463	48,688
Other general and administrative expenses		83,849	49,099	197,514	147,733
(Write back)/ impairment charge for credit losses, net		(2,928)	35,659	83,607	140,197
Other operating expenses		995	546	4,381	11,047
<b>Total operating expenses</b>		<b>282,187</b>	261,456	<b>861,637</b>	823,499
<b>Income from operating activities</b>		<b>189,693</b>	130,463	<b>501,328</b>	402,670
Share in loss of an associate		(1,011)	-	(1,011)	-
<b>Net income for the period</b>		<b>188,682</b>	130,463	<b>500,317</b>	402,670
<b>Basic and diluted earnings per share (expressed in SR)</b>	13	<b>0.63</b>	0.43	<b>1.67</b>	1.34

The accompanying notes 1 to 17 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 2013 <u>SR'000</u>	30 September 2012 <u>SR'000</u> (Restated)	30 September 2013 <u>SR'000</u>	30 September 2012 <u>SR'000</u> (Restated)
Net income for the period	<u>188,682</u>	<u>130,463</u>	<u>500,317</u>	<u>402,670</u>
<b>Net other comprehensive income to be reclassified to statement of income in subsequent periods:</b>				
Cash flow hedges:				
Fair value loss on cash flow hedges	(23,959)	(5,739)	(1,190)	(34,188)
Net amount transferred to consolidated statement of income	163	(170)	13,139	(516)
<b>Net other comprehensive income not being reclassified to statement of income in subsequent periods:</b>				
Net changes in fair value and gain on sales of investments classified as fair value through other comprehensive income (FVTOCI)	<u>5,434</u>	<u>(4,573)</u>	<u>24,165</u>	<u>(13,555)</u>
Other comprehensive (loss) / income for the period	<u>(18,362)</u>	<u>(10,482)</u>	<u>36,114</u>	<u>(48,259)</u>
<b>Total comprehensive income for the period</b>	<u><u>170,320</u></u>	<u><u>119,981</u></u>	<u><u>536,431</u></u>	<u><u>354,411</u></u>

The accompanying notes 1 to 17 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 PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (UNAUDITED)

	<u>2013</u>	<u>Share capital SR'000</u>	<u>Statutory reserve SR'000</u>	<u>General reserve SR'000</u>	<u>Other reserve SR'000</u>	<u>Retained earnings SR'000</u>	<u>Proposed dividend SR'000</u>	<u>Total equity SR'000</u>
<b>Balance at 1 January 2013 (audited)</b>		<b>3,000,000</b>	<b>1,599,500</b>	<b>68,000</b>	<b>(37,644)</b>	<b>381,997</b>	<b>-</b>	<b>5,011,853</b>
Net income for the period		-	-	-	-	500,317	-	500,317
Other comprehensive income		-	-	-	36,114	-	-	36,114
Transfer of gain on sale of investments classified as at FVTOCI		-	-	-	(18,787)	18,787	-	-
Total comprehensive income for the period		-	-	-	17,327	519,104	-	536,431
<b>Balance at 30 September 2013 (unaudited)</b>		<b>3,000,000</b>	<b>1,599,500</b>	<b>68,000</b>	<b>(20,317)</b>	<b>901,101</b>	<b>-</b>	<b>5,548,284</b>
	<u>2012</u>							
Balance at 1 January 2012 (audited) (Restated)		3,000,000	1,474,000	68,000	24,250	6,287	160,000	4,732,537
Net income for the period		-	-	-	-	402,670	-	402,670
Other comprehensive loss		-	-	-	(48,259)	-	-	(48,259)
Total comprehensive (loss)/ income for the period		-	-	-	(48,259)	402,670	-	354,411
Gross dividend for 2011 (approved)		-	-	-	-	-	(160,000)	(160,000)
Balance at 30 September 2012 (unaudited) (Restated)		3,000,000	1,474,000	68,000	(24,009)	408,957	-	4,926,948

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (UNAUDITED)

	2013 <u>SR'000</u>	2012 <u>SR'000</u> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net income for the period</b>	<b>500,317</b>	402,670
<b>Adjustments to reconcile net income to net cash from operating activities:</b>		
Trading income	(44,581)	(25,033)
Impairment charge for credit losses	83,607	140,197
Share in loss of an associate	1,011	-
Depreciation	52,463	48,688
Gain on non-trading investments	(23,432)	-
Dividend income	(6,407)	(5,784)
Loss on sale / write off of property and equipment	184	3,463
	<u>563,162</u>	<u>564,201</u>
<b>Net (increase) / decrease in operating assets:</b>		
Statutory deposit with SAMA	(368,386)	(409,384)
Due from banks and other financial institutions maturing after three months from the date of acquisition	(550,500)	144,250
Investment held at fair value through income statement	501,569	(325,237)
Loans and advances	(5,581,003)	(5,146,914)
Other real estate, net	(12,689)	20,658
Other assets	4,024	(205,482)
<b>Net increase / (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions	(536,780)	396,349
Customers' deposits	4,877,682	8,256,152
Other liabilities	(171,281)	257,892
	<u>(1,274,202)</u>	<u>3,552,485</u>
<b>Net cash (used in) / from operating activities</b>		
	<u>(1,274,202)</u>	<u>3,552,485</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of non-trading investments	3,627,588	3,024,880
Acquisition of non-trading investments	(3,703,328)	(6,187,762)
Investment in an associate	(122,500)	-
Acquisition of property and equipment	(86,122)	(61,325)
Proceeds from sale of property and equipment	22	84
Dividend received	6,407	5,784
	<u>(277,933)</u>	<u>(3,218,339)</u>
<b>Net cash used in investing activities</b>		
	<u>(277,933)</u>	<u>(3,218,339)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Dividend paid	-	(158,272)
	<u>-</u>	<u>(158,272)</u>
<b>Cash used in financing activity</b>		
	<u>-</u>	<u>(158,272)</u>
Net (decrease)/ increase in cash and cash equivalents	(1,552,135)	175,874
Cash and cash equivalents at the beginning of the period	7,088,775	5,957,729
	<u>5,536,640</u>	<u>6,133,603</u>
<b>Cash and cash equivalents at the end of the period (note 11)</b>		
	<u>5,536,640</u>	<u>6,133,603</u>
<b>Special commission received during the period</b>	<u>1,077,029</u>	<u>853,977</u>
<b>Special commission paid during the period</b>	<u>243,972</u>	<u>163,311</u>

The accompanying notes 1 to 17 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 PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 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 29 Rajab 1396H (27 July 1976) issued in Jeddah, through its 63 branches (31 December 2012: 54 branches) in the Kingdom of Saudi Arabia and employed 1,756 staff (31 December 2012: 1,620 staff). 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 Shari’ah compliant (non-commission based) banking products and services comprising of Murabaha, Istisna’a, Ijarah and Tawaraq, which are approved and supervised by an independent Shari’ah Board established by the Bank.

The Bank’s subsidiaries and an associate (collectively referred to as the “Group”) are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) September 30, 2013	Ownership (direct and indirect) December 31, 2012
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collateral on behalf of the Bank	100%	100%
AlJazira Takaful Ta’awuni Company	Saudi Arabia	Insurance activities in the sector of protection and saving	35%	-

### 2. BASIS OF PREPARATION

The Bank prepares these interim condensed consolidated financial statements in accordance with the applicable Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 – Interim Financial Reporting. The Bank 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.



# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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### 2. BASIS OF PREPARATION (continued)

These interim condensed consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as at Fair Value through Income Statement (FVTIS) and Fair Value through Other Comprehensive Income Statement (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of risk being hedged.

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 2012.

The preparation of interim condensed consolidated 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 annual consolidated financial statements as at and for the year ended 31 December 2012.

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

### 3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

#### a) Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met, including:

- i. the Group has power over an entity;
- ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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### 3. BASIS OF CONSOLIDATION (continued)

#### a) Subsidiaries (continued)

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 year, if any, are included in the interim consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

#### b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

#### c) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the interim condensed consolidated financial statements.

#### d) Associates

Associates are enterprises over which the Bank exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the interim consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/ losses) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the interim consolidated statement of income, such that the carrying amount of the investment in the interim consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

### 4. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the impact of IFRS 10: Consolidated Financial Statements (refer note 4(c)), and IFRS 13 (refer note 14): Fair Value Measurements and adopting the following:

# Bank AlJazira

(A Saudi Joint Stock Company)

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)**

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

#### **a) New standards**

##### **IFRS 11: Joint arrangements**

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non Monetary Contributions by Venturers and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity accounting method.

##### **IFRS 12: Disclosure of Interests in Other Entities**

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

##### **IFRS 13: Fair value measurements**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements, except for the requirements in case of share based payments, leasing transactions and measurements that have some similarities to fair value but are not fair value. IFRS 13 does not change the requirements of when an entity is required to use fair value, rather it provides guidance on how to measure the fair values.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are also specifically required for financial instruments by IAS 34.16A (j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in note 14.

#### **b) Amendments and improvements to existing standards**

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- Amendments to IAS 1 Presentation of Financial Statements: amends IAS 1 to revise the way other comprehensive income is presented.
- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint Ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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

#### b) Amendments and improvements to existing standards (continued)

- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:
  - IAS 1 - Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;
  - IAS 34 - Interim Financial Reporting: Segment assets and liabilities.

#### c) IFRS 10 Consolidated financial statements: IFRS 10

IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 introduces a single consolidation model for all entities based on control; irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

As a result of the application of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities.

In accordance with the transitional requirements of IFRS 10, the Group re-assessed the control conclusion for its investees as of 1 January 2013. As a consequence, the Group has changed its consolidation conclusions in respect of mutual funds managed by the Group. Al-Thoraiya European Equities Fund and Al-Jazira Residential Projects Fund were consolidated in the financial statements of the Bank up to 31 December 2012. However, as a consequence of the re-assessment, the Group has concluded that it does not control those mutual funds. The Group acts as fund manager to a number of mutual funds. Determining whether the Group controls such mutual funds usually focuses on the assessment of power, exposure to variability in returns and a linkage between the two. Considering the above factors the management of the Group believes that it is acting as an agent for most of the mutual funds managed by the Group, and therefore has not consolidated these funds. Accordingly the Group has restated its comparatives in these interim condensed consolidated financial statements to reflect the deconsolidation of the funds.

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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

#### c) IFRS 10 Consolidated financial statements: IFRS 10 (continued)

The following table summarises the adjustments made to the Group's consolidated statement of financial position at 31 December 2012 and the interim consolidated statement of financial position at 30 September 2012, interim consolidated statements of income, comprehensive income and cash flows for the three months and nine months period ended 30 September 2012, as a result of the deconsolidation of the mutual funds:

	<b>31 December 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Consolidated statement of financial position			
Cash and balances with SAMA	7,109,044	(26,623)	7,082,421
Investments	9,098,734	(104,340)	8,994,394
Other assets	586,791	(44,157)	542,634
Overall impact on total assets	16,794,569	(175,120)	16,619,449
Other liabilities	(809,590)	1,375	(808,215)
Overall impact on total liabilities	(809,590)	1,375	(808,215)
Non-controlling interests	173,745	(173,745)	-
Overall impact on total equity	173,745	(173,745)	-
	<b>30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of financial position			
Cash and balances with SAMA	5,451,093	(32,854)	5,418,239
Investments	8,811,159	(103,954)	8,707,205
Other assets	594,358	(28,173)	566,185
Overall impact on total assets	14,856,610	(164,981)	14,691,629
Other liabilities	(797,859)	647	(797,212)
Overall impact on total liabilities	(797,859)	647	(797,212)
Non-controlling interests	164,334	(164,334)	-
Overall impact on total equity	164,334	(164,334)	-

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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

#### c) IFRS 10 Consolidated financial statements: IFRS 10 (continued)

	<b>For the three months period ended 30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of income			
Fees and commission income, net	110,360	567	110,927
Trading income, net	15,056	(849)	14,207
Other general and administrative expenses	(49,632)	533	(49,099)
Other operating expenses	(437)	(109)	(546)
Non-controlling interests	142	(142)	-

	<b>For the three months period ended 30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of comprehensive income			
Net income for the period	130,321	142	130,463
Non-controlling interests	142	(142)	-

	<b>For the nine months period ended 30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of income			
Fees and commission income, net	456,633	1,696	458,329
Trading income, net	28,875	(3,842)	25,033
Other operating income	15,269	(472)	14,797
Other general and administrative expenses	(150,412)	2,679	(147,733)
Other operating expenses	(10,954)	(93)	(11,047)
Non-controlling interests	(32)	32	-

	<b>For the nine months period ended 30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of comprehensive income			
Net income for the period	402,702	(32)	402,670
Non-controlling interests	(32)	32	-

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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

#### c) IFRS 10 Consolidated financial statements: IFRS 10 (continued)

	<b>For the nine months period ended 30 September 2012 (SR '000)</b>		
	As previously reported	Adjustments	As restated
Interim consolidated statement of cash flows			
Net cash from operating activities	3,562,344	(9,859)	3,552,485
Net cash used in financing activities	(148,979)	(9,293)	(158,272)

### 5. INVESTMENTS

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000 (Restated)	30 September 2012 (Unaudited) SR'000 (Restated)
<b>Fair Value through Income Statement (FVTIS)</b>			
Mandatorily measured at FVTIS	<b>207,208</b>	800,710	797,803
Designated as FVTIS	<b>302,080</b>	165,566	208,871
	<b>509,288</b>	966,276	1,006,674
<b>Fair Value through Other Comprehensive Income (FVTOCI)</b>			
Held as at amortized cost	<b>65,719</b>	260,441	284,749
	<b>8,122,643</b>	7,767,677	7,415,782
<b>Total</b>	<b>8,697,650</b>	8,994,394	8,707,205

### 6. LOANS AND ADVANCES, NET

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Consumer loans	<b>12,055,200</b>	10,498,093	9,859,102
Commercial loans and overdrafts	<b>23,481,301</b>	19,593,526	18,611,669
Others	<b>210,805</b>	142,714	133,966
Performing loans and advances	<b>35,747,306</b>	30,234,333	28,604,737
Non- performing loans and advances	<b>930,024</b>	1,040,219	1,055,382
Total loans and advances	<b>36,677,330</b>	31,274,552	29,660,119
Provision for credit losses	<b>(1,283,152)</b>	(1,377,770)	(1,345,951)
Loans and advances, net	<b>35,394,178</b>	29,896,782	28,314,168

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 6. LOANS AND ADVANCES, NET (continued)

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

### 7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents one investment made by the Group in Aljazira Takaful Ta'awuni Company ("ATT"). The Group holds a 35% shareholding in ATT. During the quarter ended 30 September 2013, ATT obtained its commercial registration certificate and is currently under the process of obtaining required approvals from SAMA for operating insurance activities.

### 8. CUSTOMERS' DEPOSITS

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Demand	<b>17,937,326</b>	16,697,067	15,803,758
Time	<b>26,055,327</b>	23,135,130	22,694,387
Other	<b>1,560,319</b>	843,093	916,538
Total	<b><u>45,552,972</u></b>	<u>40,675,290</u>	<u>39,414,683</u>

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



# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (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.

	30 September 2013 (Unaudited) SR'000			31 December 2012 (Audited) SR'000			30 September 2012 (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
<b>Held for trading:</b>									
Options	5,306	5,306	3,758,923	4,330	4,330	2,246,545	9,364	9,364	5,187,532
Special commission rate swaps	120,165	120,165	4,062,999	136,857	136,857	3,833,313	154,846	154,846	3,841,284
<b>Total</b>	<b>125,471</b>	<b>125,471</b>	<b>7,821,922</b>	<b>141,187</b>	<b>141,187</b>	<b>6,079,858</b>	<b>164,210</b>	<b>164,210</b>	<b>9,028,816</b>
<b>Held as cash flow hedge:</b>									
Special commission rate swaps	17,127	42,086	2,635,312	10,070	58,805	2,550,625	35,022	67,431	2,638,125
<b>Total</b>	<b>142,598</b>	<b>167,557</b>	<b>10,457,234</b>	<b>151,257</b>	<b>199,992</b>	<b>8,630,483</b>	<b>199,232</b>	<b>231,641</b>	<b>11,666,941</b>

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 9. DERIVATIVES (continued)

#### Derivative financial instruments held for hedging purposes

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

### 10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<b>30 September 2013 (Unaudited) <u>SR'000</u></b>	31 December 2012 (Audited) <u>SR'000</u>	30 September 2012 (Unaudited) <u>SR'000</u>
Letters of guarantee	3,017,346	2,452,338	2,541,628
Letters of credit	1,004,326	888,337	832,661
Acceptances	447,392	329,948	432,612
Irrevocable commitments to extend credit	625,754	1,671,447	1,206,236
<b>Total</b>	<b><u>5,094,818</u></b>	<b><u>5,342,070</u></b>	<b><u>5,013,137</u></b>

### 11. CASH AND CASH EQUIVALENTS

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

	<b>30 September 2013 (Unaudited) <u>SR'000</u></b>	31 December 2012 (Audited) <u>SR'000</u> (Restated)	30 September 2012 (Unaudited) <u>SR'000</u> (Restated)
Cash and balances with SAMA, excluding statutory deposit	2,284,060	5,074,653	3,538,969
Due from banks and other financial institutions maturing within 3 months of the acquisition date	3,252,580	2,014,122	2,594,634
<b>Total</b>	<b><u>5,536,640</u></b>	<b><u>7,088,775</u></b>	<b><u>6,133,603</u></b>

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

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### 12. 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 operating decision maker in order to allocate resources to the segments and to assess their performance.

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

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

For management purposes, the Group is organized into following main operating 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.

#### **Treasury**

Treasury includes money market, foreign exchange, trading and treasury services.

#### **Brokerage and Asset Management**

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

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

Takaful Ta'awuni provides protection and saving products services that are fully Shariah compliant.

As required by Insurance Law of Saudi Arabia, the Group decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

After the approval of initial public offering ("IPO") of AlJazira Takaful Ta'awuni ("ATT") by the Capital Market Authority (CMA) the new insurance company had a successful IPO from 13 May 2013 to 19 May 2013. Subsequent to 30 June 2013, ATT was issued with its Commercial Registration Certificate (CR) and will start writing business on the issuance of a license. The current Takaful segment represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

The Group's total assets and liabilities at 30 September 2013 and 2012, its total operating income and expenses, and its net income for the nine months then ended, by business segment, are as follows:

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 12. OPERATING SEGMENTS (continued)

#### 30 September 2013 (SR'000)

	<u>Personal Banking</u>	<u>Corporate Banking</u>	<u>Treasury</u>	<u>Brokerage and Asset Management</u>	<u>Takaful Ta'awuni</u>	<u>Others</u>	<u>Total</u>
Total assets	<u>15,320,489</u>	<u>21,639,458</u>	<u>17,777,742</u>	<u>658,983</u>	<u>11,378</u>	<u>121,489</u>	<u>55,529,539</u>
Total liabilities	<u>16,859,928</u>	<u>26,629,211</u>	<u>6,389,121</u>	<u>59,276</u>	<u>43,719</u>	<u>-</u>	<u>49,981,255</u>
Total operating income	<u>432,501</u>	<u>360,372</u>	<u>364,722</u>	<u>214,618</u>	<u>14,790</u>	<u>(24,038)</u>	<u>1,362,965</u>
Net special commission income	<u>311,527</u>	<u>282,378</u>	<u>290,213</u>	<u>6,320</u>	<u>391</u>	<u>(20)</u>	<u>890,809</u>
Trading, Fee and commission income, net	<u>83,353</u>	<u>69,783</u>	<u>21,243</u>	<u>204,458</u>	<u>15,408</u>	<u>-</u>	<u>394,245</u>
Share in loss of an associate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,011)</u>	<u>(1,011)</u>
<b>Operating expenses:</b>							
Impairment charge for credit losses, net	<u>56,416</u>	<u>27,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,607</u>
Depreciation	<u>31,615</u>	<u>7,266</u>	<u>5,363</u>	<u>6,412</u>	<u>1,807</u>	<u>-</u>	<u>52,463</u>
Total operating expenses	<u>486,705</u>	<u>163,069</u>	<u>84,041</u>	<u>108,036</u>	<u>23,810</u>	<u>(4,024)</u>	<u>861,637</u>
Net (loss) / income	<u>(54,204)</u>	<u>197,303</u>	<u>280,681</u>	<u>106,582</u>	<u>(9,020)</u>	<u>(21,025)</u>	<u>500,317</u>

# Bank AlJazira

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 12. OPERATING SEGMENTS (continued)

30 September 2012 (SR'000) (Restated)

	<u>Personal Banking</u>	<u>Corporate Banking</u>	<u>Treasury</u>	<u>Brokerage and Asset Management</u>	<u>Takaful Ta'awuni</u>	<u>Others</u>	<u>Total</u>
Total assets	12,507,653	17,164,997	17,409,437	748,907	9,976	-	47,840,970
Total liabilities	16,405,285	22,552,209	3,849,574	63,518	43,436	-	42,914,022
Total operating income	280,479	340,013	315,351	291,301	20,057	(21,032)	1,226,169
Net special commission income	187,360	256,391	253,286	7,986	14	(705)	704,332
Trading, Fee and commission income, net	69,544	72,533	40,756	280,487	20,042	-	483,362
Share in loss of an associate	-	-	-	-	-	-	-
<b>Operating expenses:</b>							
Impairment charge for credit losses, net	76,059	64,138	-	-	-	-	140,197
Depreciation	31,066	4,877	3,199	7,146	2,400	-	48,688
Total operating expenses	430,350	189,394	60,484	104,390	42,521	(3,640)	823,499
Net (loss) / income	(149,871)	150,619	254,867	186,911	(22,464)	(17,392)	402,670

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (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 (31 December 2012: 300 million shares of SR 10 each; 30 September 2012: 300 million shares of SR 10 each).

Basic earnings for the periods ended 30 September 2013 and 2012 are calculated by dividing the net income for the periods by the weighted average number of shares outstanding during the period.

The calculation of diluted earnings per share is not applicable to the Group.

### 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of on-balance sheet financial instruments, except for investments held at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions and subordinated sukuk which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and are for a short duration in case of due from/ to banks and other financial institutions. The estimated fair values of investments held as at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed below.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation techniques.

<b>Financial assets as at 30 September 2013</b>	<b>Carrying amount <u>SR'000</u></b>	<b>Fair value <u>SR'000</u></b>
Held as at amortised cost	<b><u>8,122,643</u></b>	<b><u>8,135,388</u></b>

The fair values of investments held as at amortised cost are not significantly different from carrying values. A few of the investments disclosed above are quoted in a market but not actively traded, whilst the remaining are unquoted.

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

#### Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument,
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data, and
- Level 3: valuation techniques for which any significant input is not based on observable market data.

	<u>30 September 2013 (SR'000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>Financial assets</u></b>				
FVTIS	509,288	-	-	509,288
FVTOCI	62,281	-	3,438	65,719
Derivatives	-	142,598	-	142,598
<b><u>Financial liabilities</u></b>				
Derivatives	-	(167,557)	-	(167,557)
<b>Net</b>	<u>571,569</u>	<u>(24,959)</u>	<u>3,438</u>	<u>550,048</u>

#### Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

	<u>30 September 2013</u> <u>SR (000)</u>
Financial investments as at FVTOCI	
Opening balance	3,438
Net unrealised gain / (loss) recognised during the period	-
Closing balance	<u>3,438</u>

During the nine months period ended 30 September 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. New investments acquired during the period are classified under the relevant categories.

# Bank AlJazira

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## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)

### 15. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group'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 on a regular basis by the Group'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 agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group'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 has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. For the purposes of presentation, the RWAs, total capital and related ratios as at 30 September 2013 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios as at 31 December 2012 and 30 September 2012 are calculated under Basel II and have not been restated. The following table summarizes the Bank's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Credit Risk RWA	<b>42,409,941</b>	37,157,226	35,984,718
Operational Risk RWA	<b>2,412,388</b>	2,412,388	2,102,540
Market Risk RWA	<b>1,424,863</b>	1,779,882	1,527,262
<b>Total Pillar-I RWA</b>	<b>46,247,192</b>	41,349,496	39,614,520
Tier I Capital	<b>5,569,647</b>	5,011,853	4,926,948
Tier II Capital	<b>1,288,301</b>	1,467,673	1,432,926
<b>Total Tier I &amp; II Capital</b>	<b>6,857,948</b>	6,479,526	6,359,874
Capital Adequacy Ratio (%)			
Tier I ratio	<b>12.04</b>	12.12	12.44
Total Tier I & II Capital	<b>14.83</b>	15.67	16.05



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## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013 AND 2012 (continued)**

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### **16. BASEL III - CAPITAL STRUCTURE**

Certain additional disclosures on the Bank's capital structure are required to be published on the Bank's website. These disclosures will be published on the Bank's website [www.baj.com.sa](http://www.baj.com.sa) as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Group.

### **17. COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified and restated (refer note 4 (c)) to conform with the presentation in the current period.