

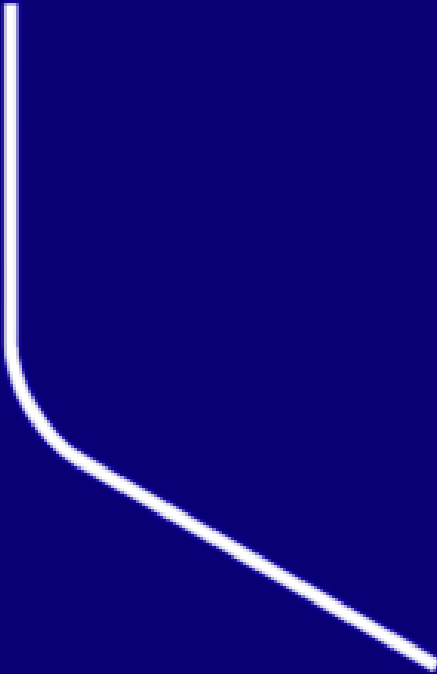
Al Rajhi Banking & Investment Corporation (Malaysia) Bhd

Task Force on Climate-related Financial Disclosures

DECEMBER 2024



disclaimer



Al Rajhi Banking & Investment Corporation (Malaysia) Bhd (alrajhi bank Malaysia) endorses the Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures (TCFD) recommendations for climate-related financial disclosures. This document outlines our disclosures in alignment with these recommendations.

All figures reported in the disclosures are as of 31 December 2024 unless otherwise specified. The information and data presented pertain to our business activities from 1 January 2024 to 31 December 2024, unless stated otherwise. Measurement techniques and calculations are explained alongside the data tables where applicable.



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alrajhi bank Malaysia at a glance

Overview

alrajhi bank Malaysia is the first Saudi Arabian Islamic financial institution to operate in Southeast Asia. Locally incorporated in 2005 and licensed by the Malaysian Minister of Finance in 2006, we are a wholly owned subsidiary of alrajhi bank Kingdom of Saudi Arabia, one of the largest banks in the world by market capitalisation and the largest in the Middle East and Saudi Arabia.

We provide comprehensive Shariah-compliant financial services, bridging modern financial demands with ethical values. Our offerings include personal finance, financing for corporate customers, home financing, cash management, and among the best savings account rates, accessible through our 13 branches across Peninsular and East Malaysia, including the Klang Valley.



Our Values

Integrity and Transparency

Openness and the highest standards of corporate and personal ethics in all that we do.

Passion to Serve Our Customers

A strong commitment to anticipate and address customer needs beyond expectation, helping them achieve their objectives.

Modesty

Nurturing imagination and fostering creativity for better results.

Innovativeness

Nurturing imagination and fostering creativity for better results.

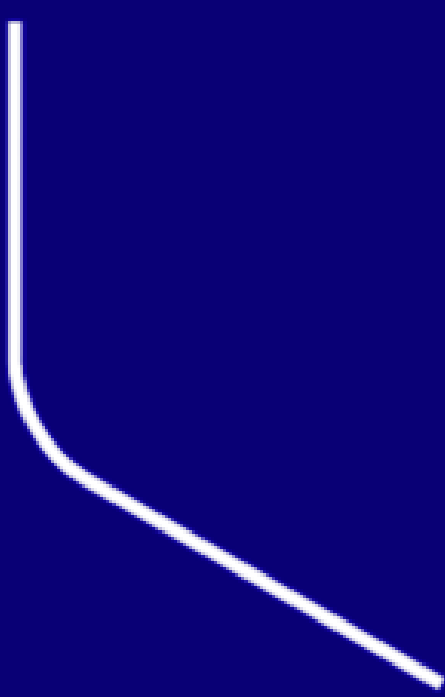
Meritocracy

Defining, differentiating, and reinforcing excellence in people.

Care for Society

Contributing towards a better tomorrow.

Task Force on Climate-related Financial Disclosures



This report presents disclosures that take into account and reflect the Task Force on Climate-related Financial Disclosures (TCFD) recommendations as outlined in the TCFD Recommendations and Recommended Disclosures in July 2017 and the October 2021 update.

The TCFD recommendations, developed by the Financial Stability Board (FSB), establishes an essential structure for analyzing and understanding climate-related risks. By focusing on Governance, Strategy, Risk Management, and Metrics and Targets, the framework provides a comprehensive method for understanding and managing the financial implications of climate change on organizations.

Governance



Board Oversight of Climate-related Risks and Opportunities

The Board of Directors of alrajhi bank Malaysia has established a clear governance structure to manage and oversee climate-related risks and opportunities. The Board/Board Risk Management and Compliance Committee ensures that climate-related risks are incorporated into the bank's long-term strategy, embedding climate governance within the broader risk management framework. The Board/Board Risk Management and Compliance Committee meets a minimum of six meetings per year.

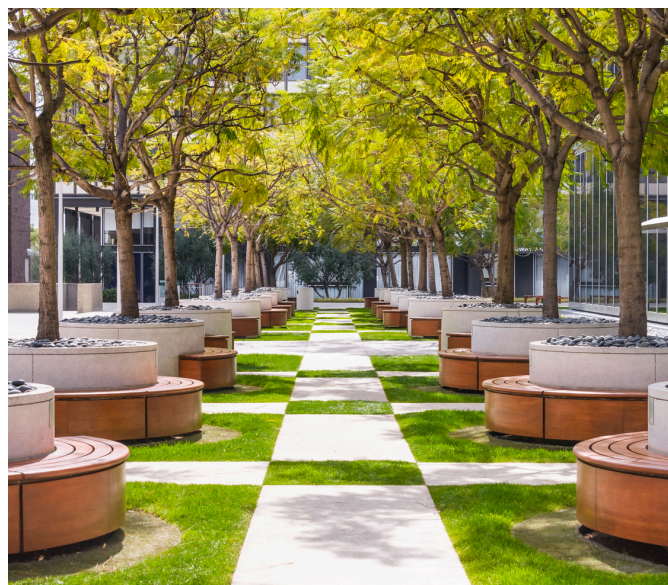
Sustainability Committee

alrajhi bank Malaysia has a dedicated Sustainability Committee that convenes four times a year. This Committee is tasked with overseeing the Bank's sustainability initiatives, including climate-related risks. The Committee works closely with senior management to implement strategies aligned with climate goals and ensures that all relevant departments have the necessary resources and training to manage and report on climate-related risks. The Committee is made up of representatives from the following divisions and departments:

- Transformation & Sustainability
- Branding & Communications
- Corporate Strategy
- Strategic Partnership, Liabilities & Treasury
- Human Resources
- Finance & Administration
- Risk Management
- Compliance
- Corporate Banking
- Retail Banking
- Treasury
- Shariah

The roles of the Committee are as follows:

- **Strategic Oversight:** The Committee ensures that sustainability initiatives align with the Bank's overall strategy and objectives. It provides guidance on long-term sustainability goals and monitors progress towards achieving them.
- **Policy Development:** The Committee is involved in the creation and implementation of policies related to sustainability. This includes setting standards for environmental performance, social responsibility, and governance practices.
- **Risk Management:** By identifying and assessing sustainability-related risks, the Committee helps the Bank mitigate potential negative impacts on its operations and reputation. This includes evaluating risks associated with climate change, resource scarcity, and regulatory changes.
- **Stakeholder Engagement:** The Committee facilitates communication and collaboration with various stakeholders, including investors, customers, employees, and regulators. This ensures that the Bank's sustainability efforts are transparent and responsive to stakeholder concerns.
- **Performance Monitoring:** The Committee regularly reviews and reports on the Bank's sustainability performance. This includes tracking key metrics, such as greenhouse gas emissions, energy consumption, and social impact indicators.
- **Innovation and Best Practices:** The Committee promotes the adoption of innovative practices and technologies that enhance sustainability. It also benchmarks the Bank's performance against industry best practices to ensure continuous improvement.



Management's Role

Senior management plays a critical role in executing climate-related policies and strategies. The management team integrates climate-related factors into underwriting processes, ensuring that alrajhi bank Malaysia's operations align with the Bank's broader climate risk strategy.

In the first year, the Bank will prioritize establishing processes, systems, and capabilities to explore climate-related risks and business opportunities. Once these foundations are in place, efforts will focus on equipping Board members with the relevant credentials, skills, and experience. Subsequently, the Bank will link Board members' and senior management's remuneration to performance against specific sustainability and climate-related targets.



Climate Change from the Perspective of Maqasid Shariah (Objectives of Shariah)

As a full-fledged Islamic bank, alrajhi bank Malaysia subscribes to the principles of **Maqasid Shariah**, aiming to prevent harm (**mafsadah**) and achieve benefit (**maslahah**) in its business and operations. The objectives of Maqasid Shariah focus on enhancing the overall welfare of humanity through five key aspects, namely, the protection of faith, preservation of life, promotion of intellectual growth, upholding family institutions, and safeguarding property rights and economic stability. These principles align with the Sustainable Development Goals (SDGs), and efforts to protect these five aspects are highly valued and beneficial to the public. This commitment also supports the call for financial institutions to adopt more sustainable and responsible practices in line with the central bank's requirements for managing climate-related risks.

Capacity Building

alrajhi bank Malaysia’s commitment to building internal capacity to address climate-related risk is commendable. By investing in training and development programs, the Bank proactively equips its employees to navigate the evolving landscape of sustainable finance and climate change. In 2023 and 2024, alrajhi bank Malaysia conducted various training sessions, including:

2023

- Environmental, Social and Governance (ESG), Green Banking, and Wealth Management
- Introduction to Climate Change & Zero Waste Living
- ESG: Sustainable by Design Masterclass

2024

- Moody’s ESG Risk Assessment Fundamentals
- Application of Climate Change Principle-based Taxonomy

These initiatives ensure that employees can integrate climate considerations into daily operations and decision-making. By undertaking these initiatives, alrajhi bank Malaysia intends to achieve the following:

Enhanced Risk Management	Staff will be better equipped to identify, assess, and manage climate-related risk, such as physical risks and transition risks.
Informed Decision-Making	By understanding the financial implications of climate change, staff can make informed decisions about financing, investments, and risk management.
Product Innovations	Inspire the development of innovating green financial products and services, such as green financing, sustainable sukuk, and other related developments.
Regulatory Compliance	By staying up-to-date with the latest ESG and climate-regulations, alrajhi bank Malaysia can ensure compliance and avoid potential penalties.
Reputation Enhancement	By demonstrating a commitment to sustainability and climate action, alrajhi bank Malaysia, can enhance its reputation and attract environmentally conscious clients, customers and investors.

By investing in its employees’ knowledge and skills, alrajhi bank Malaysia is positioning itself as a leader in contributing to a more sustainable future.

Internal Awareness

alrajhi bank Malaysia circulates a bi-monthly sustainability newsletter to all employees, providing updates on the latest developments in climate-related issues, market trends, and regulatory changes. This regular communication helps ensure that alrajhi bank Malaysia employees are informed and equipped to manage climate-related risks effectively.



Strategy



Climate-related Short-, Medium- and Long-Term Risks

alrajhi bank Malaysia has initiated a comprehensive assessment to identify and categorize climate-related risks into physical and transition categories. These risks are systematically evaluated against the Bank's retail and corporate financing portfolio to assess their potential short-, medium-, and long-term financial impact. To achieve this, we employ a multi-faceted approach:

- **Industry-Level Assessment:** Leveraging third-party data providers and the VBIAF sectoral guide, we gain a macro-level perspective on industry-specific climate risks.
- **Individual Corporate-Level Assessment:** We conduct in-depth analyses of individual corporate clients to identify their unique climate-related exposures.

This dual approach enables us to visualize and manage climate-related risks at both the portfolio and individual levels. By understanding these risks, we can proactively explore strategies to mitigate potential negative impacts and identify emerging opportunities.

Key definitions as follows:

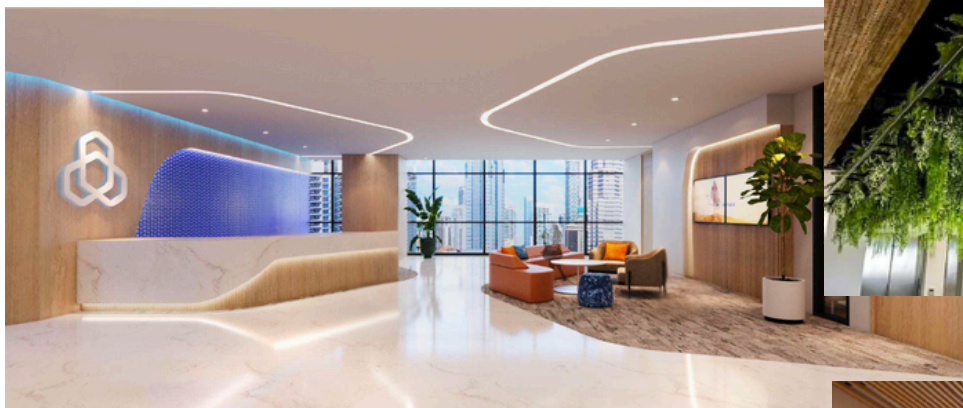
- **Physical Risks:** These include direct risks to business operations from the physical impacts of climate change, such as extreme weather events (floods, hurricanes, droughts), rising sea levels, and long-term shifts in climate patterns. These risks can disrupt supply chains, increase operating costs, and damage assets.
- **Transition Risks:** Transition risks are associated with the global shift towards a low-carbon economy. These include regulatory changes (e.g., carbon taxes, emission limits), technology shifts (e.g., adoption of renewable energy), market changes (e.g., shifting consumer preferences towards green products), and reputational risks for companies perceived as lagging in sustainability efforts.
- **Opportunities:** Assess opportunities from the transition to a low-carbon economy. These can include new markets for green products, energy efficiency improvements, cost reductions from low-carbon technologies, and enhanced reputation from proactive climate action.

Relocation and consolidation of alrajhi bank Malaysia offices

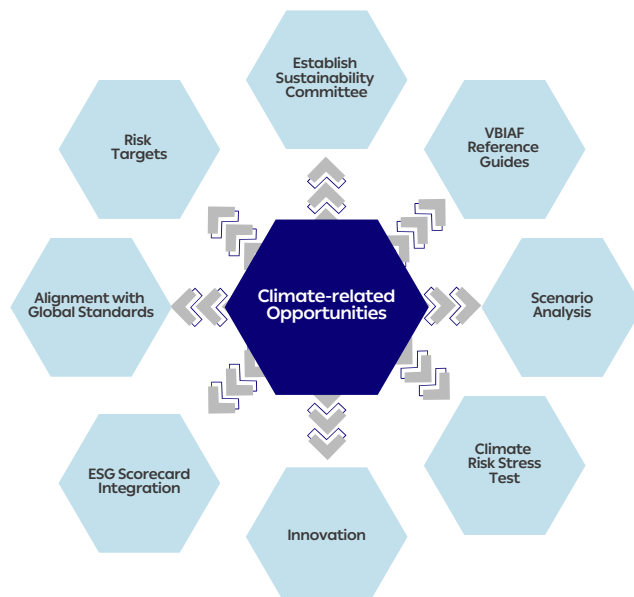
alrajhi bank Malaysia will relocate and consolidate its offices in late 2025 to a "Green Building" that prioritizes energy efficiency, water conservation, and sustainable materials.

Among the notable initiatives being undertaken are:

- 1.Reducing the carbon footprint throughout the design process by using reclaimed or Forest Stewardship Council ("FSC") certified wood or by selecting widely available low-embodied carbon carpets.
- 2.Utilizing LED lighting, which is up to 80% more energy-efficient than traditional lighting.
- 3.Employing laminates manufactured without harmful chemical emissions.
- 4.Ensuring that carpets contain low or no volatile organic compounds ("VOCs"), safer dyes, backing, adhesives, and recycled content. The contractor also practices End-of-Life take-back programs with the manufacturer.
- 5.Designing the office to include biophilic elements such as natural light, greenery, water features, organic materials, natural patterns, improved airflow, outdoor spaces, nature-inspired color palettes, and sensory stimuli that mimic the natural environment.
- 6.Locating the office in a building constructed to Leadership in Energy and Environmental Design ("LEED") specifications, achieving platinum certification for energy efficiency, water conservation, and reduced carbon dioxide ("CO2") emissions.



Climate-related Short-, Medium- and Long-Term Opportunities



Short Term (1 to 3 years)

Establish Sustainability Committee

The Sustainability Committee at alrajhi bank Malaysia plays a pivotal role in driving the Bank's sustainability agenda. This Committee is responsible for overseeing the integration of environmental, social, and governance (ESG) considerations into the Bank's operations and strategic planning.

VBIAF Reference Guides

Climate-related risks are integrated into alrajhi bank Malaysia's underwriting and investment policies. By implementing the VBIAF Sectoral Guides, the Bank ensures that environmental sustainability is a core part of its risk assessment processes, especially in high-risk sectors like energy and agriculture, where both physical and transition risks are evaluated.



Climate Change and Principle-based Taxonomy (CCPT)

The CCPT has been adopted by alrajhi bank Malaysia as part of the questionnaire and declaration form to enhance credit assessment regarding physical and transition risk.

Scenario Analysis

alrajhi bank Malaysia conducts vulnerability assessments to identify material physical and transition risks and further analyze potential financial losses downstream by translating the impact arising from both these risks. This is performed using scenario analysis tools considering the latest NGFS & IPCC climate scenarios in line with global developments.

Climate Risk Stress Test

In anticipation of a changing climate, alrajhi bank Malaysia will conduct a stress test to evaluate the potential impact of climate risk on its portfolio. This forward-looking exercise will enable the Bank to have hands-on experience in quantifying climate risk, refine its existing risk management strategies and explore new stress testing approaches that are relevant assessing climate-related risk. Such an exercise will equip the Bank to proactively manage climate-related risk, adapts its strategies to emerging challenge, and ensure long-term financial stability.

Medium Term (4 - 10 years)

Innovation

alrajhi bank Malaysia partners with a third-party system provider to accurately assess Scope 1, 2, and 3 emissions across its entire operations and corporate customers. This partnership will enable precise monitoring and standardized reporting of emissions within its portfolio. Consequently, management can better understand the impact on the business model, enhance financial planning, and refine climate-related business strategies. The results of this partnership are expected to be the following:

- **Measure:** Seamlessly gather data and measure carbon emissions across Scope 1, 2, and 3 with minimal manual intervention.
- **Manage:** Obtain actionable insights through tailor-made dashboards that help track and reduce carbon emissions.
- **Disclose:** Securely share and disclose carbon emissions data and audit-quality reports with internal and external stakeholders.
- **Decarbonize:** Leverage climate solutions from an ecosystem of providers to quickly and efficiently decarbonize.

ESG Scorecard Integration

Integrating ESG scorecards into credit risk ratings is a strategic move to enhance the risk management practice and align with sustainable finance principles. By incorporating ESG factors into the credit assessment processes, banks can gain a more comprehensive understanding of a client's creditworthiness and potential risks.

Long Term (10 years onwards)

Alignment with Global Standards

alrajhi bank Malaysia's disclosures are aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and local regulatory frameworks, such as Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (CCPT) and the Climate Risk Management and Scenario Analysis (CRMSA).

Risk Targets

alrajhi bank Malaysia integrates climate considerations into decisions on capital investments, employee upskilling, and organizational initiatives to support long-term resilience and align with climate-related targets as part of its RAS Targets. Details of the set internal targets to address climate-related risks and opportunities includes:

- Investment targets: Green Sukuks as a percentage of total corporate sukuks
- Number of Socially Responsible Investing (SRI) compliant funds
- VBI initiatives per year
- Number of training sessions for employees, senior management, and board of directors
- Electricity Consumption (KwH - in thousands)
- Paper Usage (A4)



Climate Risk Impact



Climate Risk

> Physical risk

- Floods
- Wild fires
- Rising sea levels

> Transition risk

- Policy and regulations
- Technology development
- Market changes



Economic Transmission Channels

> Businesses

- Property damage and business disruption
- Stranded assets and new capital expenditure

> Households

- Loss of income
- Property damage

> Macro-economy

- Shift in prices
- Productivity changes
- Labor market frictions



Financial Risk

> Credit Risk

- Defaults by businesses and households
- Collateral depreciation

> Market Risk

- Repricing of sukuk and fixed income

> Operational Risk

- Supply chain disruption
- Forced facility closure

> Liquidity Risk

- Increased demand for liquidity
- Refinancing risk

The Bank's understanding of its business climate-related risk and opportunities is still at infancy stage as the relevant processes, expertise, and infrastructure are being procured to quantify such risks. As these resources become available, the Bank will continue to revise its climate strategy on a rolling basis to enhance operational resiliency, decision-making, strategy and planning. The following Risk Management and Metrics & Targets sections provide insight into the iterative process in which each of alrajhi bank Malaysia's climate-related risk identification, assessment, management and target-setting processes inform and influence each other to form a continuous feedback mechanism that pushes the Bank's climate knowledge base forward.

These strategic, risk management, and impact-reduction efforts are a continuation of the Bank's effort to assemble a toolkit and establish the key metrics that will enable it to advance a data-driven climate strategy.



Risk Management



Climate-related Risk Identification and Assessment

alrajhi bank Malaysia integrates climate-related risks into its broader risk management framework. Using tools like the VBIAF sectoral guides, the Bank assesses physical risks (e.g., damage from extreme weather) and transition risks (e.g., regulatory shifts) that may affect its lending and investment portfolios. The following sectors are included in alrajhi bank Malaysia's assessment:

- Palm Oil
- Renewable Energy
- Energy Efficiency
- Oil & Gas
- Construction & Infrastructure
- Manufacturing
- Agriculture
- Mining & Quarrying
- Road Transportation
- Waste Management

alrajhi bank Malaysia leverages Moody's Climate Risk Solutions to build capabilities for quantifying material climate risk vulnerabilities and their impact under various climate scenarios (aligned with NGFS Phase III) via climate scenario analysis for Climate Risk Assessment and Identification, Measurement, and Monitoring. This enhances internal risk management practices and integrates climate risk considerations into governance and oversight.

Risk Identification

Primarily assesses Credit Risk from a quantitative perspective which evaluates vulnerability assessment, climate risk macro scenarios over a 30-year horizon, and climate-adjusted Probability of Default ("PD"), Loss Given Default ("LGD"), and Estimated Credit Loss ("ECL"). From this, the following outcome/metrics are observed:

- Physical Risk Score: Assessed using climate risk solutions such as Climate-on-Demand based on the physical location of underlying asset/facility
- CO2 emissions: Both direct and indirect emissions are evaluated to understand potential exposure to transition risk
- Climate Risk PD
- Climate Risk LGD
- Climate Adjusted ECL

Physical risk definition:

- Hurricane & Typhoons: Drivers of damage including wind, windblown debris, rainfall ingress through roofs, and inflation effects
- Flood: Rainfall-driven riverine and flash flooding at high-definition scales 30m globally, incorporates flood defences and drainage
- Sea Level Rise: Impact of sea level rise, high tides, coastal flooding, from storms and subsidence of cities
- Wildfire: Fire, smoke, and embers, urban conflagrations all affect the damage and costs
- Water stress: Water shortages impact business output, particularly manufacturing, agricultural, and energy sectors
- Heat stress: Impacts on productivity, increased costs of cooling, variable adaptive capacity by sector and economics of the world

Impact Assessment/ Portfolio Management

Impact assessment is conducted by measuring key vulnerability metrics including physical risk score and CO2 emissions. This helps identify evolving material risks both at inception and on an ongoing basis. The assessment and identification of evolving material exposures or sectors susceptible to physical hazards and carbon transition will be reflected in the ECL and in turn translate to effective policy reviews.



Scenario Analysis & Stress Testing

Forward-looking climate risk scenarios (Early, Late, and No Policy) aligned with NGFS Phase III climate scenarios covering a 30-year horizon are being used as part of scenario analysis to assess, identify, and monitor the physical, transition, and combined impact of climate risks on material exposures over short, medium, and long-term horizons.

This assessment, leveraging climate scenario analysis tools, helps better explore and understand material vulnerabilities within alrajhi bank Malaysia's key portfolios/sectors exposed to both physical and transition risks under various climate scenarios, giving alrajhi bank Malaysia an opportunity to evolve further on existing risk management practices to improve strategic resilience through better climate risk management/mitigation practice. alrajhi bank Malaysia is very much cognizant of the fact that the risks and opportunities emerging today will increase over the medium and long term, given that climate risk has started to influence the ability of physical assets and industries/sectors to generate long-term value.

In addition, alrajhi bank Malaysia is actively participating in reviewing, understanding, and implementing evolving Bank Negara Malaysia ("BNM") regulations in this domain by being one of the few banks taking part in the 2024 Climate Risk Stress Testing exercise (in cohort 2) to submit the climate risk stress testing results by the end of 2025, considering that all parts of the financial system could be affected by climate change in diverse and distinct ways. This exercise provides alrajhi bank Malaysia with an opportunity to enhance business-as-usual ("BAU") stress testing practices, understanding, and quantifying the climate risk impacts on alrajhi bank Malaysia's portfolios from both physical and transition risk points over short, medium, and long-term horizons. This exercise will incorporate localized climatic specificities/conditions and policies within the Malaysian context (as guided by the BNM Climate Risk Stress Testing methodology paper).

Scenario Analysis using NGFS Scenarios

alrajhi bank Malaysia subscribes to the NGFS climate scenarios for conducting scenario analysis. The bank applies three key scenarios:

- **No Policy:** Assumes no additional climate policies are implemented, leading to significant physical and transition risks.
- **Early Policy:** Anticipates strong policy actions to limit global temperature rise, reducing both physical and transition risks.
- **Late Policy:** Assumes delayed climate action, leading to high-risk pathways with pronounced physical and transition challenges.

Key Assumptions Summary:

Scenario	Climate Policy Assumption	Emissions Pathway	Physical Risks	Transition Risks	Economic Growth Impact
No Policy	No significant global climate policies	Emissions rise sharply, leading to >3°C warming	Severe, with frequent and extreme climate events	Low (no policy change)	Long-term negative impact due to climate disasters
Late Policy	Delayed climate action, abrupt changes	Late peak, emissions fall sharply in later years, leading to 2.5-3°C warming	High, with increased disaster risks	High due to sudden transitions	Short-term negative, but potential for innovation over time.
Early Policy	Strong, early climate action	Early peak, rapid decarbonization, aiming for <2°C	Moderate, with some severe climate events but reduced severity	Moderate, gradual transition	Short-term costs, but long-term positive growth driven by green investments

Climate Risk Monitoring

Data on physical risk score, CO2 emissions, Climate PD, LGD, and ECL, and Climate risk scenarios (Early, Late, and No Policy), in addition to various tools including profiling, Climate on Demand, Climate EDF-X model, and Climate scenarios, will enable climate risk assessment, identification, and monitoring of evolving material climate risks at the most granular level on an ongoing basis. Updates on climate risk and sustainability matters to the Board will be conducted regularly. Specifically, some of these metrics (for example, disclosing CO2 emissions attributable in proportion to alrajhi bank Malaysia's financing) would be crucial to providing an understanding of alrajhi bank Malaysia's lending portfolio transition risk profile to key stakeholders both internally and externally from a transition risk perspective.

For physical risk, alrajhi bank Malaysia generally focuses on the vulnerable locations by exposure initially from a disclosure perspective, given these are the initial years of the climate risk journey that every bank is on. Hence, the portfolio exposure to physical risk (by varying risk categories) is fundamental to assess and understand exposure to physical risk (covering key portfolios) as a starting point.

The above vulnerability metrics can be supplemented with a high-level financial loss impact indicating a macro view of potential financial losses that alrajhi bank Malaysia may incur over short, medium, and longer horizons.

Risk Control / Mitigation

The integration of climate risk impact in the existing risk management cycle through enhanced governance structure, including new/additional roles and responsibilities related to climate risks, will facilitate the implementation of remedial actions for selected vulnerable customers considering the climate risk impact to:

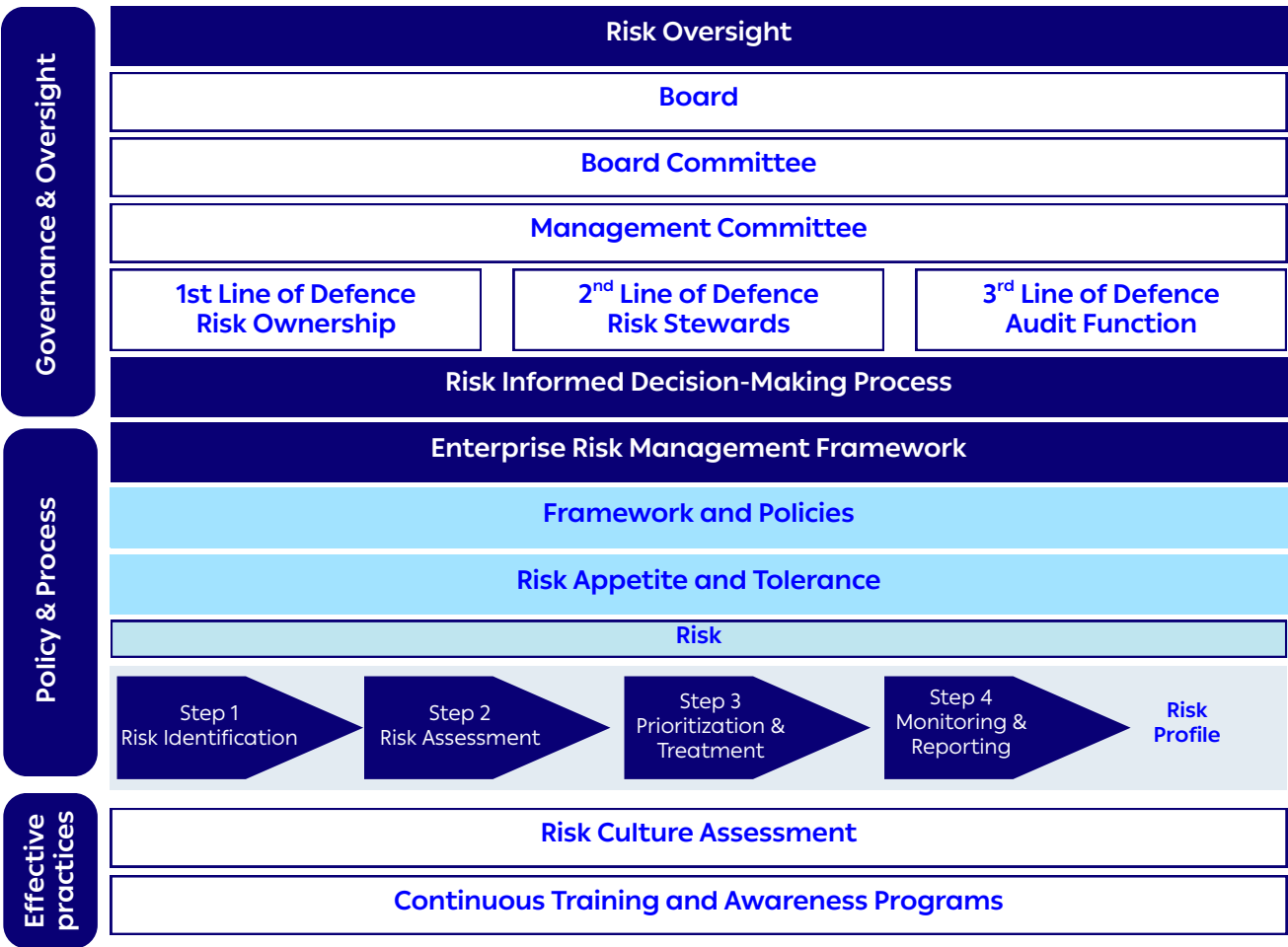
- Engage with customers for transition strategies
- Incentivize/conditional pricing (for certain sectors)
- Potential exit plan

Integration into Risk Management Framework

Sustainability and climate risks are a key component of alrajhi bank Malaysia's enterprise risk management system. The Bank conducts regular stress tests and scenario analysis to evaluate the impact of climate risks on its balance sheet. This process includes enhancing internal capacity through training and stakeholder engagement.

For example, alrajhi bank Malaysia conducts a materiality assessment by performing and reviewing climate risk assessment and identification outcomes, following the vulnerability and financial impact/loss assessment to identify and prioritize material climate-related risks (vulnerabilities to physical and transition risks, reviewing physical risk scores by sub-sovereign region/states, greenhouse gas emissions by sectors) in line with climate strategic objectives.

Risk Management Framework



Risk Management Tools

- Risk Control Self-Assessment (RCSA)
- Key Control Testing
- Operational Risk Scenario Analysis
- Key Risk Indicator (KRI)
- Loss Event Management & Reporting
- Business Impact Analysis (BIA) and Risk Assessment (RA)
- Risk Heat Map
- Risk Acceptance Criteria
- Credit Scoring
- Scorecard Performance Monitoring
- Internal Capital Adequacy Assessment Report (ICAAP)
- Stress Testing
- Reverse Stress
- Back Testing
- Basel III Liquidity Ratio



Risk Management Internal Controls

Internal Controls: alrajhi bank Malaysia's internal controls rely on various requirements that must be completed prior to a specified process moving ahead. These requirements are as follows but not limited to:

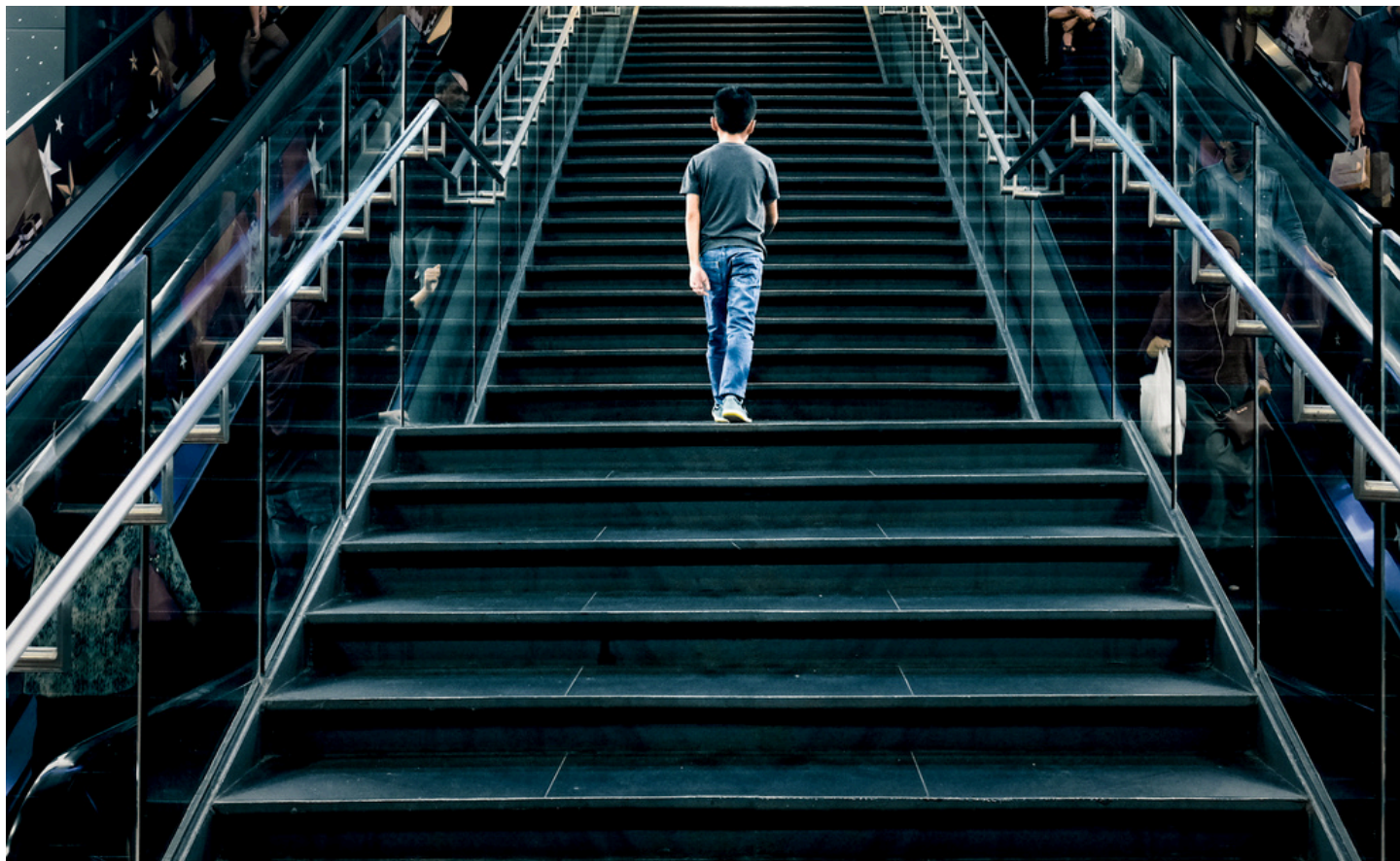
- Approvals
- Maker-checker arrangements
- Verification and reconciliation
- Performance reviews
- Physical controls
- Exposure limits.

A robust and clearly understood internal control process is essential for effective risk management by the Bank. The following components are deemed critical for the efficient functioning of internal controls:

Management Oversight and Control Culture	1.Senior management sets the tone and ensures a strong culture. 2.Clear responsibilities are assigned and understood by all employees.
Risk Identification and Assessment	1.Proactively identify and assess both internal and external risks. 2.Deeply understand the potential impact of identified risks.
Control Design and Implementation	1.Design effective controls to mitigate identified risks. 2.Ensure controls are simple, efficient, and can be monitored. 3.Consider both manual and automated controls.
Segregation of Duties	1.Minimize conflicts of interest by separating duties. 2.Implement independent reviews and monitoring.
Information and Communication	1.Ensure accurate, timely, and relevant information is available. 2.Establish effective communication channels to disseminate information.
Monitoring and Review	1.Continuously monitor the effectiveness of internal controls. 2.Report and address control deficiencies promptly.

Materiality assessment of climate-related risks is performed, leveraging various climate risk metrics provided simultaneously. These include:

- a. Physical risk score
- b. CO2 emissions
- c. Climate risk-adjusted PD & LGD
- d. Climate risk-adjusted ECL under multiple climate scenarios (Climate Scenario Analysis)



Reviewing the above metrics will help alrajhi bank Malaysia understand the customers/sectors vulnerable to both physical and transition risks and the potentially additional financial losses. This will assist alrajhi bank Malaysia in formulating the management actions to be taken in efforts to address emerging material climate risks, prioritizing customers with high exposure.

Alternatively, alrajhi bank Malaysia could review the CO2 emissions profile for various customers/sectors (for transition risk) or % exposure to physical risk (for secured portfolios) to identify carbon-intensive sectors in addition to potential vulnerable exposures to material physical risks. These measures will help perform a materiality assessment to further prioritize certain customers to implement relevant mitigation strategies, as necessary, in line with alrajhi bank Malaysia's existing risk management process, minimizing possible operational complexities.

Metrics and Targets



The Bank primarily uses Moody's Portfolio Profiling Application to establish the Bank's GHG Emissions as well as Transition and Physical risk of its corporate portfolios. This enables effective day-to-day portfolio tracking / monitoring and allows standardized reporting.

Key Metrics

GHG Emissions

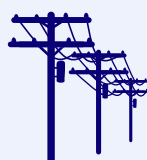
Scope 1



Direct Emissions

from sources that are owned or controlled by the organization.

Scope 2



Indirect Emissions

from the generation of electricity, heat, or steam that the organization purchases.

Scope 3



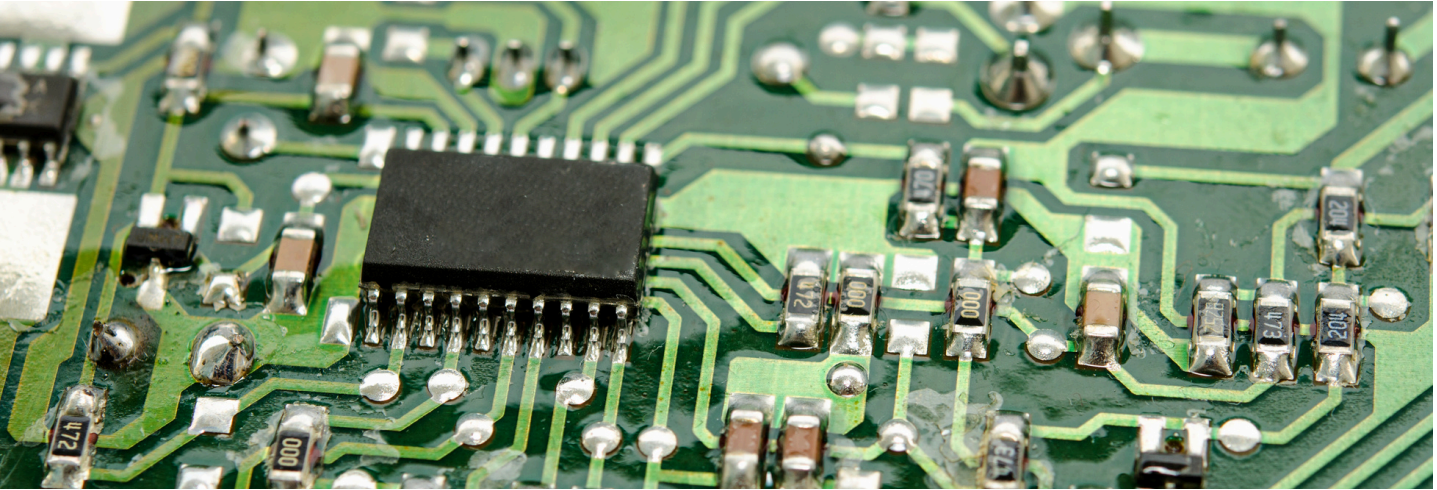
Type of Emission

that results from activities not under the organization's direct control but that result from the organization's business.

Scope 3 Categories

1. Purchased Goods and Services
2. Capital Goods
3. Fuel and Energy - Related Activities
4. Upstream Transportation and Distribution
5. Waste Generated in Operations
6. Business Travel
7. Employee Commuting
8. Upstream Leased Assets
9. Downstream Transportation and Distribution
10. Processing of Sold Products
11. Use of Sold Products
12. End-of-Life Treatment of Sold Products
13. Downstream Leased Assets
14. Franchises
15. Investments

Emissions Type	Emission Amount (in T CO2 EQ)
Scope 1	2,131.42
Scope 2	3,707.64
Scope 3	TBA



Emissions Type	Emission Amount (in T CO2 EQ)
Scope 3 Category 1	1,116.16
Scope 3 Category 2-8	637.46
Scope 3 Category 9-14	222.41
Scope 3 Category 1-14	1,976.03
Scope 3 Category 1-15	9,136.27
Scope 3 Category 15	7,160.23



Transition Risk

alrajhi bank Malaysia tracks its financing exposure to high-carbon sectors to assess its vulnerability to climate-related risks. The breakdown is as follows:

Carbon Intensity	Sectors
High Carbon: 35.87%	· Mining & Quarrying · Chemicals & Fertilizers · Steel & Building Materials · Heavy Machinery · Motor Vehicles, Motorcycles · Construction
Mid Carbon: 39.02%	· Manufacturing · Transport, Storage & Logistics · Real Estate · Primary Agriculture · Manufacturing of Food Products · Textiles & Apparel · Upstream Steel
Low Carbon: 25.10%	· Wholesale, Retail Trade – Food/ FMCG, Super/Hypermarkets · Wholesale, Retail Trade – General · Healthcare & Pharmaceutical · Hotel/Accommodation · Finance, Insurance & Business Activities · Ops & Maintenance, Engineering, Professional Services · Education and Others

Physical Risk

alrajhi bank Malaysia measures the amount and extent of assets or business activities vulnerable to physical risks using the climate risk scorecard. The purpose of this physical climate risk scorecard is to assess a facility's exposure to hazards affected by climate change. For the selected facility, the assessment includes an overview of the physical climate risk across all seven categories based on Representative Concentration Pathway ("RCP") 4.5 in decadal time horizons from 2030 to 2099.

RCP 4.5 is a scenario that stabilizes radiative forcing at 4.5 watts per meter squared in the year 2100 without ever exceeding that value. RCP 4.5 is described by the IPCC as an intermediate scenario. Emissions in RCP 4.5 peak around 2040, then decline.

Assessment Date: 10/10/24 Methodology: 2023.3 Scenario: RCP4.5

Climate Hazard	2030	2040	2050	2060	2070	2080	2090
Floods	91	91	89	97	97	97	99
Heat Stress	2	21	53	72	82	92	95
Hurricanes & Typhoons	0	0	0	0	0	0	0
Sea Level Rise	0	0	0	0	0	0	0
Water Stress	28	28	27	26	25	24	23
Wildfires	32	37	40	52	54	54	57
Earthquakes	25	25	25	25	25	25	25

alrajhi bank Malaysia may face significant challenges in the face of climate change. alrajhi bank Malaysia is highly vulnerable to the physical impacts of climate change, such as extreme weather events particularly flooding and wildfires and may be poorly positioned to adapt to low-carbon transition.

alrajhi bank Malaysia may face increased costs due to climate change impacts, such as financial losses because of damage to infrastructure or disruptions to supply chains of its customers. Ultimately, alrajhi bank Malaysia may also be at risk of falling behind its competitors, face increased scrutiny from investors and customers who are increasingly concerned about environmental and social issues. This could lead to reputational damage and financial losses.

Climate-Related Opportunities

The Bank has set internal targets to address climate-related risks and opportunities, including:

Climate-Related Targets	Formula/Calculation
Investment	Green Sukuks/Total Corporate Sukuks
Socially Responsible Investments	Number of compliant funds
Value-Based Intermediation	Number of initiatives/years
Training	Number of training sessions for employees, senior management and Board of Directors
Electricity consumption	Kilowatt hour
Paper Consumption	A4 paper usage

Over the medium to longer term, other metrics may be considered for disclosure, such as potential new business lending to sustainability-focused related business activities and capital deployment to climate adaptation/mitigation efforts, as applicable for certain sectors/portfolios in line with alrajhi bank Malaysia’s engagement with customers in specific sectors aligning with the underlying business strategy around climate risk and sustainability-related matters.

This further gives alrajhi bank Malaysia an opportunity to bring more clarity and transparency around its overall climate risk disclosure process, ensuring that the future direction of alrajhi bank Malaysia’s climate risk management strategy and sustainability efforts is disclosed in a coherent and consistent manner, thereby informing key stakeholders and investors of the progress.



CO2 Emissions & Transition Risk Metrics:

Moody's Analytics ESG Score Predictor model is designed to estimate the GHG emissions and other transition Risk Metrics at entity/company level. This is a statistical model developed in-house by Moody's using CO2 emissions data collected by Moody's ESG team applying advanced ensemble modeling/machine learning methods.

CO2 emissions are predicted primarily based on company level characteristics such as entity/company industry/sector, location and key financial metrics (Total sales, Total assets), indicating the carbon-intensive nature of the sectors.

Transition risk score ranges from 0 to 100 and it essentially represents the degree of entity/company efforts in managing the transition risk implementing relevant policies. Higher score (towards 100) represents that the entity/company is advanced in its efforts to manage transition risk and hence exposed to relatively lower transition risk while a score close to 0 indicates that the entity/company is lagging in its efforts to promote transition.

Physical Risk Scores: Physical risk scores are evaluated based on the company/asset primary location (Sub-Sovereign state / Country). These risk scores are assessed at more granular grid levels, dividing the entire universe of locations to identify potential exposures to individual physical hazards. These scores range from 0 to 100 and essentially reflect the extent a given location is susceptible/vulnerable to individual physical hazards relative to a global distribution of scores available providing a granular understanding of exposure to physical climate hazards.

Possible methodologies to assess and set targets include key steps as below:

- Review climate risk adjusted metrics to understand incremental impacts to various customers / sectors potentially yielding additional financial losses. Alternatively, review CO2 emissions by sector and see if certain sectors need to be focused on from emissions reduction strategy point
- Establish an understanding of material climate-related risks as explained above under 'materiality assessment'
- Prioritize material climate-related risks within alrajhi bank Malaysia's key portfolios to take further actions
- Ensure the targets align with alrajhi bank Malaysia's climate risk strategy.



Cautionary Statement

This report is furnished for informational purposes based upon data understood to be reliable by alrajhi bank Malaysia as of the date of publication.

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alrajhi bank Malaysia expressly disclaims any obligation to revise or update any forward-looking statements made by alrajhi bank Malaysia in this report, other than as expressly required by applicable law.

For comprehensive information regarding alrajhi bank Malaysia, please refer to the official website: www.alrajhibank.com.my.

Glossary

BAU	Business as usual
BIA	Business Impact Analysis
BNM	Bank Negara Malaysia
BRMCC	Board Risk Management and Compliance Committee
CCPT	Climate Change and Principle-based Taxonomy
CO2	Carbon Dioxide
CRMSA	Climate Risk Management and Scenario Analysis
ECL	Estimated Credit Loss
ERMC	Executive Risk Management Committee
ESG	Environmental, social, and governance
FSC	Forest Stewardship Council
GHG	Greenhouse Gas
ICAAP	Internal Capital Adequacy Assessment Report
IPCC	Intergovernmental Panel on Climate Change
KRI	Key Risk Indicator
LED	Light-emitting diode
LEED	Leadership in Energy and Environmental Design
LGD	Loss Given Default
NGFS	Network for Greening the Financial System
PD	Probability of Default

KRI	Key Risk Indicator
LED	Light-emitting diode
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PD	Probability of Default
RA	Risk Assessment
RCP	Representative Concentration Pathway
RCSA	Risk Control Self-Assessment
SDG	Sustainable Development Goals
TCFD	Task Force on Climate-related Financial Disclosures
VBI	Value-based Intermediation
VBIAF	Value-based Intermediation Financing and Investment Impact Assessment Framework
VOC	Volatile organic compounds



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