Basel III

Liquidity Coverage Ratio (LCR) Qualitative Disclosure

31 December 2018

Contents

1. Governance of Liquidity Risk Management:

Liquidity risk arises when the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, in particular, its failure to meet obligations to repay depositors and fulfil commitments to lend.

The appropriate and efficient management of liquidity is essential to BAJ in ensuring the confidence of the financial markets in order to pursue its identified business strategy.

Additionally, the Bank manages risk in relation to:

- The mismatched funding of medium term assets by short term or retail liabilities, which can increase the potential for liquidity problems at a future date; and
- Meeting regulatory requirements at all times.

The Bank at all times maintains financial resources, including capital and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Treasury has overall responsibility for liquidity management on a day-to-day basis and in the event of a liquidity crisis. In normal conditions liquidity is managed as per policy and guidelines already established.

Effective and professional relationships are established with Saudi Arabia Monitory Authority (SAMA) and any other relevant regulator. To avoid the risk of liquidity related penalty or regulation on BAJ, Market Risk Management advises immediately of any event that could adversely impact relationships with regulators. Bank complies with all regulatory reporting requirements, terms and conditions for the operation of accounts with central banks or codes of conduct imposed by or agreed with SAMA or other regulators in respect of liquidity risk.

2. Liquidity Management Strategy:

The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. The Bank uses cash flow match approach and liquid assets approach. Under the cash flow approach the Bank attempts to match the cash outflows against the contractual cash inflow leaving around one month cash requirement at all times to absorb unexpected cash movement. The excess liquidity for over one month is managed on the basis of liquid assets approach and as per SAMA guidelines.

The Bank has to maintain liquid assets of at least 20% of deposit liabilities in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. Liquidity risk is monitored and evaluated daily by Treasury to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of the liabilities.

The Basel liquidity principles are implemented more specifically in the Bank's overall liquidity risk framework through the following:

I. Board Risk Committee and Asset & Liability Committee being focused on the liquidity strategy and management;
II. Liquidity and Contingency Liquidity policies;
III. Liquidity Gap / Market Access Requirement analysis for daily management against liquidity limits;
IV. Monitoring of Liquidity ratios to re-align short term and medium term structural imbalances;
V. Management of liquidity concentration risk for Significant Funding Sources (large depositors);
VI. Liquidity Stress tests and the Contingency funding plan.
VII. Bank AlJazira ("the Bank"), has developed the Internal Liquidity Adequacy Assessment Plan (ILAAP) which helps the Bank to identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios.
VIII. The purpose of the ILAAP is to ensure that the Bank has sufficient liquidity necessary for its survival during a period of market-wide and bank-specific stress scenarios. In addition, the Bank has also assessed its Liquidity Risk Management Framework and Risk Appetite to ensure that they are adequate and in proportion to the Bank's business model, size, complexity, structure of the balance sheet and market expectations.

3. Liquidity Monitoring and Control:

Market Risk Management has established a monitoring and reporting framework for liquidity risk that provides pertinent information to ALCO.

The following lists the salient aspects of monitoring that is done on a regular basis:

- Monitoring of the implementation of the limits according to Market Risk Policy guidelines.
- Timely detection and correction of deficiencies in the policies, processes and procedures of liquidity gap risk.
- Managing liquidity risk through on-going, periodic and annual reviews.
- Verifying the authenticity and availability of the sources of funds available to the Bank.

4. Liquidity Stress Testing:

As part of our enterprise wide Stress Testing exercise, Enterprise Risk Management Group (ERMG) addresses unusual and unexpected events to occur and accordingly prepares to face and survive such situations. This requires foreseeing situations under hypothetical scenarios considering the question 'what-if' and development of stress tests in such scenarios. This enables the organization to be well equipped to cope with the crisis situations when they arise.

Under the ILAAP regime the bank has developed multiple scenarios comprising of Bank Specific, Market–wide and Combined Stressed Scenarios. These stress testing scenarios have been assessed with and without Management Action (MA) to arrive at the movement in the Bank's regulatory ratios, cash flows, balance sheet and profitability. These management actions are taken to restore the Bank's liquidity positions within the regulatory requirements and internal liquidity risk appetite limits.

5. Contingency Funding Plan:

The Bank has developed a detailed Contingency Funding Plan clearly detailing the approach and actions to be adopted in order to manage its liquidity position during a contingency situation. The Board of Directors and Senior Management of the Bank recognizes the importance of liquidity in the day-to-day operations of the Bank and strongly believes in the need to have a plan for addressing liquidity requirements in times of crisis. Liquidity crisis may unfold due to external as well as internal factors, and CFP has been articulated and developed to address these crisis situations.

The CFP has defined Early Warning Indicators (EWIs) for both internal as well as external factors. These EWIs are listed below and are tracked on a regular basis.

Internal Bank-Specific	External (System Illiquidity)
• All market access report (MAR) up to 1-month limit utilization is greater than 125% for more than one week • Liquid assets/deposit liabilities < 10% • Market asking additional 100 basis points spread on lending funds • Rating downgrade • Repeated incidents of positions approaching or breaching internal or regulatory limits • Higher than expected retail deposits outflow	• 10% of the banks in the system have applied for liquidity support from SAMA • 10% of the banks in the system are having adverse clearing settlement positions which are not promptly covered and are drawing on their clearing collateral • 15% of total deposits in the system are threatened due to banks' inability to honor obligations

The Asset and Liability Committee (ALCO) has been designated to execute the CFP and communicate directly with the Board of Directors via the MRPC. The CFP clearly defines the roles and responsibilities of the ALCO Members in a crisis situation. In a crisis situation, the ALCO will convene and decide on the future course of action including formally invoking the CFP. The Bank's Board of

Director will be informed immediately by the Chairman of the ALCO. In addition, regular status reports will be submitted to the Board Executive Committee.

6. Main Contributors:

The main contributors to BAJ LCR on assets side are sovereign entity, SAMA (Securities and Reverse Repo) and one of the largest PSE of Kingdom, while on the liability side the major portion is deposits mainly contributed by our large corporate & retail customers.

7. Composition of High Quality Liquid Assets (HQLA):

The HQLA of BAJ LCR consists of Cash, SAMA placements/Reverse repo and the investments issued or guaranteed by Sovereign/central bank. The Level 2A Assets in BAJ LCR are the Sukuks issued by one of the largest PSE of Kingdom, which are included due to its repo-ability characteristic.

8. Currency Mismatch:

As outlined in guideline, while the LCR is expected to be met on a consolidated basis and reported in a common currency, bank manages the liquidity needs in each significant currency. As indicated in the LCR, the currencies of the stock of HQLA are similar in composition to the operational needs of the bank. Bank does not assume that currencies are transferable and convertible in a stress period.