
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED
30 SEPTEMBER 2014**



Ernst & Young & Co. (Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45



Al Fozan & Al Sadhan
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/1/323 issued 11/3/1992

REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2014 and the related interim consolidated statements of income and comprehensive income for the three months and nine months periods then ended, and the interim consolidated statements of changes in equity and cash flows for the nine months period then ended and the notes from 1 through 17 which form an integral part of these interim condensed consolidated financial statements. We have not reviewed note 16, nor the information related to "Disclosure under Basel III Framework" 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". 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 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.

Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
License Number 393



05 November 2014
12 Muharram 1436 H

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
License Number 382



Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2014 (Unaudited) <u>SR'000</u>	31 December 2013 (Audited) <u>SR'000</u>	30 September 2013 (Unaudited) <u>SR'000</u>
	<u>Note</u>			
ASSETS				
Cash and balances with SAMA		8,410,855	7,306,158	4,660,214
Due from banks and other financial institutions		2,333,256	3,073,795	4,927,580
Investments	5	12,159,473	12,597,125	8,697,650
Loans and advances, net	6	40,253,311	34,994,759	35,394,178
Investment in an associate	7	123,745	121,489	121,489
Other real estate, net		664,470	672,485	673,135
Property and equipment, net		554,992	507,766	499,556
Other assets		1,132,818	702,831	555,737
Total assets		65,632,920	59,976,408	55,529,539
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		3,910,002	4,358,738	2,749,264
Customers' deposits	8	53,706,910	48,082,525	45,552,972
Other liabilities		983,587	806,600	679,019
Subordinated Sukuk		1,000,000	1,000,000	1,000,000
Total liabilities		59,600,499	54,247,863	49,981,255
SHAREHOLDERS' EQUITY				
Share capital	13	4,000,000	3,000,000	3,000,000
Statutory reserve		1,262,500	1,762,500	1,599,500
General reserve		68,000	68,000	68,000
Other reserves		(67,752)	1,649	(20,317)
Retained earnings		769,673	896,396	901,101
Total shareholders' equity		6,032,421	5,728,545	5,548,284
Total liabilities and shareholders' equity		65,632,920	59,976,408	55,529,539

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)

	For the Three Months Period Ended		For the Nine Months Period Ended	
	30 September 2014 <u>SR'000</u>	30 September 2013 <u>SR'000</u>	30 September 2014 <u>SR'000</u>	30 September 2013 <u>SR'000</u>
Special commission income	457,383	400,073	1,314,184	1,129,871
Special commission expense	(79,785)	(76,945)	(258,644)	(239,062)
Net special commission income	377,598	323,128	1,055,540	890,809
Fees and commission income, net	164,045	108,763	492,256	349,664
Exchange income, net	14,783	8,368	38,752	26,571
Trading income, net	23,546	25,977	48,612	44,581
Dividend income	594	2,221	2,374	6,407
Gains on non-trading investments	25	-	3,684	23,432
Other operating income	2,236	3,423	28,181	21,501
Total operating income	582,827	471,880	1,669,399	1,362,965
Salaries and employee-related expenses	184,936	159,567	523,957	461,394
Rent and premises-related expenses	29,141	22,972	82,709	62,278
Depreciation	19,863	17,732	58,773	52,463
Other general and administrative expenses	90,158	83,849	261,892	197,514
Impairment charge / (reversal) for credit losses, net	211,186	(2,928)	367,747	83,607
Other operating expenses	876	995	3,040	4,381
Total operating expenses	536,160	282,187	1,298,118	861,637
Income from operating activities	46,667	189,693	371,281	501,328
Share in profit / (loss) of an associate	571	(1,011)	1,996	(1,011)
Net income for the period	47,238	188,682	373,277	500,317
Basic and diluted earnings per share (expressed in SR)	0.12	0.47	0.93	1.25

13

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 Period Ended		For the Nine Months Period Ended	
	30 September 2014 <u>SR'000</u>	30 September 2013 <u>SR'000</u>	30 September 2014 <u>SR'000</u>	30 September 2013 <u>SR'000</u>
Net income for the period	<u>47,238</u>	<u>188,682</u>	<u>373,277</u>	<u>500,317</u>
Other comprehensive income				
Net other comprehensive income to be reclassified to interim consolidated statement of income in subsequent periods:				
Cash flow hedges:				
Fair value gain / (loss) on cash flow hedges	6,302	(23,959)	(71,836)	(1,190)
Net amount transferred to interim consolidated statement of income	404	163	2,662	13,139
Net other comprehensive income not being reclassified to interim consolidated statement of income in subsequent periods:				
Net changes in fair value and gain on sales of investments classified as fair value through other comprehensive income (FVTOCI)	<u>80</u>	<u>5,434</u>	<u>(227)</u>	<u>24,165</u>
Other comprehensive income / (loss) for the period	<u>6,786</u>	<u>(18,362)</u>	<u>(69,401)</u>	<u>36,114</u>
Total comprehensive income for the period	<u>54,024</u>	<u>170,320</u>	<u>303,876</u>	<u>536,431</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 2014 AND 2013 (UNAUDITED)

	<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>Total equity SR'000</u>
Balance at 1 January 2014 (audited)	3,000,000	1,762,500	68,000	1,649	896,396	5,728,545
Net income for the period	-	-	-	-	373,277	373,277
Issue of bonus shares (note 13)	1,000,000	(500,000)	-	-	(500,000)	-
Other comprehensive loss	-	-	-	(69,401)	-	(69,401)
Balance at 30 September 2014 (unaudited)	<u>4,000,000</u>	<u>1,262,500</u>	<u>68,000</u>	<u>(67,752)</u>	<u>769,673</u>	<u>6,032,421</u>
Balance at 1 January 2013 (audited)	3,000,000	1,599,500	68,000	(37,644)	381,997	5,011,853
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	-
Balance at 30 September 2013 (unaudited)	<u>3,000,000</u>	<u>1,599,500</u>	<u>68,000</u>	<u>(20,317)</u>	<u>901,101</u>	<u>5,548,284</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 CASH FLOWS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (UNAUDITED)

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	373,277	500,317
Adjustments to reconcile net income to net cash from operating activities:		
Trading income	(48,612)	(44,581)
Impairment charge for credit losses	367,747	83,607
Share in (profit) / loss of an associate	(1,996)	1,011
Depreciation	58,773	52,463
Gains on non-trading investments	(3,684)	(23,432)
Dividend income	(2,374)	(6,407)
Loss on sale / write off of property and equipment	390	184
	<u>743,521</u>	<u>563,162</u>
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	(404,955)	(368,386)
Due from banks and other financial institutions maturing after three months from the date of acquisition	(1,181,250)	(550,500)
Investments held at fair value through income statement	29,291	501,569
Loans and advances	(5,626,299)	(5,581,003)
Other real estate, net	8,015	(12,689)
Other assets	(357,845)	4,024
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	(448,736)	(536,780)
Customers' deposits	5,624,385	4,877,682
Other liabilities	40,327	(171,281)
	<u>(1,573,546)</u>	<u>(1,274,202)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of non-trading investments	2,461,750	3,627,588
Acquisition of non-trading investments	(2,006,236)	(3,703,328)
Investment in an associate	-	(122,500)
Acquisition of property and equipment	(106,444)	(86,122)
Proceeds from sale of property and equipment	55	22
Dividends received	2,374	6,407
	<u>351,499</u>	<u>(277,933)</u>
Net cash from / (used in) investing activities		
Net decrease in cash and cash equivalents	(1,222,047)	(1,552,135)
Cash and cash equivalents at the beginning of the period	7,090,500	7,088,775
	<u>5,868,453</u>	<u>5,536,640</u>
Cash and cash equivalents at the end of the period (note 11)		
Special commission received during the period	1,201,666	1,077,029
Special commission paid during the period	251,792	243,972

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 2014 AND 2013

1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the “Bank”) and its subsidiaries (collectively referred to as the “Group”). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 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 69 branches (31 December 2013: 62 branches, 30 September 2013: 63 branches) in the Kingdom of Saudi Arabia and employed 1,955 staff (31 December 2013: 1,779 staff, 30 September 2013: 1,756 staff). The Bank’s Head Office is located at the following address:

Bank AlJazira
Al-Nahda District, 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 are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) 30 September 2014	Ownership (direct and indirect) 31 December 2013	Ownership (direct and indirect) 30 September 2013
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage and asset management	100%	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	100%	100%	100%

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard No. 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.

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.

The interim condensed consolidated financial statements do not include all of the information required for annual consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements as of and for the year ended 31 December 2013.

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 2013.

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries as set out in note 1. 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 of the following three criteria must be met, including:

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

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 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 the 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. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

Balances between the Bank and its subsidiaries, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

3. BASIS OF CONSOLIDATION (continued)

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 value 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 based on latest available financial information) 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 investment in the interim consolidated statement of financial position remains at the lower of the equity-accounted value (before provision for impairment) or the recoverable amount.

4. SIGNIFICANT 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 2013 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had an insignificant financial impact on the interim condensed consolidated financial statements of the Group for the current period or prior period and is expected to have an insignificant effect in future periods:

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investment funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.
- IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendment. The recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets has been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

5. INVESTMENTS

	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 September 2013 (Unaudited) SR'000
Fair Value through Income Statement (FVTIS)			
Mandatorily measured at FVTIS	-	-	207,208
Designated as at FVTIS	<u>355,897</u>	<u>336,576</u>	<u>302,080</u>
	355,897	336,576	509,288
Fair Value through Other Comprehensive Income (FVTOCI)	9,050	9,278	65,719
Held as at amortised cost	<u>11,794,526</u>	<u>12,251,271</u>	<u>8,122,643</u>
	12,159,473	12,597,125	8,697,650

6. LOANS AND ADVANCES, NET

	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 September 2013 (Unaudited) SR'000
Consumer loans	13,915,423	12,184,052	12,055,200
Commercial loans and overdrafts	26,307,919	22,822,891	23,481,301
Others	<u>269,918</u>	<u>219,871</u>	<u>210,805</u>
	40,493,260	35,226,814	35,747,306
Performing loans and advances	40,493,260	35,226,814	35,747,306
Non- performing loans and advances	<u>369,898</u>	<u>429,372</u>	<u>930,024</u>
	40,863,158	35,656,186	36,677,330
Loans and advances, gross	40,863,158	35,656,186	36,677,330
Provision for credit losses	<u>(609,847)</u>	<u>(661,427)</u>	<u>(1,283,152)</u>
	40,253,311	34,994,759	35,394,178

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

6. LOANS AND ADVANCES, NET (continued)

a) Movement in provision for credit losses are as follows:

	30 September 2014 (Unaudited) SR'000	30 September 2013 (Unaudited) SR'000
Balance at the beginning of the year	661,427	1,377,770
Provided during the period, net	422,002	138,955
Bad debts written off	(430,943)	(178,275)
Reversal/recoveries of amounts previously provided	(42,639)	(55,298)
Balance at the end of the period	609,847	1,283,152

7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company (ATT). The Group collectively holds a 35% shareholding in ATT. ATT commenced its commercial operations in January 2014.

Share of net income in an associate represents the Group's share in the net income of ATT based on the latest available financial information of ATT. The market value of the investment in ATT as of 30 September 2014 is SR 979.39 million (31 December 2013: SR 655.38 million; 30 September 2013: SR 753.38 million).

8. CUSTOMERS' DEPOSITS

	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 September 2013 (Unaudited) SR'000
Demand	24,329,044	19,158,001	17,937,326
Time	28,480,266	27,432,544	26,055,327
Other	897,600	1,491,980	1,560,319
Total	53,706,910	48,082,525	45,552,972

Time deposits comprise deposits received on a Shari'ah Compliant (non-commission based) Murabaha basis.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

9. DERIVATIVES

The table below sets out the fair values of the Group'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 Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	30 September 2014 (Unaudited) SR'000			31 December 2013 (Audited) SR'000			30 September 2013 (Unaudited) SR'000		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
Held for trading:									
Options	27,840	27,840	5,666,668	4,746	4,746	1,901,150	5,306	5,306	3,758,923
Special commission rate swaps	152,551	152,551	5,959,697	91,789	91,789	4,154,006	120,165	120,165	4,062,999
Forwards	-	-	-	555	564	40,726	-	-	-
FX swaps	-	-	750,000	-	71	562,500	-	-	-
Total	180,391	180,391	12,376,365	97,090	97,170	6,658,382	125,471	125,471	7,821,922
Held as cash flow hedge:									
Special commission rate swaps	11,380	75,638	3,186,563	25,366	20,024	2,635,313	17,127	42,086	2,635,312
Total	191,771	256,029	15,562,928	122,456	117,194	9,293,695	142,598	167,557	10,457,234

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	30 September 2014 (Unaudited) <u>SR'000</u>	31 December 2013 (Audited) <u>SR'000</u>	30 September 2013 (Unaudited) <u>SR'000</u>
Letters of guarantee	3,684,143	3,266,668	3,017,346
Letters of credit	937,759	1,087,981	1,004,326
Acceptances	424,809	448,563	447,392
Irrevocable commitments to extend credit	166,669	600,680	625,754
Total	<u>5,213,380</u>	<u>5,403,892</u>	<u>5,094,818</u>

11. CASH AND CASH EQUIVALENTS

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

	30 September 2014 (Unaudited) <u>SR'000</u>	31 December 2013 (Audited) <u>SR'000</u>	30 September 2013 (Unaudited) <u>SR'000</u>
Cash and balances with SAMA, excluding statutory deposit	5,466,447	4,766,705	2,284,060
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	402,006	2,323,795	3,252,580
Total	<u>5,868,453</u>	<u>7,090,500</u>	<u>5,536,640</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

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 the 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.

Investment banking and brokerage

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 and is fully Shari'ah compliant and is a substitute to conventional life insurance products.

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

AlJazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). The Group collectively holds a 35% shareholding in ATT. ATT commenced its commercial operations in January 2014. The current division 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 2014, 31 December 2013 and 30 September 2013, its total operating income and expenses, and its net income for the nine months period then ended, by operating segment, are as follows:

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

12. OPERATING SEGMENTS (continued)

30 September 2014 (SR'000)

	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Treasury</u>	<u>Investment banking and brokerage</u>	<u>Takaful Ta'awuni</u>	<u>Others</u>	<u>Total</u>
Total assets	<u>18,962,632</u>	<u>23,200,094</u>	<u>22,617,122</u>	<u>722,219</u>	<u>7,108</u>	<u>123,745</u>	<u>65,632,920</u>
Total liabilities	<u>24,576,633</u>	<u>26,304,864</u>	<u>8,593,124</u>	<u>82,018</u>	<u>43,860</u>	<u>-</u>	<u>59,600,499</u>
Total operating income	<u>545,224</u>	<u>397,106</u>	<u>456,455</u>	<u>293,577</u>	<u>16,796</u>	<u>(39,759)</u>	<u>1,669,399</u>
Net special commission income	<u>379,365</u>	<u>287,499</u>	<u>383,036</u>	<u>6,357</u>	<u>197</u>	<u>(914)</u>	<u>1,055,540</u>
Fees, commission and trading income, net	<u>132,334</u>	<u>94,002</u>	<u>13,339</u>	<u>284,143</u>	<u>16,599</u>	<u>451</u>	<u>540,868</u>
Share in profit of an associate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,996</u>	<u>1,996</u>
Operating expenses:							
Impairment charge for credit losses, net	<u>92,085</u>	<u>275,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,747</u>
Depreciation	<u>32,538</u>	<u>12,259</u>	<u>6,786</u>	<u>5,723</u>	<u>1,467</u>	<u>-</u>	<u>58,773</u>
Total operating expenses	<u>578,436</u>	<u>491,840</u>	<u>101,529</u>	<u>111,472</u>	<u>18,521</u>	<u>(3,680)</u>	<u>1,298,118</u>
Net (loss) / income	<u>(33,212)</u>	<u>(94,734)</u>	<u>354,926</u>	<u>182,105</u>	<u>(1,725)</u>	<u>(34,083)</u>	<u>373,277</u>

31 December 2013 (SR'000)

Total assets	<u>17,379,558</u>	<u>20,558,555</u>	<u>21,230,439</u>	<u>675,775</u>	<u>10,592</u>	<u>121,489</u>	<u>59,976,408</u>
Total liabilities	<u>19,038,108</u>	<u>27,287,895</u>	<u>7,815,633</u>	<u>58,854</u>	<u>47,373</u>	<u>-</u>	<u>54,247,863</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

12. OPERATING SEGMENTS (continued)

30 September 2013 (SR'000)

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

13. SHARE CAPITAL AND EARNINGS PER SHARE

The shareholders of the Bank in their meeting held on 20 May 2014 (corresponding to 21 Rajab 1435) approved the increase in the Bank's share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). The legal formalities relating to the increase in share capital have been completed. Accordingly the authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (31 December 2013: 300 million shares of SR 10 each; 30 September 2013: 300 million shares of SR 10 each).

The earnings per share for nine months period ended 30 September 2014 was SR 0.93 (for nine months period ended 30 September 2013: SR 1.25).

Basic earnings per share for the three months and nine months period ended 30 September 2014 and 30 September 2013 is calculated by dividing the net income for the period by 400 million shares to give a retroactive effect to the increase in the number of shares as a result of the bonus share issue.

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 value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability

The fair values of 'on-statement of financial position' financial instruments, except for investments held as 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 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 for the short duration 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 sukuk. The fair values of these investments are disclosed below.

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Held as at amortised cost (SR'000)	Carrying amount	Fair value
Financial assets as at 30 September 2014	11,794,526	11,821,008
Financial assets as at 31 December 2013	12,251,271	12,263,817
Financial assets as at 30 September 2013	8,122,643	8,135,388

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

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 or identical instrument that an entity can access at the measurement date,
- 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.

	30 September 2014 (SR'000)			Total
	Level 1	Level 2	Level 3	
<u>Financial assets</u>				
FVTIS	355,897	-	-	355,897
FVTOCI	5,612	-	3,438	9,050
Derivatives	-	191,771	-	191,771
<u>Financial liabilities</u>				
Derivatives	-	(256,029)	-	(256,029)
Total	361,509	(64,258)	3,438	300,689

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	31 December 2013 (SR'000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
FVTIS	336,576	-	-	336,576
FVTOCI	5,840	-	3,438	9,278
Derivatives	-	122,456	-	122,456
<u>Financial liabilities</u>				
Derivatives	-	(117,194)	-	(117,194)
Total	<u>342,416</u>	<u>5,262</u>	<u>3,438</u>	<u>351,116</u>

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

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 September 2013 (Unaudited) SR'000
Opening balance	3,438	3,438	3,438
Net unrealized gain recognized during the period	-	-	-
Closing balance	<u>3,438</u>	<u>3,438</u>	<u>3,438</u>

During the nine months period ended 30 September 2014 and 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.

15. CAPITAL ADEQUACY

The Group'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 on a regular basis 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 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 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2014 AND 2013 (continued)

15. CAPITAL ADEQUACY (continued)

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

	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 September 2013 (Unaudited) SR'000
Credit Risk RWA	47,077,187	42,099,176	42,409,941
Operational Risk RWA	2,842,575	2,842,575	2,412,388
Market Risk RWA	1,419,188	1,921,225	1,424,863
Total Pillar-I RWA	51,338,950	46,862,976	46,247,192
Tier I Capital	6,111,693	5,731,583	5,569,647
Tier II Capital	1,180,845	1,304,155	1,288,301
Total Tier I and II Capital	7,292,538	7,035,738	6,857,948
Capital Adequacy Ratio (%)			
Tier I ratio	11.90	12.23	12.04
Total Tier I and II Capital	14.20	15.01	14.83

16. BASEL III PILLAR III DISCLOSURES

Certain 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 as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.

17. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 12 Muharram 1436 H corresponding to 05 November 2014.