Pillar III Disclosures

Qualitative & Quantitative Disclosures

30-Jun-19

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Template KM1: Key metrics (at consolidated group level)

		a	b	c	d	e
		Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
	Available capital (amounts) SAR,000					
1	Common Equity Tier 1 (CET1))	11,799,899	11,957,539	11,849,764	12,197,588	11,950,226
1a	Fully loaded ECL accounting model (Without 5 year transitional impact in Tier 1)	11,418,205	11,575,845	11,340,839	11,688,663	11,441,301
2	Tier 1	11,799,899	11,957,539	11,849,764	12,197,588	11,950,226
2a	Fully loaded accounting model Tier 1 (Without 5 year transitional impact in Tier 1)	11,418,205	11,575,845	11,340,839	11,688,663	11,441,301
3	Total capital	14,140,235	14,311,961	14,198,719	14,502,858	14,245,025
3a	Fully loaded ECL accounting model total capital (Without 5 year transitional impact in Tier 1)	13,723,409	13,895,135	13,672,228	13,976,366	13,718,533
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	53,862,354	52,811,326	51,710,367	51,713,371	52,563,850
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	21.91%	22.64%	22.92%	23.59%	22.73%
5a	Fully loaded ECL accounting model CET1 (%)	21.20%	21.92%	21.93%	22.60%	21.77%
6	Tier 1 ratio (%)	21.91%	22.64%	22.92%	23.59%	22.73%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	21.20%	21.92%	21.93%	22.60%	21.77%
7	Total capital ratio (%)	26.25%	27.10%	27.46%	28.04%	27.10%
7a	Fully loaded ECL accounting model total capital ratio (%)	25.48%	26.31%	26.44%	27.03%	26.10%
	Basel III Leverage Ratio					
8	Total Basel III leverage ratio measure	82,393,416	79,355,222	78,462,342	77,146,414	75,740,480
9	Basel III leverage ratio (%) (row 2/row 13)	14.32%	15.07%	15.10%	15.81%	15.78%
9a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	13.86%	14.59%	14.45%	15.15%	15.11%
	Liquidity Coverage Ratio					
10	Total HQLA	25,515,191	25,538,180	24,279,337	22,961,083	21,429,632
11	Total net cash outflow	12,960,052	12,717,799	12,069,120	11,087,374	10,538,585
12	LCR ratio (%)	196.88%	200.81%	201.17%	207.09%	203.34%
	Net Stable Funding Ratio					
13	Total available stable funding	47,479,917	47,758,237	44,810,655	45,310,644	44,910,658
14	Total required stable funding	35,008,159	33,468,042	32,206,821	32,786,700	31,073,314
15	NSFR ratio (%)	135.63%	142.70%	139.13%	138.20%	144.53%

Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		Q2 2019	Q1 2019	Q2 2019
1	Credit risk (excluding counterparty credit risk)	47,788,778	46,847,317	3,823,102
2	Of which: standardised approach (SA)	47,788,778	46,847,317	3,823,102
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	264,589	265,080	21,167
7	Of which: standardised approach for counterparty credit risk	264,589	265,080	21,167
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)			
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach			
13	Equity investments in funds - mandate-based approach			
14	Equity investments in funds - fall-back approach			
15	Settlement risk			
16	Securitisation exposures in the banking book			
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	1,222,529	928,749	97,802
21	Of which: standardised approach (SA)	1,222,529	928,749	97,802
22	Of which: internal model approaches (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	4,851,047	4,770,180	388,084
25	Amounts below thresholds for deduction (subject to 250% risk weight)			
26	Floor adjustment			
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**53,862,354**	**52,811,326**	**4,330,155**

Template CC1: Composition of regulatory capital

		a
		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	8,200,000
2	Retained earnings	1,122,257
3	Accumulated other comprehensive income (and other reserves)	2,371,561
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	
5	Common share capital issued by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital before regulatory deductions**	**11,693,818**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	106,081
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding 15% threshold	
23	Of which: significant investments in the common stock of financials	
24	Of which: mortgage servicing rights	
25	Of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	**Total regulatory adjustments to Common Equity Tier 1**	106,081
29	**Common Equity Tier 1 capital (CET1)**	11,799,899
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	OF which: classified as equity under applicable accounting standards	
32	Of which: classified as liabilities under applicable accounting standards	
33	*Directly issued capital instruments subject to phase-out from additional Tier 1*	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	
35	*Of which: instruments issued by subsidiaries subject to phase-out*	
36	Additional Tier 1 capital before regulatory adjustments	
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own additional Tier 1 instruments	
38	Reciprocal cross-holdings in additional Tier 1 instruments	
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	

43	Total regulatory adjustments to additional Tier 1 capital	
44	**Additional Tier 1 capital (AT1)**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**11,799,899**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	2,000,000
47	*Directly issued capital instruments subject to phase-out from Tier 2*	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	*Of which: instruments issued by subsidiaries subject to phase-out*	
50	Provisions	340,336
51	**Tier 2 capital before regulatory adjustments**	2,340,336
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	National specific regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	
58	**Tier 2 capital (T2)**	2,340,336
59	**Total regulatory capital (TC = T1 + T2)**	14,140,235
60	**Total risk-weighted assets**	53,862,354
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	21.91%
62	**Tier 1 (as a percentage of risk-weighted assets)**	21.91%
63	**Total capital (as a percentage of risk-weighted assets)**	26.25%
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	
65	**Of which: capital conservation buffer requirement**	
66	**Of which: bank-specific countercyclical buffer requirement**	
67	**Of which: higher loss absorbency requirement**	
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	
	National minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	
71	National total capital minimum (if different from Basel III minimum)	
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	
73	Significant investments in common stock of financial entities	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	*Current cap on CET1 instruments subject to phase-out arrangements*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	
82	*Current cap on AT1 instruments subject to phase-out arrangements*	
83	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	
84	*Current cap on T2 instruments subject to phase-out arrangements*	
85	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	

Template CC2: Reconciliation of regulatory capital to balance sheet

	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period-end	As at period-end
Assets		
Cash and balances with SAMA	4,290,404	4,290,404
Due from banks and other financial institutions	803,478	803,478
Investments	25,763,927	25,763,927
Loans and advances, net	43,284,153	43,284,153
Investment in associate	141,781	141,781
Other real estate, net	465,015	465,015
Property and equipment, net	1,183,328	1,183,328
Other assets	1,082,697	1,082,697
Total assets	**77,014,783**	**77,014,783**
Liabilities		
Due to banks and other financial institutions	6,012,122	6,012,122
Customers’ deposits	55,519,743	55,519,743
Subordinated debt	2,000,000	2,000,000
Other liabilities	2,170,793	2,170,793
Total liabilities	**65,702,658**	**65,702,658**
Shareholders' equity		
Share capital	8,200,000	8,200,000
Statutory reserve	2,409,560	2,409,560
General reserve	68,000	68,000
Other reserves	(105,999)	(105,999)
Retained earnings	740,563	740,563
Proposed Dividend	-	-
Total shareholders' equity	**11,312,124**	**11,312,124**

Template LR1: Summary comparison of accounting assets vs leverage ratio exposure (Janua

		a
1	Total consolidated assets as per published financial statements	95,912,627
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	(6,761,050)
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(7,063,364)
7	Other adjustments	305,203
8	**Leverage ratio exposure measure**	**82,393,416**

Template LR2: Leverage ratio common disclosure template (January 2014 standard)

		a	b
		June, 2019	**Mar, 2019**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	77,319,986	74,245,453
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	77,319,986	74,245,453
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	73,887	34,848
5	Add-on amounts for PFE associated with *all* derivatives transactions	358,265	367,382
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of rows 4 to 10)**	432,152	402,230
Securities financing transactions			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	11,704,641	11,675,028
18	(Adjustments for conversion to credit equivalent amounts)	(7,063,364)	(6,967,489)
19	**Off-balance sheet items (sum of rows 17 and 18)**	4,641,277	4,707,539
Capital and total exposures			
20	**Tier 1 capital**	11,799,899	11,957,539
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	82,393,416	79,355,222
Leverage ratio			
22	**Basel III leverage ratio**	14.32%	15.07%

Template LIQ1: Liquidity Coverage Ratio (LCR)

		a	b
		Total unweighted value (average)	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		25,515,191
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	-	-
3	Stable deposits	-	-
4	Less stable deposits	18,693,911	1,869,391
5	**Unsecured wholesale funding, of which:**	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	22,153,645	13,312,830
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	-	-
11	Outflows related to derivative exposures and other collateral requirements	38,136	38,136
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	150,000	15,000
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	11,003,390	280,401
16	**TOTAL CASH OUTFLOWS**		15,515,758
Cash inflows			
17	**Secured lending (eg reverse repo)**	-	-
18	**Inflows from fully performing exposures**	4,503,100	2,555,658
19	**Other cash inflows**	48	48
20	**TOTAL CASH INFLOWS**	4,503,148	2,555,707
		0	**Total adjusted value**
21	**Total HQLA**		**25,515,191**
22	**Total net cash outflows**		**12,960,052**
23	**Liquidity coverage ratio (%)**		**196.95%**

Template LIQ2: Net Stable Funding Ratio (NSFR)

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity*	<6 months	6 months to <1 year	≥1 year	Weighted value
Available stable funding (ASF) item						
1	Capital:					
2	*Regulatory capital*	12,140,235	-	-	2,000,000	14,140,235
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	18,570,899	1,691,456	465,335	31,622	18,686,544
7	Wholesale funding:					
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	11,184,718	20,966,555	6,908,767	891,904	14,653,137
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*			134960.1702		
13	*All other liabilities and equity not included in the above categories*	2,546,794	8,250	-	-	-
14	**Total ASF**					47,479,917
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	21,067,500	1,053,375
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	-	-	-	-
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	2,513,548	12,042,770	7,500,863	21,858,793	29,608,565
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	215,936	-	-	1,109,242	1,126,402
25	Assets with matching interdependent liabilities					
26	Other liabilities:					
27	*Physical traded commodities, including gold*					
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*					
29	*NSFR derivative assets*					
30	*NSFR derivative liabilities before deduction of variation margin posted*					
31	*All other assets not included in the above categories*	2,393,908	283,588	0	3,331,063	3,212,318
32	Off-balance sheet items					7,500
33	***Total RSF***					**35,008,159**
34	***Net Stable Funding Ratio (%)***					**135.63%**

Table LIQA - 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.

The treasury group 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.

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 the treasury group 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. The Board of Directors (BOD) and Asset & Liability Committee (ALCO) 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.

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 Limit 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.

Liquidity Stress Testing:

As part of Bank's enterprise wide Stress Testing exercise, Enterprise Risk Management Group (ERMG) monitors the unusual and unexpected liquidity events and accordingly recommends actions to manage such situations. This requires foreseeing situations under hypothetical scenarios considering the 'what-if' scenarios 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.

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.

Liquidity Coverage Ratio (LCR)

LCR aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets ("HQLA") to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The range of liquid assets that qualify as HQLA, as well as the applicable haircuts for each category. Net cash outflows are computed using the standardized 30-day cash flow rates defined in the same notice. The amounts after the application of haircuts or 30-day cash flow rates are reflected in the "weighted amount" column of the tables in this part.

BAJ seeks to ensure that its LCR remains above the specified regulatory minimum requirements. This is achieved by:

(i) Establishing internal early warning triggers and thresholds based on observed movements in LCR over time;

(ii) Monitoring and managing the LCR closely to ensure it stays within established boundaries; and

(iii) Strategically managing the liquidity risk arising from the balance sheet structure.

In the second quarter of 2019, the average (based on last 6 months daily observation) of all currency and Saudi Riyal (SAR) LCRs were 197% and 188% respectively. Compared to the fourth quarter of 2018, the average of all-currency and SAR LCRs were 201% and 185% respectively.

The LCR remains well above the regulatory minimum requirements of 100%. BAJ maintains a healthy liquidity position by keeping a stable balance sheet structure that is supported by a diversified funding base.

BAJs' LCR is sensitive to;

(i) Balance sheet movements resulting from loan/deposit activities and wholesale interbank lending/ borrowing; and

(ii) Movements due to positions falling into or out of the LCR 30-day tenor, such as loan rollovers.

LCR is also sensitive to movements in HQLA, driven primarily by changes in balances with central banks and collaterals from secured lending and borrowing transactions.

Composition of High Quality Liquid Assets (HQLA)

BAJ holds a pool of unencumbered HQLA that are readily available to meet cash flow obligations under stress scenarios, as defined in the LCR rules. These liquid assets consist predominantly of Level 1 HQLA, which comprises cash, balances with central bank and highly rated Sukuk issued or guaranteed by governments or 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.

For the quarter ended Q2, 2019, the stock of HQLA held by the Bank includes approximately 92% and 8% of Level 1 and Level 2 assets respectively.

Concentration of Funding Sources

BAJ aims to achieve a diversified funding base both across source and tenor. BAJ's primary sources of funding are Corporate, Public Sector Entities (PSE) and Retail depositors. However, other liability sources such as interbank borrowings and long / short term repurchase agreement (repo) can also provide funding for daily business activities, or as alternatives to using assets to satisfy liquidity needs. Deposits and other liability sources are often differentiated by their stability (core and non-core) and customer profile characteristics. The following factors are considered when assessing the stability of funding sources:

1. The cost of the bank's funding sources compared to market costs and alternative funding sources.
2. Large deposit growth or large changes in deposit composition.
3. The current profit (interest) rate environment.
4. The current business cycle.
5. The relationship with the funding source.

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.

Net Stable Funding Ratio (NSFR)

NSFR aims to improve the resiliency of banks by promoting long term funding stability. It requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. SAMA / BIS guidelines stipulates the applicable Required Stable Funding ("RSF") factor for each category of asset and Available Stable Funding ("ASF") factor for each type of funding source. NSFR represents the ratio of the bank's ASF to RSF. The breakdown of the bank's ASF and RSF amounts after applying the respective ASF or RSF factors are reflected in the "weighted amount" column of the tables in this part.

BAJ seeks to ensure that its NSFR remains above the specified regulatory minimum requirements. This is achieved by:

(i) Monitoring the NSFR closely against an established internal early warning trigger and management target.

(ii) Managing and developing strategies to build a diversified funding base with access to funding sources across retail and wholesale channels

In the second quarter of 2019, the NSFR is 136%. Compared to the first quarter of 2019, the NSFR was 143%. The decrease in the NSFR is mainly due to progressive growth in the loans and advances. NSFR remains well above the regulatory minimum requirement of 100%. BAJ maintains a healthy liquidity position by keeping a stable balance sheet structure that is supported by a diversified funding base.

BAJ's NSFR is sensitive to;

(i) Balance sheet movements resulting from retail / commercial loan and deposit activities, and

(ii) Movements due to positions falling into the NSFR 1-year tenor, such as when the residual maturity of capital or senior issuances fall within the 1 year tenor. BAJ recognized interdependent assets and liabilities from the second quarter of 2019 onwards, which comprise primarily of bills receivable and payable under letters of credit.

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Template CR1: Credit quality of assets

		a	b	c	d	e	f	g
		Carrying values of		Allowances/impairments	Of which ECL accounting provisions for credit losses on SA exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category or Specific	Allocated in regulatory category or General		
1	Loans	740,679	43,915,974	1,057,288	752,084	305,204	-	43,599,365
2	Debt securities	-	25,764,488	-	-	-	-	25,764,488
3	Off-balance sheet exposures	105,157	4,926,586	91,232	73,499	17,733	-	4,940,511
4	**Total**	**845,836**	**74,607,048**	**1,148,520**	**825,584**	**322,937**	**-**	**74,304,364**

Template CR2: Changes in stock of defaulted loans and debt securities

		a
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**664,620**
2	Loans and debt securities that have defaulted since the last reporting period	89,227
3	Returned to non-default status	(74,579)
4	Amounts written off	(2,833)
5	Other changes	64,244
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**740,679**

Definition of default:
the definition of default is as follows

Quantitative Criteria:

• DPD> 90 (outstanding from due date);

• Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;

• Internal rating at 8,9 or 10 grade.

Qualitative Criteria:

• Breaches of covenant(s) or adverse findings indicative default;

• Any information indicating unlikeliness of obligor to pay its credit obligations to in full, without recourse by the Group to actions such as realizing security;

• Findings from the Bank's EWS framework, validated by the CRD;

• SAMA account block request or any other external information indicating delinquency.

Template CR3: Credit risk mitigation techniques - overview

		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	71,527,578	284,249	284,249	-	-	-	-
2	Debt securities	-	-	-	-	-	-	-
3	Total	**71,527,578**	**284,249**	**284,249**	**-**	**-**	**-**	**-**
4	Of which defaulted	-	-	-	-	-	-	-

Template CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

		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	24,212,510	103,340	24,212,510	-	84,160	0%
2	Non-central government public sector entities	-	300,739	-	75,739	37,869	50%
3	Multilateral development banks	-	8,123	-	8,123	-	0%
4	Banks	1,181,785	261,618	1,181,785	261,618	654,767	45%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	23,646,402	10,720,210	22,772,639	4,094,026	25,388,917	94%
7	Regulatory retail portfolios	16,013,286	285,426	15,974,030	170,973	12,782,370	79%
8	Secured by residential property	7,626,258	-	7,625,521	-	3,813,670	50%
9	Secured by commercial real estate	-	-	-	-	-	0%
10	Equity	162,033	-	162,033	-	352,917	218%
11	Past-due loans	837,359	25,186	745,143	200	1,082,306	145%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other assets	4,398,907	-	4,398,907	-	3,037,385	69%
14	**Total**	**78,078,539**	**11,704,641**	**77,072,568**	**4,610,678**	**47,234,360**	58%

Template CR5: Standardised approach - exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i	j
	Risk weight* / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	24,128,350	-	-	-	-	-	84,160	-	-	**24,212,510**
2	Non-central government public sector entities	-	-	-	-	75,739	-	-	-	-	**75,739**
3	Multilateral development banks	8,123	-	-	-	-	-	-	-	-	**8,123**
4	Banks	-	-	590,015	-	634,394	-	217,847	1,147	-	**1,443,402**
5	Securities firms	-	-	-	-	-	-	-	-	-	**-**
6	Corporates	-	-	-	-	2,956,063	-	23,910,036	566	-	**26,866,665**
7	Regulatory retail portfolios	-	-	-	-	-	13,450,534	2,694,469	-	-	**16,145,003**
8	Secured by residential property	-	-	-	-	7,623,702	-	1,819	-	-	**7,625,521**
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	**-**
10	Equity	-	-	-	-	-	-	34,777	-	127,256	**162,033**
11	Past-due loans	-	-	-	-	-	-	71,417	673,926	-	**745,343**
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	**-**
13	Other assets	1,361,522	-	-	-	-	-	3,037,385	-	-	**4,398,907**
14	**Total**	**25,497,994**	**-**	**590,015**	**-**	**11,289,897**	**13,450,534**	**30,051,910**	**675,639**	**127,256**	**81,683,245**

Template CCR1: Analysis of counterparty credit risk (CCR) exposure by approach.

		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)	73,887	281,603		1	432,152	264,589
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**						**264,589**

Template CCR2: Credit valuation adjustment (CVA) capital charge

		a	b
		EAD post-CRM	**RWA**
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) VaR component (including the 3x multiplier)	-	-
2	(ii) Stressed VaR component (including the 3x multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	23,186	289,829
4	Total subject to the CVA capital charge	**23,186**	**289,829**

Template CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h	i
Risk weight** **Regulatory portfolio***	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	-	-	105,825	165,808	-	1	-	-	271,634
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	160,519	-	-	160,519
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**105,825**	**165,808**	**-**	**160,520**	**-**	**-**	**432,152**

Template CCR5: Composition of collateral for CCR exposure

	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	-	-	113,456	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**-**	**113,456**	**-**	**-**	**-**

Table MR1: Market risk under the standardised approach (SA)

		a
		Capital charge in SA
1	General interest rate risk	1,665
2	Equity risk	34,550
3	Commodity risk	-
4	Foreign exchange risk	61,588
5	Credit spread risk - non-securitisations	-
6	Credit spread risk - securitisations (non-correlation trading portfolio)	-
7	Credit spread risk - securitisation (correlation trading portfolio)	-
8	Default risk - non-securitisations	-
9	Default risk - securitisations (non-correlation trading portfolio)	-
10	Default risk - securitisations (correlation trading portfolio)	-
11	Residual risk add-on	-
12	**Total**	**97,802**