BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

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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 statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as "the Group") as of 30 June 2014, and the related interim consolidated statement of income and comprehensive income for the three months and six months period ended 30 June 2014, the related interim consolidated statements of changes in equity and cash flows for the six months period then ended, along with condensed 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 "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.

Ernst & Young

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21 July 2014
23 Ramadan 1435 H

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2014 (Unaudited) SR'000**	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
ASSETS				
Cash and balances with SAMA		**7,646,300**	7,306,158	5,190,882
Due from banks and other financial institutions		**4,430,040**	3,073,795	6,060,209
Investments	5	**12,554,475**	12,597,125	9,863,082
Loans and advances, net	6	**38,970,467**	34,994,759	33,311,965
Investment in an associate	7	**123,174**	121,489	-
Other real estate, net		**664,470**	672,485	674,386
Property and equipment, net		**530,961**	507,766	492,443
Other assets		**880,636**	702,831	658,447
Total assets		**65,800,523**	59,976,408	56,251,414
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**6,103,815**	4,358,738	3,967,660
Customers' deposits	8	**51,835,248**	48,082,525	45,197,774
Other liabilities		**883,063**	806,600	708,016
Subordinated Sukuk		**1,000,000**	1,000,000	1,000,000
Total liabilities		**59,822,126**	54,247,863	50,873,450
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		**(74,538)**	1,649	10,134
Retained earnings		**722,435**	896,396	700,330
Total shareholders' equity		**5,978,397**	5,728,545	5,377,964
Total liabilities and shareholders' equity		**65,800,523**	59,976,408	56,251,414

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 Six Months Period Ended	
	Note	**30 June 2014 SR'000**	30 June 2013 SR'000	**30 June 2014 SR'000**	30 June 2013 SR'000
Special commission income		**438,286**	375,788	**856,801**	729,798
Special commission expense		**(81,998)**	(73,807)	**(178,859)**	(162,117)
Net special commission income		**356,288**	301,981	**677,942**	567,681
Fees and commission income, net		**174,361**	115,946	**328,211**	240,901
Exchange income, net		**13,615**	7,658	**23,969**	18,203
Trading income, net		**10,581**	3,311	**25,066**	18,604
Dividend income		**992**	-	**1,780**	4,186
Gains on non-trading investments		**80**	13,205	**3,659**	23,432
Other operating income		**13,238**	6,365	**25,945**	18,078
Total operating income		**569,155**	448,466	**1,086,572**	891,085
Salaries and employee-related expenses		**172,078**	152,469	**339,021**	301,827
Rent and premises-related expenses		**28,746**	20,525	**53,568**	39,306
Depreciation		**19,589**	17,116	**38,910**	34,731
Other general and administrative expenses		**89,938**	58,546	**171,734**	113,665
Impairment charge for credit losses, net		**91,181**	31,051	**156,561**	86,535
Other operating expenses		**1,312**	1,366	**2,164**	3,386
Total operating expenses		**402,844**	281,073	**761,958**	579,450
Income from operating activities		**166,311**	167,393	**324,614**	311,635
Share in net income of an associate		**402**	-	**1,425**	-
Net income for the period		**166,713**	167,393	**326,039**	311,635
Basic and diluted earnings per share for the period (expressed in SR)	13	**0.42**	0.42	**0.82**	0.78

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 Six Months Period Ended	
	30 June 2014 SR'000	**30 June 2013 SR'000**	**30 June 2014 SR'000**	30 June 2013 SR'000
Net income for the period	**166,713**	167,393	**326,039**	311,635
Other comprehensive income				
Net other comprehensive income to be reclassified to interim consolidated statement of income in subsequent periods:				
Cash flow hedges:				
Fair value (loss) / gain on cash flow hedges	**(45,821)**	21,380	**(78,138)**	22,769
Net amount transferred to interim consolidated statement of income	**130**	7,972	**2,258**	12,976
Net other comprehensive income not being reclassified to interim consolidated statement of income in subsequent periods:				
Net changes in fair value and gain on sale of investment classified as at fair value through other comprehensive income (FVTOCI)	**(74)**	18,336	**(307)**	18,731
Other comprehensive (loss) / income for the period	**(45,765)**	47,688	**(76,187)**	54,476
Total comprehensive income for the period	**120,948**	215,081	**249,852**	366,111

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 SIX MONTHS PERIOD ENDED 30 JUNE 2014 AND 2013
(UNAUDITED)

	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserve SR'000	Retained earnings SR'000	Total equity SR'000
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	-	-	-	-	326,039	326,039
Issue of bonus shares (note 13)	1,000,000	(500,000)	-	-	(500,000)	-
Other comprehensive loss	-	-	-	(76,187)	-	(76,187)
Balance at 30 June 2014 (unaudited)	**4,000,000**	**1,262,500**	**68,000**	**(74,538)**	**722,435**	**5,978,397**
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	-	-	-	-	311,635	311,635
Other comprehensive income	-	-	-	54,476	-	54,476
Transfer of fair value and gain on sale of investments classified as at FVTOCI	-	-	-	(6,698)	6,698	-
Balance at 30 June 2013 (unaudited)	3,000,000	1,599,500	68,000	10,134	700,330	5,377,964

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 SIX MONTHS PERIOD ENDED 30 JUNE 2014 AND 2013 (UNAUDITED)

	2014 SR'000	2013 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**326,039**	311,635
Adjustments to reconcile net income to net cash from operating activities:		
Trading income, net	**(25,066)**	(18,604)
Impairment charge for credit losses, net	**156,561**	86,535
Share in net income of an associate	**(1,425)**	-
Depreciation	**38,910**	34,731
Gains on non-trading investments	**(3,659)**	(23,432)
Dividend income	**(1,780)**	(4,186)
Loss on sale of property and equipment	**261**	-
	489,841	386,679
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	**(300,653)**	(426,250)
Due from banks and other financial institutions maturing after three months from the date of acquisition	**(2,075,000)**	(475,500)
Investments held at fair value through income statement	**(51,323)**	(262,798)
Loans and advances	**(4,132,269)**	(3,501,718)
Other real estate, net	**8,015**	(13,940)
Other assets	**(109,752)**	113,253
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	**1,745,077**	681,616
Customers' deposits	**3,752,723**	4,522,484
Other liabilities	**(62,410)**	(293,438)
Net cash (used in) / from operating activities	**(735,751)**	730,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of non-trading investments	**2,124,750**	2,528,240
Acquisition of non-trading investments	**(2,007,679)**	(3,073,363)
Acquisition of property and equipment	**(62,377)**	(61,071)
Proceed from sale of property and equipment	**11**	-
Dividends received	**1,780**	4,186
Net cash from/ (used in) investing activities	**56,485**	(602,008)
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid	**-**	(82)
Net (decrease)/ increase in cash and cash equivalents	**(679,266)**	128,298
Cash and cash equivalents at the beginning of the period	**7,090,500**	7,088,775
Cash and cash equivalents at the end of the period (note 11)	**6,411,234**	7,217,073
Special commission income received during the period	**821,920**	696,183
Special commission expense paid during the period	**170,014**	181,138

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

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 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 June 2013: 59 branches) in the Kingdom of Saudi Arabia and employed 1,791 staff (31 December 2013: 1,779 staff, 30 June 2013 : 1,693 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 (collectively referred to as the "Group") are as follows:

	Country of incorporation	**Nature of business**	**Ownership (direct and indirect) 30 June 2014**	Ownership (direct and indirect) 31 December 2013	Ownership (direct and indirect) 30 June 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%

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.

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.

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 based on latest available financial statements) less impairment, if any.

3. BASIS OF CONSOLIDATION (continued)

d) Associates (continued)

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 (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 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 amendments. 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.

- 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 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Fair Value through Income Statement (FVTIS)			
Mandatorily measured at FVTIS	**-**	-	805,713
Designated as at FVTIS	**412,965**	336,576	441,965
	412,965	336,576	1,247,678
Fair Value through Other Comprehensive Income (FVTOCI)	**8,970**	9,278	138,852
Held as at amortised cost	**12,132,540**	12,251,271	8,476,552
Total	**12,554,475**	12,597,125	9,863,082

6. LOANS AND ADVANCES, NET

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Consumer loans	**13,477,049**	12,184,052	11,868,530
Commercial loans and overdrafts	**25,285,842**	22,822,891	21,646,383
Others	**238,419**	219,871	178,871
Performing loans and advances	**39,001,310**	35,226,814	33,693,784
Non- performing loans and advances	**789,719**	429,372	1,074,227
Gross loans and advances	**39,791,029**	35,656,186	34,768,011
Provision for credit losses	**(820,562)**	(661,427)	(1,456,046)
Loans and advances, net	**38,970,467**	34,994,759	33,311,965

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

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 net income of ATT based on the most latest available financial information of ATT. The market value of investment in ATT as of 30 June 2014 is SR 824.79 million (31 December 2013: SR 655.38 million).

8. CUSTOMERS' DEPOSITS

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Demand	**24,380,075**	19,158,001	18,334,808
Time	**26,660,875**	27,432,544	25,841,145
Other	**794,298**	1,491,980	1,021,821
Total	**51,835,248**	48,082,525	45,197,774

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

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 June 2014 (Unaudited) SR'000			31 December 2013 (Audited) SR'000			30 June 2013 (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
Held for trading:									
Options	**2,375**	**2,375**	**1,785,067**	4,746	4,746	1,901,150	9,325	9,325	4,941,163
Special commission rate swaps	**152,443**	**152,443**	**4,996,321**	91,789	91,789	4,154,006	122,261	122,261	3,970,090
Forwards	**-**	**-**	**-**	555	564	40,726	-	-	-
FX swaps	**-**	**-**	**281,250**	-	71	562,500	-	-	-
Total	**154,818**	**154,818**	**7,062,638**	97,090	97,170	6,658,382	131,586	131,586	8,911,253
Held as cash flow hedge:									
Special commission rate swaps	**7,398**	**77,958**	**2,486,563**	25,366	20,024	2,635,313	15,977	16,977	1,969,688
Total	**162,216**	**232,776**	**9,549,201**	122,456	117,194	9,293,695	147,563	148,563	10,880,941

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Letters of guarantee	**3,515,030**	3,266,668	2,707,596
Letters of credit	**1,124,118**	1,087,981	737,871
Acceptances	**470,904**	448,563	544,630
Irrevocable commitments to extend credit	**256,463**	600,680	806,109
Total	**5,366,515**	5,403,892	4,796,206

11. CASH AND CASH EQUIVALENTS

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

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**4,806,194**	4,766,705	2,756,864
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**1,605,040**	2,323,795	4,460,209
Total	**6,411,234**	7,090,500	7,217,073

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 banking
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 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'wuni 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 June 2014 and 30 June 2013, its total operating income and expenses, and its net income for the six months period then ended, by business segment, are as follows:

12. OPERATING SEGMENTS (continued)

30 June 2014 (SR'000)

	Personal banking	Corporate banking	Treasury banking	Investment banking and brokerage	Takaful Ta'awuni	Others	Total
Total assets	17,673,770	22,886,507	24,350,474	759,437	7,161	123,174	65,800,523
Total liabilities	23,993,466	26,461,523	9,252,820	67,291	47,026	-	59,822,126
Total operating income	303,424	244,972	361,680	189,777	11,414	(24,695)	1,086,572
Net special commission income	194,531	175,517	304,393	4,248	131	(878)	677,942
Fee and commission income, net	92,069	54,017	4,625	166,217	11,283	-	328,211
Trading income, net	504	2,854	4,222	17,034	-	452	25,066
Share in profit of associates	-	-	-	-	-	1,425	1,425
Impairment charge for credit losses, net	67,601	88,960	-	-	-	-	156,561
Depreciation	16,867	7,726	9,501	3,831	985	-	38,910
Total operating expenses	313,121	225,255	140,798	73,049	12,419	(2,684)	761,958
Net (loss) / income	(9,697)	19,717	220,882	116,728	(1,005)	(20,586)	326,039

12. OPERATING SEGMENTS (continued)

30 June 2013 (SR'000)

	Personal banking	Corporate banking	Treasury banking	Investment banking and brokerage	Takaful Ta'awuni	Others	Total
Total assets	14,828,395	19,846,158	20,742,062	825,233	9,566	-	56,251,414
Total liabilities	17,444,731	27,015,785	6,131,924	237,707	43,303	-	50,873,450
Total operating income	285,913	222,758	254,437	138,447	10,133	(20,603)	891,085
Net special commission income	199,730	170,744	192,811	4,222	88	86	567,681
Fee and commission income, net	52,544	44,033	2,876	131,406	10,042	-	240,901
Trading income, net	1,504	1,261	13,574	2,265	-	-	18,604
Impairment charge for credit losses, net	55,093	31,442	-	-	-	-	86,535
Depreciation	19,911	4,653	4,557	4,333	1,277	-	34,731
Total operating expenses	309,020	114,416	72,425	70,424	15,848	(2,683)	579,450
Net (loss) / income	(23,107)	108,342	182,012	68,024	(5,716)	(17,920)	311,635

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 for increase in share capital has 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 June 2013: 300 million shares of SR 10 each).

The earnings per share for six months period ended 30 June 2014 was SR 0.84 (for six months period ended 30 June 2013: SR 0.78).

Basic earnings per share for the three months and six months period ended for 30 June 2014 and 30 June 2013 is calculated by dividing the net income for the period by 400 million shares to give a retroactive effect of change in the number of shares increased 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.

Held as at amortised cost (SR'000)	**Carrying amount**	**Fair value**
Financial assets as at 30 June 2014	**12,132,540**	**12,164,845**
Financial assets as at 31 December 2013	12,251,271	12,263,817
Financial assets as at 30 June 2013	8,476,552	8,509,207

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.

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 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 June 2014 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS	**412,965**	**-**	**-**	**412,965**
FVTOCI	**5,532**	**-**	**3,438**	**8,970**
Derivatives	**-**	**162,216**	**-**	**162,216**
Financial liabilities				
Derivatives	**-**	**(232,776)**	**-**	**(232,776)**
Total	**418,497**	**(70,560)**	**3,438**	**351,375**

	31 December 2013 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	336,576	-	-	336,576
FVTOCI	5,840	-	3,438	9,278
Derivatives	-	122,456	-	122,456
Financial liabilities				
Derivatives	-	117,194	-	117,194
Total	342,416	239,650	3,438	585,504

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	30 June 2013 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	1,247,678	-	-	1,247,678
FVTOCI	135,414	-	3,438	138,852
Derivatives	-	147,563	-	147,563
Financial liabilities				
Derivatives	-	(148,563)	-	(148,563)
Total	1,383,092	(1,000)	3,438	1,385,530

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.

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

Financial investments as at FVTOCI	**30 June 2014 SR'000**	31 December 2013 SR'000	30 June 2013 SR'000
Opening balance	**3,438**	3,438	3,438
Net unrealized gain recognized during the period	**-**	-	-
Closing balance	**3,438**	3,438	3,438

During the six months period ended 30 June 2014 and six months period ended 30 June 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.

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

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Credit Risk RWA	**46,681,131**	42,099,176	40,364,679
Operational Risk RWA	**2,842,575**	2,842,575	2,412,388
Market Risk RWA	**1,573,763**	1,921,225	1,878,251
Total Pillar-I RWA	**51,097,469**	46,862,976	44,655,318
Tier I Capital	**6,057,328**	5,731,583	5,347,045
Tier II Capital	**1,171,408**	1,304,155	1,233,046
Total Tier I & II Capital	**7,228,736**	7,035,738	6,580,091
Capital Adequacy Ratio (%)			
Tier I ratio	**11.85**	12.23	11.97
Total Tier I & II Capital	**14.15**	15.01	14.74

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 FINANCIAL STATEMENT

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 21 July 2014.