BANK ALJAZIRA

Revised Basel III Pillar 3 – Qualitative & Quantitative Disclosures

June 30, 2018

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B.1 - Table OVA: Bank risk management approach

(a) Business model determination and risk profile

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

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

- Adequate governance process through 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.

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

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

I. Defined risk appetite and strategy.

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

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

IV. Measurement methodologies for the quantification of risk.

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

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

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

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

At BAJ, the 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 to the Bank's Senior Management and the Board Committees.

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

		a	b	c
		RWA		Minimum capital requirements
		Jun-18	Jun-17	Jun-18
1	Credit risk (excluding counterparty credit risk) (CCR)	46,206,817	46,579,746	3,696,545
2	Of which standardised approach (SA)	46,206,817	46,579,746	3,696,545
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	427,941	422,213	34,235
5	Of which standardised approach for counterparty credit risk (SA-CCR)	427,941	422,213	34,235
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	1,241,709	906,989	99,337
17	Of which standardised approach (SA)	1,241,709	906,989	99,337
18	Of which internal model approaches (IMM)			-
19	Operational risk	4,687,384	4,879,475	374,991
20	Of which Basic Indicator Approach	4,687,384	4,879,475	374,991
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	**52,563,850**	**52,788,423**	**4,205,108**

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

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	4,134,279	4,134,279	4,134,279	-	-	-	-
Due from banks and other financial institutions	592,125	592,125	592,125	-	-	-	-
Investments, net	23,320,354	23,320,354	23,320,354	-	-	-	-
Positive fair value of derivatives	87,283	87,283	-	87,283	-	-	-
Loans and advances, net	39,838,813	39,838,813	39,838,813	-	-	-	-
Investment in Associates	130,956	130,956	130,956	-	-	-	-
Other real estate, net	446,839	446,839	446,839	-	-	-	-
Property and Equipment	774,641	774,641	774,641	-	-	-	-
Other assets	439,247	439,247	439,247	-	-	-	-
Total assets	**69,764,537**	**69,764,537**	**69,677,254**	**87,283**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	7,570,736	-	-	-	-	-	7,570,736
Negative fair value of derivaties	135,952	-	-	-	-	-	135,952
Customers' deposits	47,768,074	-	-	-	-	-	47,768,074
Other liabilities	888,358	-	-	-	-	-	888,358
Subordinated Sukuk	2,007,041	-	-	-	-	-	2,007,041
Total assets	**58,370,160**	**-**	**-**	**-**	**-**	**-**	**58,370,160**

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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)	69,764,537	69,677,254	-	87,283	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-		-
3	Total net amount under regulatory scope of consolidation	69,764,537	69,677,254	-	87,283	-
4	Off-balance sheet amounts	10,390,095	4,964,615	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Derivatives	7,763,878	-	-	427,941	-
10	**Exposure amounts considered for regulatory purposes**	**87,918,509**	**74,641,869**	**-**	**515,224**	**-**

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

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

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

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

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

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

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	803,675	40,031,783	996,645	39,838,813
2	Debt Securities	-	23,256,323	-	23,256,323
3	Off-balance sheet exposures	188,745	5,197,384	113,579	5,272,550
4	***Total***	**992,420**	**68,485,490**	**1,110,224**	**68,367,686**

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

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	504,363
2	Loans and debt securities that have defaulted since the last reporting period	975,038
3	Returned to non-defaulted status	(315,480)
4	Amounts written off	(316,270)
5	Other changes	(43,976)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**803,675**

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

Qualitative disclosures

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

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

The above parameters are derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The bank recongnises financial assets into following three stages in accordance with IFRS-9 methodology:
Stage 1 – Performing assets: Financial asset(s) that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL
Stage 2 – Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
Stage 3 – Impaired assets: For Financial asset(s) that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

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

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

(c) Description of methods used for determining impairments.

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

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

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

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

Quantitative disclosures

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

- **Please refer quantitative disclosures.**

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

-Please refer quantitative disclosures.

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

-Please refer quantitative disclosures.

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B.9.1 : Geographic Breakdown- 30 June 2018 (Figures in SAR 000's)							
Portfolios	**Geographic area**						
	Saudi Arabia	**Other GCC & Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
Sovereigns and central banks:	20,364,062	41,416	-	-	-	-	20,405,478
*SAMA and Saudi Government	20,364,062	41,416	-	-	-	-	20,405,478
*Others	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	1,388	-	7,573				8,961
Public Sector Entities	2,016,063	-					2,016,063
Banks & Securities Firm Exposure	2,638,909	200,060	116,955	158,144	2,217	31,027	3,147,311
Corporate	25,795,542					416	25,795,959
Retail Non-Mortgages	14,365,503	562		1,313		2,260	14,369,638
*Small Business Facilities Enterprises (SBFE's)	11,771,584	-					11,771,584
Mortgages	5,684,342	-	-	-	-	-	5,684,342
*Residential	5,684,342	-					5,684,342
*Commercial	-						-
Securitized Assets	-	-					-
Equities	160,823	188					161,011
Others	3,745,428	469	187		3,971	1,544	3,751,598
TOTAL	**74,772,060**	**242,695**	**124,714**	**159,457**	**6,188**	**35,247**	**75,340,360**

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B.9.2 : Industry Sector Breakdown - 30 June 2018 (Figures in SAR 000's)

Portfolios	Industry sector												
	Government and quasi government	**Banks and other financial Institutions**	**Agriculture and fishing**	**Manufacturing**	**Mining and quarrying**	**Electricity, water, gas and health services**	**Building and construction**	**Commerce**	**Transportation and communication**	**Services**	**Consumer loans and credit cards**	**Others**	**Total**
Sovereigns and central banks:	17,599,084	41,416	-	-	-	-	-	-	-	-	-	2,764,978	20,405,478
SAMA and Saudi Government	17,599,084	41,416										2,764,978	20,405,478
Others													-
Multilateral Development Banks		8,961											8,961
Public Sector Entities	2,016,063												2,016,063
Banks & Securities Firm Exposure		3,143,461										3,850	3,147,311
Corporates	10,704.43	1,787,056.16	151,574.68	4,941,831.67	241,104.68	2,375.98	1,427,797.28	7,017,137.00	89,928.58	1,279,713.09		8,846,735.29	25,795,959
Retail Non-Mortgages		40		30,405		6,251	32,023.10	418,772.44	2,480	59,736	9,457,636.79	4,362,294	14,369,638
Small Business Facilities Enterprises (SBFE's)							5,185	4,836			9,457,637	2,303,926	11,771,584
Morgages	-	-	-	-	-	-	-	313	-	-		5,684,029	5,684,342
Residential								313				5,684,029	5,684,342
Commercial													-
Securitized assets													-
Equities												161,011	161,011
Others		2,622		12,572			399,992	117,128	30	73,671		3,145,584	3,751,598
TOTAL	**19,625,851**	**4,983,556**	**151,575**	**4,984,808**	**241,105**	**8,627**	**1,859,812**	**7,553,351**	**92,439**	**1,413,120**	**9,457,637**	**24,968,481**	**75,340,360**

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B.9.3 : Residual Contractual Maturity Breakdown - 30 June 2018 (Figures in SAR 000's)									
Portfolios	**Maturity breakdown**								
	Less than 8 days	**8-30 days**	**30-90 days**	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Sovereigns and central banks:	-		-	-	-	-	4,112,500	13,493,006	20,405,478
SAMA and Saudi Government		2,799,972					4,112,500	13,493,006	20,405,478
Others									-
Multilateral Development Banks	8,961								8,961
Public Sector Entities							481,875	1,534,188	2,016,063
Banks & Securities Firm Exposure	3,147,311								3,147,311
Corporate	3,824,864	1,135,790	10,128	2,679,988	3,444,550	5,148,668	1,981,140	7,570,830	25,795,958
Retail Non-Mortgages	701,061	20,442	95	439,566	244,539	659,994	2,071,313	10,232,628	14,369,638
Small Business Facilities Enterprises (SBFE's)	1,958			5,000	2,000		1,063	11,761,563	11,771,584
Mortgages	133	9	-	1,107	991	4,222	87,401	5,590,479	5,684,342
Residential	133	9		1,107	991	4,222	87,401	5,590,479	5,684,342
Commercial									-
Securtized Assets									-
Equities	161,011								161,011
Other Assets	1,836,573	1,492	412	193,995		314,183	145,549	1,259,395	3,751,598
TOTAL	**9,679,914**	**1,157,733**	**10,634**	**3,314,656**	**3,690,080**	**6,127,067**	**8,879,779**	**39,680,524**	**75,340,360**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures									
B.9.4 : Impaired Loans, Past Due Loans and Allowances - 30 June 2018 (Figures in SAR 000's)									
Industry sector	**Impaired loans**	**Aging of Past Due Loans (days)**				**Specific allowances**			**General allowances**
		Less than 90 **	**90-180**	**180-360**	**Over 360**	**Gross charges during the period**	**Charge-offs during the period**	**Balance at the end of the period**	
Government and quasi government	-								
Banks and other financial institutions	-								
Agriculture and fishing	-								
Manufacturing	106,672	10,249	179,584		330	387,254	314,441	111,129	
Mining and quarrying	-							-	
Electricity, water, gas and health services	-							-	
Building and construction	171,805	25,140		47		45,127		91,524	
Commerce	158,616	324,087	136,256	1,065	37,713	98,621		129,054	
Transportation and communication	-	94				5,964		-	
Service	109,350	-	3,160	-	-	80,807		51,566	
Consumer loans and credit cards	216,364	1,249,994	28,865	50,731	9,857	69,259	1,829	100,991	
Others	40,869	33,586	298	147	2,698	54,308		235,147	
TOTAL	**803,675**	**1,643,149**	**348,163**	**51,990**	**50,598**	**741,339**	**316,270**	**719,412**	**277,233**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures							
B.9.5 : Impaired Loans, Past Due Loans And Allowances- 30 June 2018 (Figures in SAR 000's)							
Geographic area	**Impaired loans**	**Aging of Past Due Loans (days)**				**Specific allowances**	**General allowances**
		Less than 90	**90-180**	**180-360**	**Over 360**		
Saudi Arabia	803,675	1,643,149	348,163	51,990	50,598	719,412	277,233
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Other countries	-	-	-	-	-	-	-
TOTAL	**803,675**	**1,643,149**	**348,163**	**51,990**	**50,598**	**719,412**	**277,233**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures		
B.9.6 : Reconciliation Of Changes In The Allowances For Loan Impairment - 30 June 2018 (Figures in SAR 000's)		
	Specific allowances	**General allowances**
Balance, beginning of the period	294,343	410,386
Charge-offs taken against the allowances during the period	235,610	(32,566)
Amounts set aside (or reversed) during the period	(70,259)	
Impact of re-measurement due to adoption of IFRS 9	572,871	
Other adjustments:		(100,587)
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries, etc		
- - Written off	(316,270)	
Transfers between allowances		
Provision written back previously written off	3,117	
Balance, end of the period	**719,412**	**277,233**

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

(a)	Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting. -Netting can reduce capital adequacy requirements by offsetting deposits held by the bank against financing arrangements. However netting arrangements are not used by the Bank unless the deposits need to be in the form of collateral with a specific charge or lien in favor of the Bank.
(b)	Core features of policies and processes for collateral evaluation and management -Collateral evaluation and management is the responsibility of the Credit Administration and Control (CAC) Division. Collaterals are mainly in the form of real estate, cash margins and equity shares traded locally. Policy guidelines exist as to the periodicity of the valuation of the collateral, the minimum security coverage ratios to be maintained and the action points if these levels are breached. The bank has empanelled property evaluators and a minimum of three evaluations are done from three different empanelled valuers. An internal rule has been established to arrive at the appraised value of the property. Insurance/Takaful where necessary is also taken where applicable.
(c)	Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers). - Bank Al Jazira's corporate portfolio is focused substantially on Saudi large, medium, and small business entities. The credit granting process is centralized and has a well reinforced governance process that ensures independent input from Enteprise Risk Management Group prior to decision making. Due to the wholesale nature of business, Country Concentration (outside Saudi Arabia) is virtually non-existent. **Name Concentration:** Name concentration in a lending portfolio arises when there are few borrowers in a bank's loan portfolio or when loan amounts are very unequal in distribution. The Bank uses the granularity adjustment methodology (GA) along with Herfindahl - Hirshchman Index (HHI) to assess and estimate the name concentration risk. **Sector Concentration:** Sector concentration risk in the bank's credit portfolios can also arise from an excessive exposure to a single economic or business sector or to several highly correlated sectors. The Bank uses normalized HHI to measure its Sector Concentration along with Sector Concentration limits that are sensitive to parameters such as economic activity, geography, collateral, risk rating etc.

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	63,667,489	843,289	843,289	-	-	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	Total	63,667,489	843,289	843,289	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-

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

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

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

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	20,405,478	-	20,405,478	-	-	0%
2	Non-central government public sector entities	1,941,063	1,849,773	1,941,063	75,000	1,008,031	50%
3	Multilateral development banks		10,350	-	8,961	278	3%
4	Banks	2,345,822	251,739	2,345,822	251,620	1,273,390	49%
5	Securities firms	-	-	-	-	-	-
6	Corporates	21,660,600	7,947,235	21,121,967	4,489,766	25,028,039	98%
7	Regulatory retail portfolios	14,253,515	203,311	14,230,378	139,257	11,377,822	79%
8	Secured by residential property	5,685,100	-	5,684,341		4,263,412	75%
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	161,011	-	161,011	-	335,657	208%
11	Past-due loans	546,737	127,688	482,420	10	675,229	140%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	3,269,168	-	3,269,168	-	1,875,396	57%
14	***Total***	**70,268,491**	**10,390,095**	**69,641,648**	**4,964,615**	**45,837,253**	**61%**

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereigns and their central banks	20,405,478									20,405,478
2	Non-central government public sector entities (PSEs)					2,016,063					2,016,063
3	Multilateral development banks (MDBs)	7,573						1,388			8,961
4	Banks			597,468		2,306,691		243,152			3,147,311
5	Securities firms										0
6	Corporates							25,795,959			25,795,959
7	Regulatory retail portfolios						11,771,583	2,598,055			14,369,638
8	Secured by residential property						5,682,457	1,884			5,684,341
9	Secured by commercial real estate										0
10	Equity							44,580		116,431	161,011
11	Past-due loans							96,834	385,596		482,431
12	Higher-risk categories										0
13	Other assets	1,393,772						1,875,396			3,269,168
14	***Total***	**21,806,823**	**0**	**597,468**	**0**	**4,322,753**	**17,454,041**	**30,657,248**	**385,596**	**116,431**	**75,340,360**

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

Banks must provide

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

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

		a	b	c	d	e	f
		Replacement cost	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1	SA-CCR (for derivatives)	57,097	504,816		-	734,098	427,941
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**						**427,941**

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

		a	b
		EAD post-CRM	**RWA**
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	29,565	369,564
4	Total subject to the CVA capital charge	**29,565**	**369,564**

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

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight***	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures**
Sovereigns and their central banks									-
Non-central government public sector entities (PSEs)	-								-
Multilateral development banks (MDBs)									-
Banks			108,203	439,189		2,477			549,869
Securities firms									-
Corporates						184,225			184,225
Regulatory retail portfolios						3			3
Other assets	-	-			-				-
Total	**-**	**-**	**108,203**	**439,189**	**-**	**186,706**	**-**	**-**	**734,098**

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

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	-	71,006	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	**71,006**	-	-	-

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

(A) Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):	
(a)	Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges Market Risk Management The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The Bank continually monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits. Market Risk: a) Introduction: Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices. b) Management of Market Risk Delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risk. The Bank has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures. The primary objective is to manage volatility in earnings and highlight the market risk and liquidity risk profile to Senior Management, Board Risk Committee (BRC), Asset and Liability Committee (ALCO), the Board of Directors and the national supervisor. I. Foreign Exchange Risk Foreign Exchange risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The MRPC has set limits on net open positions by currency. There are limits for USD, Other G10 Currencies, GCC Currencies, and currencies in other regions. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a limited extent in United States Dollars (USD) or in USD-pegged currencies. II. Equity Price Risk Equity price risk refers to the risk of a decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities is regularly marked to market and positive/negative changes are taken into the Bank's equity or income statement. c) Capital Treatment for Market Risk Bank AlJazira computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the Bank's activities.
(b)	Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management Market Risk Management Structure: Market Risk unit is mainly responsible for monitoring Foreign Exchange Risk, Equity Price Risk and Liquidity Risk on a daily basis. The primary tools used to monitor market risks are: I. Market Risk Factors II. Factor Sensitivity III. Loss Triggers IV. Profit Rate Exposure V. Market Access Requirement VI. Stress Tests Governance Bodies: Market Risk Policy Committee (MRPC) The Board Executive Committee (Excom) delegates the decision making authority of monitoring and controlling Treasury activities through the MRPC. This authority includes the risk appetite setting process which culminates in the approval of the market risk and Treasury related credit. Asset and Liability Committee (ALCO) ExCom delegates the decision making authority of monitoring and controlling liquidity and accrual risks on BAJ's balance sheet to the ALCO. Board of Directors Executive Committee (ExCom) The ExCom has been delegated by the BOD and chaired by the chairman of board of directors. It is the responsibility of the ExCom, in accordance with the delegated powers, to approve credit and monitor the implementation of the strategy and policies set by the BOD, recommend the budget and operating plan of action submitted for the fiscal year, and ensure proper implementation of the policies of the BOD. Board Risk Committee (BRC) The Board Risk Committee is primarily responsible for providing advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including determination of risk appetite and tolerance.
(c)	Scope and nature of risk reporting and/or measurement systems. BAJ has implemented a comprehensive Market Risk Control function supported by robust MIS systems. Market Risk Management uses various MIS system for the below monitoring and reporting purpose: I. Foreign Exchange Profit & Loss II. Trading DV01 III. Investment Portfolio IV. Profit Rate Exposure V. Market Access Requirement

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

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	119,402
3	Foreign exchange risk	1,122,307
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**1,241,709**

B.41 - Operational risk

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

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

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

<table>
<tr><td rowspan="12">Qualitative disclosures</td><td>(a)</td><td>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.</td></tr>
<tr><td>(b)</td><td>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.</td></tr>
<tr><td>(c)</td><td>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.</td></tr>
<tr><td>(d)</td><td>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</td></tr>
<tr><td>(e)</td><td>Where significant modelling assumptions used in the bank's IMS (ie the EVE metric generated by the bank for purposes other than disclosure, eg for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Table B, the bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (eg historical data, published research, management judgment and analysis).

N/A</td></tr>
<tr><td>(f)</td><td>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.</td></tr>
<tr><td>(g)</td><td>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.</td></tr>
<tr><td>i.</td><td>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.</td></tr>
<tr><td>ii.</td><td>How the average repricing maturity of non-maturity deposits in (1) has been determined (including any unique product characteristics that affect assessment of repricing behaviour).

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

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

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

Banks estimates its level of core deposits by using Basel prescribed procedure for each deposit category to determine the overall volume of core deposits subject to imposed caps.</td></tr>
<tr><td>iii.</td><td>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.</td></tr>
<tr><td>iv.</td><td>Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material.
Any methods of aggregation across currencies and any significant interest rate correlations between different currencies.

As per customer contract, the Bank has the option to reprice Retail Real Estate transactions. This portfolio has been forecasted to reprice at a reasonably higher rate (< 1%) in relevant scenarios as appropriate.</td></tr>
<tr><td>H)</td><td>(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</td></tr>
<tr><td rowspan="2">Quantitative disclosures</td><td colspan="2">As per regulatory requirement, to be updated only on an annual basis</td></tr>
<tr><td colspan="2"></td></tr>
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