Pillar III Disclosures

Qualitative & Quantitative Disclosures

31-Dec-19

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Overview of risk management and RWA

Table OVA: Bank Risk Management Approach

Table OVA: Bank risk management approach

(a) Business model determination and risk profile

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

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

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

(b) The risk governance structure

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

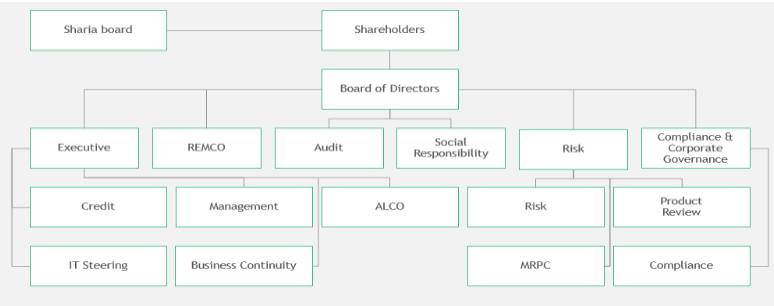
The ERM framework of the Bank aims to establish a Risk based strategy for all its products and banking services, driving operational efficiency across the Bank, with guidance on identifying and addressing various forms of risks (including credit, market, operational, liquidity, reputational, compliance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

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

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

I. Defined risk appetite and strategy.
II. Risk governance establishing the roles and responsibilities for the management committees and Enterprise Risk Management Group.
III. A comprehensive review and analysis of material risks – as assessed by the Bank, at regular frequency along with the review of existing risk mitigation mechanisms.
IV. Measurement methodologies for the quantification of risk.
V. Monitoring and reporting process to ensure that the risk is maintained within the established tolerance levels.
VI. Capital management linked to the overall business strategy to ensure that the capital is commensurate to the levels of risk inherent in the business.
VII. Stress test measures to determine if the capital levels are adequate in case of adverse events and take decisions to enhance the capital or mitigate risk.

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



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

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

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

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

(f) Qualitative information on stress testing

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

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

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

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

Overview of risk management, key prudential metrics and RWA

Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		Q4 2019	Q3 2019	Q4 2019
1	Credit risk (excluding counterparty credit risk)	51,442,506	47,663,684	4,115,400
2	Of which: standardised approach (SA)	51,442,506	47,663,684	4,115,400
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)	232,561	275,820	18,605
7	Of which: standardised approach for counterparty credit risk	232,561	275,820	18,605
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	1,677,030	1,557,665	134,162
21	Of which: standardised approach (SA)	1,677,030	1,557,665	134,162
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	5,059,741	4,949,404	404,779
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)**	**58,411,838**	**54,446,574**	**4,672,947**

Overview of risk management, key prudential metrics and RWA

Template KM1: Key metrics (at consolidated group level)

		a	b	c	d
		Q4 2019	Q3 2019	Q2 2019	Q1 2019
	Available capital (amounts)				
1	Common Equity Tier 1 (CET1)	12,081,623	11,818,007	11,799,899	11,957,539
1a	Fully loaded ECL accounting model	11,699,930	11,436,313	11,418,205	11,575,845
2	Tier 1	12,081,623	11,818,007	11,799,899	11,957,539
2a	Fully loaded accounting model Tier 1	11,699,930	11,436,313	11,418,205	11,575,845
3	Total capital	14,382,322	14,168,908	14,140,235	14,311,961
3a	Fully loaded ECL accounting model total capital	13,965,497	13,752,082	13,723,409	13,895,135
	Risk-weighted assets (amounts)				
4	Total risk-weighted assets (RWA)	58,411,838	54,446,574	53,862,354	52,811,326
	Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	20.68%	21.71%	21.91%	22.64%
5a	Fully loaded ECL accounting model CET1 (%)	20.03%	21.00%	21.20%	21.92%
6	Tier 1 ratio (%)	20.68%	21.71%	21.91%	22.64%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	20.03%	21.00%	21.20%	21.92%
7	Total capital ratio (%)	24.62%	26.02%	26.25%	27.10%
7a	Fully loaded ECL accounting model total capital ratio (%)	23.91%	25.26%	25.48%	26.31%
	Basel III Leverage Ratio				
13	Total Basel III leverage ratio measure	91,804,172	86,005,095	82,393,416	79,355,222
14	Basel III leverage ratio (%) (row 2/row 13)	13.16%	13.74%	14.32%	15.07%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	12.74%	13.30%	13.86%	14.59%
	Liquidity Coverage Ratio				
15	Total HQLA	28,438,738	26,780,961	25,515,191	25,538,180
16	Total net cash outflow	15,785,671	14,321,868	12,960,052	12,717,799
17	LCR ratio (%)	180.16%	186.99%	196.88%	200.81%
	Net Stable Funding Ratio				
18	Total available stable funding	52,173,307	48,457,284	47,479,917	47,758,237
19	Total required stable funding	38,690,191	35,613,908	35,008,159	33,468,042
20	NSFR ratio (%)	134.85%	136.06%	135.63%	142.70%

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

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	5,477,687	5,477,687	5,477,687	-	-	-	-
Due from banks and other financial institutions	1,429,004	1,429,004	1,429,004	-	-	-	-
Investments, net	27,618,764	27,618,764	27,618,764	-	-	-	-
Positive fair value of derivatives	101,626	101,626	-	101,626	-	-	-
Loans and advances, net	49,660,119	49,660,119	49,660,119	-	-	-	-
Investment in Associates	148,332	148,332	148,332	-	-	-	-
Other real estate, net	468,992	468,992	468,992	-	-	-	-
Property and Equipment	1,154,270	1,154,270	1,154,270	-	-	-	-
Other assets	485,550	485,550	485,550	-	-	-	-
Total Assets	**86,544,343**	**86,544,343**	**86,442,717**	**101,626**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	8,253,754	-	-	-	-	-	8,253,754
Negative fair value of derivaties	216,011	-	-	-	-	-	216,011
Customers' deposits	62,696,794	-	-	-	-	-	62,696,794
Other liabilities	1,781,346	-	-	-	-	-	1,781,346
Subordinated Sukuk	2,006,921	-	-	-	-	-	2,006,921
Total Liabilities	**74,954,826**	**-**	**-**	**-**	**-**	**-**	**74,954,826**

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

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	86,544,343	86,442,717		101,626	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	86,544,343	86,442,717	-	101,626	-
4	Off-balance sheet amounts	11,600,696	4,610,910	-	-	-
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	6,560,627	-	-	232,561	-
10	**Exposure amounts considered for regulatory purposes**	**104,705,667**	**91,053,628**	**-**	**334,187**	**-**

Linkages between financial statements and regulatory exposures

Template LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

(a)	Explanation of significant differences between the amounts in columns (a) and (b) in LI1. - Bank Al Jazira does not have any difference between "Carrying Vales as reported in published financial statements" and "Carrying values under scope of regulatory consolidation.
(b)	Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2. - On-Balance Sheet: In case of On-Balance Sheet items, currently there are no differences between carrying values and amounts considered for regulatory purposes except loan loss provisions and Unidentified Differences. - Off-Balance Sheet & Derivatives: In case of Off-Balance sheet and Derivatives Notional values are populated as total carrying / accounting value where as credit equivalent amounts (i.e. after applying conversion factors including Add-on adjustments in case of Derivative portfolio) are populated under respective regulatory framework.
(c)	• Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used. • Description of the independent price verification process. • Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument). - Please refer to the Published Financial Statements.

Composition of capital

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	1,132,699
3	Accumulated other comprehensive income (and other reserves)	2,638,512
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**	**11,971,211**
	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	110,412
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**	110,412
29	**Common Equity Tier 1 capital (CET1)**	12,081,623
	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)**	**12,081,623**
	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	300,699
51	**Tier 2 capital before regulatory adjustments**	2,300,699
	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)**	2,300,699
59	**Total regulatory capital (TC = T1 + T2)**	14,382,322
60	**Total risk-weighted assets**	58,411,838
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	20.68%
62	**Tier 1 (as a percentage of risk-weighted assets)**	20.68%
63	**Total capital (as a percentage of risk-weighted assets)**	24.62%
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)*	-

Composition of capital

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	5,477,687	5,477,687
Due from banks and other financial institutions	1,417,759	1,417,759
Investments	27,391,103	27,391,103
Loans and advances, net	49,324,429	49,324,429
Investment in associate	148,332	148,332
Other real estate, net	468,992	468,992
Property and equipment, net	1,154,270	1,154,270
Other assets	1,161,771	1,161,771
Total assets	**86,544,343**	**86,544,343**
Liabilities		
Due to banks and other financial institutions	8,208,037	8,208,037
Customers' deposits	62,442,075	62,442,075
Subordinated debt	2,000,000	2,000,000
Other liabilities	2,304,715	2,304,715
Total liabilities	**74,954,827**	**74,954,827**
Shareholders' equity		
Share capital	8,200,000	8,200,000
Statutory reserve	2,657,316	2,657,316
General reserve	68,000	68,000
Other reserves	(86,804)	(86,804)
Retained earnings	751,006	751,006
Proposed Dividend	-	-
Total shareholders' equity	**11,589,518**	**11,589,518**

Leverage ratio

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

		a
1	Total consolidated assets as per published financial statements	104,705,666
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	(6,177,276)
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)	(6,989,786)
7	Other adjustments	265,568
8	**Leverage ratio exposure measure**	**91,804,172**

Leverage ratio

Template LR2: Leverage ratio common disclosure template

		a	b
		Dec-19	**Sep-19**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	86,809,911	80,930,261
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)**	86,809,911	80,930,261
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	78,676	107,567
5	Add-on amounts for PFE associated with *all* derivatives transactions	304,674	353,482
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)**	383,350	461,049
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	11,600,696	11,650,928
18	(Adjustments for conversion to credit equivalent amounts)	(6,989,786)	(7,037,143)
19	**Off-balance sheet items (sum of rows 17 and 18)**	4,610,910	4,613,785
Capital and total exposures			
20	**Tier 1 capital**	12,081,623	11,818,007
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	91,804,172	86,005,094
Leverage ratio			
22	**Basel III leverage ratio**	13.16%	13.74%

Liquidity

Template LIQA: Liquidity risk management

a) Governance of Liquidity Risk Management:

The Bank has developed Liquidity Risk Policy (LRP) as an important tool to manage adherence to Liquidity Ratios and Liquidity Stress Scenarios as approved by the Market Risk Policy Committee (MRPC) of the Bank. Any exception to the Liquidity Risk Policy must be approved by MRPC and notified to the BRC (as part of regular reporting), Board/ExCom. The Bank has a sound governance process for the management of liquidity and associated risks with well-defined roles and responsibilities of various stakeholders involved in the daily management and monitoring of the Bank's liquidity position.

The Bank has enhanced its liquidity risk management framework by enhancing the charters of Committees as well as produce various liquidity metrics at a regular frequency which help in assessing the liquidity risk profile of the Bank. The Bank computes LCR, NSFR, SLR and LDR as per the required frequency of the regulator. Additionally, the Bank also conducts a CFP testing on a quarterly basis.

Treasury team is responsible for the management of the Bank's liquidity and the structural maturity mismatches. Market and Liquidity Risk Management Unit within Enterprise Risk Management Group (ERMG) works closely with the Treasury team of the Bank to track the liquidity ratios and conduct liquidity stress tests to better prepare the Bank for business as usual and unexpected stress scenarios. Treasury works under the guidelines of the Liquidity Risk Policy (LRP). The Bank's Risk Appetite Framework defines the Bank's Risk Capacity, Risk Appetite, Risk Limit and Risk Profile as approved by the Board after reviewing by the Board Risk Committee (BRC). The Risk Appetite Framework also defines the roles and responsibilities of various stakeholders. The MRPC is the ultimate owner of the Bank's Liquidity Risk management framework and responsible to review the liquidity position of the Bank on a regular basis. The ILAAP is reviewed by the ILAAP Steering Committee and Board Risk Committee (BRC) and approved by the Boaplementation of services, where ap

i. Board and Senior Management Oversight

The Board of Directors (BoD) has the overall responsibility for the establishment and governance of the risk management framework and are assisted by Board Level and Management Level Committees. The Board Level Committees are as under:

ii. Board of Directors Executive Committee (ExCom)

The ExCom has been delegated by the BoD and chaired by the Chairman of BoD. 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 out by the BoD, recommend the budget and operating plan of action submitted by Finance Team for the fiscal year, and ensure proper implementation of policies approved by the BoD.

iii. Board Risk Committee

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

iv. Market Risk Policy Committee

The Board Executive Committee (ExCom) has delegated the decision making authority of monitoring and controlling Treasury activities through MRPC. This authority includes the risk appetite setting process which culminates in the approval of the market and liquidity risk and Treasury related activities. MRPC has the following roles and responsibilities:

- Review and approve Market Risk Policy, Liquidity Risk Policy, Contingency Liquidity Policy and Profit Rate Risk Policy.
- All changes/revisions in the above policies to be ratified by the Board after MRPC review and approval.
- Review and approve the Market Risk Limits Package.
- New product, new activity and complex transaction approval.
- Communicate to the ExCom (through the MRPC meeting minutes) any material positions and risks as appropriate.
- Communicate to the ExCom (through the MRPC meeting minutes) of all limit exceptions and excesses.
- Product Program review and approval.
- Authorize temporary increases or permanent changes to limits.
- Review reports on trading portfolio risks.
- Oversee the structure, composition and performance of the investment portfolio.
- Reclassify certain Investment exposures within Board approved limits.
- Review and approve all existing and new counterparty credit and issuer limits along with all limits approval related to the Treasury business.

v. Asset and Liability Committee

ExCom has delegated the decision making authority of monitoring and controlling liquidity and accrual risks on the Bank's balance sheet to the ALCO. To strategically manage these risks, ALCO has the authority to establish, change or allocate limits related to the Bank's business lines/products.

Roles of the ALCO:

- To develop an effective Asset and Liability Management Framework for Bank wide portfolios and to ensure optimal balance sheet management.
- To oversee and monitor the Bank's approved policies and procedures in relation to the management and control of the following key balance sheet risks.
  - Liquidity risk – being the risk from the Bank's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding.
  - Accrual risk – being the risk to earnings from adverse movements in profit rates.
- Oversee the installation and maintenance of an information system that supplies, on a timely basis, the information and data necessary for the ALCO to fulfil its roles and responsibilities.

b) Funding Strategy:

The Board of Directors of the Bank recognises the importance of liquidity management and funding strategy both for ensuring the effective liquidity risk management at the Bank in compliance with the regulatory requirements as well as within the Risk Appetite Limits set by the Board. The funding strategy assess the funding requirement based on the projected growth of the balance sheet and the main source of funding envisaged.

i. Funding Diversification

Customer deposits constitute major source of funding for the Bank followed by shareholders' equity and due to banks and FIs. The debt issuances are a relatively smaller portion of the overall funding profile of the Bank. Customer deposits are well diversified across six major segments. Among the customer deposits "Corporate profit bearing (Naqa'a deposits)" and "Retail non-profit bearing (current accounts)" deposits constitute the major chunk of the total customer deposits (86.7 percent of the total customer deposits of SAR 55,683 million). The Bank is projecting to successively reduce this percentage to 78.5 percent by the end of 2019 and then maintaining around that level for 2020 and 2021.

In term of diversification among tenure, the Bank ensures to have a healthy mix of short, medium and long term funding. Most of the interbank funding is of short term in nature which is primarily utilised for managing short term liquidity requirements. Corporate deposits provide the short and medium term funding profile. Retail current accounts are non-maturity accounts which can be withdrawn at any time. However, based on the behavioural study of historical data these deposits remain with the Bank for a relatively longer term, that is, they have shown a lower decay rate. Another long term source of funding for the Bank are issuance of Sukuk.

ii. Monitoring Mechanism for Funding Diversification

The Bank ensure to limit concentration in any one particular funding source or tenor so as to minimise the risk in case that particular funding source run dry. The Bank main funding source are customer deposits which are relatively more stable as compared to wholesale market funding. The Bank do raise funds from wholesale market through bond issuance and interbank market, but the proportion of these in the overall balance sheet is relatively lower.

The following reports the Bank tracks on a regular basis so as to ensure that the funding sources remain well diversified:

- Large fund providers (LFP) Report: On a monthly basis ALCO tracks the funds raised through large fund providers and their percentage to total deposits.
- Interbank borrowing concentration analysis: Market risk produces this report on a monthly basis which monitor the counterparty concentration and highlights if overreliance is placed on any single interbank counterparty.

c) Liquidity Risk Mitigation Techniques:

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.

d) 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.

e) Contingency Funding Plan:

The Bank has developed a detailed Contingency Funding Plan (CFP) 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 tracked on a regular basis.

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.

Quantitative Disclosure:

f) Customised Liquidity Risk Measurement Tools

S.No	Ratio Description	Code	Formula	Regulatory Limit	RAG Criteria (Internal Limit) RED	AMBER	GREEN	Current Ratio	RAG
1	Liquidity Coverage Ratio	LCR	Stock of high quality liquid assets / Total net cash outflows over the next 30 calendar days	> 100%	< 120%	> 120%, < 130%	> 130%	184%	
2	Net Stable Funding Ratio	NSFR	Available amount of stable funding / Required amount of stable funding	> 100%	< 110%	> 110%, < 120%	> 120%	135%	
3	SAMA Liquidity Ratio	SLR	Total Liquid Assets / Total Deposit Liabilities for Liquid Reserves	> 20%	< 25%	> 25%, < 30%	> 30%	52%	
4	Modified Loans to Deposits Ratio	LDR	Loans and advances, net / Weighted deposits	< 90%	< 85%	> 80%, < 85%	< 80%	72%	
5	Significant Funding Ratio	SFS	Top 20 Depositors / Total Customer Deposits	-	TBD			41%	
6	Interbank Borrowing Ratio	IBR	Total Interbank Borrowing / Total Assets	-	> 10% of Total Assets	< 10%, > 8% of Total Assets	< 8% of Total Assets	9%	
7	Repo Concentration	RC	Total Interbank Repo / Eligible Sukuk that can be repo with SAMA and FIs	-	TBD			1%	
8	Maximum Cumulative Outflow (SAR '000)	3 months MCO	The maximum aggregate outflow of liquidity for a given time horizon of its liquidity maturity profile	-	TBD			(SAR 11,596)	
		12 months MCO		-	TBD			(SAR 9,103)	

g) Concentration limits on collateral pools and sources of funding (both products and counterparties)

Management of collateral entails distinguishing between pledged and unencumbered assets that are available at all times and can be utilised to raise liquidity. It includes identification of the jurisdiction in which the collateral resides so when needed, the collateral can be freely moved from one jurisdiction to another.

The Bank tracks the portfolio of unencumbered assets along with the jurisdiction in which these collaterals reside. A sample unencumbered report is shown below:

Sr. No.	Category	Type and nature	Location	Haircut
1	Available unencumbered assets that are marketable as collaterals in secondary market	SUKUK	Saudi Arabia	25%
2	Available unencumbered assets that are eligible secured financing with central bank are pre-arranged (if available) or current haircuts at reasonable costs of standing facility	SUKUK Guaranteed by MoF	Saudi Arabia	15%
		SAMA FRN	Saudi Arabia	10%
		KSA Sukuk	Saudi Arabia	0%
3	Customer collateral received that the bank is permitted to deliver or re-pledge	-	-	-

h) Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of capital.

The Bank has established the lending limit to AlJazira Capital (subsidiary of Bank AlJazira) within the SAMA lending limit of 25% of its own capital. The Bank foresees no requirement of liquidity transferability issues from its subsidiaries or affiliates.

i) Balance Sheet Gapping Report

As of 31st December 2019 Amounts in SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	863,000	-	-	-	4,614,687	5,477,687
Due from banks and other financial institutions	448,745	600,000	-	-	380,259	1,429,004
Investments, net	-	10,988	10,759,283	16,556,589	291,904	27,618,764
Positive fair value of derivatives	21,128	2,534	25,723	52,241	-	101,626
Loans and advances, net	12,304,432	14,211,747	13,137,975	9,563,736	442,229	49,660,119
Investment in Associates	-	-	-	-	148,332	148,332
Other real estate, net	-	-	-	-	468,992	468,992
Property and Equipment	-	-	-	-	1,154,270	1,154,270
Other assets	-	-	-	-	485,550	485,550
Total Assets	**13,637,305**	**14,825,270**	**23,922,981**	**26,172,566**	**7,986,223**	**86,544,344**
Liabilities						
Due to banks and other financial institutions	6,682,500	1,037,500	-	290,117	243,637	8,253,754
Negative fair value of derivaties	25,095	2,534	64,912	123,470	-	216,011
Customers' deposits	18,525,401	11,292,323	191,469	-	32,687,601	62,696,794
Other liabilities	-	-	-	-	1,781,347	1,781,347
Subordinated Sukuk	-	-	-	2,000,000	6,921	2,006,921
Total Liabilities	**25,232,996**	**12,332,357**	**256,381**	**2,413,587**	**34,719,506**	**74,954,827**
Shareholders' Equity	**-**	**-**	**-**	**-**	**11,589,517**	**11,589,517**
Total Liabilities and Shareholders' Equity	**25,232,996**	**12,332,357**	**256,381**	**2,413,587**	**46,309,023**	**86,544,344**
Total Off Balance Sheet	**2,557,518**	**1,948,477**	**834,014**	**17,900**	**(93,489)**	**5,264,420**
Gap	**(14,153,209)**	**544,435**	**22,832,586**	**23,741,079**	**(38,229,311)**	**(5,264,420)**
Cummulative Gap	**(14,153,209)**	**(13,608,774)**	**9,223,812**	**32,964,891**	**(5,264,420)**	

Liquidity

Template LIQ1: Liquidity Coverage Ratio (LCR)

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		27,609,849
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	-	-
3	Stable deposits	-	-
4	Less stable deposits	19,355,036	1,935,504
5	**Unsecured wholesale funding, of which:**	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	24,011,217	15,566,253
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	-	-
11	Outflows related to derivative exposures and other collateral requirements	37,977	37,977
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	202,552	20,255
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	11,470,905	294,826
16	**TOTAL CASH OUTFLOWS**		17,854,815
Cash inflows			
17	**Secured lending (eg reverse repo)**	-	-
18	**Inflows from fully performing exposures**	4,715,580	2,800,869
19	**Other cash inflows**	176	176
20	**TOTAL CASH INFLOWS**	4,715,756	2,801,045
		-	**Total adjusted value**
21	**Total HQLA**		27,609,849
22	**Total net cash outflows**		15,053,769
23	**Liquidity coverage ratio (%)**		183.57%

Liquidity

Template LIQ2: Net Stable Funding Ratio (NSFR)

		a	b	c	d	e
		Unweighted value by residual maturity				**Weighted value**
		No maturity*	**<6 months**	**6 months to <1 year**	**≥1 year**	
Available stable funding (ASF) item						
1	Capital:					
2	*Regulatory capital*	12,387,323	-	-	2,000,000	14,387,323
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	B.9.6				
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	19,591,076	2,646,611.69	217,608	27,700	20,237,466
7	Wholesale funding:					
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	12,093,479	30,487,294.15	4,195,129	829,855	17,553,519
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*				130,590	
13	*All other liabilities and equity not included in the above categories*	2,337,705	286,052	-		-
14	**Total ASF**					52,178,308
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*	-	-	-	22,498,690	1,124,935
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:*	-	19,636,759	6,792,654	23,566,791	33,246,479
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*	287,024	-	-	1,096,404	1,175,914
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*	2,301,224	15,847	-	3,331,063	3,119,633
32	Off-balance sheet items					23,231
33	***Total RSF***					**38,690,191**
34	***Net Stable Funding Ratio (%)***					**134.86%**

Credit risk

Template CRA: General qualitative information about credit risk

(a)	How the business model translates into the components of the bank's credit risk profile. Credit risk, is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that arises from loans and advances, and investment activities. There is also credit risk on credit related commitments, contingencies and derivatives. - BAJ is a diversified financial services institution operating in Saudi Arabia, with a range of business activities and income streams. The Bank's activities comprises mainly of the following financial services: - **Personal Banking**: Deposits, loans and investment products for individuals, remittance, real estate financing, credit card issuance and personal financing. - **Corporate Banking**: Loans, deposits and other credit products for corporate, small and medium sized business and institutional customers. - **Treasury:** Treasury is responsible for managing the assets and liabilities of the Bank. This includes profit rate risk mitigation and liquidity management to ensure that the Bank remains financially secure for customers. The other activities of Treasury include managing the Bank's investment portfolio, offering the Bank's customers Treasury products/solutions to meet their business and risk requirements.

(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits The Bank manages and measures credit risk through a variety of policies, processes and toll, the principal amongst them are: **- Credit Policy Limits :** Overall limits for business lines; Single exposure limits; Economic segment exposure limit; Geographic limit and Product limits etc. **- Risk Identification, measurements and assessment:** Portfolio analysis; Credit rating assessments for corporate clients; Periodic credit risk reveiws; Impairment assessments and Stress testing. **- Mitigation / Controls:** Collateral policy for some classes of lending; Documentation controls; Guarantor where appropriate and Facilities structure

(c)	Structure and organisation of the credit risk management and control function - At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers, assumes the independent responsibility of reviewing and co-signing the approval through the Management Credit Committee (MCC) and the Executive Committee (Excom), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units.

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

(e)	Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors - The Bank has developed and implemented business line wise credit risk and portfolio management dashboards. These dashboards are produced on a monthly basis by the ERMG and discussed at various forums including but not limited to Senior Management and Board Risk Committee.

Credit risk

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	673,082	49,996,204	1,009,167	743,600	265,567	-	49,660,119
2	Debt securities	-	27,326,860	-	-	-	-	27,326,860
3	Off-balance sheet exposures	108,661	5,249,248	93,489	72,257	21,232	-	5,264,420
4	**Total**	**781,743**	**82,572,312**	**1,102,656**	**815,857**	**286,799**	**-**	**82,251,399**

Credit risk

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**	**740,679**
2	Loans and debt securities that have defaulted since the last reporting period	160,197
3	Returned to non-default status	(40,118)
4	Amounts written off	(184,933)
5	Other changes	(2,743)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**673,082**

Credit risk

Template CRB: Additional disclosure related to the credit quality of assets

Qualitative disclosures

(a)	The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes. - Under the new IFRS-9 regime, the Bank recognises impairment based on a forward looking Expected Credit Loss (ECL) approach. The key inputs into the measurement of ECL are the term structure of the following variables: - Probability of Default (PD) - Loss Given Default (LGD) - Exposure at Default (EAD) The above parameters are derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The bank recongnises financial assets into following three stages in accordance with IFRS-9 methodology: Stage 1 – Performing assets: Financial asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL Stage 2 – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL. Stage 3 – Impaired assets: For Financial asset(s) that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

(b)	The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this. - If the situation arises as a result of temporary cash flow constraints of the borrower and in the Bank's view the recovery of the dues or the borrower's intention to repay is not in doubt, such outstandings may be classified as past due but not impaired (Ex: loans against receivables under contracts with Government Sector). However, the such exposures are appropriately classified into relevant stage.

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

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

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

Quantitative disclosures

(e)	Breakdown of exposures by geographical areas, industry and residual maturity; - **Please refer quantitative disclosures.**

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

(g)	Ageing analysis of accounting past-due exposures; **-Please refer quantitative disclosures.**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures							
B.9.1 : Geographic Breakdown- 31 Dec 2019 (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:	26,887,130	-	-	-	-	310,806	27,197,936
*SAMA and Saudi Government	26,887,130	-	-	-	-	-	26,887,130
*Others	-	-	-	-	-	310,806	310,806
Multilateral Development Banks (MDBs)	375,000	-	9,123	-	-	-	384,123
Public Sector Entities	75,739	-	-	-	-	-	75,739
Banks & Securities Firm Exposure	1,308,305	269,699	206,075	66,225	18,497	57,187	1,925,988
Corporate	30,662,582	-	-	-	1,903	14	30,664,499
Retail Non-Mortgages	13,511,015	-	-	-	-	401	13,511,416
*Small Business Facilities Enterprises (SBFE's)	10,794,415	-	-	-	-	401	10,794,816
Mortgages	12,344,563	-	-	-	-	-	12,344,563
*Residential	-	-	-	-	-	-	-
*Commercial	-	-	-	-	-	-	-
Securitized Assets	-	-	-	-	-	-	-
Equities	168,995	188	550	-	-	-	169,733
Others	4,501,161	-	-	-	-	-	4,501,161
Past Due Exposures	147,375	-	-	-	-	-	147,375
TOTAL	**89,981,864**	**269,886**	**215,748**	**66,225**	**20,400**	**368,408**	**90,922,532**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

B.9.2 : Industry Sector Breakdown - 31 Dec 2019 (Figures in SAR 000's)

Portfolios	Industry sector												
	Government and quasi government	**Banks and other financial Institutions**	**Agriculture and fishing**	**Manufacturing**	**Mining and quarrying**	**Electricity, water, gas and health services**	**Building and construction**	**Commerce**	**Transportation and communication**	**Services**	**Consumer loans and credit cards**	**Others**	**Total**
Sovereigns and central banks:	27,197,936	-	-	-	-	-	-	-	-	-	-	-	27,197,936
*SAMA and Saudi Government	26,887,130	-	-	-	-	-	-	-	-	-	-	-	26,887,130
*Others	310,806	-	-	-	-	-	-	-	-	-	-	-	310,806
Multilateral Development Banks (MDBs)	-	384,123	-	-	-	-	-	-	-	-	-	-	384,123
Public Sector Entities	739	-	-	-	75,000	-	-	-	-	-	-	-	75,739
Banks & Securities Firm Exposure	-	1,925,988	-	-	-	-	-	-	-	-	-	-	1,925,988
Corporate	3,332,100.74	3,618,854.31	85,895.93	4,691,648.39	200,056.80	952.35	2,241,569.24	10,132,048.97	221,929.53	2,584,774.51	-	3,554,668.37	30,664,499
Retail Non-Mortgages	-	-	-	-	-	-	-	-	-	-	13,511,415.89	-	13,511,416
*Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-	-	10,794,815.54	-	10,794,816
Mortgages	-	-	-	-	-	-	-	-	-	-	-	12,344,562.63	12,344,563
*Residential	-	-	-	-	-	-	-	-	-	-	-	12,344,562.63	12,344,563
*Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities	-	-	-	-	-	-	-	-	-	-	-	169,733	169,733
Others	-	-	-	-	-	-	-	-	-	-	-	4,501,161	4,501,161
Past Due Exposures	-	-	-	-	-	-	-	-	-	-	-	147,375	147,375
TOTAL	**30,530,775**	**5,928,965**	**85,896**	**4,691,648**	**275,057**	**952**	**2,241,569**	**10,132,049**	**221,930**	**2,584,775**	**13,511,416**	**20,717,499**	**90,922,532**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures							
B.9.3 : Residual Contractual Maturity Breakdown - 31 Dec 2019 (Figures in SAR 000's)							
Portfolios	**Maturity breakdown**						
	0-90 days	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Sovereigns and central banks:	3,511,910	107,288	213,702	4,247,261	6,549,499	12,568,276	27,197,936
*SAMA and Saudi Government	3,513,240	-	-	4,248,870	6,551,981	12,573,039	26,887,130
*Others	-	103,884	206,922	-	-	-	310,806
Multilateral Development Banks (MDBs)	384,123	-	-	-	-	-	384,123
Public Sector Entities	739	-	-	-	75,000	-	75,739
Banks & Securities Firm Exposure	1,299,281	-	-	553,792	35,443	37,473	1,925,988
Corporate	13,831,915	5,997,932	5,159,089	723,285	1,083,553	3,868,725	30,664,499
Retail Non-Mortgages	640,503	87,769	12,351,561	52,189	12,000	367,395	13,511,416
*Small Business Facilities Enterprises (SBFE's)	110,627	9,032	10,488,998	8,772	1,567	175,820	10,794,816
Mortgages	-	-	8,106,683	-	-	4,237,880	12,344,563
*Residential	-	-	385,723	166,763	356,866	11,435,211	12,344,563
*Commercial	-	-	-	-	-	-	-
Securitized Assets	-	-	-	-	-	-	-
Equities	-	-	169,733	-	-	-	169,733
Others	-	-	4,501,161	-	-	-	4,501,161
Past Due Exposures	22,126	8,235	67,198	15,177	28,879	5,760	147,375
TOTAL	**19,690,597**	**6,201,223**	**30,569,126**	**5,591,703**	**7,784,374**	**21,085,509**	**90,922,532**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures									
B.9.4 : Impaired Loans, Past Due Loans and Allowances - 31 December 2019 (Figures in SAR 000's)									
Industry sector	**Impaired loans**	**Aging of Past Due Loans (days)**				**Specific allowances**			**General allowances**
		**Less than 90 ** **	**90-180**	**180-360**	**Over 360**	**Gross charges during the period**	**Charge-offs during the period**	**Balance at the end of the period**	
Government and quasi government	-	-	-	-	-	-	-	-	6,672
Banks and other financial institutions	-	-	-	-	-	-	-	-	3,605
Agriculture and fishing	-	-	-	-	-	-	-	-	32
Manufacturing	14,464	12,093	1,839	76,852	4,703	110,829	-	200,128	37,100
Mining and quarrying	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-
Building and construction	70,225	7,803	23,324	977	1,177	10,420	180,610	57,370	3,554
Commerce	207,066	67,718	84,677	292,258	47,276	49,794	1,642	274,524	36,935
Transportation and communication	-	-	24	-	-	(167)	-	197	968
Service	162,799	26,708	1,141	142	5,001	1,169	-	107,842	6,511
Consumer loans and credit cards	203,098	1,200,148	484	-	-	13,272	2,681	99,656	114,051
Others	15,430	41,333	3	20	4,178	(8,867)	-	3,883	56,138
TOTAL	**466,016**	**1,355,803**	**111,493**	**370,249**	**62,335**	**176,449**	**184,933**	**743,600**	**265,567**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures							
B.9.5 : Impaired Loans, Past Due Loans And Allowances- 31 December 2019 (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	466,016	1,355,803	111,493	370,249	62,335	743,600	265,567
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Other countries	-	-	-	-	-	-	-
TOTAL	**466,016**	**1,355,803**	**111,493**	**370,249**	**62,335**	**743,600**	**265,567**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures		
B.9.6 : Reconciliation Of Changes In The Allowances For Loan Impairment - 31 Dec 2019 (Figures in SAR 000's)		
	Specific allowances	**General allowances**
Balance, beginning of the period	602,116	331,389
Charge-offs taken against the allowances during the period	451,307	(65,822)
Amounts set aside (or reversed) during the period	(122,058)	-
Other adjustments:	-	-
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries, etc	-	-
- - Written off	(187,766)	
Transfers between allowances	-	-
Provision written back previously written off	-	-
Balance, end of the period	743,600	265,567

Credit risk

Template CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

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

Credit risk

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	79,163,889	991,470	991,470	-	-	-	-
2	Debt securities	-	-	-	-	-	-	-
3	Total	79,163,889	991,470	991,470	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

Credit risk under standardised approach

Template CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

(a)	Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period; - Bank Al Jazira currently uses multiple assessments as specified by relevant guidelines of BCBS, where ECAI used are as follows : (a) Fitch (b) Standard & Poor's & (c) Moody's. There are no changes at the reporting period.

(b)	The asset classes for which each ECAI or ECA is used; - In accordance with the guideline issued by SAMA, ECAI risk assessments are used by the Bank as part of the determination of risk weightings for the following classes of exposure: - Claims on sovereigns and their central banks; - Claims on Multilateral Development Banks; - Claims on Banks and Securities Firms; and - Claims on corporates.
(c)	A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book (see paragraphs 99-101 of the Basel framework; and As per the Credit policy following is the description of the process: o **External Ratings:** The Bank considers use of ratings provided by major reputed External Rating Agencies (ERA) for the cases: - Ratings of Financial Institutions, Banks and Sovereigns from ERAs are considered; - In case of differing ratings between different rating agencies, the lower rating grade is considered. o **Countries and Central Governments**: The following rules are applicable for consideration of ORR of Sovereigns and governments: - External ratings is considered for rating governments; - In case of absence of ratings, or unrated governments, the expsure may be proposed by the business and approved by the CRD and the CRO. o **Government entities:** - All Government agencies are rated as per the rules prescribed in the Master Rating Scale; - In case the customer is partially guaranteed by a government agency (less than 100%), the guaranteed part is rated based on the government agency rating, and the other partis rated based on the company's' rating/ ORR. o **Financial Institutions** - The Bank may consider reference to External ratings for assessing risks pertaining to Financial Institutions; - Ratings of Financial Institutions may also be considered based on dedicated models in case external ratings are unavailable, based on approval of rating by the Mangement Credit Committee and Market Risk Policy Committee.
(d)	The alignment of the alphanumerical scale of each agency used with the risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply). Please refer to the Master Rating / Mapping Scale below:

BAJ Internal Grade	Description	Mapping to Moodys Master Scale
1A	Superior	A2
2A	Excellent	A2
2B	Excellent	A2
2C	Excellent	A3
3A	Very Good	A3
3B	Very Good	Baa1
3C	Very Good	Baa1
4A	Good	Baa2
4B	Good	Baa2
4C	Good	Baa3
5A	Acceptable	Baa3
5B	Acceptable	Ba1
5C	Acceptable	Ba2
6A	Acceptable with Care	Ba2
6B	Acceptable with Care, Not Rated, Start Up	Ba3
6C	Acceptable with Care, Watchlist	B1
7A	Special Attention	B2
7B	Special Attention	B3
7C	Special Attention	Caa1
8A	Default	C
9A	Default	100.0000%
9B	Default	100.0000%

Credit risk under standardised approach

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	27,135,012	619,346	27,135,012	62,924	310,806	1.14%
2	Non-central government public sector entities	-	300,739	-	75,739	37,869	50.00%
3	Multilateral development banks	375,000	9,123	375,000	9,123	75,000	19.53%
4	Banks	1,399,175	284,571	1,399,175	280,008	877,917	52.28%
5	Securities firms	-	-	-	-	-	0.00%
6	Corporates	27,910,536	9,956,911	27,444,165	3,997,019	29,050,042	92.39%
7	Regulatory retail portfolios	13,427,411	409,156	13,395,998	171,120	10,812,712	79.70%
8	Secured by residential property	12,345,826	-	12,344,563	-	6,173,174	50.01%
9	Secured by commercial real estate	-	-	-	-	-	
10	Equity	169,733	-	169,733	-	370,444	218.25%
11	Past-due loans	299,889	20,851	189,147	14,978	177,824	87.12%
12	Higher-risk categories	-	-	-	-	-	0.00%
13	Other assets	4,501,161	-	4,501,161	-	3,302,249	73.36%
14	**Total**	**87,563,743**	**11,600,696**	**86,953,953**	**4,610,910**	**51,188,036**	55.90%

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	26,887,130	-	-	-	-	-	310,806	-	-	27,197,936
2	Non-central government public sector entities (PSEs)	-	-	-	-	75,739	-	-	-	-	75,739
3	Multilateral development banks (MDBs)	9,123	-	375,000	-	-	-	-	-	-	384,123
4	Banks	-	-	414,583	-	1,246,564	-	258,994	5,784	-	1,925,925
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	2,956,063	-	27,708,260	240	-	30,664,562
7	Regulatory retail portfolios	-	-	-	-	-	10,794,816	2,716,600	-	-	13,511,416
8	Secured by residential property	-	-	-	-	12,342,777	-	1,785	-	-	12,344,563
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	35,925	-	133,807	169,733
11	Past-due loans	-	-	-	-	-	-	86,477	60,897	-	147,375
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	1,198,912	-	-	-	-	-	3,302,249	-	-	4,501,161
14	***Total***	**28,095,165**	-	**789,583**	-	**16,621,143**	**10,794,816**	**34,421,097**	**66,922**	**133,807**	**90,922,532**

<u>**Counterparty credit risk**</u>

Template CCRA: Qualitative disclosure related to counterparty credit risk

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

Counterparty credit risk

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)	78,676	239,108		-	383,351	232,561
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**						232,561

Counterparty credit risk

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	20,358	254,470
4	Total subject to the CVA capital charge	**20,358**	**254,470**

Counterparty credit risk

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	-	-	91,396	155,346	-	63	-	-	246,805
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	136,546	-	-	136,546
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-			-		-	-	-
Total	-	-	91,396	155,346	-	136,609	-	-	383,351

Counterparty credit risk

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	-	-	111,731	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	111,731	-	-	-

Market risk

Table MRA: General qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank, which must include an explanation and/or description of:

- The Banks strategic objectives in undertaking trading activities, as well as the processes implemented to identify, meausre, monitor and control the banks market risk, including policies for hedging risk and the stratgies/processes for monitoring the continuing effectiveness of hedges.

- A general description of the desk structure.
- Types of instruments included in the desks or desk categories that are not covered by Table MRC.

- Policies for determining whether a position is designated as trading, including the definition of state positions and the risk management policies for monitoring those positions. In addition, banks should describe cases where instruments are assisgned to the trading or banking book contrary to the general presumptions of their instrument category and the market and gross fair value of such cases, as well as cases where instruments have been moved from one book to the other since the last reporting period, including the gross fair value of such cases and the reason for the move.

(b) The structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the bank discussed in a row (a) above.

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

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

Market risk

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

		a
		Capital charge in SA
1	General interest rate risk	-
2	Equity risk	45,924
3	Commodity risk	-
4	Foreign exchange risk	88,239
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**	134,162

Operational Risk (unchanged)

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

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

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

Qualitative disclosures	(a)	**A description of how the bank defines IRRBB for purposes of risk control and measurement.** Profit Rate Risk in the banking book arises from changes in profit rates that exposes the Bank to the risk of loss due to changes in future cash flows or the fair value of financial instruments. The Bank has in place an appropriate framework for identifying and measuring profit rate risk; these include profit rate gap, earnings-at-risk and economic value of equity (EVE) analyses reports be presented to management for regular review. Annual review of underlying assumptions used to forecast profit rate margins, profit rates, fiscal/budgetary conditions and the economy at both local and international levels, in particular, considering the Bank's product and pricing structure fall under ALCO responsibilities. From a governance perspective, BAJ's Market Risk Policy Committee (MRPC) has established limits on the profit rate risk exposure of the bank. Positions are monitored on a daily basis and reported regularly to senior management to ensure that profit rate risk is maintained within the established limits. Market Risk Management is responsible for monitoring profit rate risk, on a day-to-day basis. Market Risk is also responsible for implementing the profit rate risk policy. Profit rate risks are reported to the MRPC.
	(b)	A description of the bank's overall IRRBB management and mitigation strategies. The MRPC has responsibility for governing the nature and the level of the bank's IRRBB exposure. The committee approves broad business strategies as well as overall policies with respect to IRRBB. It ensures that there is clear guidance regarding the acceptable level of IRRBB, given the bank's business strategies. Accordingly, the MRPC is responsible for ensuring that steps are taken by the bank to identify, measure, monitor and control IRRBB consistent with the approved strategies and policies. i. Appropriate limits on IRRBB, including the definition of specific procedures and approvals necessary for exceptions, and ensuring compliance with the limits; ii. Adequate systems and standards for measuring IRRBB; iii. Standards for measuring IRRBB, valuing positions and assessing performance, including procedures for updating interest rate shock and stress scenarios and key underlying assumptions driving the institution's IRRBB analysis; iv. A comprehensive IRRBB reporting and review process; and v. Effective internal controls and management information systems (MIS). Market Risk has established a monitoring and reporting process for profit rate risk that provides pertinent and timely information to MRPC. The following lists some of the aspects of the regular monitoring: i. Monitoring of the implementation of the limits ii. Checking for limit violations as and when they occur, and reporting accordingly iii. Computing the profit rate risk of the Bank's portfolio iv. Detection and correction of deficiencies in the policies, processes and procedures that relate and have a direct impact on market and profit rate risk v. Managing profit rate risk through ongoing, periodic and annual reviews For the measurement of profit rate risk, the Bank has adopted the Economic Value of Equity and Earnings based approaches as recommended by the Basel committee. EVE Approach captures the long term risk of change in values of banking book assets and liabilities till maturity/reprising. **Limit Structures for Profit Rate Exposures** **EaR Trigger** - This is the maximum level of loss in earnings that can be incurred over a given time frame. **TRAP Trigger** – This is being implemented and acts as a management action trigger on the economic change in value of the balance sheet from a defined point in time (e.g. Month-to-date, Year-to-date and Inception-to-date). Economic Value of Equity (EVE) or the Equity approach captures the long-term risk of change in values of banking book assets and liabilities till maturity/re-pricing for the purpose of capital estimation. BAJ manages its profit rate risk on an entity-wide basis, it re-evaluates its cash flow exposures periodically. The frequency of the evaluation would depend on the Bank's risk management policy and repricing intervals of the hedged items and instruments.
	(c)	The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB. Market Risk Management is responsible for monitoring profit rate risk, on a day-to-day basis. Market Risk is also responsible for implementing the profit rate risk policy. Profit rate risks are reported to the MRPC. **Stress Testing** The Bank conducts stress tests semi-annually, in line with the regulatory requirements, to identify vulnerabilities in the Bank's portfolio to various risks as envisaged in its Pillar-2 assessments. The stress test has the objective of enabling the Bank to assess the capital requirements and implement corrective actions, if required. Besides, the Bank also conducts ad hoc stress tests pertaining to various portfolios such as real estate, impact of provisions due to vulnerable accounts etc. Stress tests produce information summarizing the Bank's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme risk factor movements. Stress testing addresses the large moves in key market variables of the kind that lie beyond day-to-day risk monitoring but could potentially occur. **Sensitivity Analysis** A sensitivity analysis includes shocking the various profit rates by 'x' basis points. **Scenario Analysis** A scenario analysis includes building scenarios of benchmark profit rates, changing the level, slope and shape of the profit rate curves and changing the spreads between various profit rates. Market Risk is responsible for performing stress tests in line with regulatory and executive management's requirements.
	(d)	**A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.** In line with Basel best practices, Bank applies six prescribed interest rate shock scenarios to capture parallel and non-parallel gap risks for EVE and two prescribed interest rate shock scenarios for NII. IRRBB is measured by means of the following six scenarios: a. parallel shock up; b. parallel shock down; c. steepener shock (short rates down and long rates up); d. flattener shock (short rates up and long rates down); e. short rates shock up; and f. short rates shock down
	(e)	**Where significant modelling assumptions used in the bank's IMS (i.e. the EVE metric generated by the bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Table IRRBBA, the bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).** N/A
	(f)	**f. A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.** In addition, as part of its ongoing asset and liability management activities, BAJ uses derivatives for hedging purposes in order to pro-actively manage its exposure to profit rate risk and remain within risk limit and appetite guidelines. This is generally achieved by hedging items on the balance sheet. Profit rate gaps on the balance sheet are typically created when the bank books long term assets with a fixed profit rate and funds them with short or long term floating profit rate liabilities e.g. Sukuks and fixed term customer deposits. These gaps exposes the bank to profit rate risk and the bank's strategy is to manage the exposure arising from these gaps (fixed-rate assets) by using derivatives to off-set the exposure. This can be achieved by receiving a floating and paying a fixed rate on the derivative which results in the profit rate risk (gap) being set-off on the balance sheet. The profit rate gap thus effectively gets neutralized. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are treated in accordance with respective accounting guidelines.
		A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B: Banks measures ΔEVE and ΔNII under the prescribed interest rate shock scenarios set out in BASEL guideline "Interest Rate Risk in the Banking Book April 2016". Bank uses its internal model to calculate the PRRBB exposure values. The qualitative and quantitative disclosure (issued separately) of the bank provide sufficient information and supporting detail to enable the public to: i. monitor the sensitivity of the bank's economic value and earnings to changes in interest rates; ii. Understand the primary assumptions underlying the measurement produced by the bank. iii. Insight into the bank's overall IRRBB objective and IRRBB management.
	-	**For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.** **Market / Economical Value of Equity** For ΔEVE calculation; customer rates and other spread have been included in the cash flows and relevant benchmark/yield curves are used for discounting. i. Banks excludes its own equity from the computation of the exposure level. ii. Banks includes all cash flows from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure. Banks includes commercial margins and other spread components in its cash flows. iii. Cash flows are being discounted by using standard relevant yield curve/benchmark. iv. ΔEVE is computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business. **Net Interest Income** For ΔNII calculation; customer rates and other spread have been included in the cash flows and relevant benchmark/yield curves are used for discounting. i. For ΔNII Banks includes expected cash flows including customer rates and other spread components arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book. ii. ΔNII is computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components. iii. ΔNII is disclosed as the difference in future interest income over a rolling 12-month period.
	-	**How the average repricing maturity of non-maturity deposits in (1) has been determined (including any unique product characteristics that affect assessment of repricing behavior).** Banks separates its Non-Maturity Deposits according to the nature of the deposits. Bank identifies core and non-core deposits, as described in the section Cash flow slotting (Table 2) but being more conservative the caps average maturity on Retail/Transactional and Wholesale deposit reduced from 5 year to 3years. Bank classifies the NMDs into retail and wholesale categories. Retail deposits are defined as deposits placed with a bank by an individual person. Deposits made by small business customers and managed as retail exposures. Retail deposits are considered as held in a transactional account when regular transactions are carried out in that account. Banks distinguishes between the stable and the non-stable parts of each NMD category. The stable NMD portion is the portion that is found to remain undrawn with a high degree of likelihood. Core deposits are the proportion of stable NMDs which are unlikely to reprice even under significant changes in the interest rate environment. The remainder constitutes non-core NMDs. Banks estimates its level of core deposits by using Basel prescribed procedure for each deposit category to determine the overall volume of core deposits subject to imposed caps. +D40:V41
	(g)	**The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions.** Given the fact that prepayments are immaterial, the Bank does not have any prepayment model and/or the early withdrawal rates for time deposits.
	-	Any other assumptions (including for instruments with behavioral optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. Any methods of aggregation across currencies and any significant interest rate correlations between different currencies. As per customer contract, the Bank has the option to reprice Retail Real Estate transactions. This portfolio has been forecasted to reprice at a reasonably higher rate (< 1%) in relevant scenarios as appropriate. +D40:V41D39:V41
	-	**(Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.** N/A
Quantitative disclosures		1 Average repricing maturity assigned to NMDs is 3.44 Years (Retail) and 2.41 Years (Wholesale). 2 Longest repricing maturity assigned to NMDs is 10 Years.

Interest rate risk in the banking book

Table IRRBB1: Quantitative information on IRRBB

In reporting currency	ΔEVE		ΔNII	
Period	**T**	**T-1**	**T**	**T-1**
Parallel up	(1,384,832)	(1,469,352)	(421,246)	(335,915)
Parallel Down	1,594,876	1,448,476	421,246	335,915
Steepener	(147,121)	(328,469)		
Flattener	(242,625)	B.9.6		
Short rate up	(830,942)	(875,554)		
Short rate down	(710,910)	(842,421)		
Maximum	**1,384,832**	**1,469,352**	**421,246**	**335,915**
Period	**T**		**T-1**	
Tier 1 capital	**12,081,623**		**11,818,007**	