
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
31 MARCH 2014**



Ernst & Young & Co. (Public Accountants)
13th Floor – King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia



KPMG Al Fozan & Al Sadhan
Zahran Business Centre, Tower A, 9th Floor
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

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 31 March 2014, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended along with notes from 1 through 16. 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 figures shown in these interim condensed consolidated financial statements were reviewed by Ernst & Young and another auditor, whose review report contained an unqualified conclusion.

Ernst & Young

Husam Faisal Bawared
Certified Public Accountant
License Number 393



KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
License Number 382



21 April 2014
21 Jumad Thani 1435 H

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	31 March 2013 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with SAMA		5,839,276	7,306,158	7,200,469
Due from banks and other financial institutions		3,537,110	3,073,795	3,567,655
Investments	5	12,431,033	12,597,125	9,165,392
Loans and advances, net	6	36,683,299	34,994,759	32,408,433
Investment in an associate	7	122,771	121,489	-
Other real estate, net		669,285	672,485	660,446
Property and equipment, net		512,584	507,766	479,898
Other assets		845,628	702,831	653,290
Total assets		60,640,986	59,976,408	54,135,583
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		4,535,974	4,358,738	5,810,586
Customers' deposits	8	48,468,292	48,082,525	41,421,562
Other liabilities		779,271	806,600	740,552
Subordinated Sukuk		1,000,000	1,000,000	1,000,000
Total liabilities		54,783,537	54,247,863	48,972,700
EQUITY				
Share capital	13	3,000,000	3,000,000	3,000,000
Statutory reserve		1,762,500	1,762,500	1,599,500
General reserve		68,000	68,000	68,000
Other reserves		(28,773)	1,649	(32,775)
Retained earnings		1,055,722	896,396	528,158
Total equity		5,857,449	5,728,545	5,162,883
Total liabilities and equity		60,640,986	59,976,408	54,135,583

Taha A. Al-Kuwaiz
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 16 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	
		31 March 2014 SR'000	31 March 2013 SR'000
Special commission income		418,515	354,010
Special commission expense		(96,861)	(88,310)
Net special commission income		321,654	265,700
Fees and commission income, net		153,850	124,955
Exchange income, net		10,354	10,545
Trading income, net		14,485	15,293
Dividend income		788	4,212
Gains on non-trading investments		3,579	10,227
Other operating income		12,707	11,687
Total operating income		517,417	442,619
Salaries and employee-related expenses		166,943	149,358
Rent and premises-related expenses		24,822	18,781
Depreciation		19,321	17,615
Other general and administrative expenses		81,796	55,119
Impairment charge for credit losses, net		65,380	55,484
Other operating expenses		852	2,020
Total operating expenses		359,114	298,377
Income from operating activities		158,303	144,242
Share in net income of an associate		1,023	-
Net income for the period		159,326	144,242
Basic and diluted earnings per share for the period (expressed in SR)	13	0.53	0.48

Taha A. Al-Kuwaiz
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 16 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	
	31 March 2014 SR'000	31 March 2013 SR'000
Net income for the period	159,326	144,242
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	(32,317)	1,389
Net amount transferred to interim consolidated statement of income	2,128	5,004
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 investment classified as at fair value through other comprehensive income (FVTOCI)	(233)	395
Other comprehensive (loss) / income for the period	(30,422)	6,788
Total comprehensive income for the period	128,904	151,030


Taha A. Al-Kuwaiz
Chairman


Nabil Al-Hoshan
CEO and Managing Director


Shahid Amin
Chief Financial Officer


The accompanying notes 1 to 16 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 THREE MONTHS PERIOD ENDED 31 MARCH 2014 AND 2013 (UNAUDITED)

	2014	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		-	-	-	-	159,326	159,326
Other comprehensive loss		-	-	-	(30,422)	-	(30,422)
Total comprehensive income for the period		-	-	-	(30,422)	159,326	128,904
Balance at 31 March 2014 (unaudited)		3,000,000	1,762,500	68,000	(28,773)	1,055,722	5,857,449
2013							
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		-	-	-	-	144,242	144,242
Other comprehensive income		-	-	-	6,788	-	6,788
Transfer of fair value and gain on sale of investments classified as at FVTOCI		-	-	-	(1,919)	1,919	-
Total comprehensive income for the period		-	-	-	4,869	146,161	151,030
Balance at 31 March 2013 (unaudited)		3,000,000	1,599,500	68,000	(32,775)	528,158	5,162,883


Taha A. Al-Kuwaiz
Chairman


Nabil Al-Hoshan
CEO and Managing Director


Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 16 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 THREE MONTHS PERIOD ENDED 31 MARCH 2014 AND 2013 (UNAUDITED)

	2014 SR'000	2013 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	159,326	144,242
Adjustments to reconcile net income to net cash from operating activities:		
Trading income, net	(14,485)	(15,293)
Impairment charge for credit losses, net	65,380	55,484
Share in net income of an associate	(1,023)	-
Depreciation	19,321	17,615
Gain on non-trading investments	(3,579)	(10,227)
Dividend income	(788)	(4,212)
Loss on sale of property and equipment	10	-
	<u>224,162</u>	<u>187,609</u>
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	(197,872)	(113,026)
Due from banks and other financial institutions maturing after three months from the date of acquisition	(1,287,500)	(63,000)
Investments held at fair value through income statement	(10,464)	(246,533)
Loans and advances	(1,753,920)	(2,567,135)
Other real estate, net	3,200	-
Other assets	(90,014)	24,158
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	177,236	2,524,542
Customers' deposits	385,767	746,272
Other liabilities	(105,370)	(196,019)
	<u>(2,654,775)</u>	<u>296,868</u>
Net cash (used in) / from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of non-trading investments	1,482,750	1,445,625
Acquisition of non-trading investments	(1,293,553)	(1,344,175)
Acquisition of property and equipment	(24,149)	(31,410)
Dividends received	788	4,212
	<u>165,836</u>	<u>74,252</u>
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid	-	(65)
	<u>-</u>	<u>-</u>
Net (decrease)/ increase in cash and cash equivalents	(2,488,939)	371,055
Cash and cash equivalents at the beginning of the period	7,090,500	7,088,775
	<u>4,601,561</u>	<u>7,459,830</u>
Cash and cash equivalents at the end of the period (note 11)		
Special commission income received during the period	374,369	337,850
	<u>374,369</u>	<u>337,850</u>
Special commission expense paid during the period	89,599	108,259
	<u>89,599</u>	<u>108,259</u>

Taha A. Al-Kuwaiz
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 16 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 THREE MONTHS PERIOD ENDED 31 MARCH 2014 AND 2013

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 66 branches (December 2013: 62 branches) in the Kingdom of Saudi Arabia and employed 1,786 staff (31 December 2013: 1,779 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) 31 March 2014	Ownership (direct and indirect) 31 December 2013
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage and asset management	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%

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2014 AND 2013

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 THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

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 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.

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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

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 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 investments 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

5. INVESTMENTS

	31 March 2014 (Unaudited) <u>SR'000</u>	31 December 2013 (Audited) <u>SR'000</u>	31 March 2013 (Unaudited) <u>SR'000</u>
Fair Value through Income Statement (FVTIS)			
Mandatorily measured at FVTIS	-	-	803,406
Designated as at FVTIS	<u>361,525</u>	<u>336,576</u>	<u>424,697</u>
	361,525	336,576	1,228,103
 Fair Value through Other Comprehensive Income (FVTOCI)	 9,045	 9,278	 198,349
Held as at amortised cost	<u>12,060,463</u>	<u>12,251,271</u>	<u>7,738,940</u>
Total	<u>12,431,033</u>	<u>12,597,125</u>	<u>9,165,392</u>

6. LOANS AND ADVANCES, NET

	31 March 2014 (Unaudited) <u>SR'000</u>	31 December 2013 (Audited) <u>SR'000</u>	31 March 2013 (Unaudited) <u>SR'000</u>
Consumer loans	12,634,312	12,184,052	11,418,687
Commercial loans and overdrafts	24,086,546	22,822,891	21,189,923
Others	<u>227,611</u>	<u>219,871</u>	<u>162,948</u>
Performing loans and advances	36,948,469	35,226,814	32,771,558
Non- performing loans and advances	<u>455,661</u>	<u>429,372</u>	<u>1,066,875</u>
Total loans and advances	37,404,130	35,656,186	33,838,433
Provision for credit losses	<u>(720,831)</u>	<u>(661,427)</u>	<u>(1,430,000)</u>
Loans and advances, net	<u>36,683,299</u>	<u>34,994,759</u>	<u>32,408,433</u>

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 THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

7. INVESTMENT IN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Taawuni Company (ATT). The Group collectively holds 35% shareholding in ATT. ATT commenced its commercial operations during the period ended 31 March 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 March 31, 2014 is SR 586.78 million (31 December 2013: SR 655.38 million).

8. CUSTOMERS' DEPOSITS

	31 March 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	31 March 2013 (Unaudited) SR'000
Demand	21,316,626	19,158,001	16,166,605
Time	26,175,158	27,432,544	24,025,311
Other	976,508	1,491,980	1,229,646
Total	48,468,292	48,082,525	41,421,562

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 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.

	31 March 2014 (Unaudited) SR'000			31 December 2013 (Audited) SR'000			31 March 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	2,368	2,368	2,069,341	4,746	4,746	1,901,150	9,347	9,347	6,727,306
Special commission rate swaps	127,028	127,028	5,028,289	91,789	91,789	4,154,006	156,476	156,476	3,833,313
Forwards	-	-	-	555	564	40,726	-	-	-
FX swaps	-	-	262,500	-	71	562,500	-	-	-
Total	129,396	129,396	7,360,130	97,090	97,170	6,658,382	165,823	165,823	10,560,619
Held as cash flow hedge:									
Special commission rate swaps	17,544	42,543	2,436,563	25,366	20,024	2,635,313	-	26,908	1,385,625
Total	146,940	171,939	9,796,693	122,456	117,194	9,293,695	165,823	192,731	11,946,244

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	31 March 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	31 March 2013 (Unaudited) SR'000
Letters of guarantee	3,463,440	3,266,668	2,496,686
Letters of credit	1,164,731	1,087,981	1,109,504
Acceptances	483,805	448,563	522,092
Irrevocable commitments to extend credit	481,954	600,680	1,236,520
Total	5,593,930	5,403,892	5,364,802

11. CASH AND CASH EQUIVALENTS

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

	31 March 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	31 March 2013 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	3,101,951	4,766,705	5,079,675
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	1,499,610	2,323,795	2,380,155
Total	4,601,561	7,090,500	7,459,830

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 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 Kingdom of Saudi Arabia.

Transactions between the business segments are recorded based on the Group's transfer pricing methodology. Segment assets and liabilities mainly comprise 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 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). ATT also received its insurance license from SAMA in December 2013 and started its commercial operations during the period ended 31 March 2014. The Group collectively holds a 35% share in ATT as at 31 March 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 31 March 2014 and 31 March 2013, its total operating income and expenses, and its net income for the three months then ended, by business segment, are as follows:

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

12. OPERATING SEGMENTS (continued)

31 March 2014 (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	16,892,743	21,422,974	21,479,285	714,823	8,390	122,771	60,640,986
Total liabilities	21,197,045	25,933,584	7,541,157	59,531	52,220	-	54,783,537
Total operating income	149,232	108,399	177,778	86,674	5,719	(10,385)	517,417
Net special commission income	94,443	76,750	149,016	2,088	64	(707)	321,654
Fee and commission income, net	44,820	27,320	4,578	71,477	5,655	-	153,850
Trading income, net	237	304	565	12,927	-	452	14,485
Share in profit of associates	-	-	-	-	-	1,023	1,023
Impairment charge for credit losses, net	16,072	49,308	-	-	-	-	65,380
Depreciation	9,591	2,811	4,447	1,978	494	-	19,321
Total operating expenses	153,597	100,984	64,833	35,463	5,579	(1,342)	359,114
Net (loss) / income	(4,365)	7,415	112,945	51,211	140	(8,020)	159,326

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

12. OPERATING SEGMENTS (continued)

31 March 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	14,413,202	19,408,264	19,518,395	809,650	9,629	(23,557)	54,135,583
Total liabilities	15,321,898	25,145,515	8,390,480	68,325	46,482	-	48,972,700
Total operating income	150,906	99,499	126,923	72,362	5,008	(12,079)	442,619
Net special commission income	98,497	72,058	92,990	2,114	44	(3)	265,700
Fee and commission income, net	30,489	21,455	2,485	65,562	4,964	-	124,955
Trading income, net	1,881	1,502	7,776	4,134	-	-	15,293
Operating expenses:							
Impairment charge for credit losses, net	45,046	10,438	-	-	-	-	55,484
Depreciation	10,256	2,216	2,236	2,237	670	-	17,615
Total operating expenses	164,625	56,941	35,353	34,710	8,090	(1,342)	298,377
Net (loss) / income	(13,719)	42,558	91,570	37,652	(3,082)	(10,737)	144,242

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (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 2013: 300 million shares of SR 10 each; 31 March 2013: 300 million shares of SR 10 each).

The earnings per share for three months ended 31 March 2014 was SR 0.53 (for three months ended 31 March 2013: SR 0.48).

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

The Board of Directors of the Bank in their meeting held on 3 April 2014 (corresponding to 3 Jumad Al-Thani 1435) proposed to the Extraordinary General Assembly to increase 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 proposed increase in the Bank's capital is subject to Extraordinary General Assembly meeting approval. All regulatory approvals have been obtained.

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-balance sheet financial instruments, except for investments held as at amortised cost, are not significantly different from the carrying values included in the interim 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 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 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-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation techniques.

Financial assets as at 31 March 2014	Carrying amount	Fair value
Held as at amortised cost (SAR'000)	12,060,463	12,083,575

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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (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 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.

	31 March 2014 (SR'000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
FVTIS	361,525	-	-	361,525
FVTOCI	5,607	-	3,438	9,045
Derivatives	-	146,940	-	146,940
<u>Financial liabilities</u>				
Derivatives	-	(171,939)	-	(171,939)
Net	367,132	(24,999)	3,438	345,571

	31 March 2013 (SR'000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
FVTIS	1,228,103	-	-	1,228,103
FVTOCI	194,911	-	3,438	198,349
Derivatives	-	165,823	-	165,823
<u>Financial liabilities</u>				
Derivatives	-	(192,731)	-	(192,731)
Net	1,423,014	(26,908)	3,438	1,399,544

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 THREE MONTHS ENDED 31 MARCH 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

	31 March 2014 <u>SR'000</u>	31 March 2013 <u>SR'000</u>
Financial investments as at FVTOCI		
Opening balance	3,438	3,438
Net unrealised gain / (loss) recognised during the period	-	-
Closing balance	<u>3,438</u>	<u>3,438</u>

During the three months period ended 31 March 2014 and three months period ended 31 March 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

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 AND 2013 (continued)

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, Tier I and Tier II Capital and Capital Adequacy Ratios:

	31 March 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	31 March 2013 (Unaudited) SR'000
Credit Risk RWA	44,320,910	42,099,176	39,842,383
Operational Risk RWA	2,842,575	2,842,575	2,412,388
Market Risk RWA	1,596,775	1,921,225	2,189,801
Total Pillar-I RWA	48,760,260	46,862,976	44,444,572
Tier I Capital	5,890,681	5,731,583	5,129,169
Tier II Capital	1,267,569	1,304,155	1,144,685
Total Tier I & II Capital	7,158,250	7,035,738	6,273,854
Capital Adequacy Ratio (%)			
Tier I ratio	12.08%	12.23	11.54
Total Tier I & II Capital	14.68%	15.01	14.12

16. BASEL III PILLAR III DISCLOSURES

Certain disclosures on the Bank's capital structure are required to be published on 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.