# BANK ALJAZIRA

Revised Basel III Pillar 3 – Qualitative & Quantitative Disclosures

December 31, 2016

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## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

## 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 then 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 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 Ggovernance 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.

(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.

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

At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assume 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. 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 bank measures the exposures to financial risks and other significant exposures and the steps taken by management to monitor, control and report cases of risks, including review of credits, market, liquidity, reputational, operational and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions. The bank reviews the scope of the risk management and the targeted activities related to the activities of the Bank's risk management. 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.

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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

| | | a | b | c |
|---|---|---|---|---|
| | | RWA | | Minimum capital requirements |
| | | Dec-16 | Sep-16 | Dec-16 |
| 1 | Credit risk (excluding counterparty credit risk) (CCR) | 48,069,252 | 49,210,398 | 3,845,540 |
| 2 | Of which standardised approach (SA) | 48,069,252 | 49,210,398 | 3,845,540 |
| 3 | Of which internal rating-based (IRB) approach | - | - | - |
| 4 | Counterparty credit risk | 302,928 | 347,386 | 24,234 |
| 5 | Of which standardised approach for counterparty credit risk (SA-CCR) | 302,928 | 347,386 | 24,234 |
| 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 | 1,128,275 | 1,209,713 | 90,262 |
| 17 | Of which standardised approach (SA) | 1,128,275 | 1,209,713 | 90,262 |
| 18 | Of which internal model approaches (IMM) | | | - |
| 19 | Operational risk | 4,750,111 | 4,678,538 | 380,009 |
| 20 | Of which Basic Indicator Approach | 4,750,111 | 4,678,538 | 380,009 |
| 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) | 54,250,566 | 55,446,035 | 4,340,045 |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 | 5,196,815 | 5,196,815 | 5,196,815 | - | - | - | - |
| Due from banks and other financial institutions | 1,337,778 | 1,337,778 | 1,337,778 | - | - | - | - |
| Investments, net | 16,292,744 | 16,292,744 | 16,292,744 | - | - | - | - |
| Positive fair value of derivatives | 128,718 | 128,718 | - | 128,718 | - | - | - |
| Loans and advances, net | 42,098,696 | 42,098,696 | 42,098,696 | - | - | - | - |
| Investment in Associates | 129,977 | 129,977 | 129,977 | - | - | - | - |
| Other real estate, net | 62,012 | 62,012 | 62,012 | - | - | - | - |
| Property and Equipment | 701,659 | 701,659 | 701,659 | - | - | - | - |
| Other assets | 370,970 | 370,970 | 370,970 | - | - | - | - |
| **Total assets** | **66,319,368** | **66,319,368** | **66,190,651** | **128,718** | **-** | **-** | **-** |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | 3,545,112 | - | - | - | - | - | 3,545,112 |
| Negative fair value of derivaties | 333,718 | - | - | - | - | - | 333,718 |
| Customers' deposits | 51,602,354 | - | - | - | - | - | 51,602,354 |
| Other liabilities | 728,187 | - | - | - | - | - | 728,187 |
| Subordinated Sukuk | 2,006,471 | - | - | - | - | - | 2,006,471 |
| **Total assets** | **58,215,842** | **-** | **-** | **-** | **-** | **-** | **58,215,842** |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 66,319,368 | 66,190,651 | - | 128,718 | - |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | - | - | - | | - |
| 3 | Total net amount under regulatory scope of consolidation | 66,319,368 | 66,190,651 | - | 128,718 | - |
| 4 | Off-balance sheet amounts | 10,645,339 | 3,277,191 | - | - | - |
| 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 | 15,582,163 | - | - | 302,928 | - |
| 10 | **Exposure amounts considered for regulatory purposes** | **158,866,238** | **135,658,492** | **-** | **560,363** | **-** |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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.<br>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.<br>- On-Balance Sheet:<br>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.<br>Off-Balance Sheet & Derivatives:<br>In caseof 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.<br>• Description of the independent price verification process.<br>• Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).<br><br>- Please refer to the Annual Published Financial Statements. |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

## 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.<br>- The Risk Appetite framework of the Bank is approved by the Board of Directors and the Risk Appetite statement is reviewed by the Board of Directors at annual intervals. Its objective is to set the tone from the top in giving risk policy directions to the bank's management and providing business lines with guidance regarding the risk profile that the bank is prepared to accept. The business lines draw up their business and risk strategies in line with the laid down risk appetite parameters. |
| (b) | Criteria and approach used for defining credit risk management policy and for setting credit risk limits<br>The Bank manages and measures credit risk through a variety of policies, processes and toll, the principal amongst them are:<br>**- Risk Appetite:** Overall limits for business lines; Single exposure limits; Economic segment exposure limit; Geographic limit and Product limit.<br>**- Risk Identification, measurements and assessment:** Portfolio analysis; Credit rating assessments for corporate clients; Periodic credit risk reveiws; Impairment assessments and Stress testing.<br>**- 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<br>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<br>The risk management Ggovernance 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<br>- The Bank has developed and implemented business line wise credit risk and portfolio management dash boards. These dash boards 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. |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 | 650,886 | 42,204,377 | 756,658 | 42,098,605 |
| 2 | Debt Securities | - | 16,292,744 | - | 16,292,744 |
| 3 | Off-balance sheet exposures | 423,137 | 5,456,089 | - | 5,879,226 |
| 4 | ***Total*** | **1,074,023** | **63,953,210** | **756,658** | **64,270,575** |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

## 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** | 567,982 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 180,088 |
| 3 | Returned to non-defaulted status | - |
| 4 | Amounts written off | -97,184 |
| 5 | Other changes | - |
| **6** | **Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)** | **650,886** |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

## 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.

- As per Bank Al Jazira's policy, a default is where the outstanding dues has remained unpaid for over 90-days and in the bank's view the Obligor is unlikely to repay the dues in full with interest unless the bank takes recourse to collateral enforcement or other recovery measures against the obligor. A past due but not impaired advance is one where the loan is past due for 90 days and where the obligor is facing temporary technical liquidity problems due to administrative delay in realisation of receivables from its business clients.

(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 past due situation arose 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).

(c) Description of methods used for determining impairments.

- Past due and impaired accounts are down graded to Non Performing status (NPL) and are monitored by the Remedial Management Division. The criteria for downgrading is the past due status of the borrower and the perception of the bank about the inability of obligor to service the debt from business cash flows

(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.**

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | | | | | | |
|---|---|---|---|---|---|---|---|
| **B.9.1 : Geographic Breakdown- 31 December 2016 (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: | - | - | - | - | - | - | - |
| SAMA and Saudi Government | 14,574,886 | - | - | - | - | - | 14,574,886 |
| Others | - | 3,403 | - | - | - | - | 3,403 |
| Multilateral Development Banks (MDBs) | - | - | - | - | - | - | - |
| Public Sector Entities | 2,742,938 | - | - | - | - | - | 2,742,938 |
| Banks & Securities Firm Exposure | 2,654,201 | 852,523 | 150,665 | 31,284 | 2,347 | 25,821 | 3,716,841 |
| Corporate | 26,382,024 | - | - | - | - | 99 | 26,382,123 |
| Retail Non-Mortgages | 14,191,804 | - | - | - | - | - | 14,191,804 |
| Small Business Facilities Enterprises (SBFE's) | 14,026 | - | - | - | - | - | 14,026 |
| Mortgages | | | | | | | |
| Residential | 5,576,987 | - | - | - | - | - | 5,576,987 |
| Commercial | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - |
| Equities | 126,372 | 188 | - | 8,287 | - | - | 134,847 |
| Others | 4,871,180 | 3,114 | - | - | - | - | 4,874,294 |
| TOTAL | **71,134,418** | **859,228** | **150,665** | **39,571** | **2,347** | **25,920** | **72,212,149** |

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **B.9.2 : Industry Sector Breakdown - 31 December 2016 (Figures in SAR 000's)** | | | | | | | | | | | | | |
| | Industry sector | | | | | | | | | | | | |
| **Portfolios** | **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: | | | | | | | | | | | | | |
| SAMA and Saudi Government | 14,574,886 | | - | - | - | - | - | - | - | - | - | | 14,574,886 |
| Others | | 3,403 | - | - | - | - | - | - | - | - | - | - | 3,403 |
| Multilateral Development Banks | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public Sector Entities | 2,742,938 | - | - | - | - | - | - | - | - | - | - | - | 2,742,938 |
| Banks & Securities Firm Exposure | - | 3,714,295 | - | - | - | - | - | - | - | - | - | 2,546 | 3,716,841 |
| Corporates | 410,446 | 1,617,083 | 50,620 | 5,944,765 | 562,500 | 2,397 | 2,584,352 | 9,724,070 | 209,386 | 1,148,814 | 403 | 4,127,287 | 26,382,123 |
| Retail Non-Mortgages | - | 40 | - | 19,876 | - | 1,151 | 33,294 | 808,530 | 2,597 | 45,866 | 1,057,323 | 12,223,127 | 14,191,804 |
| Small Business Facilities Enterprises (SBFE's) | - | - | - | - | - | - | - | 4,021 | - | - | | 10,005 | 14,026 |
| Morgages | | | | | | | | | | | | | |
| Residential | - | - | - | - | - | - | - | 406 | - | - | 12,790 | 5,563,791 | 5,576,987 |
| Commercial | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equities | - | - | - | - | - | - | - | - | - | - | - | 134,847 | 134,847 |
| Others | - | - | - | 13,790 | - | - | 34,180 | 61,375 | - | 62,698 | 461,972 | 4,240,279 | 4,874,294 |
| **TOTAL** | **17,728,270** | **5,334,821** | **50,620** | **5,978,431** | **562,500** | **3,548** | **2,651,826** | **10,598,402** | **211,983** | **1,257,378** | **1,532,488** | **26,301,882** | **72,212,149** |

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **B.9.3 : Residual Contractual Maturity Breakdown - 31 December 2016 (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: | | | | | | | | | |
| SAMA and Saudi Government | 103,114 | 1,532,000 | 2,737,772 | - | - | - | | 10,202,000 | 14,574,886 |
| Others | 3,403 | - | - | - | - | - | - | - | 3,403 |
| Multilateral Development Banks | - | - | - | - | - | - | - | - | - |
| Public Sector Entities | - | - | - | - | 530,000 | - | - | 2,212,938 | 2,742,938 |
| Banks & Securities Firm Exposure | 1,358,653 | 25,000 | - | 178,500 | 199,688 | - | 42,000 | 1,913,000 | 3,716,841 |
| Corporate | 5,133,477 | 1,670,695 | 199,525 | 5,477,167 | 5,582,849 | 3,473,623 | 1,787,494 | 3,057,293 | 26,382,123 |
| Retail Non-Mortgages | 1,044,255 | 165,524 | 45,813 | 588,363 | 402,930 | 490,510 | 1,715,738 | 9,738,671 | 14,191,804 |
| Small Business Facilities Enterprises (SBFE's) | 21 | 1,000 | - | 1,000 | 2,000 | - | 10,005 | - | 14,026 |
| Mortgages | | | | | | | | | |
| Residential | 50 | 230 | - | 2,896 | 2,002 | 3,902 | 72,917 | 5,494,990 | 5,576,987 |
| Commercial | - | - | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - | - | - |
| Equities | | - | - | - | - | - | - | 134,847 | 134,847 |
| Other Assets | 4,806,467 | - | - | 29 | 7,317 | 2,384 | 21,451 | 36,646 | 4,874,294 |
| **TOTAL** | **12,449,440** | **3,394,449** | **2,983,110** | **6,247,955** | **6,726,786** | **3,970,419** | **3,649,605** | **32,790,385** | **72,212,149** |

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **B.9.4 : Impaired Loans, Past Due Loans and Allowances - 31 December 2016 (Figures in SAR 000's)** | | | | | | | | | |
| | | **Aging of Past Due Loans (days)** | | | | **Specific allowances** | | | |
| **Industry sector** | **Impaired loans** | **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** | **General allowances** |
| Government and quasi government | - | - | - | - | - | - | - | - | 9,894 |
| Banks and other financial institutions | - | - | - | - | - | - | - | - | 8,333 |
| Agriculture and fishing | | - | - | - | - | - | - | - | 232 |
| Manufacturing | 89,010 | | - | - | - | 76,357 | - | 76,357 | 50,371 |
| Mining and quarrying | | | - | - | - | - | - | - | - |
| Electricity, water, gas and health services | | | - | - | - | - | - | - | - |
| Building and construction | 58,578 | | - | 50,029 | 11,650 | 26,879 | - | 26,879 | 14,912 |
| Commerce | 162,223 | 375 | 2,003 | | 89,146 | 105,704 | - | 105,704 | 92,447 |
| Transportation and communication | 4,590 | | - | | 4,645 | 4,590 | - | 4,590 | 1,633 |
| Services | 67,210 | 1,642 | - | 5,547 | 66,645 | 8,900 | - | 8,900 | 10,564 |
| Consumer loans and credit cards | 61,021 | 97,801 | 29,512 | 21,097 | 10,864 | 23,987 | - | 23,987 | 236,769 |
| Others | 41,367 | 7,150 | - | 87,604 | 116,929 | 39,852 | - | 39,852 | 45,144 |
| **TOTAL** | **483,999** | **106,968** | **31,515** | **164,277** | **299,879** | **286,269** | - | **286,269** | **470,299** |

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | | | | | | |
|---|---|---|---|---|---|---|---|
| B.9.5 : Impaired Loans, Past Due Loans And Allowances- 31 December 2016 (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 | 483,999 | 106,968 | 31,515 | 164,277 | 299,879 | 286,269 | 470,299 |
| Other GCC & Middle East | - | - | - | - | - | - | - |
| Europe | - | - | - | - | - | - | - |
| North America | - | - | - | - | - | - | - |
| South East Asia | - | - | - | - | - | - | - |
| Other countries | - | - | - | - | - | - | - |
| **TOTAL** | **483,999** | **106,968** | **31,515** | **164,277** | **299,879** | **286,269** | **470,299** |

| Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures | | |
|---|---|---|
| **B.9.6 : Reconciliation Of Changes In The Allowances For Loan Impairment - 31 December 2016 (Figures in SAR 000's)** | | |
| | **Specific allowances** | **General allowances** |
| Balance, beginning of the period | 163,631 | 450,973 |
| Charge-offs taken against the allowances during the period | 204,700 | 19,326 |
| Amounts set aside (or reversed) during the period | (29,536) | - |
| Other adjustments: | - | - |
| - exchange rate differences | - | - |
| - business combinations | - | - |
| - acquisitions and disposals of subsidiaries, etc | - | - |
| - - Written off | (128,882) | - |
| Transfers between allowances | - | - |
| Provision written back previously written off | 76,356 | - |
| **Balance, end of the period** | **286,269** | **470,299** |

## 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 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 Groupprior to decision making.Due to the wholesale nature of business. Country Concentration (outside Saudi Arabia) is negligible. Hence, other than for Name Concentration and Sector Concentration, no other Pillar II add-ons are deemed necessary for Credit Risk.

**Name Concentration:**

Name concentration in a lending portfolio arises when there are few borrowers in a bank's loan portfolio or when loan amounts are very unequal in distribution. The Bank uses the granularity adjustment methodology (GA) along with Herfindahl - Hirshchman Index (HHI) to assess and estimate the name concentration risk

**Sector Concentration:**

Sector concentration risk in the bank's credit portfolios can also arise from an excessive exposure to a single economic or business sector or to several highly correlated sectors. THe Bank uses normalized HHI to measure its Sector Concentration along with Sector Concentration limits that are sensitive to parameters such as economic activity, geography, collateral, risk rating etc.

## 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 | 62,782,561 | 997,677 | 997,677 | - | - | - | - |
| 2 | Debt Securities | - | - | - | - | - | - | - |
| 3 | Total | 62,782,561 | 997,677 | 997,677 | - | - | - | - |
| 4 | Of which defaulted | - | - | - | - | - | - | - |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 assessment as specified by relevant guidelines of BCBS, where ECAI used are as follows : (a) Fitch (b) Standard & Poor's & (c) Moody's.

(b) The asset classes for which each ECAI or ECA is used;

- The asset classes are Sovereign, Banks and Corporates where ECAI are used by the bank.

# 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 their central banks | 14,475,079 | - | 14,475,079 | - | - | 0% |
| 2 | Non-central government public sector entities | 2,742,938 | 150,000 | 2,742,938 | - | 548,588 | 20% |
| 3 | Multilateral development banks | - | - | - | - | - | - |
| 4 | Banks | 3,266,779 | 244,517 | 3,266,779 | 233,362 | 1,342,735 | 38% |
| 5 | Securities firms | - | - | - | - | - | - |
| 6 | Corporates | 23,483,375 | 9,842,748 | 23,386,885 | 2,889,011 | 26,104,093 | 99% |
| 7 | Regulatory retail portfolios | 14,231,715 | 373,293 | 14,047,350 | 136,462 | 11,069,669 | 78% |
| 8 | Secured by residential property | 5,591,290 | 2,091 | 5,590,942 | 71 | 5,576,937 | 100% |
| 9 | Secured by commercial real estate | - | - | - | - | - | - |
| 10 | Equity | 134,847 | - | 134,847 | - | 134,847 | 100% |
| 11 | Past-due loans | 495,975 | 32,690 | 215,138 | 18,285 | 275,952 | 118% |
| 12 | Higher-risk categories | - | - | - | - | - | - |
| 13 | Other assets | 4,640,871 | - | 4,640,871 | - | 3,101,340 | 67% |
| 14 | ***Total*** | **69,062,869** | **10,645,339** | **68,500,829** | **3,277,191** | **48,154,161** | **67%** |

## 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 | 14,578,289 | - | - | - | - | - | - | - | - | 14,578,289 |
| 2 | Non-central government public sector entities (PSEs) | - | - | 2,742,938 | - | - | - | - | - | - | 2,742,938 |
| 3 | Multilateral development banks (MDBs) | - | - | - | - | - | - | - | - | - | - |
| 4 | Banks | - | - | 1,436,447 | | 2,242,971 | | 36,717 | 706 | | 3,716,841 |
| 5 | Securities firms | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporates | - | - | 556 | - | - | - | 26,381,567 | - | - | 26,382,123 |
| 7 | Regulatory retail portfolios | - | - | - | - | - | 12,202,923 | 2,002,907 | - | - | 14,205,830 |
| 8 | Secured by residential property | - | - | - | - | - | - | 5,576,987 | - | - | 5,576,987 |
| 9 | Secured by commercial real estate | - | - | - | - | - | - | - | - | - | - |
| 10 | Equity | - | - | - | - | - | - | 29,791 | 105,056 | - | 134,847 |
| 11 | Past-due loans | - | - | - | - | - | - | - | - | - | - |
| 12 | Higher-risk categories | - | - | - | - | - | - | - | - | - | - |
| 13 | Other assets | 1,544,788 | | | | 3,114 | | 3,223,494 | 102,898 | - | 4,874,294 |
| 14 | ***Total*** | 16,123,077 | - | 4,179,941 | - | 2,246,085 | 12,202,923 | 37,251,463 | 208,660 | - | 72,212,149 |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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

| | |
|---|---|
| (a) | Risk management objectives and policies related to counterparty credit risk, including:<br><br>**-To measure and manage variation risk/pre-settlement related to treasury products** |
| (b) | The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;<br><br>**Not Applicable** |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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) | 71,012 | 302,928 | | - | 396,371 | 371,199 |
| 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** | | | | | | 371,199 |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 | 29,695 | 371,199 |
| 4 | Total subject to the CVA capital charge | 29,695 | 371,199 |

## Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

### 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 exposures** |
| Sovereigns and their central banks | 26,250 | - | - | - | - | - | - | - | 26,250 |
| Non-central government public sector entities (PSEs) | - | - | - | - | - | - | - | - | - |
| Multilateral development banks (MDBs) | - | - | - | - | - | - | - | - | - |
| Banks | - | - | - | 31,415 | - | 49,515 | - | - | 80,930 |
| Securities firms | - | - | - | - | - | - | - | - | - |
| Corporates | - | - | - | - | - | 306,026 | - | - | 306,026 |
| Regulatory retail portfolios | - | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - | - |
| ***Total*** | 26,250 | - | - | - | 355,541 | 355,541 | - | - | 413,206 |

## 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 | - | - | 158,906 | - | - | - |
| Domestic sovereign debt | - | - | - | - | - | - |
| Other sovereign debt | - | - | - | - | - | - |
| Government agency debt | - | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - | - |
| Equity securities | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - |
| **Total** | - | - | 158,906 | - | - | - |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures
## B.35 - Table MRA: Qualitative disclosure requirements related to market risk

(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) | 9,375 |
| 2 | Equity risk (general and specific) | 184,100 |
| 3 | Foreign exchange risk | 934,800 |
| 4 | Commodity risk | - |
| | Options | - |
| 5 | Simplified approach | - |
| 6 | Delta-plus method | - |
| 7 | Scenario approach | - |
| 8 | Securitisation | - |
| **9** | **Total** | **1,128,275** |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures
## 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.<br><br>- The Bank follows the Basic Indicator Approach (BIA) for measurement of Operational Risk Capital Charge. |
| | (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.<br><br>**- Not Applicable** |
| | (c) | For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.<br><br>**- Not Applicable** |

# Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures
## B.42 - Interest rate risk in the banking book (IRRBB)

| | | |
|---|---|---|
| Qualitative disclosures | (a) | The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.<br><br>Profit rate risk arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.<br><br>a) Yield sensitivity of assets, liabilities and off balance sheet items<br><br>The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).<br>Recently revised guidelines from Basel Committee on Banking Supervision/ SAMA on Interest (Profit) Rate Risk in the Banking Book are applicable from 2018 and the Bank is currently implementing them. These guidelines update both the principles and methods expected to be used by banks for measuring, managing, monitoring and controlling this risk. |
| Quantitative disclosures | (a) | The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant). |

| Rate Shocks | Change in earnings |
|---|---|
| Upward rate shocks: | |
| Saudi Riyal | (105,387) |
| Dollar | 15,443 |
| | |
| Downward rate shocks: | |
| Saudi Riyal | 105,387 |
| Dollar | (15,443) |