BANK ALJAZIRA

Revised Basel III Pillar 3 – Qualitative & Quantitative Disclosures

December 31, 2018

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B.1 - Table OVA: Bank risk management approach

(a) Business model determination and risk profile

Bank's mission is "to be the Core Banker to our chosen target customers, helping them grow their businesses and wealth" with diversified revenue streams originating from Kingdom. The Bank's strategy remains to identify the current and emerging customer needs and ensuring that it exceeds the customers' expectation, while transforming into a fully integrate Bank offering seamless services to its Retail, Investment, Commercial and Corporate clients. The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's ICAAP & ILAAP process focuses on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through MRC, BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

(b) The risk governance structure

The risk management governance approach is premised on three lines of defense – risk taking business units, risk control units and internal audit. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.

The ERM framework of the Bank aims to establish a Risk based strategy for all its products and banking services, driving operational efficiency across the Bank, with guidance on identifying and addressing various forms of risks (including credit, market, operational, liquidity, reputational, compliance risk, etc.), with risk based capital utilization forming the key criteria for design and implementation of services, where applicable.

(c) Channels to communicate, decline and enforce the risk culture

The Bank has established an enterprise risk capital management framework to manage its material risks. The key components of the framework include the following:

I. Defined risk appetite and strategy.

II. Risk governance establishing the roles and responsibilities for the management committees and Enterprise Risk Management Group.

III. A comprehensive review and analysis of material risks – as assessed by the Bank, at regular frequency along with the review of existing risk mitigation mechanisms.

IV. Measurement methodologies for the quantification of risk.

V. Monitoring and reporting process to ensure that the risk is maintained within the established tolerance levels.

VI. Capital management linked to the overall business strategy to ensure that the capital is commensurate to the levels of risk inherent in the business.

VII. Stress test measures to determine if the capital levels are adequate in case of adverse events and take decisions to enhance the capital or mitigate risk.

Moreover, following are major Baord and Management Committee entrusted with the oversight of the overall risk profile of the bank in order to communicate, decline and enforce the Enterprise Risk Management culture, strategy and principles:

(d) The scope and main features of risk measurement systems.

At BAJ, the Enterprise Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assumes the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC), the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management and advisory to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar 2 of the BASEL regime. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. Also, ERMG is responsible for the development and implementation of various risk policies and related business decisions empowered by the board. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.

(e) Process of risk information reporting provided to the board and senior management

Risk dashboards are reported to Board and Senior Mangement on a quarterly basis through various MIS. The dashboard covers all material risks i.e. credit risk quality, credit risk profile, credit concentration, top exposures, market risk reports, operational risk dashboards.

(f) Qualitative information on stress testing

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Framework and Policy. It is embedded in the risk and capital management process. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices. The stress testing exercise in Bank AlJazira is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank AlJazira's Stress Testing Policy and Framework, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled.

(g) The strategies and processes to manage, hedge and mitigate risks

Risk Management sturcture at the bank supports the BRC and BoD in fulfilling the responsibilities of overseeing the risks in the Bank's businesses and making sure necessary controls are in place. It reviews the ability of the Bank to manage risks based on board approved Risk Appetite Framework & Policy (RAF), appropriate analysis and formulation of necessary risk management policies. It also approves the credit classification system in the bank and risk policies for assets and liabilities management as recommended by assets and liabilities committee. The Risk Management culture at BAJ fosters monitoring of the risk management environment, and an integrated evaluation of risks and their interactions. It also ensures the Bank has a consistent approach to monitoring, managing and mitigating the risks the Bank accepts and incurs in its activities. The bank measures the exposures to financial and other significant risks including credits, market, liquidity, reputational, operational and strategic risks in addition to evaluating tolerance levels and approval of appropriate transactions. The bank pro-actively manages the credit risk exposures at transaction and relationship levels. A detailed risk review, including information on provisions, is prepared quarterly. Single name counterparty concentrations are monitored at transaction level. Large exposures and portfolio concentrations are reported regularly to senior management and the Board. BAJ ensures that the overall Business strategy; Risk policies, procedures & methodologies are consistent with the Bank's Risk Appetite. ERMG also prepares the annual Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Stress Testing reports to SAMA which are approved by the BRC prior to submission to SAMA. The ICAAP and ILAAP are two of the most important risk assessment documents utilised to report the risk attributes being measured and monitored by the Bank's Senior Management and the Board Committees.

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B.2 - Template OV1: Overview of RWA (Figures in SAR 000's)

		a	b	c
		RWA		Minimum capital requirements
		Dec-18	Jun-18	Dec-18
1	Credit risk (excluding counterparty credit risk) (CCR)	45,804,554	46,206,817	3,664,364
2	Of which standardised approach (SA)	45,804,554	46,206,817	3,664,364
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	256,746	427,941	20,540
5	Of which standardised approach for counterparty credit risk (SA-CCR)	256,746	427,941	20,540
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	799,342	1,241,709	63,947
17	Of which standardised approach (SA)	799,342	1,241,709	63,947
18	Of which internal model approaches (IMM)		-	-
19	Operational risk	4,849,724	4,687,384	387,978
20	Of which Basic Indicator Approach	4,849,724	4,687,384	387,978
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	51,710,367	52,563,850	4,136,829

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B.3 - Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (Figures in SAR 000's)

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	4,965,122	4,965,122	4,965,122	-	-	-	-
Due from banks and other financial institutions	1,297,749	1,297,749	1,297,749	-	-	-	-
Investments, net	24,052,275	24,052,275	24,052,275	-	-	-	-
Positive fair value of derivatives	54,434	54,434	-	54,434	-	-	-
Loans and advances, net	40,896,891	40,896,891	40,896,891	-	-	-	-
Investment in Associates	135,770	135,770	135,770	-	-	-	-
Other real estate, net	453,150	453,150	453,150	-	-	-	-
Property and Equipment	761,247	761,247	761,247	-	-	-	-
Other assets	386,560	386,560	386,560	-	-	-	-
Total Assets	**73,003,199**	**73,003,199**	**72,948,765**	**54,434**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	6,423,430	-	-	-	-	-	6,423,430
Negative fair value of derivaties	151,789	-	-	-	-	-	151,789
Customers' deposits	51,804,098	-	-	-	-	-	51,804,098
Other liabilities	1,371,208	-	-	-	-	-	1,371,208
Subordinated Sukuk	2,008,202	-	-	-	-	-	2,008,202
Total Liabilities	**61,758,727**	**-**	**-**	**-**	**-**	**-**	**61,758,727**

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B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Figures in SAR 000's)

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	73,003,199	72,948,765	-	54,434	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-		-
3	Total net amount under regulatory scope of consolidation	73,003,199	72,948,765	-	54,434	-
4	Off-balance sheet amounts	10,581,068	4,744,236	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Derivatives	7,426,106	-	-	256,746	-
10	**Exposure amounts considered for regulatory purposes**	**91,010,373**	**77,693,001**	**-**	**311,180**	**-**

B.5 - Table LIA: Explanations of differences between accounting and regulatory exposure amounts

Banks must explain the origins of the differences between accounting amounts, as reported in financial statements amounts and regulatory exposure amounts, as displayed in templates LI1 and LI2.

(a)	Explanation of significant differences between the amounts in columns (a) and (b) in LI1. - Bank Al Jazira does not have any difference between "Carrying Vales as reported in published financial statements" and "Carrying values under scope of regulatory consolidation.

(b)	Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2. - On-Balance Sheet: In case of On-Balance Sheet items, currently there are no differences between carrying values and amounts considered for regulatory purposes except loan loss provisions and Unidentified Differences. - Off-Balance Sheet & Derivatives: In case of Off-Balance sheet and Derivatives Notional values are populated as total carrying / accounting value where as credit equivalent amounts (i.e. after applying conversion factors including Add-on adjustments in case of Derivative portfolio) are populated under respective regulatory framework.

(c)	• Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used. • Description of the independent price verification process. • Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument). - Please refer to the Published Financial Statements.

B.6 - Table CRA: General qualitative information about credit risk

(a)	How the business model translates into the components of the bank's credit risk profile. Credit risk, is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that arises from loans and advances, and investment activities. There is also credit risk on credit related commitments, contingencies and derivatives. - BAJ is a diversified financial services institution operating in Saudi Arabia, with a range of business activities and income streams. The Bank's activities comprises mainly of the following financial services: - **Personal Banking**: Deposits, loans and investment products for individuals, remittance, real estate financing, credit card issuance and personal financing. - **Corporate Banking**: Loans, deposits and other credit products for corporate, small and medium sized business and institutional customers. - **Treasury:** Treasury is responsible for managing the assets and liabilities of the Bank. This includes profit rate risk mitigation and liquidity management to ensure that the Bank remains financially secure for customers. The other activities of Treasury include managing the Bank's investment portfolio, offering the Bank's customers Treasury products/solutions to meet their business and risk requirements.
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits The Bank manages and measures credit risk through a variety of policies, processes and toll, the principal amongst them are: **- Credit Policy Limits :** Overall limits for business lines; Single exposure limits; Economic segment exposure limit; Geographic limit and Product limits etc. **- Risk Identification, measurements and assessment:** Portfolio analysis; Credit rating assessments for corporate clients; Periodic credit risk reveiws; Impairment assessments and Stress testing. **- Mitigation / Controls:** Collateral policy for some classes of lending; Documentation controls; Guarantor where appropriate and Facilities structure
(c)	Structure and organisation of the credit risk management and control function - At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers, assumes the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC) and the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units.
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions - The risk management governance approach is premised on three lines of defense – risk taking business units, risk control units and internal audit. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
(e)	Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors - The Bank has developed and implemented business line wise credit risk and portfolio management dashboards. These dashboards are produced on a monthly basis by the ERMG and discussed at various forums including but not limited to Senior Management and Board Risk Committee.

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B.7 - Template CR1: Credit quality of assets (Figures in SAR 000's)

		a	b	c	d
		Gross carrying values of		**Allowances/ impairments**	**Net values (a+b-c)**
		Defaulted exposures	**Non-defaulted exposures**		
1	Loans	664,620	41,165,776	933,505	40,896,891
2	Debt Securities	-	24,006,091	-	24,006,091
3	Off-balance sheet exposures	220,703	4,997,993	154,129	5,064,567
4	***Total***	**885,323**	**70,169,860**	**1,087,634**	**69,967,549**

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B.8 - Template CR2: Changes in stock of defaulted loans and debt securities (Figures in SAR 000's)

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	803,675
2	Loans and debt securities that have defaulted since the last reporting period	193,609
3	Returned to non-defaulted status	(144,925)
4	Amounts written off	(172,744)
5	Other changes	(14,994)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**664,620**

B.9 - Table CRB: Additional disclosure related to the credit quality of assets

Qualitative disclosures

(a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

- Under the new IFRS-9 regime, the Bank recognises impairment based on a forward looking Expected Credit Loss (ECL) approach. The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

The above parameters are derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The bank recongnises financial assets into following three stages in accordance with IFRS-9 methodology:

Stage 1 – Performing assets: Financial asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL

Stage 2 – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.

Stage 3 – Impaired assets: For Financial asset(s) that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

- If the situation arises as a result of temporary cash flow constraints of the borrower and in the Bank's view the recovery of the dues or the borrower's intention to repay is not in doubt, such outstandings may be classified as past due but not impaired (Ex: loans against receivables under contracts with Government Sector). However, the such exposures are appropriately classified into relevant stage.

(c) Description of methods used for determining impairments.

The IFRS 9 requirements for impairment calculation entails forward looking models to consider ECL across three different stages. The bank initiates the impairment computation with the stage assessment exercise to identify the applicability of the assets to the three prescribed stages based on the levels of Credit Risk as given below:

Stage	Definition	Description	Loss recognition
Stage 1	Characterizes low Credit Risk assets	This stage includes performing assets with no signs of impairment. This would also include newly originated assets, considering assessment in the appraisal process.	12 month ECL is calculated, depicting probable losses from defaults within 12 months of the reporting date
Stage 2	Assets where there has been a Significant Increase in Credit Risk (SICR)	The criteria for this stage is 'significant increase in credit risk', which is evaluated based on the credit monitoring framework, including internal and macroeconomic factors, or the Early Warning Signals (EWS) framework of the Bank.	Lifetime ECL is computed, considering the probability weights for lifetime losses
Stage 3	Asset category of impaired and non-performing assets	Categorization of assets in Stage 3 is based on objective evidence of impairment, based on the credit monitoring and overdue status of the accounts. Stage 3 categorization can also be based on qualitative assessments, based on internal or external information available pertaining to accounts or obligors.	Lifetime ECL is computed, considering the probability weights for lifetime losses and changes in the losses are recognized Rebuttable presumption that default takes place no later than 90 days past due This is subject to qualitative portfolio level adjustments, to recognize income on a net basis for Stage 3 assets

(d) The bank's own definition of a restructured exposure.

- A restructured exposure is where the bank extends the repayment period of an outstanding at the request of the borrower, to align with the borrower's cash flow which has changed from the time the original facility was granted. The factors driving this could be delay in implementation of a project resulting in delays in billing and collection or delay in realisation of receivables due to administrative reasons. The rescheduled facility will be governed by the new agreements that will be signed between the bank and the borrower. The bank as a policy does not grant any remission in fees or interest for the restructured exposures and merely grants additional time to align the repayment schedule with the cash flow generation rate of the obligor.

Quantitative disclosures

(e) Breakdown of exposures by geographical areas, industry and residual maturity;

- **Please refer quantitative disclosures.**

(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry

-Please refer quantitative disclosures.

(g) Ageing analysis of accounting past-due exposures;

-Please refer quantitative disclosures.

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B.9.1 : Geographic Breakdown- 31 December 2018 (Figures in SAR 000's)							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
Sovereigns and central banks:	22,044,136	-	-	-	-	-	22,044,136
*SAMA and Saudi Government	22,044,136	-	-	-	-	-	22,044,136
*Others	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	8,123	-	-	-	8,123
Public Sector Entities	2,316,063	-	-	-	-	-	2,316,063
Banks & Securities Firm Exposure	1,890,118	285,006	128,100	93,656	29,386	49,404	2,475,669
Corporate	24,209,567	226	-	-	1,088	7,968	24,218,850
Retail Non-Mortgages	15,270,868	-	-	-	-	734	15,271,602
*Small Business Facilities Enterprises (SBFE's)	12,373,626	-	-	-	-	734	12,374,360
Mortgages	6,289,866	-	-	-	-	-	6,289,866
*Residential	6,289,866	-	-	-	-	-	6,289,866
*Commercial	-	-	-	-	-	-	-
Securitized Assets	-	-	-	-	-	-	-
Equities	156,609	188	-	-	-	-	156,796
Others	3,373,290	-	-	-	-	-	3,373,290
Past Dues Exposures	1,079,448	-	-	-	-	-	1,079,448
TOTAL	76,629,964	285,420	136,222	93,656	30,474	58,106	77,233,842

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B.9.2 : Industry Sector Breakdown - 31 December 2018 (Figures in SAR 000's)													
Portfolios	Industry sector												
	Government and quasi government	**Banks and other financial Institutions**	**Agriculture and fishing**	**Manufacturing**	**Mining and quarrying**	**Electricity, water, gas and health services**	**Building and construction**	**Commerce**	**Transportation and communication**	**Services**	**Consumer loans and credit cards**	**Others**	**Total**
Sovereigns and central banks:	19,290,500		-	-	-	-	-	-	-	-	-	2,753,636	22,044,136
SAMA and Saudi Government	19,290,500		-	-	-	-	-	-	-	-	-	2,753,636	22,044,136
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	8,123	-	-	-	-	-	-	-	-	-	-	8,123
Public Sector Entities	2,241,063	-	-	-	75,000	-	-	-	-	-	-	-	2,316,063
Banks & Securities Firm Exposure	-	2,406,659	-	-	-	-	-	-	-	-	-	69,010	2,475,669
Corporates	1,091,038	2,824,334	123,716	5,410,928	228,422	-	2,765,420	8,460,921	91,744	899,055	-	2,323,271	24,218,850
Retail Non-Mortgages	-	20,402	-	17,754	-	2	45,562	255,917	819	86,231	9,768,377	5,076,537	15,271,602
Small Business Facilities Enterprises (	-	202	-	4,286	-	2	45,562	46,276	819	32,712	9,768,377	2,476,123	12,374,360
Morgages	-	-	-	-	-	-	-	280	-	-	-	6,289,586	6,289,866
Residential	-	-	-	-	-	-	-	280	-	-	-	6,289,586	6,289,866
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities	-	-	-	-	-	-	-	-	-	-	-	156,796	156,796
Others	-	-	-	-	-	-	-	-	-	-	-	3,373,290	3,373,290
Past Dues Exposures	-	-	-	-	-	-	-	182,886	-	785,533	-	111,029	1,079,448
TOTAL	**22,622,601**	**5,259,517**	**123,716**	**5,428,682**	**303,422**	**2**	**2,810,982**	**8,900,004**	**92,564**	**1,770,819**	**9,768,377**	**20,153,156**	**77,233,842**

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B.9.3 : Residual Contractual Maturity Breakdown - 31 December 2018 (Figures in SAR 000's)									
Portfolios	**Maturity breakdown**								
	Less than 8 days	**8-30 days**	**30-90 days**	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Sovereigns and central banks:	2,753,636			-	-	2,062,500	6,233,000	10,995,000	22,044,136
SAMA and Saudi Government	2,753,636			-	-	2,062,500	6,233,000	10,995,000	22,044,136
Others			-	-	-	-	-	-	-
Multilateral Development Banks	8,123			-	-	-	-	-	8,123
Public Sector Entities			-	-	-	360,000	196,875	1,759,188	2,316,063
Banks & Securities Firm Exposure	1,280,521			187,500	-	375,000	359,000	273,648	2,475,669
Corporate	3,526,807	2,033,058	5,301,067	5,100,317	3,357,819	1,246,195	352,248	3,301,338	24,218,849
Retail Non-Mortgages	584,813		66,877	228,046		78,587	25,954	14,287,325	15,271,602
Small Business Facilities Enterprises (SBFE's)			155,816	6,401		13,856	6,954	12,191,333	12,374,360
Mortgages	-	-	-	-	-	151	3,188	6,286,526	6,289,866
Residential	-	-	-	-	-	151	3,188	6,286,526	6,289,866
Commercial									-
Securtized Assets			-	-	-	-	-	-	-
Equities			-	-	156,796	-	-	-	156,796
Other Assets	-	-	90	-	-	1,456	14,023	3,401,689	3,373,290
Past Dues Exposures	97,145			764,075	114,434	83,199	1,022	19,573	1,079,448
TOTAL	**8,251,045**	**2,033,058**	**5,368,034**	**6,279,938**	**3,629,048**	**4,207,088**	**7,185,311**	**40,324,286**	**77,233,842**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures									
B.9.4 : Impaired Loans, Past Due Loans and Allowances - 31 December 2018 (Figures in SAR 000's)									
Industry sector	Impaired loans	Aging of Past Due Loans (days)				Specific allowances			General allowances
		Less than 90 **	90-180	180-360	Over 360	Gross charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	1,693
Banks and other financial institutions	-	-	-	-	-	-	-	-	932
Agriculture and fishing	-	-	-	-	-	-	-	-	13
Manufacturing	10,307	201,183	499	4,116	967	44,916	69,752	86,293	82,040
Mining and quarrying	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-
Building and construction	173,607	13,601	12,538	163	102	33,494	990	124,028	3,549
Commerce	146,512	147,646	28,722	27,925	43,788	119,623	62,329	186,349	61,740
Transportation and communication	-	330	-	-	-	-	-	-	59
Service	118,602	28,040	29,974	301	1,502	49,970	5,828	95,708	15,373
Consumer loans and credit cards	199,750	1,003,145	0	-	678	(3,560)	2,271	95,160	112,175
Others	15,842	65,810	3,977	462	2,944	(188,994)	31,575	14,579	53,816
TOTAL	**664,620**	**1,459,755**	**75,711**	**32,967**	**49,981**	**55,448**	**172,744**	**602,116**	**331,389**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures							
B.9.5 : Impaired Loans, Past Due Loans And Allowances- 31 December 2018 (Figures in SAR 000's)							
Geographic area	**Impaired loans**	**Aging of Past Due Loans (days)**				**Specific allowances**	**General allowances**
		Less than 90	**90-180**	**180-360**	**Over 360**		
Saudi Arabia	664,620	1,459,755	75,711	32,967	49,981	602,116	331,389
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Other countries	-	-	-	-	-	-	-
TOTAL	**664,620**	**1,459,755**	**75,711**	**32,967**	**49,981**	**602,116**	**331,389**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures		
B.9.6 : Reconciliation Of Changes In The Allowances For Loan Impairment - 31 Dec 2018 (Figures in SAR 000's)		
	Specific allowances	**General allowances**
Balance, beginning of the period	719,412	277,233
Charge-offs taken against the allowances during the period	181,313	54,155
Amounts set aside (or reversed) during the period	(125,865)	-
Other adjustments:	-	-
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries, etc	-	-
- - Written off	-	-
Transfers between allowances	(172,744)	-
Provision written back previously written off	-	-
Balance, end of the period	602,116	331,389

B.10 - Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

(a)	Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting. -Netting can reduce capital adequacy requirements by offsetting deposits held by the bank against financing arrangements. However netting arrangements are not used by the Bank unless the deposits need to be in the form of collateral with a specific charge or lien in favor of the Bank.
(b)	Core features of policies and processes for collateral evaluation and management -Collateral evaluation and management is the responsibility of the Credit Administration and Control (CAC) Division. Collaterals are mainly in the form of real estate, cash margins and equity shares traded locally. Policy guidelines exist as to the periodicity of the valuation of the collateral, the minimum security coverage ratios to be maintained and the action points if these levels are breached. The bank has empanelled property evaluators and a minimum of three evaluations are done from three different empanelled valuers. An internal rule has been established to arrive at the appraised value of the property. Insurance/Takaful where necessary is also taken where applicable.
(c)	Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers). - Bank Al Jazira's corporate portfolio is focused substantially on Saudi large, medium, and small business entities. The credit granting process is centralized and has a well reinforced governance process that ensures independent input from Enteprise Risk Management Group prior to decision making. Due to the wholesale nature of business, Country Concentration (outside Saudi Arabia) is virtually non-existent.

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

B.11 - Template CR3: Credit risk mitigation techniques – overview (Figures in SAR 000's)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	68,166,064	222,439	222,439	-	-	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	Total	68,166,064	222,439	222,439	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

B.13 - Template CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (Figures in SAR 000's)

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposures post-CCF and CRM**		**RWA and RWA density**	
	Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereigns and central banks	22,044,136	3,496,077	22,044,136	-	-	0%
2	Multilateral Development Banks	-	8,123	-	8,123	-	0%
3	Public Sector Entities	2,241,063	1,678,250	2,241,063	75,000	1,158,031	50%
4	Banks & Securities Firm Exposure	2,040,798	202,866	2,040,798	202,753	1,089,098	49%
5	Corporate	20,232,345	5,043,830	19,757,757	4,309,694	23,899,799	-
6	Retail Non-Mortgages	15,151,458	146,799	15,125,498	146,105	12,128,443	79%
7	Mortgages	6,290,566	-	6,289,866	-	3,145,649	50%
8	Securtized Assets	-	-	-	-	-	-
9	Equities	156,796	-	156,796	-	338,663	-
10	Other Assets	3,373,290	-	3,373,290	-	2,210,538	66%
11	Past Dues Exposures	1,141,785	5,123	1,076,886	2,561	1,568,269	145%
14	***Total***	**72,672,236**	**10,581,068**	**72,106,090**	**4,744,236**	**45,538,490**	59%

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

B.14 - Template CR5: Standardised approach – exposures by asset classes and risk weights (Figures in SAR 000's)

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereigns and their central banks	22,044,136	-	-	-	-	-	-	-	-	22,044,136
2	Public Sector Entities	-	-	-	-	2,316,063	-	-	-	-	2,316,063
3	Multilateral development banks (MDBs)	8,123	-	-	-	-	-	-	-	-	8,123
4	Banks & Securities Firm Exposure	-	-	878,926	-	835,129	-	527,228	2,267	-	2,243,551
6	Corporates	-	-	-	-	-	-	24,067,225	226	-	24,067,452
7	Retail Non-Mortgages	-	-	-	-	-	12,374,360	2,897,242	-	-	15,271,602
8	Mortgages	-	-	-	-	6,287,594	420	1,852	-	-	6,289,866
9	Securtized Assets	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	35,551	-	121,245	156,796
11	Past-due loans	-	-	-	-	-	-	99,432	980,016	-	1,079,448
13	Other assets	1,162,752	-	-	-	-	-	2,210,538	-	-	3,373,290
14	***Total***	23,215,010	-	878,926	-	9,438,785	12,374,780	29,839,070	982,510	121,245	76,850,326

B.12 - Table CRD: Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk

A. For portfolios that are risk-weighted under the standardised approach for credit risk, banks must disclose the following information:

(a)	Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period; - Bank Al Jazira currently uses multiple assessments as specified by relevant guidelines of BCBS, where ECAI used are as follows : (a) Fitch (b) Standard & Poor's & (c) Moody's. There are no changes at the reporting period.
(b)	The asset classes for which each ECAI or ECA is used; - In accordance with the guideline issued by SAMA, ECAI risk assessments are used by the Bank as part of the determination of risk weightings for the following classes of exposure: - Claims on sovereigns and their central banks; - Claims on Multilateral Development Banks; - Claims on Banks and Securities Firms; and - Claims on corporates.

B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

Banks must provide

(a)	Risk management objectives and policies related to counterparty credit risk, including: Risk management objective is to identify, measure, manage and govern counterparty credit risk aimed at efficiency in bank's capital utilization through proper monitoring of counterparty risk.
(b)	The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures; The Standardised Approach for Counterparty Credit Risk (SA-CCR) is used for computing Exposure at Default (EAD). The EAD is converted to Risk Weighted Assets (RWA) by applying RWA percentages based on external ratings. The RWA includes a CVA component added to it.
(c)	Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs; - The Bank has undertaken Credit Support Annexure (CSAs)with major derivative financial counterparties to mitigate counterparty credit risk.
(d)	Policies with respect to wrong-way risk exposures; - Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank considers its exposure to such risk as limited and immaterial.
(e)	The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade. - This will be managed through variation margin and the impact of any increase in variation margin due to the fact that potential credit rating downgrade is considered minimal.

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B.22 - Template CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach (Figures in SAR 000's)

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	24,120	293,260		-	383,516	256,746
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	**Total**						256,746

B.23 - Template CCR2: Credit valuation adjustment (CVA) capital charge (Figures in SAR 000's)

		a	b
		EAD post-CRM	**RWA**
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	21,285	266,064
4	Total subject to the CVA capital charge	**21,285**	**266,064**

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B.24 - Template CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights (Figures in SAR 000's)

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight***	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit**
Sovereigns and their central banks									-
Non-central government public sector entities (PSEs)	-								-
Multilateral development banks (MDBs)									-
Banks			73,002	136,736		22,380			232,118
Securities firms									-
Corporates						151,398			151,398
Regulatory retail portfolios						-			-
Other assets	-	-			-				-
Total	-	-	73,002	136,736	-	173,778	-	-	383,516

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B.26 - Template CCR5: Composition of collateral for CCR exposure (Figures in SAR 000's)

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	-	104,344	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	104,344	-	-	-

B.35 - Table MRA: Qualitative disclosure requirements related to market risk

(A) Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges

Market Risk Management
The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The Bank continually monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits.

Market Risk:
a) Introduction:
Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.

b) Management of Market Risk
Delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risk. The Bank has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures.
The primary objective is to manage volatility in earnings and highlight the market risk and liquidity risk profile to Senior Management, Board Risk Committee (BRC), Asset and Liability Committee (ALCO), the Board of Directors and the national supervisor.
I. Foreign Exchange Risk
Foreign Exchange risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The MRPC has set limits on net open positions by currency. There are limits for USD, Other G10 Currencies, GCC Currencies, and currencies in other regions. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a limited extent in United States Dollars (USD) or in USD-pegged currencies.
II. Equity Price Risk
Equity price risk refers to the risk of a decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities is regularly marked to market and positive/negative changes are taken into the Bank's equity or income statement.
c) Capital Treatment for Market Risk
Bank AlJazira computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the Bank's activities.

(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management

Market Risk Management Structure:
Market Risk unit is mainly responsible for monitoring Foreign Exchange Risk, Equity Price Risk and Liquidity Risk on a daily basis. The primary tools used to monitor market risks are:
I. Market Risk Factors
II. Factor Sensitivity
III. Loss Triggers
IV. Profit Rate Exposure
V. Market Access Requirement
VI. Stress Tests

Governance Bodies:
Market Risk Policy Committee (MRPC)
The Board Executive Committee (Excom) delegates the decision making authority of monitoring and controlling Treasury activities through the MRPC. This authority includes the risk appetite setting process which culminates in the approval of the market risk and Treasury related credit.

Asset and Liability Committee (ALCO)
ExCom delegates the decision making authority of monitoring and controlling liquidity and accrual risks on BAJ's balance sheet to the ALCO.

Board of Directors Executive Committee (ExCom)
The ExCom has been delegated by the BOD and chaired by the chairman of board of directors. It is the responsibility of the ExCom, in accordance with the delegated powers, to approve credit and monitor the implementation of the strategy and policies set by the BOD, recommend the budget and operating plan of action submitted for the fiscal year, and ensure proper implementation of the policies of the BOD.

Board Risk Committee (BRC)
The Board Risk Committee is primarily responsible for providing advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including determination of risk appetite and tolerance.

(c) Scope and nature of risk reporting and/or measurement systems.

BAJ has implemented a comprehensive Market Risk Control function supported by robust MIS systems. Market Risk Management uses various MIS system for the below monitoring and reporting purpose:
I. Foreign Exchange Profit & Loss
II. Trading DV01
III. Investment Portfolio
IV. Profit Rate Exposure
V. Market Access Requirement

B.37 - Template MR1: Market risk under standardised approach (Figures in SAR

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	19,688
2	Equity risk (general and specific)	82,586
3	Foreign exchange risk	697,068
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	799,342

B.41 - Operational risk

Qualitative Disclosures	(a)	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies. - The Bank follows the Basic Indicator Approach (BIA) for measurement of Operational Risk Capital charge. The Bank has the intent of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a road map to adopt the new approach as per the timelines suggested by the regulators. The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.
	(b)	Description of the advanced measurement approaches for operational risk (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used. - Not Applicable
	(c)	For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk. **- Not Applicable**

*Fulfilling this requirement is a condition for use of the particular approach (AMA) for the calculation of regulatory capital.

B.42 - Profit rate risk in the banking book (PRRBB)

Qualitative disclosures

(a) **A description of how the bank defines IRRBB for purposes of risk control and measurement.**

Profit Rate Risk in the banking book arises from changes in profit rates that exposes the Bank to the risk of loss due to changes in future cash flows or the fair value of financial instruments. The Bank has in place an appropriate framework for identifying and measuring profit rate risk; these include profit rate gap, earnings-at-risk and economic value of equity (EVE) analyses reports be presented to management for regular review.
Annual review of underlying assumptions used to forecast profit rate margins, profit rates, fiscal/budgetary conditions and the economy at both local and international levels, in particular, considering the Bank's product and pricing structure fall under ALCO responsibilities.
From a governance perspective, BAJ's Market Risk Policy Committee (MRPC) has established limits on the profit rate risk exposure of the bank. Positions are monitored on a daily basis and reported regularly to senior management to ensure that profit rate risk is maintained within the established limits.
Market Risk Management is responsible for monitoring profit rate risk, on a day-to-day basis. Market Risk is also responsible for implementing the profit rate risk policy. Profit rate risks are reported to the MRPC.

(b) A description of the bank's overall IRRBB management and mitigation strategies.

The MRPC has responsibility for governing the nature and the level of the bank's IRRBB exposure. The committee approves broad business strategies as well as overall policies with respect to IRRBB. It ensures that there is clear guidance regarding the acceptable level of IRRBB, given the bank's business strategies.

Accordingly, the MRPC is responsible for ensuring that steps are taken by the bank to identify, measure, monitor and control IRRBB consistent with the approved strategies and policies.
i. Appropriate limits on IRRBB, including the definition of specific procedures and approvals necessary for exceptions, and ensuring compliance with the limits;
ii. Adequate systems and standards for measuring IRRBB;
iii. Standards for measuring IRRBB, valuing positions and assessing performance, including procedures for updating interest rate shock and stress scenarios and key underlying assumptions driving the institution's IRRBB analysis;
iv. A comprehensive IRRBB reporting and review process; and
v. Effective internal controls and management information systems (MIS).

Market Risk has established a monitoring and reporting process for profit rate risk that provides pertinent and timely information to MRPC. The following lists some of the aspects of the regular monitoring:
i. Monitoring of the implementation of the limits
ii. Checking for limit violations as and when they occur, and reporting accordingly
iii. Computing the profit rate risk of the Bank's portfolio
iv. Detection and correction of deficiencies in the policies, processes and procedures that relate and have a direct impact on market and profit rate risk
v. Managing profit rate risk through ongoing, periodic and annual reviews

For the measurement of profit rate risk, the Bank has adopted the Economic Value of Equity and Earnings based approaches as recommended by the Basel committee. EVE Approach captures the long term risk of change in values of banking book assets and liabilities till maturity/reprising.

Limit Structures for Profit Rate Exposures

EaR Trigger - This is the maximum level of loss in earnings that can be incurred over a given time frame.

TRAP Trigger – This is being implemented and acts as a management action trigger on the economic change in value of the balance sheet from a defined point in time (e.g. Month-to-date, Year-to-date and Inception-to-date).

Economic Value of Equity (EVE) or the Equity approach captures the long-term risk of change in values of banking book assets and liabilities till maturity/re-pricing for the purpose of capital estimation.

BAJ manages its profit rate risk on an entity-wide basis, it re-evaluates its cash flow exposures periodically. The frequency of the evaluation would depend on the Bank's risk management policy and repricing intervals of the hedged items and instruments.

(c) The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.

Market Risk Management is responsible for monitoring profit rate risk, on a day-to-day basis. Market Risk is also responsible for implementing the profit rate risk policy. Profit rate risks are reported to the MRPC.

Stress Testing
The Bank conducts stress tests semi-annually, in line with the regulatory requirements, to identify vulnerabilities in the Bank's portfolio to various risks as envisaged in its Pillar-2 assessments. The stress test has the objective of enabling the Bank to assess the capital requirements and implement corrective actions, if required. Besides, the Bank also conducts ad hoc stress tests pertaining to various portfolios such as real estate, impact of provisions due to vulnerable accounts etc.

Stress tests produce information summarizing the Bank's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme risk factor movements. Stress testing addresses the large moves in key market variables of the kind that lie beyond day-to-day risk monitoring but could potentially occur.

Sensitivity Analysis
A sensitivity analysis includes shocking the various profit rates by 'x' basis points.

Scenario Analysis
A scenario analysis includes building scenarios of benchmark profit rates, changing the level, slope and shape of the profit rate curves and changing the spreads between various profit rates.
Market Risk is responsible for performing stress tests in line with regulatory and executive management's requirements.

(d) **A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.**

In line with Basel best practices, Bank applies six prescribed interest rate shock scenarios to capture parallel and non-parallel gap risks for EVE and two prescribed interest rate shock scenarios for NII. IRRBB is measured by means of the following six scenarios:
a. parallel shock up;
b. parallel shock down;
c. steepener shock (short rates down and long rates up);
d. flattener shock (short rates up and long rates down);
e. short rates shock up; and
f. short rates shock down

(e) **Where significant modelling assumptions used in the bank's IMS (ie the EVE metric generated by the bank for purposes other than disclosure, eg for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Table B, the bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (eg historical data, published research, management judgment and analysis).**

N/A

(f) **f. A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.**

In addition, as part of its ongoing asset and liability management activities, BAJ uses derivatives for hedging purposes in order to pro-actively manage its exposure to profit rate risk and remain within risk limit and appetite guidelines. This is generally achieved by hedging items on the balance sheet. Profit rate gaps on the balance sheet are typically created when the bank books long term assets with a fixed profit rate and funds them with short or long term floating profit rate liabilities e.g. Sukuks and fixed term customer deposits. These gaps exposes the bank to profit rate risk and the bank's strategy is to manage the exposure arising from these gaps (fixed-rate assets) by using derivatives to off-set the exposure. This can be achieved by receiving a floating and paying a fixed rate on the derivative which results in the profit rate risk (gap) being set-off on the balance sheet. The profit rate gap thus effectively gets neutralized. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are treated in accordance with respective accounting guidelines.

(g) **A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B:**

Banks measures ΔEVE and ΔNII under the prescribed interest rate shock scenarios set out in BASEL guideline "Interest Rate Risk in the Banking Book April 2016". Bank uses its internal model to calculate the PRRBB exposure values.

The qualitative and quantitative disclosure (issued separately) of the bank provide sufficient information and supporting detail to enable the public to:
i. monitor the sensitivity of the bank's economic value and earnings to changes in interest rates;
ii. Understand the primary assumptions underlying the measurement produced by the bank.
iii. Insight into the bank's overall IRRBB objective and IRRBB management.

i. **For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.**

Market / Economical Value of Equity
For ΔEVE calculation; customer rates and other spread have been included in the cash flows and relevant benchmark/yield curves are used for discounting.

i. Banks excludes its own equity from the computation of the exposure level.
ii. Banks includes all cash flows from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure. Banks includes commercial margins and other spread components in its cash flows.
iii. Cash flows are being discounted by using standard relevant yield curve/benchmark.
iv. ΔEVE is computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business.

Net Interest Income
For ΔNII calculation; customer rates and other spread have been included in the cash flows and relevant benchmark/yield curves are used for discounting.

i. For ΔNII Banks includes expected cash flows including customer rates and other spread components arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book.
ii. ΔNII is computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components.
iii. ΔNII is disclosed as the difference in future interest income over a rolling 12-month period.

ii. **How the average repricing maturity of non-maturity deposits in (1) has been determined (including any unique product characteristics that affect assessment of repricing behaviour).**

Banks separates its Non-Maturity Deposits according to the nature of the deposits. Bank identifies core and non-core deposits, as described in the section Cash flow slotting (Table 2) but being more conservative the caps average maturity on Retail/Transactional and Wholesale deposit reduced from 5 year to 3years.

Bank classifies the NMDs into retail and wholesale categories. Retail deposits are defined as deposits placed with a bank by an individual person. Deposits made by small business customers and managed as retail exposures. Retail deposits are considered as held in a transactional account when regular transactions are carried out in that account.

Banks distinguishes between the stable and the non-stable parts of each NMD category. The stable NMD portion is the portion that is found to remain undrawn with a high degree of likelihood. Core deposits are the proportion of stable NMDs which are unlikely to reprice even under significant changes in the interest rate environment. The remainder constitutes non-core NMDs.

Banks estimates its level of core deposits by using Basel prescribed procedure for each deposit category to determine the overall volume of core deposits subject to imposed caps.

iii. **The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions.**

Given the fact that prepayments are immaterial, the Bank does not have any prepayment model and/or the early withdrawal rates for time deposits.

iv. **Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. Any methods of aggregation across currencies and any significant interest rate correlations between different currencies.**

As per customer contract, the Bank has the option to reprice Retail Real Estate transactions. This portfolio has been forecasted to reprice at a reasonably higher rate (< 1%) in relevant scenarios as appropriate.

H) **(Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.**

N/A

Quantitative disclosures

1 Average repricing maturity assigned to NMDs is 1.44 Years 2 Longest repricing maturity assigned to NMDs is 3.00 Year

In reporting currency	rEVE		rNII	
Period	T	T-1	T	T-1
Parallel up	(2,417,846,0	(1,128,951,180)	(295	(150,711,021)
Parallel down	2,204,600,	2,410,955,059	29	150,711,021
Steepener	(1,468,602,6	(946,901,216)		
Flattener	(52,512,9	505,830,946		
Short rate up	(1,079,339,2	(412,941,184)		
Short rate down	(1,617,611,9	(587,100,712)		
Maximum (See note below)	2,417,846,	1,128,951,180	29	150,711,021
Period	**T**		**T-1**	
Tier 1 Capital (See note below)	**11,849,763,840**		**8,941,872,312**	