1. Overview

The information of Al Rajhi Banking & Investment Corporation (Malaysia) Bhd (“the Group”) below is disclosed in accordance to the requirements of the Bank Negara Malaysia ("BNM") Capital Adequacy Framework for Islamic Banks (“CAFIB”) – Disclosure Requirements (“Pillar 3”) Guidelines.

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.

	Group and Bank			
	30 June 2018		31 Dec 2017	
	Risk-Weighted Assets RM’000	Capital Requirement RM’000	Risk-Weighted Assets RM’000	Capital Requirement RM’000
Credit Risk	5,136,392	410,911	5,381,313	430,506
Market Risk	125,553	10,044	119,896	9,592
Operational Risk	346,761	27,741	340,583	27,247
Total	5,608,706	448,696	5,841,792	467,345

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 CAFIB.

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 constituencies, 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.

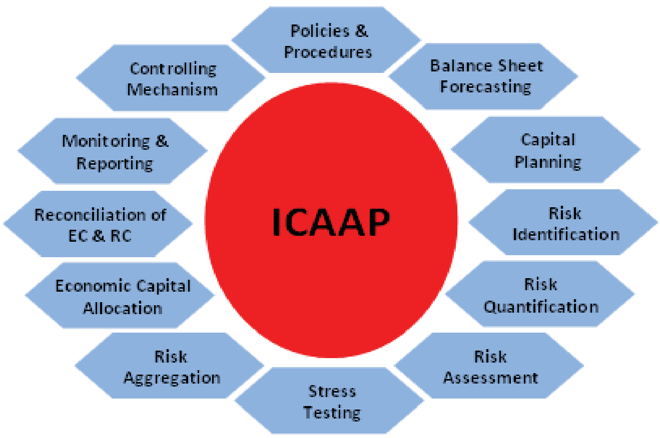
2. Capital Management (Cont'd)

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.

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

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 2018.

	Group		Bank	
	30 June 2018	**31 Dec 2017**	**30 June 2018**	**31 Dec 2017**
	RM'000	RM'000	RM'000	RM'000
Tier-1 capital				
Paid-up share capital	1,000,000	1,000,000	1,000,000	1,000,000
Accumulated losses	(286,054)	(249,903)	(286,168)	(249,972)
	713,946	750,097	713,832	750,028
Less: Deferred tax	(58,884)	(58,884)	(58,884)	(58,884)
Total Tier-1 capital	**655,062**	**691,213**	**654,948**	**691,144**
Tier-2 capital				
Stage 1 and Stage 2 expected credit loss allowances	96,979	-	96,979	-
Collective allowance	-	62,466	-	62,466
Subordinated Sukuk	322,965	323,792	322,965	323,792
Total Tier-2 capital	**419,944**	**386,258**	**419,944**	**386,258**
Capital base	**1,075,006**	**1,077,471**	**1,074,892**	**1,077,402**
Core capital ratio	11.679%	11.832%	11.677%	11.831%
Risk-weighted capital ratio	19.167%	18.444%	19.165%	18.443%

3. Group Risk Management Framework

The Group's risk management practice 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 2017.

4. Credit Risk

Credit risk is the potential loss of revenue as a result of defaults by borrowers or counterparties through the Group's lending, hedging, 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 balance sheet.

4. Credit Risk (Cont'd)

The management of credit risk is governed by credit policies and guidelines documenting the lending 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 2018			
Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Assets RM'000	Capital Requirement RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,684,054	1,684,054	-	-
Banks, Development Financial Institutions & MDBs	514,226	17,361	217,015	17,361
Corporate	3,890,134	275,669	3,445,863	275,669
Regulatory Retail	665,303	39,618	495,222	39,618
Residential Real Estate (RRE) Financing	1,021,739	37,775	472,184	37,775
Other assets	106,397	6,275	78,436	6,275
Defaulted Exposures	10,497	1,135	14,192	1,135
Total for On-Balance Sheet Exposures	7,892,350	7,742,707	4,722,911	377,833
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	438,292	438,292	413,480	33,078
Total for Off-Balance Sheet Exposures	438,292	438,292	413,480	33,078
Total On and Off-Balance Sheet Exposures	8,330,642	8,180,999	5,136,392	410,911
Large Exposures Risk Requirement	-	-	-	-
	Long position	Short position		
Market Risk				
Foreign Currency Risk	125,554	-	125,554	10,044
Operational Risk	-	-	346,761	27,741
Total RWA and Capital Requirements			5,608,706	448,696

4. Credit Risk (Cont'd)

	Group and Bank 31 December 2017			
Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Assets RM'000	Capital Requirement RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	2,182,340	2,182,340	-	-
Banks, Development Financial Institutions & MDBs	508,741	508,741	134,473	10,758
Corporate	4,037,460	3,895,154	3,723,150	297,852
Regulatory Retail	704,175	700,219	525,165	42,013
Residential Real Estate (RRE) Financing	1,058,636	1,058,636	497,598	39,808
Other assets	102,315	102,316	69,144	5,532
Defaulted Exposures	12,464	12,149	14,800	1,184
Total for On-Balance Sheet Exposures	8,606,131	8,459,555	4,964,330	397,147
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	451,688	451,688	416,983	33,359
Total for Off-Balance Sheet Exposures	451,688	451,688	416,983	33,359
Total On and Off-Balance Sheet Exposures	9,057,819	8,911,243	5,381,313	430,506
Large Exposures Risk Requirement	-	-	-	-
	Long position	Short position		
Market Risk				
Foreign Currency Risk	119,896	-	119,896	9,592
Operational Risk	-	-	340,583	27,247
Total RWA and Capital Requirements			5,841,792	467,345

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 lending 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 & SME

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

4. Credit Risk (Cont'd)

Risk Management Approach (Cont'd)

(c) Credit Risk from Investment Activities

The management of the credit risk arising from the Group's 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 loan obligation ("CLO") and does not participate in any securitisation deals.

4.1 Distribution of Credit Exposures

(a) Industry Analysis

Group and Bank	Short term funds RM'000	Deposits and placements with other institutions RM'000	Derivatives assets RM'000	Financial assets at fair value through profit or loss RM'000	Financial investment at amortised cost RM'000	Gross financing and advances RM'000	Statutory deposits with BNM RM'000	Other assets RM'000	Total RM'000
30 June 2018									
Household	-	-	-	-	-	1,698,201	-	-	1,698,201
Wholesale & Retail trade	-	-	-	-	34,612	1,073,791	-	-	1,108,403
Real estate, renting and business activities	-	-	-	-	-	915,726	-	-	915,726
Manufacturing	-	-	-	-	-	772,659	-	-	772,659
Construction	-	-	-	-	-	526,273	-	-	526,273
Finance intermediation	171,752	380,564	-	6,517	1,653,971	155,133	252,000	-	2,619,937
Education, Health and Others	-	-	-	-	-	100,343	-	-	100,343
Agriculture, hunting and related service activities	-	-	-	-	-	51,363	-	-	51,363
Hotel & restaurant	-	-	-	-	-	47,333	-	-	47,333
Transportation	-	-	-	-	-	42,253	-	-	42,253
Mining and Quarrying	-	-	-	-	-	27,395	-	-	27,395
Other business	-	-	-	-	-	12,145	-	11,051	23,196
Telecommunication	-	-	-	-	-	-	-	-	-
Fishing, Operation of Fish hatcheries, Fish Farms and services Activities Incidental to Fishing	-	-	-	-	-	-	-	-	-
Forestry, logging and related services activities	-	-	-	-	-	-	-	-	-
Total	171,752	380,564	-	6,517	1,688,583	5,422,615	252,000	11,051	7,933,082

4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(a) Industry Analysis

Group and Bank	Short term funds RM'000	Deposits and placements with other institutions RM'000	Derivatives assets RM'000	Securities held-for-trading RM'000	Securities held-to-maturity RM'000	Gross financing and advances RM'000	Statutory deposits with BNM RM'000	Other assets RM'000	Total RM'000
31 Dec 2017									
Household	-	-	-	-	-	1,767,689	-	-	1,767,689
Wholesale & Retail trade	-	-	561	-	46,777	1,073,310	-	-	1,120,648
Real estate, renting and business activities	-	-	-	-	-	1,033,211	-	-	1,033,211
Manufacturing	-	-	-	-	-	897,350	-	-	897,350
Construction	-	-	-	-	-	551,725	-	-	551,725
Finance intermediation	606,179	382,866	-	6,527	1,418,151	172,511	307,757	-	2,893,991
Education, Health and Others						82,916			82,916
Agriculture, hunting and related service activities	-	-	-	-	-	61,267	-	-	61,267
Hotel & restaurant	-	-	-	-	-	41,437	-	-	41,437
Transportation	-	-	-	-	-	30,888	-	-	30,888
Mining and Quarrying	-	-	-	-	-	24,619	-	-	24,619
Other business	-	-	-	-	-	15,868	-	16,943	32,811
Telecommunication	-	-	-	-	-	-	-	-	-
Fishing, Operation of Fish hatcheries, Fish Farms and services Activities Incidental to Fishing	-	-	-	-	-	-	-	-	-
Forestry, logging and related services activities	-	-	-	-	-	-	-	-	-
Total	606,179	382,866	561	6,527	1,464,928	5,752,791	307,757	16,943	8,538,551

4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(b) Geographical Analysis

Group and Bank

	Malaysia RM'000	Saudi Arabia RM'000	Other Countries RM'000	Total RM'000
30 June 2018				
Cash and short term funds	117,857	43,060	10,835	171,752
Deposits and placements with banks and other financial institutions	-	-	380,564	380,564
Derivatives assets	-	-	-	-
Financial assets at fair value through profit or loss	6,517	-	-	6,517
Financial investment at amortised cost	1,688,583	-	-	1,688,583
Gross financing and advances	5,384,752	-	37,863	5,422,615
Statutory deposits with BNM	252,000	-	-	252,000
Other assets	11,051	-	-	11,051
Total	7,460,760	43,060	429,262	7,933,082

	Malaysia RM'000	Saudi Arabia RM'000	Other Countries RM'000	Total RM'000
31 Dec 2017				
Cash and short term funds	556,856	12,151	37,171	606,178
Deposits and placements with banks and other financial institutions	-	-	382,866	382,866
Hedging financial instruments	-	-	561	561
Securities held-for-trading	6,527	-	-	6,527
Securities held-to-maturity	1,464,928	-	-	1,464,928
Gross financing and advances	5,709,269	-	43,522	5,752,791
Statutory deposits with BNM	307,757	-	-	307,757
Other assets	16,943	-	-	16,943
Total	8,062,280	12,151	464,120	8,538,551

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	> 5years RM'000	Total RM'000
30 June 2018					
Cash and short term funds	171,752	-	-	-	171,752
Deposits and placements with financial institutions	380,564	-	-	-	380,564
Hedging financial instruments	-	-	-	-	-
Financial assets at fair value through profit or loss	6,517	-	-	-	6,517
Financial investment at amortised cost	288,580	-	-	1,400,003	1,688,583
Gross financing and advances	2,135,572	351,838	385,738	2,549,467	5,422,615
Statutory deposits with BNM	252,000	-	-	-	252,000
Other assets	11,051	-	-	-	11,051
Total	3,246,036	351,838	385,738	3,949,470	7,933,082
31 Dec 2017					
Cash and short term funds	606,178	-	-	-	606,178
Deposits and placements with financial institutions	382,866	-	-	-	382,866
Hedging financial instruments	561	-	-	-	561
Securities held-for-trading	6,527	-	-	-	6,527
Securities held-to-maturity	46,777	-	-	1,418,151	1,464,928
Gross financing and advances	2,401,599	362,080	323,202	2,665,910	5,752,791
Statutory deposits with BNM	307,757	-	-	-	307,757
Other assets	16,943	-	-	-	16,943
Total	3,769,208	362,080	323,202	4,084,060	8,538,551

4. Credit Risk (Cont'd)

4.2 Off-Balance Sheet Exposures

The composition of off-balance sheet exposure of the Group and Bank are shown in the following table:

Disclosure on Off Balance Sheet Exposures

Group and Bank	**30 June 2018**			**31 Dec 2017**		
	Principal amount	Credit equivalent amount	Risk weighted amount	Principal amount	Credit equivalent amount	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transaction-related contingent items	71,625	35,813	35,812	91,035	45,518	45,517
Trade related contingencies	12,566	2,513	2,513	27,493	5,499	5,499
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,765,114	353,023	329,235	1,764,333	352,867	319,340
- Maturity exceeding one year	98,743	46,943	45,920	100,689	47,804	46,627
Foreign exchange-related	-	-	-	-	-	-
	1,948,048	438,292	413,480	1,983,550	451,688	416,983

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 shophouse 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.

4. Credit Risk (Cont'd)

Credit Risk Mitigation (Cont'd

The reliance that can be placed on CRM is carefully assessed in light of issues such as legal enforceability, market value and standing 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.

In home financing, the collateral is required to be insured 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 insure 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.

Disclosure on Credit Risk Mitigation

Group and Bank	**30 June 2018**		**31 Dec 2017**	
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	1,684,054	-	2,182,340	-
Banks, Development Financial Institutions & MDBs	514,226	-	508,741	-
Corporate	3,890,134	890,736	4,037,460	806,851
Regulatory Retail	665,303	8,162	704,175	6,534
Residential Real Estate (RRE) Financing	1,021,739	-	1,058,636	-
Other assets	106,397	-	102,315	-
Defaulted Exposures	10,497	-	12,464	-
Total for On-Balance Sheet Exposures	7,892,350	898,898	8,606,131	813,385
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	438,292	-	451,688	-
Total for Off-Balance Sheet Exposures	438,292	-	451,688	-
Total On and Off-Balance Sheet Exposures	8,330,642	898,898	9,057,819	813,385

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

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.

30 June 2018
Group and Bank

	Disclosure on Rated Exposures according to Rating by ECAIs													
Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000	A+ RM'000	A RM'000	A- RM'000	BBB+ RM'000	BBB RM'000	BBB- RM'000	BB+ to B- RM'000	Below B- RM'000	Unrated RM'000	Total RM'000
<u>On and Off Balance-Sheet Exposures</u>														
<u>Credit Exposure – Standardised Approach</u>														
Sovereigns/Central Banks	-	-	-	-	-	-	1,684,054	-	-	-	-	-	-	1,684,054
Banks, Development Financial Institutions & MDBs	-	-	-	-	93,284	708	-	26,396	3,976	133	8,168	-	404,308	534,226
Corporate	-	-	-	-	-	-	-	-	-	-	-	-	4,307,537	4,307,537
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-	674,377	674,377
Residential Real Estate (RRE)	-	-	-	-	-	-	-	-	-	-	-	-	1,024,051	1,024,051
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	106,397	106,397
Total	-	-	-	-	93,284	708	1,684,054	26,396	3,976	133	8,168	-	6,516,670	8,330,642

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.

31 Dec 2017
Group and Bank

	Disclosure on Rated Exposures according to Rating by ECAIs													
Exposure Class	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000	A+ RM'000	A RM'000	A- RM'000	BBB+ RM'000	BBB RM'000	BBB- RM'000	BB+ to B- RM'000	Below B- RM'000	Unrated RM'000	Total RM'000
On and Off Balance-Sheet Exposures														
Credit Exposure – Standardised Approach														
Sovereigns/Central Banks	-	-	-	-	-	-	2,182,340	-	-	-	-	-	-	2,182,340
Banks, Development Financial Institutions & MDBs	-	-	-	-	84,756	5,315	-	23,306	6,444	251	5,761	-	431,239	557,072
Corporate	-	-	-	-	-	-	-	-	-	-	-	-	4,443,508	4,443,508
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-	709,589	709,589
Residential Real Estate (RRE)	-	-	-	-	-	-	-	-	-	-	-	-	1,062,992	1,062,992
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	102,318	102,318
Total	-	-	-	-	84,756	5,315	2,182,340	23,306	6,444	251	5,761	-	6,749,646	9,057,819

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 2018

Exposures after netting and credit risk mitigation ("CRM")

Risk Weights	Sovereigns/ Central Bank RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity exposures RM'000	Others Assets RM'000	Total exposure after netting and CRM RM'000	Total Weighted Assets RM'000
Performing Exposures									
0%	1,684,054	-	-	-	-	-	27,959	1,712,013	-
20%	-	133,663	276,639	-	-	-	-	410,302	82,060
35%	-	-	-	-	402,349	-	-	402,349	140,822
50%	-	400,564	180,683	-	571,999	-	-	1,153,246	576,622
75%	-	-	-	669,149	10,508	-	-	679,657	509,743
100%	-	-	3,696,712	-	37,803	-	78,436	3,812,951	3,812,951
Total	1,684,054	534,227	4,154,034	669,149	1,022,659	-	106,395	8,170,518	5,122,198
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	138	1,391	-	-	1,529	765
100%	-	-	-	-	-	-	-	-	-
150%	-	-	8,869	83	-	-	-	8,952	13,428
Total	-	-	8,869	221	1,391	-	-	10,481	14,193
Total Performing and Defaulted	1,684,054	534,227	4,162,903	669,370	1,024,050	-	106,395	8,180,999	5,136,391

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 Dec 2017

Exposures after netting and credit risk mitigation ("CRM")

Risk Weights	Sovereigns/ Central Bank RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Real Estate RM'000	Equity exposures RM'000	Others Assets RM'000	Total exposure after netting and CRM RM'000	Total Weighted Assets RM'000
Performing Exposures									
0%	2,182,340	-	-	-	-	-	33,171	2,215,511	-
20%	-	427,993	102,098	-	-	-	-	530,091	106,018
35%	-	-	-	-	389,048	-	-	389,048	136,167
50%	-	129,081	180,652	-	611,751	-	-	921,484	460,742
75%	-	-	-	705,441	12,051	-	-	717,492	538,119
100%	-	-	4,009,411	-	46,912	-	69,144	4,125,467	4,125,467
Total	2,182,340	557,074	4,292,161	705,441	1,059,762	-	102,315	8,899,093	5,366,513
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	192	3,231	-	-	3,423	1,712
100%	-	-	-	-	-	-	-	-	-
150%	-	-	8,726	-	-	-	-	8,726	13,088
Total	-	-	8,726	192	3,231	-	-	12,149	14,800
Total Performing and Defaulted	2,182,340	557,074	4,300,887	705,633	1,062,993	-	102,315	8,911,242	5,381,313

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	
	30 June 2018	**31 Dec 2017**
	RM'000	RM'000
Neither past due nor impaired	5,191,749	5,518,462
Past due but not impaired	212,136	210,473
Impaired	18,730	23,856
Gross financing and advances	5,422,615	5,752,791
Ratio of gross impaired financing and advances less individual assessment allowance as percentage of net financing and advances	0.35%	0.41%

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 22c (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.

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

	Group and Bank	
	30 June 2018	**31 Dec 2017**
	RM'000	RM'000
Personal use	46,325	47,234
Purchase of property – residential property	153,590	150,526
Purchase of shop-house	3,776	3,236
Purchase of transport vehicles	8,329	9,344
Charge card	116	133
	212,136	210,473

4. Credit Risk (Cont'd)

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

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

	Group and Bank	
	30 June 2018	**31 Dec 2017**
	RM'000	RM'000
Malaysia	212,136	210,473
	212,136	210,473

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

	Group and Bank	
	30 June 2018	**31 Dec 2017**
	RM'000	RM'000
1 day to < 1 month	139,900	150,052
1 month to < 2 month	46,804	39,801
2 month to < 3 month	25,432	20,620
	212,136	210,473

c) Impaired Financing and Advances

Under MFRS 9, impairment is measured on each reporting date to a three stages of Expected Credit Loss (ECL):

- Stage 1: 12-month ECL

  For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognized.

- Stage 2: Lifetime ECL - non-credit impaired

  For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, the lifetime ECL will be recognized.

- Stage 3: Lifetime ECL - credit impaired

  Financial assets are assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, a lifetime ECL will be recognized.

4. Credit Risk (Cont'd)

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

c) Impaired Financing and Advances (Cont'd)

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

	Group and Bank	
	30 June 2018	**31 Dec 2017**
	RM'000	RM'000
At 1 January	73,812	89,086
Restated for adoption MFRS 9	17,314	-
Impairment loss recognised	19,862	9,648
Impairment loss reversed	(15,926)	(364)
Impairment written-off	(7,091)	(24,558)
	87,971	73,812

Table (i)-(ii) 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 analysis

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

Group and Bank 30 June 2018	Collective provision 12 month ECL RM'000	Collective provision Lifetime ECL not credit impaired RM'000	Collective provision Lifetime ECL credit impaired RM'000	Total Impairment RM'000
Working capital	25,382	44,855	1,010	71,247
Personal use	1,624	3,623	5,976	11,223
Purchase of properties -residential	406	3,155	1,415	4,976
Charge card	3	-	164	167
Purchase of transport vehicle	7	28	323	357
Purchase of shop-house	-	-	-	-
	27,422	51,661	8,888	87,971

4. Credit Risk (Cont'd)

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

Group and Bank 31 Dec 2017	Impaired Financing and Advances RM'000	Individual Assessment Allowance at 1 Jan RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movement RM'000	Individual Assessment Allowance at 31 Dec RM'000	Collective Assessment Allowance at 31 Dec RM'000	Total Impairment Allowances for Financing and Advances RM'000
Working capital	10,110	7,289	1,247	(7,273)	1,263	73,292	74,555
Personal use	6,179	-	-	-	-	148	148
Purchase of properties – residential	6,461	-	-	-	-	(2,624)	(2,624)
Charge card	116	-	-	-	-	(811)	(811)
Purchase of transport vehicle	640	-	-	-	-	2,366	2,366
Purchase of shop-house	-	-	-	-	-	178	178
	23,856	7,289	1,247	(7,273)	1,263	72,549	73,812

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

Group and Bank 30 June 2018	Collective provision 12 month ECL RM'000	Collective provision Lifetime ECL not credit impaired RM'000	Collective provision Lifetime ECL credit impaired RM'000	Total Impairment RM'000
Malaysia	25,382	44,855	1,010	71,247
	27,422	51,661	8,888	87,971

Group and Bank 31 Dec 2017	Impaired Financing and Advances RM'000	Individual Assessment Allowance at 1 Jan RM'000	Net Charge for the Year RM'000	Amounts Written Off/Other Movement RM'000	Individual Assessment Allowance at 31 Dec RM'000	Collective Assessment Allowance at 31 December RM'000	Total Impairment Allowances for Financing and Advances RM'000
Malaysia	23,856	7,289	1,247	(7,273)	1,263	72,549	73,812
	23,856	7,289	1,247	(7,273)	1,263	72,549	73,812

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 therefore maintains a minimal 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

	Group and Bank			
	30 June 2018		31 Dec 2017	
	Impact on profit after tax RM'000	**Impact on Equity** RM'000	**Impact on profit after tax** RM'000	**Impact on Equity** RM'000
+ 100 basis points	3,718	(49,549)	8,668	(44,712)
- 100 basis points	(3,718)	49,549	(8,668)	44,712

(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.

	Group and Bank			
	30 June 2018		31 Dec 2017	
	Impact on profit after tax RM'000	**Impact on Equity** RM'000	**Impact on profit after tax** RM'000	**Impact on Equity** RM'000
+ 5%	123	123	59	59
- 5%	(123)	(123)	(59)	(59)

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.

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			
	30 June 2018		31 Dec 2017	
	Risk weighted assets RM'000	**Capital Requirement** RM'000	**Risk weighted assets** RM'000	**Capital Requirement** RM'000
Operational Risk	346,761	27,741	340,583	27,247

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 IT Risk principles for the Bank are:

- Establish the right tone from the top while defining and enforcing personal accountability and responsibility for managing IT risks.
- IT requirements must always connect to business objectives.
- Align the management of IT 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 New Product Development Policy and Guideline on New Product Development. 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.

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.

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 on a bank wide basis.
- Enforce 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 of 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.

6. Operational Risk (Cont'd)

Risk Management Approach (Cont'd)

(a) Strategy and Processes (Cont'd)

The Group manages its outsourcing activities through the 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. This is to ensure that the risks associated with outsourcing activities are managed effectively

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.

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") – identification and assessment of the state of the operational risks 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, 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.
- Operational Risk Scenario Analysis – a forward looking approach to identify potential significant operational risks and assess the risk mitigations and business resilience.

6. Operational Risk (Cont'd)

Risk Management Approach (Cont'd)

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

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
- 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 activities 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 Risk arises from the Bank's failure to comply with the Shariah ruling and principles as determined by the Shariah Board of the Bank or Shariah Advisory Council of Bank Negara Malaysia (on advice of Shariah Board).

The Bank practice a zero risk appetite policy for non-adherence to the Shariah requirement, resolution and ruling set out by the relevant Shariah authority. The Shariah Non-Compliance risk is managed according to the Bank's Risk Management Framework and Shariah Risk Management Policy under the auspices of Shariah Governance Framework ("SGF") of the Bank. The risk methodology provides structural process in mitigating the risk of Shariah non-compliance 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 SGF sets out the Bank's governance structure, process and arrangements including the functions of internal Shariah organs.

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 SGF.

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 framework of the Bank.

The Management shall be responsible for observing and implementing Shariah rulings 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.

The Shariah Risk Management process is established to systematically identify, measure, monitor and control of Shariah non-compliance risks in the bank to mitigate any possible Shariah Non-Compliance events for all bank's activities. The function is supported by the establishment of the Shariah Risk Working Committee ("SRWC") 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.

The Shariah Advisory function strengthens the Bank's level of compliance to the Shariah by examining the end-to-end product development and operational processing including the credit application review to mitigate any possible financing for Shariah non-compliance activities. The Shariah Compliance function is responsible for the regular assessment on Shariah compliance of all activities and operations of the Bank. On-site inspections at business and support units are performed to ensure the activities and operations are conducted in accordance to Shariah rules and principles. The Shariah Secretariat function is to coordinate administrative matters related to Shariah Board which includes coordinating meetings, disseminating Shariah Board decisions and ruling to relevant stakeholders.

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

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. Remedial actions, including but not limited to the immediate termination of the Shariah non-compliant products or services to address Shariah non-compliant income or activities are proposed for the endorsement of the Shariah Board and the approval of the Board of Directors.

Rectification Process of Shariah Non-Compliant Income Detected During Period Under Review

There is nil Shariah Non-Compliance (SNC) event and nil SNC income due to SNC event reported for the financial period. The process of Shariah Non-Compliance 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 Shariah Non-Compliance 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.

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 2018 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