AL RAJHI BANKING AND INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

Basel II - Pillar 3 Disclosure
As at 30 June 2020

1. Overview

The information of Al Rajhi Banking & Investment Corporation (Malaysia) Bhd ("the Group") below is disclosed pursuant to the requirements of the Bank Negara Malaysia ("BNM") Capital Adequacy Framework for Islamic Banks ("CAFIB") – Disclosure Requirements ("Pillar 3") Guidelines, which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed.

CAFIB consists of 3 Pillars:

(a) Pillar 1 sets minimum regulatory capital to cover credit, market and operational risk;
(b) Pillar 2 aims to ensure that Islamic banking institutions have adequate capital to cover all their material risks and support their operations at all times; and
(c) Pillar 3 aims to enhance transparency by setting the minimum requirements for market disclosure of information on the risk management practices and capital adequacy of Islamic banks.

The Group has adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and has applied the Basic Indicator Approach for operational risk under BNM's CAFIB. Under the Standardised Approach, the Group applied the standard risk weights prescribed by BNM to assess the capital requirements for exposures in credit risk and market risk. The assessment of the capital required for operational risk under the Basic Indicator Approach and is based on a percentage fixed by BNM over the Group's average gross income for a fixed number of quarterly periods.

In compliance with the Pillar 3 Guideline, the Pillar 3 Disclosure for the Group is being regularly prepared for two periods: 30 June and 31 December. The Pillar 3 Disclosure will be published in the Bank's website, www.alrajhibank.com.my.

The following tables present the minimum regulatory capital requirements to support the Group's and the Bank's risk-weighted assets.

1. Overview (Cont'd)

	Group and Bank			
	30 June 2020		31 Dec 2019	
	Risk- Weighted Assets	Capital Requirement	Risk- Weighted Assets	Capital Requirement
	RM'000	RM'000	RM'000	RM'000
Credit Risk	4,779,379	382,351	5,161,016	412,881
Market Risk	173,122	13,850	173,339	13,867
Operational Risk	369,736	29,579	368,432	29,475
Total	5,322,237	425,780	5,702,786	456,223

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's Risk Weighted Capital Adequacy Framework ("RWCAF").

2. Capital Management

The Group's capital management is guided by the Group's Capital Adequacy Management and Governance Framework and the Capital Adequacy Management and Planning Policy which articulates the guiding principles for the capital management process to ensure that the Bank has adequate capital that is commensurate with the Bank's risk profile. This objective is directed by the need to maintain a prudent relationship between available capital and risks in the underlying businesses to meet the expectations of key stakeholders, including regulators and investors. Under the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group's risk management and capital management processes were enhanced to facilitate a comprehensive assessment of the various types of risk that the Group may be exposed to.

The Board of Directors ("BOD") / Board Risk Management Committee ("BRMC") is responsible for ensuring that the Group and the Bank maintains an appropriate level and quality of capital in line with the Group's and the Bank's risk profile and business plan. The Board is supported by the Executive Risk Management Committee ("ERMC") and ICAAP Working Group i.e. Risk Management, Finance, and Business Units. Risk Management Division ("RMD") is responsible for monitoring and reporting of the ICAAP, including comparing actual capital levels with the capital targets and the relevant analysis and recommendation. Meanwhile, Finance Division and respective business units with the inputs of RMD are responsible for preparing the current capital position and also the business plan and financial projections for the next three years.

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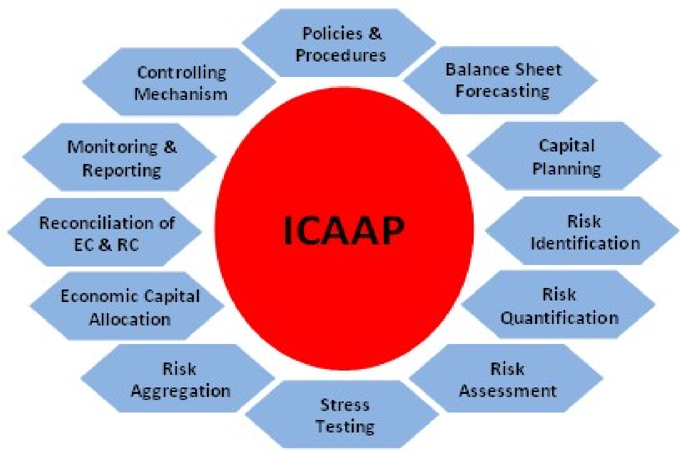
2. Capital Management (Cont'd)

2.1 Internal Capital Adequacy Assessment Process

ICAAP implementation is significant for the Group and the Bank to ensure that it maintains adequate capital on an ongoing basis to support its business operations considering the requirement for regulatory capital under Pillar 1 and economic capital under Pillar 2. The assessment shall reflect the profile of all risks that the Group and the Bank is exposed to.

The major components of ICAAP of the Group and the Bank can be illustrated through the following diagram:



The risk management processes under ICAAP are as follows:

Define Risk	Risk Origination	Responsibility	Risk Mitigation	Data Sources	Risk Measurement	Integrated Risk & Capital Planning & Reporting
RISK ASSESSMENT				RISK MEASUREMENT		PLANNING & REPORTING
Identify and document clear internal definitions for each risk types	Identify and document the types of business activities that lead to each type of risk	Assign responsible person for each risk area	Assess current risk mitigation procedures in place and provide recommendations where necessary	Identify ideal data points for assessing each risk area and where applicable to also consider external data availability	Develop and document a rationale for the Bank's own capital assessment	Conduct comprehensive assessment of all risk areas to form an overall long term risk & capital plan and reporting approach

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2. Capital Management (Cont'd)

2.2 Capital Adequacy Ratios and Capital Structure

The following tables present the capital adequacy ratios and the capital structure of the Group and the Bank as at 30 June 2020.

	Group		Bank	
	30 June 2020 RM'000	**31 Dec 2019** RM'000	**30 June 2020** RM'000	**31 Dec 2019** RM'000
Tier-1 capital				
Paid-up share capital	1,000,000	1,000,000	1,000,000	1,000,000
Accumulated losses	(245,102)	(246,636)	(245,356)	(246,848)
	754,898	753,364	754,644	753,152
Less: Deferred tax	(49,496)	(49,497)	(49,497)	(49,497)
Total Tier-1 capital	**705,402**	**703,867**	**705,147**	**703,655**
Tier-2 capital				
Collective impairment for bad and doubtful financing	56,772	54,899	56,772	54,899
Subordinated Sukuk	399,594	381,881	399,594	381,881
Total Tier-2 capital	**456,366**	**436,780**	**456,366**	**436,780**
Capital base	**1,161,768**	**1,140,647**	**1,161,513**	**1,140,435**
Core capital ratio	13.254%	12.342%	13.249%	12.339%
Risk-weighted capital ratio	21.829%	20.002%	21.824%	19.998%

3. Group Risk Management Framework

The Group's risk management practices seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its key areas of credit, market, liquidity and operational risks.

The Group's overall risk management framework, including the risk governance and the risk management process are set out in the Risk Management section in the Directors Report as disclosed in the Audited Financial Statements for the year ended 31 December 2019.

4. Credit Risk

Credit risk is the potential loss of revenue as a result of defaults by customers or counterparties through the Group's and the Bank's financing, trading and investing activities. The primary exposure to credit risk arises through its financing and advances as well as financial transactions with counterparties including interbank money market activities and debt securities.

The amount of credit exposure is represented by the carrying amounts of the assets in the statement of financial position.

The management of credit risk is governed by credit policies and guidelines documenting the financing standards, discretionary power for financing approval, credit risk rating, collateral and valuation, review, and rescheduling of problematic and delinquent financing. The management of counterparties is guided by counterparty limit, counterparty ratings, tenure and types of permissible transactions and these are subject to regular review.

The following tables present the minimum regulatory capital requirements on credit risk of the Group and the Bank.

	Group and Bank			
	30 June 2020		**31 December 2019**	
	Risk Weighted Assets	**Capital Requirement**	**Risk Weighted Assets**	**Capital Requirement**
Exposure Class	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposures				
Banks, Development Financial Institutions ("DFIs") & MDBs	213,067	17,045	237,143	18,971
Corporate	3,436,349	274,908	3,875,083	310,007
Regulatory Retail	212,184	16,975	217,209	17,377
Residential Real Estate (RRE) Financing	385,759	30,861	393,502	31,480
Higher Risk Assets	747	60	749	60
Other assets	90,355	7,228	86,745	6,940
Defaulted Exposures	21,123	1,690	23,443	1,875
Total for On-Balance Sheet Exposures	4,359,584	348,767	4,833,874	386,710

4. Credit Risk (Cont'd)

Risk Governance

The ERMC supports the BRMC in credit risk management oversight. ERMC and BRMC review the Group's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Group's financing standards, discretionary power for financing approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and rescheduling of problematic and delinquent financing. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. The Credit Risk Management Department also manages the credit portfolios and ensures the risk policies are implemented and complied with.

Risk Management Approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Investment Committee. The Credit and Investment Committee (CIC) approves major credit decisions. All financing applications of significant amounts are approved by the CIC or the Board of Directors. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

(a) Financing and advances to Retail Consumers

The credit granting to retail consumers is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the financing application.

(b) Financing and advances to Corporate and Institutional Customers

The credit granting to corporate and SME customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate, or

4. Credit Risk (Cont'd)

Risk Management Approach (Cont'd)

Institutional customers or customer groups, taking into consideration their financial and business profiles, industry, economic factors, collateral etc.

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Group's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities.

As at reporting date, the Group does not have any direct or indirect exposure to asset backed securities, Collateralized debt obligation ("CDO") or Collateralized financing obligation ("CFO") and does not participate in any securitisation deals.

4.1 Distribution of Credit Exposures

Tables (a)-(c) present the credit exposures of financial assets before the effect of credit risk mitigation of the Group, analysed by the following:

(a) Industrial analysis based on its industrial distribution
(b) Geographical analysis based on the geographical location where the credit risk resides
(c) Maturity analysis based on the residual contractual maturity

For on-balance sheet exposures, the maximum exposure to credit risk equals their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

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4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(a) Industry Analysis

Group and Bank	**Cash and Short term funds** RM'000	**Deposits and placements with other institutions** RM'000	**Derivatives assets** RM'000	**Financial investments at amortised cost** RM'000	**Financial investments at FVOCI** RM'000	**Net financing and advances** RM'000	**Statutory deposit with BNM** RM'000	**Other assets** RM'000	**Total** RM'000
30 June 2020									
Household	-	-	-	-	-	1,390,442	-	-	1,390,442
Wholesale & Retail trade	-	-	-	-	14,267	961,323	-	-	975,590
Real estate, renting and	-	-	-	-	-	-	-	-	-
business activities	-	-	-	-	-	786,837	-	-	786,837
Manufacturing	-	-	-	-	-	758,931	-	-	758,931
Construction	-	-	-	-	-	508,488	-	-	508,488
Finance intermediation	95,261	403,690	-	500,499	725,066	34,499	10,271	-	1,769,286
Education, Health and Others	-	-	-	-	-	69,259	-	-	69,259
Agriculture, hunting and related	-	-	-	-	-	-	-	-	-
service activities	-	-	-	-	-	77,856	-	-	77,856
Hotel & restaurant	-	-	-	-	-	43,271	-	-	43,271
Transportation	-	-	-	-	-	36,391	-	-	36,391
Mining and Quarrying	-	-	-	-	-	19,308	-	-	19,308
Other business	-	-	-	-	-	99,767	-	22,672	122,439
Telecommunication	-	-	-	-	-	50,069	-	-	50,069
Total	95,261	403,690	-	500,499	739,333	4,836,441	10,271	22,672	6,608,167

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4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(a) Industry Analysis (Cont'd)

Group and Bank	Cash and Short term funds RM'000	Deposits and placements with other institutions RM'000	Derivatives assets RM'000	Financial investments at amortised cost RM'000	Financial investments at FVOCI RM'000	Net financing and advances RM'000	Statutory deposit with BNM RM'000	Other assets RM'000	Total RM'000
31 December 2019									
Household	-	-	-	-	-	1,485,265	-	-	1,485,265
Wholesale & Retail trade	-	-	34	18,270	-	1,080,172	-	-	1,098,476
Real estate, renting and business activities	-	-	-	-	-	780,908	-	-	780,908
Manufacturing	-	-	-	-	-	931,737	-	-	931,737
Construction	-	-	-	-	-	615,200	-	-	615,200
Finance intermediation	237,229	389,862	-	725,856	313,663	26,197	135,900	-	1,828,707
Education, Health and Others	-	-	-	-	-	104,102	-	-	104,102
Agriculture, hunting and related service activities	-	-	-	-	-	79,886	-	-	79,886
Hotel & restaurant	-	-	-	-	-	40,541	-	-	40,541
Transportation	-	-	-	-	-	38,692	-	-	38,692
Mining and Quarrying	-	-	-	-	-	14,721	-	-	14,721
Other business	-	-	-	-	-	69,447	-	19,031	88,478
Total	237,229	389,862	34	744,126	313,663	5,266,868	135,900	19,031	7,106,713

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4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(b) Geographical Analysis

Group and Bank	**Malaysia**	**Saudi Arabia**	**Other countries**	**Total**
	RM'000	RM'000	RM'000	RM'000
30 June 2020				
Cash and short term funds	41,098	19,305	34,858	95,261
Deposits and placement with banks and				-
other financial instituitions	-	-	403,690	403,690
Financial investment at amortised cost	739,333	-	-	739,333
Financial assets at fair value through profit or loss comprehensive income (FVOCI)	500,499	-	-	500,499
Net financing and advances	4,836,441	-	-	4,836,441
Statutory deposits with BNM	10,271	-	-	10,271
Other assets	22,672	-	-	22,672
Total	6,150,314	19,305	438,548	6,608,167

Group and Bank	**Malaysia**	**Saudi Arabia**	**Other countries**	**Total**
	RM'000	RM'000	RM'000	RM'000
31 Dec 2019				
Cash and short term funds	205,921	7,675	23,633	237,229
Deposits and placement with banks and other finar	-	-	389,862	389,862
Derivatives assets	34	-	-	34
Financial investments at amortised cost	744,126	-	-	744,126
Financial investments at Fair value through other comprehensive income (FVOCI)	313,663	-	-	313,663
Net financing and advances	5,266,868	-	-	5,266,868
Statutory deposits with BNM	135,900	-	-	135,900
Other assets	19,031	-	-	19,031
Total	6,685,543	7,675	413,495	7,106,713

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4 Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(c) Maturity Analysis

Group and Bank	Up to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 year RM'000	> 5 years RM'000	Total RM'000
30 June 2020					
Cash and short term funds	95,261	-	-	-	95,261
Deposit and placement with bank and other financial institutions	403,690	-	-	-	403,690
Derivatives Assets	-	-	-	-	-
Financial investments at fair value other comprehensive income (FVOCI)	500,499	-	-	-	500,499
Financial investments at amortised cost	14,041	-	-	725,292	739,333
Gross financing and advances	2,237,832	233,808	342,787	2,022,014	4,836,441
Statutory deposits with BNM	10,271	-	-	-	10,271
Other assets	22,672	-	-	-	22,672
Total	3,284,266	233,808	342,787	2,747,306	6,608,167

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4 Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(c) Maturity Analysis (Cont'd)

Group and Bank	Up to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 year RM'000	> 5 years RM'000	Total RM'000
31 December 2019					
Cash and short term funds	237,229	-	-	-	237,229
Deposit and placement with bank and	-	-	-	-	
other financial institutions	389,862	-	-	-	389,862
Hedging financial instruments	34	-	-	-	34
Financial investments at fair value					
through	-	-	-	-	
other comprehensive income (FVOCI)	313,663	-	-	-	313,663
Financial investments at amortised cost	18,270	-	-	725,856	744,126
Gross financing and advances	2,542,311	230,631	352,313	2,141,612	5,266,868
Statutory deposits with BNM	135,900	-	-	-	135,900
Other assets	19,031	-	-	-	19,031
Total	3,656,301	230,631	352,313	2,867,468	7,106,713

4.2 Off-Balance Sheet Exposures

Off-balance sheet exposures of the Group are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertaking that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as financing even though are contingent in nature
- Documentary and commercial letters of credits, which are undertakings by the Group on behalf of the customer. These exposure are usually collateralized by the underlying shipment of goods to which they relate
- Commitments to extend credit including the utilized or undrawn portions of credits facilities
- Principal/notional amount of derivative financial instruments.

Disclosure on Off Balance Sheet Exposures

Group and Bank	**30 June 2020**			**31 Dec 2019**		
	Principal amount RM'000	**Credit equivalent amount** RM'000	**Risk weighted amount** RM'000	**Principal amount** RM'000	**Credit equivalent amount** RM'000	**Risk weighted amount** RM'000
Transaction-related contingent items	90,014	45,007	45,007	86,397	43,198	43,198
Trade-related contigencies	2,339	468	468	691	138	138
Irrevovable commitments to extent credit:						
-Maturity no exceeding one year	119,545	59,763	59,860	1,190,241	238,029	230,534
-Maturity exceeding one year	1,587,129	317,409	314,460	103,824	51,909	52,006
Unutilised charge card lines	-	-	-	8,438	1,688	1,266
	1,799,027	422,647	419,795	1,389,591	334,962	327,142

4.3 Credit Risk Mitigation

The Group's approach in granting credit facilities is based on the credit standing of the customer, source of repayment and financing servicing ability rather than placing primary reliance on credit risk mitigants ("CRM"). Depending on a customer's standing and the type of product, facilities may be provided unsecured. Nevertheless, mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The main types of collateral obtained by the Group to mitigate credit risk are as follows:

(a) for home financing – charges over residential properties
(b) for shop-house financing – charges over the properties being financed
(c) for motor vehicle financing – ownership claims over the vehicles financed
(d) for corporate financing – charges over business assets such as premises, inventories or trade receivables

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and Counterparty credit risk ("CCR") of the guarantor. Policies and procedures are in place to govern the protection of the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the CRM.

Where there is a currency mismatch, haircuts are applied to protect against currency fluctuations, in addition to ongoing review and controls over maturity mismatch between collateral and exposures. Especially in mortgage financing, the collateral is required to be covered at all times against major risks, for instance, fire, with the respective banking entities as the loss payee under the takaful policy. In addition, customers are encouraged to cover against major risks, such as, death and permanent disability.

The following tables present the credit risk mitigation analysis of the Group i.e. credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach. Eligible financial collateral consists primarily of cash. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

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4. Credit Risk (Cont'd)

4.3 Credit Risk Mitigation (Cont'd)

Group and Bank	**30 June 2020**		**31 Dec 2019**	
Exposure Class	**Exposures before CRM** RM'000	**Exposures covered by eligible collateral** RM'000	**Exposures before CRM** RM'000	**Exposures covered by eligible collateral** RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,236,064		1,183,402	-
Banks, Development Financial Institutions & MDBs	459,797		600,924	-
Corporate	3,666,626	892,652	4,071,026	869,212
Regulatory Retail	284,361	3,104	290,612	1,001
Residential Real Estate (RRE) Financing	873,410		894,211	-
High Risk Assets	498		499	
Other assets	111,599		106,980	-
Defaulted Exposures	25,588		28,790	-
Total for On-Balance Sheet Exposures	6,657,943	895,756	7,176,444	870,213
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	422,647	-	334,962	-
Total for Off-Balance Sheet Exposures	422,647	-	334,962	-
Total On and Off-Balance Sheet Exposures	7,080,590	895,756	7,511,406	870,213

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardised Approach.

The Bank assesses credit quality of financing and advances for the Corporate Portfolio using an external rating technique by Moody's. This technique combines financial analysis with credit officer's judgment.

Financing and advances

Internal ratings	Description
- Investment grade	Strong(est) credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
- Non-investment grade	Weaker credit quality which associated with general standards of non-investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).

The credit quality of financial assets other than financing and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3
- Non rated

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4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardised Approach (Cont'd)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories.

Group and Bank	Disclosure on Rated Exposures according to Rating by ECAIs											
30 June 2020	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**Unrated**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class												
On and Off Balance-Sheet Exposures												
Credit Exposure - Standardised Approach												
Sovereigns/Central Banks	-	-	-	-	-	-	1,236,064	-	-	-	-	1,236,064
Banks, Development Financial Institutions & MDBs	-	-	-	-	46,515	1,716	22,391	18,683	432	380	372,632	462,749
Corporate	-	-	-	-	-	-	-	-	-	-	4,104,235	4,104,235
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	287,426	287,426
Residential Real Estate (RRE) Financing	-	-	-	-	-	-	-	-	-	-	877,825	877,825
Total Higher Risk Assets											692	692
Other assets	-	-	-	-	-	-	-	-	-	-	111,599	111,599
Total	-	-	-	-	46,515	1,716	1,258,455	18,683	432	380	5,754,409	7,080,590

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4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardised Approach (Cont'd)

The following tables present the credit exposures of the Group before the effect of credit risk mitigation by credit quality rating categories.

Group and Bank	Disclosure on Rated Exposures according to Rating by ECAIs											
31 December 2019	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**Unrated**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class												
On and Off Balance-Sheet Exposures												
Credit Exposure - Standardised Approach												
Sovereigns/Central Banks	-	-	-	-	-	-	1,183,402	-	-	-	-	1,183,402
Banks, DFIs & MDBs	-	-	-	-	190,387	868	19,358	4,684	307	632	387,554	603,790
Corporate	-	-	-	-	-	-	-	-	-	-	4,421,043	4,421,043
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	294,175	294,175
Residential Real Estate (RRE) Financing	-	-	-	-	-	-	-	-	-	-	901,324	901,324
Total Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	693	693
Other assets	-	-	-	-	-	-	-	-	-	-	106,979	106,979
Total	-	-	-	-	190,387	868	1,202,760	4,684	307	632	6,111,768	7,511,406

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardised Approach (Cont'd)

The following tables present the credit exposures of the Group and the Bank after the effect of credit risk mitigation by risk weights.

Group and Bank
30 June 2020

	Exposures after netting and credit risk mitigation ("CRM")								
Risk weights	**Sovereigns/ Central Bank** RM'000	**Banks, DFIs' and MDBs** RM'000	**Corporate** RM'000	**Regulatory Retail** RM'000	**Residential Real Estate** RM'000	**Higher Risk Assets** RM'000	**Other assets** RM'000	**Total exposure after netting and CRM** RM'000	**Total weighted assets** RM'000
Performing Exposures									
0%	1,236,064	-	-	-	-	-	21,244	1,257,308	-
20%	-	59,058	100,692	-	-	-	-	159,750	31,950
35%	-	-	-	-	414,656	-	-	414,656	145,130
50%	-	403,690	-	-	432,445	-	-	836,135	418,068
75%	-	-	-	285,258	7,607	-	-	292,865	219,649
100%	-	-	3,833,365	-	18,702	-	90,355	3,942,422	3,942,422
150%	-	-	-	-	-	692	-	692	1,038
Total	1,236,064	462,748	3,934,057	285,258	873,410	692	111,599	6,903,828	4,758,256
Defaulted Exposures									
50%	-	-	12,438	96	4,415	-	-	16,949	8,475
100%	-	-	-	623	-	-	-	623	623
150%	-	-	8,017	-	-	-	-	8,017	12,026
Total	-	-	20,455	719	4,415	-	-	25,589	21,123
Total Performing and Defaulted	1,236,064	462,748	3,954,512	285,977	877,825	692	111,599	6,929,417	4,779,379

Al Rajhi Bank مصرف الراجحي

AL RAJHI BANKING AND INVESTMENT CORPORATION (MALAYSIA) BHD.
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4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardised Approach (Cont'd)

The following tables present the credit exposures of the Group and the Bank after the effect of credit risk mitigation by risk weights.

Group and Bank
31 December 2019

	Exposures after netting and credit risk mitigation ("CRM")								
Risk weights	**Sovereigns/ Central Bank** RM'000	**Banks, DFIs' and MDBs** RM'000	**Corporate** RM'000	**Regulatory Retail** RM'000	**Residential Real Estate** RM'000	**Higher Risk Assets** RM'000	**Other assets** RM'000	**Total exposure after netting and CRM** RM'000	**Total weighted assets** RM'000
Performing Exposures									
0%	1,183,402	-	-	-	-	-	20,233	1,203,635	-
20%	-	213,927	76,420	-	-	-	-	290,347	58,069
35%	-	-	-	-	429,129	-	-	429,129	150,195
50%	-	389,862	-	-	439,580	-	-	829,442	414,721
75%	-	-	-	292,908	7,942	-	-	300,850	225,638
100%	-	-	4,183,605	-	17,560	-	86,745	4,287,910	4,287,910
150%	-	-	-	-	-	693	-	693	1,040
Total	1,183,402	603,789	4,260,025	292,908	894,211	693	106,978	7,342,006	5,137,573
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	12,449	46	7,113	-	-	19,608	9,804
100%	-	-	-	220	0	-	-	220	220
150%	-	-	8,946	-	-	-	-	8,946	13,419
Total	-	-	21,395	266	7,113	-	-	28,774	23,443
Total Performing and Defaulted	1,183,402	603,789	4,281,420	293,174	901,324	693	106,978	7,370,780	5,161,016

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances

The following tables present the gross financing, advances and financing of the Group analyzed by credit quality.

Gross Financing, Advances and Financing by Credit Quality

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
Neither past due nor impaired	4,699,819	5,133,884
Past due but not impaired	159,663	159,092
Impaired	54,977	62,574
Gross financing and advances	4,914,459	5,355,550
Ratio of net impaired financing and advances to gross financing and advances less individual impairment allowances	0.52%	0.54%

a) Neither Past Due Nor Impaired

The credit quality of gross financing and advances which are neither past due nor impaired is set out in Note 23 (c)(vi) to the financial statements.

b) Past Due But Not Impaired

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due.

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

(b) Past Due But Not Impaired

Past due but not impaired financing and advances are financing where the customer has failed to make a principal or profit payment when contractually due.

(i) Past Due But Not Impaired Financing and Advances by Economic Purposes

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
Personal use	37,291	27,686
Purchase of property – residential property	117,963	124,911
Purchase of shop-house	688	1,930
Purchase of transport vehicles	3,723	4,503
Charge card	-	62
	159,663	159,092

(ii) Past Due But Not Impaired Financing and Advances by Geographical Analysis

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
Malaysia	159,663	159,092
	159,663	159,092

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

(b) Past Due But Not Impaired (Cont'd)

(iii) Past Due But Not Impaired Financing and Advances by Maturity Structure

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
1 day to < 1 month	115,592	110,911
1 month to < 2 month	43,579	40,857
2 month to < 3 month	492	7,324
	159,663	159,092

(c) Impaired Financing and Advances

The Group assesses, at each reporting period, whether there is any objective evidence that an individually significant financing is impaired. The adoption of MFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing MFRS 139 incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financings and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under MFRS 9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or 'LTECL'), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss ("12m ECL").

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

(c) Impaired Financing and Advances

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The movements in the allowance for impairment losses of financing and advances during the financial period are as follows:

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
At 1 January	88,682	99,150
Impairment loss recognised during the year	(2,774)	3,223
Impairment written-off	(7,889)	(13,691)
Closing balance	78,018	88,682

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4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

Table (i) present analysis of the impaired financing and advances of the Group and the related impairment allowances of the Group by:

(i) Economic purpose
(ii) Geographical
(iii) Movement in ECL for financing and advances.

(i) Impaired Financing and Advances and the Related Impairment Allowances by Economic Purpose.

Group and Bank 30 June 2020	**Impaired Financing and Advances** RM'000	**Impairment 1 Jan** RM'000	**Net Charge for the year** RM'000	**Amount Written Off/Other Movement** RM'000	**Impairment Allowances for Financing and Advances** RM'000
Working capital	40,682	58,937	(6,225)	-	52,713
Personal use	4,603	22,617	1,327	(6,239)	17,705
Purchase of properties-residential	9,468	6,212	2,020	(1,505)	6,726
Charged Card	177	314	(102)	(33)	179
Purchase of transport vehicle	46	602	205	(112)	695
	54,977	88,682	(2,774)	(7,889)	78,018

Group and Bank 31 Dec 2019	**Impaired Financing and Advances** RM'000	**Impairment 1 Jan** RM'000	**Net Charge for the year** RM'000	**Amount Written Off/Other Movement** RM'000	**Total Impairment Allowances for Financing and Advances** RM'000
Working capital	42,496	78,600	(17,843)	(1,820)	58,937
Personal use	7,192	15,100	17,233	(9,716)	22,617
Purchase of properties-residential	12,060	4,473	3,338	(1,600)	6,212
Charged Card	314	184	164	(35)	314
Purchase of transport vehicle	513	793	330	(520)	602
	62,574	99,150	3,223	(13,691)	88,682

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

(ii) Impaired Financing and Advances and the Related Impairment Allowances by Geographical Analysis.

Group and Bank 30 June 2020	Impaired Financing and Advances RM'000	Impairment 1 Jan RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movement RM'000	Total Impairment Allowances for Financing and Advances RM'000
Malaysia	54,977	88,682	(2,774)	(7,889)	78,018
	54,977	88,682	(2,774)	(7,889)	78,018

Group and Bank 31 Dec 2019	Impaired Financing and Advances RM'000	Impairment 1 Jan RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movement RM'000	Impairment Allowances for Financing and Advances RM'000
Malaysia	62,574	99,150	3,223	(13,691)	88,682
	62,574	99,150	3,223	(13,691)	88,682

4. Credit Risk (Cont'd)

4.5 Credit Quality of Gross Financing and Advances (Cont'd)

(iii) Movements in ECL/impairment allowances for financing and advances:

	Group and Bank	
	Unaudited	**Audited**
	30 June 2020	**31 Dec 2019**
	RM'000	RM'000
ECL/ Collective assessment allowance		
At 1 January		
Stage 1 ECL	29,855	33,982
Stage 2 ECL	25,044	32,150
Net stage 1 ECL (written back)/provided during the financial period/year	(4,429)	(4,128)
Net stage 2 ECL written back during the financial period/year	(1,839)	(7,105)
Closing Balance	48,630	54,899
As % of total gross financing and advances less individual impairment allowances	1.01%	1.03%
ECL/ Individual assessment allowance		
At 1 January	33,783	33,018
Net stage 3 ECL provided during financial period/year	3,495	14,456
Amount written off	(7,889)	(13,691)
Closing Balance	29,388	33,783

5. Market Risk

Risk Governance

The Assets and Liabilities Committee ("ALCO") supports the BRMC in market risk management oversight. The ALCO reviews the Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. Market risk is defined as the risk of loss resulting from changes in market prices and rates, arising principally from customer-driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while meeting customers' requirements. The market risk of the Group is identified into traded market risk and non-traded market risk.

5.1 Traded Market Risk

Traded market risk, primarily the profit rate/rate of return risk/equity risk and credit spread risk, exist in the Group's trading book positions held for the purpose of benefiting from short-term price movements. However, the Group does not actively trade in this area and maintains zero exposure. The Group maintains its policy of prohibiting exposures in trading fixed income, equity or financial derivative positions unless with the prior specific approval of the Shariah Board and the Board of Directors.

5.2 Non-Traded Market Risk

The Group's core non-traded market risks are profit rate/rate of return risk in the banking book and foreign exchange risk.

(a) Profit Rate/Rate of Return Risk in the Banking Book

Profit rate/rate of return risk in the banking book is the risk to the Group's earnings and economic value of equity ("EVE") arising from adverse movements in profit rate/rate of return. The banking book includes positions that arise from profit rate management of the Group's retail, corporate and treasury banking assets and liabilities as well as financial instruments designated as financial investment at amortised cost.

The following tables present the profit rate risk analysis. The sensitivity factors used are assumptions based on parallel shifts in the key variables and the impact on the re-priced mismatches of assets and liabilities position of the bank.

5. Market Risk (Cont'd)

5.2 Non-Traded Market Risk(Cont'd)

(a) Profit Rate/Rate of Return Risk in the Banking Book (Cont'd)

Profit rate sensitivity analysis

	Unaudited 30 June 2020		Audited 31 Dec 2019	
	Impact on profit after tax	Impact on equity	Impact on profit after tax	Impact on equity
Group and Bank	RM'000	RM'000	RM'000	RM'000
+ 100 basis points	3,735	(42,014)	3,068	(41,214)
- 100 basis points	(3,735)	42,014	(3,068)	41,214

(b) Foreign Currency Sensitivity Analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

	Unaudited 30 June 2020			Audited 31 Dec 2019		
	Currency exposures	Impact on profit +5%	Impact on profit -5%	Currency exposures	Impact on profit +5%	Impact on profit -5%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank						
EUR	323	16	(16)	88	4	(4)
AUD	86	4	(4)	99	5	(5)
HKD	1,367	68	(68)	247	12	(12)
SAR	(1,770)	(89)	89	152	8	(8)
USD	1,187	59	(59)	715	36	(36)
Others	848	42	(42)	859	43	(43)
	2,039	102	(102)	2,160	108	(108)

6. Operational Risk

Operational risk is defined as the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequacy or failure of internal processes or procedures, systems or controls, people or external events, including legal risk and Shariah Non-Compliance risk. Operational risk, in some form, exists in each of the Bank's business and support activities and can result in direct and indirect financial loss, regulatory sanctions, customer dissatisfaction and damage to the Bank's reputation.

The Group established a proper governance and oversight structures, reporting lines and accountabilities for managing operational risk within the management and working levels. For effective operational risk management implementation, the Group has put in place operational risk management policies, procedures, approaches and essential methodologies that enables identification, measurement, monitoring and reporting of inherent and emerging operational risks. Operational Risk Committee (ORC) and Operational Risk Working Committee (ORWC) are established for focused oversight on operational risk with the responsibility to monitor and deliberate on operational risk issues.

An independent operational risk management function in Risk Management is responsible for overseeing and reviewing the identification and management of major operational risks by business and support functions as well as integrating operational risks bank wide. Risk coordinators are appointed for the embedded risk functions at the business and support functions to facilitate the operational risk management implementation. The day-to-day management of operational risk exposures is through the development and maintenance of comprehensive internal controls and procedures based on segregation of duties, independent checks, segmented system access control and multi-tier authorization processes within the respective business and operational functions in the Bank.

Minimum Regulatory Capital Requirements for Operational Risk

The following table presents the minimum regulatory capital requirements for Operation Risk for the Group and Bank, computed using Basic Indicator Approach.

	Group and Bank			
	Unaudited 30 June 2020		Audited 31 Dec 2019	
	Risk weighted assets RM'000	Capital Requirement RM'000	Risk weighted assets RM'000	Capital Requirement RM'000
Operational Risk	369,736	29,579	368,432	29,475

6. Operational Risk (Cont'd)

Risk Management Approach

(a) Strategy and Processes

The implementation of Operational Risk Management within the Group includes the risk management on the Technology Risk, Fraud Risk, Legal and Regulatory Risk, Product Risk, Outsourcing Activities, Shariah Non-Compliance Risk, Business Resilience and Continuity and other pertinent operational risks relevant to the business and operational functions.

Technology Risk falls under the purview of Operational Risk Management and therefore follows the same methodology. Among the salient technology risk management principles for the Bank are:

- Establish the right tone from the top while defining and enforcing personal accountability and responsibility for managing technology risks.
- Technology requirements must always connect to business objectives.
- Align the management of technology risk with overall enterprise risk.
- Implementation of appropriate practices and controls to mitigate risks, including emerging risks such as cyber risks as approved by the Bank.

The Group has put in place a disciplined product evaluation process. The Group's product evaluation process is governed by the Group's Product and Services Governance Policy and its guideline. Each new product or service introduced as well as variations to existing products or services are subject to a rigorous risk review and sign-off process where risks are identified and assessed by divisions' independent of the risk taking unit that proposes the product or service and reviewed by Control Function Specialist (CFS).

The Group continues to direct group-wide efforts to maintain its legal and regulatory compliance culture in all jurisdictions that the Group operates in. The Group seeks to meet the standards and expectations of regulatory authorities through a number of initiatives and activities to support compliance with regulations governing anti-money laundering and counter financing of terrorism.

6. Operational Risk (Cont'd)

Risk Management Approach (Cont'd)

(a) Strategy and Processes (Cont'd)

Fraud risk management is also governed under Operational Risk Management where the main objectives of fraud risk management includes:

- Independently review, identify, assess, measures and manage fraud risk as second line of defense on a bank wide basis.
- Enforced responsibility and accountability for the management of fraud risk across the bank.
- Ensure governance and management throughout the bank via risk culture that promotes a responsible culture of transparency, vigilance, openness, awareness and off being proactive across the bank.
- To investigate into allegations of fraud involving branches, head office and subsidiaries of ARBM.

To further enhance operational risk management in response to threat of external fraud, losses arising from frauds or control lapses are analyzed in depth to identify the causes of such losses and to implement remedial actions to prevent recurrence. Analyses of impaired financing attributed to operational lapses are also conducted diligently and the findings are disseminated to all business units as learning points.

The Group manages its outsourcing arrangements through the Outsourcing Policy and Guidelines on Outsourcing Activities which stipulate the requirements and the operating procedures to be observed in managing activities that are outsourced to third party service providers. In managing outsourcing risks, the Bank implements Due Diligence, Outsourcing Risk Assessment, Risk Appetite setting to ensure that the risks associated with outsourced activities are addressed effectively. The Bank aims to minimize the impact of risk caused by third party service provider arrangements including outsourced service providers (OSP) which could delay and affect business operations and customer service

The Bank is exposed to disruptive events, some of which may be severe and result in an inability to fulfil some or all business obligations. Disaster recovery and business continuity plans are put in place as an integral part of the Group's strategy to mitigate risk and manage the impact of loss events. Where appropriate, the Group mitigates risk of high impact loss events by relevant takaful coverage.

6. Operational Risk (Cont'd)

Risk Management Approach (Cont'd)

(a) Strategy and Processes (Cont'd)

The Group protects and ensures information security through continuous assessment of the security features on all computer platforms and network infrastructure, and implementation of appropriate security controls to protect against the misuse or compromise of information assets. In addition, the Group continues to undertake initiatives to maintain 100% systems availability and robust system performance in the Group's computer systems, peripherals and network infrastructure to ensure uninterrupted transmission.

(b) Tools and Methods for Risk Mitigation

The Group had established, among others, the following tools for sound practices and effective implementation of operational risk management within the bank:

- Risk and Control Self-Assessment ("RCSA") – to enhance management assessment of the state of the risk and control environment.
- Branch Risk and Control Self-Assessment ("BRCSA") – to evaluate and assess the operational risks and control effectiveness at branches.
- Risk Assessments templates for material products and services, process and activities within the bank.
- Key Risk Indicators ("KRI") – to collect statistical data on an ongoing basis to facilitate early detection of Key operational risk and control deficiencies.
- Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the Group's operational risk exposure and in strengthening the internal control environment.

The Group employs the following key methods to mitigate its operational risk:

- System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes;
- Documented operational risk management policies and procedural manuals to mitigate errors by users;
- Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff;

6. Operational Risk (Cont'd)

Risk Management Approach (Cont'd)

(b) Tools and Methods for Risk Mitigation (Cont'd)

- Periodic review and enhancement of operational risk limits and controls strategies;
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events.
- Takaful coverage to mitigate risk of high impact loss events, where appropriate.
- Review of outsourcing activities to ensure that services providers adhere to the terms and conditions in the service agreement and that their integrity and service quality are not compromised.

(c) Reporting

Reporting forms an essential part of operational risk management. The Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through periodic operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing arrangements and legal actions taken against the Group. The operational risk management reports are tabled to the Operational Risk Working Committee ("ORWC"), Operational Risk Committee ("ORC") and the ERMC for deliberations.

7. Shariah Non-Compliance Risk and Governance

Shariah Non-Compliance ("SNC") Risk arises from the Bank's failure to comply with the Shariah ruling and Shariah standards as determined by the Shariah Board of the Bank or Shariah Advisory Council of Bank Negara Malaysia.

The Bank practice a zero risk appetite policy for non-adherence to the Shariah requirement, Shariah Standards, resolutions and rulings set out by BNM Shariah Advisory Council, Securities Commission Shariah Advisory Council, ARBM Shariah Board and any other relevant Shariah authority as determined by ARBM Shariah Board. The SNC risk is managed according to the Bank's Risk Management Framework and Shariah Risk Management Policy under the auspices of Shariah Governance Policy Document ("SGPD") of the Bank. The risk methodology provides structural process in mitigating the risk of SNC while promoting risk awareness culture at all level. Shariah Risk Management Policy, amongst others, prescribes the core requirement of Shariah compliance concerning the Bank's operation and activities. Whereas SGPD sets out the Bank's Shariah governance structure, process and arrangements including the functions of internal Shariah control functions.

The Shariah Board is responsible and accountable for all its decision, views and opinions related to Shariah matters. The Shariah Board is expected to endorse bank's policies and procedures relating to Shariah matters to ensure the contents do not contain any elements which are not in line with Shariah. The Shariah Board is preceded by qualified members who deliberate and endorse all Shariah matters with full independence as prescribed in the SGPD.

Meanwhile, Board of Directors ("BOD") is expected to have an oversight on Shariah Compliance aspects of the Bank's overall operations. The Board is ultimately responsible for the establishment of an appropriate Shariah Governance Policy Document of the Bank.

The Management shall be responsible for observing and implementing Shariah standards and decisions made by the Shariah Advisory Council of Bank Negara Malaysia and the Shariah Board of the Bank respectively. The Management is also responsible to ensure that responsibilities for the effective implementation and maintenance of Shariah risk management policies, processes and control are clearly set out and supported by effective reporting and escalation procedures.

7. Shariah Non-Compliance Risk and Governance (Cont'd)

7.1 Shariah Control Function Comprising Shariah Compliance, Shariah Audit and Shariah Risk

Shariah Control function comprises of Shariah Compliance, Shariah Audit and Shariah Risk Management where all Shariah issues and findings will be deliberated at Shariah Risk Working Committee (SRWC) before presenting to Shariah Board.

a) The Shariah Compliance function refers to regular assessment on Shariah compliance of the operations, business, affairs and activities of the Bank with the objective of ensuring that the activities and operations carried out by the Bank do not contravene with the Shariah Ruling, Shariah requirements and Shariah standards of the Bank's Shariah Board and Shariah Advisory Council of Bank Negara Malaysia.

b) The Shariah Risk Management is the second line of defense refers to function that systematically identifies, measures, monitors and reports Shariah non-compliance risks in operations, business, affairs and activities of the bank. Shariah Risk Working Committee (SRWC) has been established in the bank which is responsible for developing and/or enhancing the capability of the Bank in managing Shariah non-compliance risk and recommending them to the higher authorities for further deliberation and decision.

c) The Shariah Audit refers to periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the Bank's action, operation, business and activities with the main objective of ensuring a sound and effective internal control system for Shariah compliance including to verify the business or support units are in compliance with the decisions endorsed by the Shariah Board.

d) Shariah Audit to inform the incident owner to raise the SNC Reporting Form, and follow through the process of SNC Reporting. Shariah Audit also to provide recommendations on the rectification measures taken as well as follow–up on the implementation by the Bank.

In addition, the independent assessment is performed periodically by internal Shariah Audit to verify that the operations conducted by the business or support units are in compliance with the decisions endorsed by the Shariah Board. Any incidences of Shariah non-compliance are reported to both the Shariah Board and the Board Audit Committee.

7.1 Shariah Control Function Comprising Shariah Review, Shariah Audit and Shariah Risk. (Cont'd)

Remedial actions to be taken on immediate basis in rectifying the SNC event and cease the operations which is deemed as SNC, including but not limited to the immediate termination of the Shariah non-compliant products or services to address Shariah non-compliant income or activities. Rectification plans proposed to rectify the SNC shall be approved by the Shariah Board and the Board of Directors.

Rectification Process of Shariah Non-Compliant Income during Period under Review

There is nil Shariah Non-Compliance ("SNC") event and hence there is no financial impact due to SNC event for the financial period under review. The process of SNC Reporting as well as SNC Income Purification is in place and well documented in the bank which is subject to updates from time to time. Should there be any SNC events being detected which requires income purification, the rectification process and proper distribution of purification income will be according to the Shariah parameters stipulated in Shariah Board Ruling No.70 on Management of Purification Account and the Bank's Guideline on Income Purification.

مصرف الراجحي
Al Rajhi Bank

AL RAJHI BANKING AND INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

Basel II - Pillar 3 Disclosure
As at 30 June 2020

CHIEF EXECUTIVE OFFICER ATTESTATION

Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirement

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Al Rajhi Banking & Investment Corporation (Malaysia) Bhd's Pillar 3 Disclosures report for the financial period ended 30 June 2020 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.

For and on behalf of,

STEVE CHEN THIEN YIN
Chief Executive Officer