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's ("BNM"). Capital Adequacy Framework for Islamic Banks ("CAFIB") – Disclosure Requirements ("Pillar 3"), 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 however, 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 2017		31 Dec 2016	
	Risk-Weighted Assets RM'000	Capital Requirement RM'000	Risk-Weighted Assets RM'000	Capital Requirement RM'000
Credit Risk	6,146,694	491,735	5,569,081	445,526
Market Risk	126,272	10,102	122,785	9,823
Operational Risk	333,360	26,669	329,719	26,378
Total	6,606,326	528,506	6,021,585	481,726

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

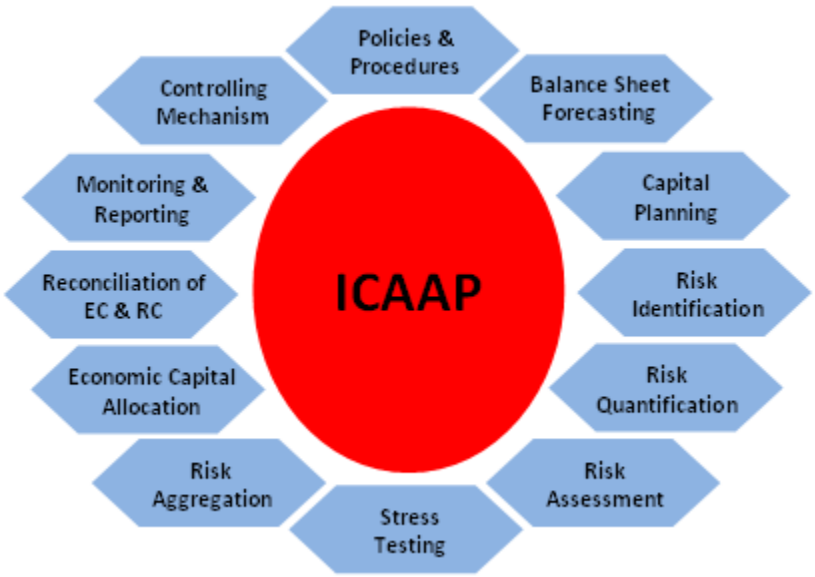
The Group's capital management is guided by the Group's Capital Adequacy Management and Governance Framework and the Capital Adequacy Management and Planning Policy which sets out the capital targets and outlines the Group's objective to diversify its sources of capital and to allocate capital efficiently. 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.

The Board of Directors ("BOD") / Board Risk Management Committee ("BRMC") are 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 support 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.

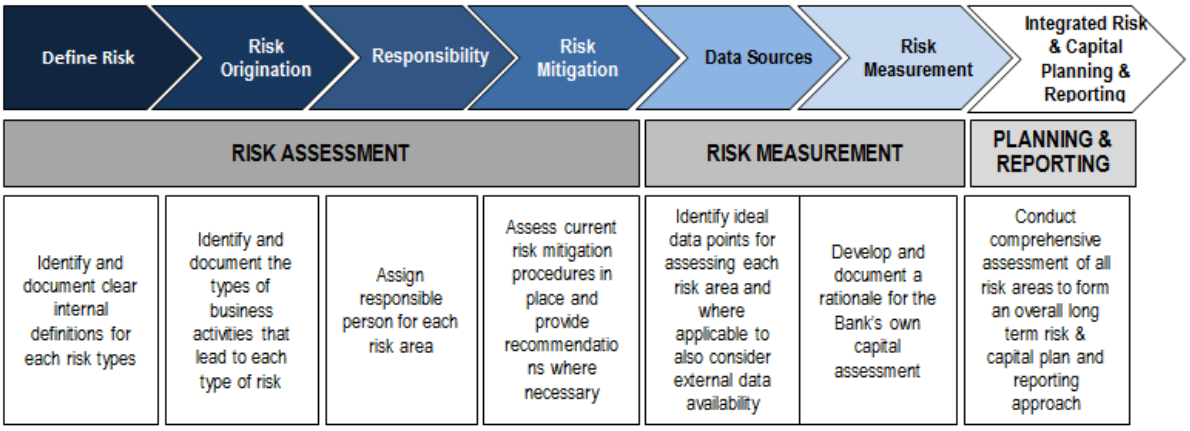
The major components of ICAAP of the Group and the Bank can be illustrated through the following diagram:



2. Capital Management (Cont'd)

2.1 Internal Capital Adequacy Assessment Process (continued)

The risk management processes under ICAAP are as follows:-



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 2017, the Group's and the Bank's Tier 1 and total capital adequacy ratios were higher than BNM's minimum requirements.

	Group		Bank	
	30 June 2017	**31 Dec 2016**	**30 June 2017**	**31 Dec 2016**
	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	(260,341)	(260,756)	(260,377)	(260,809)
	739,659	739,244	739,623	739,191
Less: Deferred tax	(62,087)	(62,087)	(62,087)	(62,087)
Total Tier-1 capital	**677,572**	**677,157**	**677,536**	**677,104**
Tier-2 capital				
Collective impairment for bad and doubtful financing	62,538	69,384	62,538	69,384
Subordinated Sukuk	400,720	299,003	400,720	299,003
Total Tier-2 capital	**463,258**	**368,387**	**463,258**	**368,387**
Capital base	**1,140,830**	**1,045,544**	**1,140,794**	**1,045,491**
Core capital ratio	10.256%	11.245%	10.256%	11.245%
Risk-weighted capital ratio	17.269%	17.363%	17.268%	17.362%

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 2016.

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.

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 2017		31 Dec 2016	
Exposure Class	Risk-Weighted Assets RM'000	Capital Requirement RM'000	Risk-Weighted Assets RM'000	Capital Requirement RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	-	-	-	-
Banks, Development Financial Institutions & MDBs	98,740	7,899	75,494	6,040
Corporate	4,066,574	325,326	3,560,104	284,808
Regulatory Retail	524,403	41,952	532,643	42,611
Residential Real Estate (RRE) Financing	535,632	42,851	538,693	43,095
Other assets	46,778	3,742	50,798	4,064
Defaulted Exposures	29,093	2,327	30,676	2,454
Total for On-Balance Sheet Exposures	5,301,219	424,097	4,788,408	383,072

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 Investment Committee approves major credit decisions. All financing applications of significant amounts are approved by the Credit Investment Committee 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 and SMEs

The credit granting to retail consumers and SMEs 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 institutional 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 and collateral.

4. Credit Risk (Cont'd)

Risk Management Approach (Cont'd)

(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 loan obligation ("CLO") 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, analyzed 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.

4. Credit Risk (Cont'd)

4.1 Distribution of Credit Exposures (Cont'd)

(a) Industry Analysis

Group and Bank	Government and Central Banks	Financial Services	Transport, Tele-communication, Education and Other Business Services	Agricultural, Manufacturing, Utility, Research & Development, Wholesale & Retail Trade, Hotel and Restaurant	Construction & Real Estate	Residential Mortgages	Motor Vehicle Financing	Other Consumer Financing	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2017									
Short term funds	8,196	113,258	-	-	-	-	-	-	121,454
Deposits and placements with other institutions	-	406,022	-	-	-	-	-	-	406,022
Hedging financial instruments	-	3	-	-	-	-	-	-	3
Securities held-for-trading	-	6,123	-	-	-	-	-	-	6,123
Securities held-to-maturity	1,015,011	402,988	-	46,778	-	-	-	-	1,464,777
Net financing and advances	-	98,206	1,526,149	1,576,113	1,425,552	1,104,215	81,824	638,874	6,450,933
Statutory deposits with BNM	261,629	-	-	-	-	-	-	-	261,629
Other assets	-	-	9,016	-	-	-	-	-	9,016
Total	1,284,836	1,026,600	1,535,165	1,622,891	1,425,552	1,104,215	81,824	638,874	8,719,957
31 Dec 2016									
Short term funds	8,066	112,147	-	-	-	-	-	-	120,213
Deposits and placements with other institutions	-	302,977	-	-	-	-	-	-	302,977
Hedging financial instruments	-	-	-	-	-	-	-	-	-
Securities held-for-trading	-	5,701	-	-	-	-	-	-	5,701
Securities held-to-maturity	1,015,078	403,103	-	50,799	-	-	-	-	1,468,980
Net financing and advances	-	264,395	1,527,132	1,217,907	1,200,368	1,141,875	79,173	571,566	6,002,416
Statutory deposits with BNM	263,529	-	-	-	-	-	-	-	263,529
Other assets	-	-	6,829	-	-	-	-	-	6,829
Total	1,286,673	1,088,322	1,533,961	1,268,706	1,200,368	1,141,875	79,173	571,566	8,170,645

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 2017				
Cash and short term funds	85,564	12,082	23,808	121,454
Deposits and placements with banks and other financial institutions	-	-	406,022	406,022
Hedging financial instruments	-	-	3	3
Securities held-for-trading	6,123	-	-	6,123
Securities held-to-maturity	1,464,777	-	-	1,464,777
Net financing and advances	4,893,083	1,509,238	48,611	6,450,933
Statutory deposits with BNM	261,629	-	-	261,629
Other assets	9,016	-	-	9,016
Total	6,720,192	1,521,321	478,444	8,719,957
31 Dec 2016				
Cash and short term funds	41,883	26,017	52,313	120,213
Deposits and placements with banks and other financial institutions	-	-	302,977	302,977
Hedging financial instruments	-	-	-	-
Securities held-for-trading	5,701	-	-	5,701
Securities held-to-maturity	1,468,980	-	-	1,468,980
Net financing and advances	4,444,298	1,509,239	48,879	6,002,416
Statutory deposits with BNM	263,529	-	-	263,529
Other assets	6,829	-	-	6,829
Total	6,231,220	1,535,256	404,169	8,170,645

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 2017					
Cash and short term funds	121,454	-	-	-	121,454
Deposits and placements with financial institutions	406,022	-	-	-	406,022
Hedging financial instruments	3	-	-	-	3
Securities held-for-trading	6,123	-	-	-	6,123
Securities held-to-maturity	46,778	-	-	1,417,999	1,464,777
Gross financing and advances	1,916,026	397,713	1,801,874	2,409,620	6,525,234
Statutory deposits with BNM	261,629	-	-	-	261,629
Other assets	9,016	-	-	-	9,016
Total	2,767,051	397,713	1,801,874	3,827,619	8,794,258
31 Dec 2016					
Cash and short term funds	120,213	-	-	-	120,213
Deposits and placements with financial institutions	302,977	-	-	-	302,977
Hedging financial instruments	-	-	-	-	-
Securities held-for-trading	5,701	-	-	-	5,701
Securities held-to-maturity	50,798	-	-	1,418,182	1,468,980
Gross financing and advances	1,542,637	483,807	1,811,597	2,253,461	6,091,502
Statutory deposits with BNM	263,529	-	-	-	263,529
Other assets	6,829	-	-	-	6,829
Total	2,292,684	483,807	1,811,597	3,671,643	8,259,731

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

4. Credit Risk (Cont'd)

4.2 Off-Balance Sheet Exposures (Cont'd)

Disclosure on Off Balance Sheet Exposures

Group and Bank	30 June 2017			31 Dec 2016		
	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
Direct credit substitutes						
Transaction-related contingent items	282,041	141,021	111,431	321,721	160,861	124,576
Short term self-liquidating trade related contingencies	14,596	2,919	2,919	16,291	3,258	3,032
Foreign exchange related contracts - One year or less	-	-	-	17,940	-	-
Credit derivative contracts - One year or less	-	-	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	212,214	107,861	105,887	290,763	147,164	144,852
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	3,126,191	623,484	623,923	2,541,065	506,431	506,876
Unutilised credit card lines	8,769	1,754	1,315	8,912	1,782	1,337
	3,643,811	877,039	845,475	3,196,692	819,496	780,673

4. Credit Risk (Cont'd)

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 residential mortgages – charges over residential properties
(b) for commercial property financing – charges over the properties being financed
(c) for motor vehicle financing – ownership claims over the vehicles financed
(d) for share margin financing – pledges over securities from listed exchange
(e) for other 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.

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.

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 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.

4. Credit Risk (Cont'd)

4.3 Credit Risk Mitigation (Cont'd)

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 Standardized 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 2017**		**31 Dec 2016**	
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	1,689,260	-	1,689,777	-
Banks, Development Financial Institutions & MDBs	493,703	-	377,471	-
Corporate	4,706,179	569,317	4,208,664	223,121
Regulatory Retail	699,754	631	710,996	944
Residential Real Estate (RRE) Financing	1,105,086	-	1,132,214	-
Other assets	82,449	-	84,473	-
Defaulted Exposures	21,184	-	21,873	-
Total for On-Balance Sheet Exposures	8,797,616	569,948	8,225,468	224,065
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	877,038	-	819,633	-
Total for Off-Balance Sheet Exposures	877,038	-	819,633	-
Total On and Off-Balance Sheet Exposures	9,674,654	569,948	9,045,101	224,065

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardized 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 Standardized 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 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	-	-	-	-	-	-	1,689,260	-	-	-	-	-	-	1,689,260
Banks, Development Financial Institutions & MDBs	44	-	-	-	472,369	20,624	-	-	-	-	173	-	498	493,708
Corporate	-	-	-	-	1,509,238	-	-	-	-	-	-	-	3,961,944	5,471,183
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-	823,675	823,675
Residential Real Estate (RRE)	-	-	-	-	-	-	-	-	-	-	-	-	1,114,380	1,114,380
Other Assets													82,449	82,449
Total	44	-	-	-	1,981,608	20,624	1,689,260	-	-	-	173	-	5,982,945	9,674,654

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardized 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 2016
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	-	-	-	-	-	-	1,689,777	-	-	-	-	-	-	1,689,777
Banks, Development Financial Institutions & MDBs	370	-	-	-	327,194	1,253	-	-	-	-	34,552	-	15,051	378,420
Corporate	-	-	-	-	1,536,740	-	-	-	-	-	-	-	3,353,315	4,890,055
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-	858,130	858,130
Residential Real Estate (RRE)	-	-	-	-	-	-	-	-	-	-	-	-	1,144,248	1,144,248
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	84,473	84,473
Total	370	-	-	-	1,863,934	1,253	1,689,777	-	-	-	34,552	-	5,455,216	9,045,101

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardized 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 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%	1,689,260	-	-	-	-	-	35,671	1,724,931	-
20%	-	493,708	202,656	-	-	-	-	696,364	139,273
35%	-	-	-	-	377,720	-	-	377,720	132,202
50%	-	-	35,697		640,638	-	-	676,335	338,168
75%	-	-	1,509,238	822,300	17,612	-	-	2,349,150	1,761,863
100%	-	-	3,627,060		72,259	-	46,778	3,746,097	3,746,097
Total	1,689,260	493,708	5,374,651	822,300	1,108,229	-	82,449	9,570,597	6,117,602
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	5,368	-	-	5,368	5,368
150%	-	-	14,208	825	783	-	-	15,816	23,724
Total	-	-	14,208	825	6,151	-	-	21,184	29,092
Total Performing and Defaulted	1,689,260	493,708	5,388,859	823,125	1,114,380	-	82,449	9,591,781	6,146,694

4. Credit Risk (Cont'd)

4.4 Assignment of Risk Weight for Portfolios Under the Standardized 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 2016

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%	1,689,777	-	-	-	-	-	33,676	1,723,453	-
20%	-	378,420	230,419	-	-	-	-	608,839	121,768
35%	-	-	-	-	375,980	-	-	375,980	131,593
50%	-	-	121,451	-	690,113	-	-	811,564	405,782
75%	-	-	1,509,239	855,228	23,529	-	-	2,387,996	1,790,997
100%	-	-	2,987,656	-	49,812	-	50,798	3,088,266	3,088,265
Total	1,689,777	378,420	4,848,765	855,228	1,139,434	-	84,474	8,996,098	5,538,405
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	4,268	-	-	4,268	4,268
150%	-	-	14,964	2,096	545	-	-	17,605	26,408
Total	-	-	14,964	2,096	4,813	-	-	21,873	30,676
Total Performing and Defaulted	1,689,777	378,420	4,863,729	857,324	1,144,247	-	84,474	9,017,971	5,569,081

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 2017	**31 Dec 2016**
	RM'000	RM'000
Neither past due nor impaired	6,268,199	5,855,581
Past due but not impaired	233,552	192,777
Impaired	23,484	43,144
Gross financing and advances	6,525,234	6,091,502
Ratio of gross impaired financing and advances less individual assessment allowance as percentage of net financing and advances	0.36%	0.71%

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 24 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 2017	**31 Dec 2016**
	RM'000	RM'000
Personal use	77,416	31,072
Working capital		
Purchase of property – residential property	142,683	149,907
Purchase of shop-house	4,098	3,337
Purchase of transport vehicles	9,203	8,228
Charge card	152	233
	233,552	192,777

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 2017	**31 Dec 2016**
	RM'000	RM'000
Malaysia	233,552	192,777
	233,552	192,777

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

	Group and Bank	
	30 June 2017	**31 Dec 2016**
	RM'000	RM'000
1 day to < 1 month	163,756	129,555
1 month to < 2 month	50,463	41,236
2 month to < 3 month	19,333	21,986
	233,552	192,777

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. "Objective evidence of impairment" exists when one or more events that have occurred after the initial recognition of the financing (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the financing or group of financing that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Financing and advances which are not individually significant are collectively assessed. If the Group determines that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financing with similar credit risk characteristics for collective impairment assessment.

4. Credit Risk (Cont'd)

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

c) Impaired Financing and Advances (Cont'd)

The future cash flows of each of the group of financing with similar credit risk characteristics are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing.

Impaired financing and advances are financing whereby payments of principal or profit or both are past due for more than three (3) months, or financing which are past due for less than three (3) months which exhibit indications of significant credit weaknesses, or impaired financing which have been restructured/rescheduled, but where repayments are based on the revised terms have yet to fulfill six (6) consecutive months of observation period.

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

	Group and Bank	
	30 June 2017	**31 Dec 2016**
	RM'000	RM'000
At 1 January	89,086	95,193
Impairment loss recognised	3,055	5,835
Impairment loss reversed	(364)	(540)
Impairment written-off	(17,476)	(11,402)
	74,300	89,086

4. Credit Risk (Cont'd)

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

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 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 30 June RM'000	Collective Assessment Allowance at 30 June RM'000	Total Impairment Allowances for Financing and Advances RM'000
Working capital	9,504	7,289	1,100	(7,273)	1,116	23,300	24,416
Personal use	7,206	-	-	-	-	37,185	37,185
Purchase of properties – residential	5,024	-	-	-	-	10,438	10,438
Charge card	140	-	-	-	-	224	224
Purchase of transport vehicle	336	-	-	-	-	1,119	1,119
Purchase of shop-house	1,273	-	-	-	-	917	917
	23,484	7,289	1,100	(7,273)	1,116	73,184	74,300

Group and Bank 31 Dec 2016	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	17,281	6,937	-	-	7,289	24,420	31,709
Personal use	10,986	-	-	-	-	40,309	40,309
Purchase of properties – residential	9,662	524	379	-	-	12,190	12,191
Charge card	210	-	-	-	-	285	285
Purchase of transport vehicle	1,561	-	-	-	-	2,601	2,601
Purchase of shop-house	3,444	-	-	-	-	1,991	1,991
	43,144	7,461	379	-	7,289	81,796	89,086

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 2017	Impaired, Advances and Financing 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 30 June RM'000	Collective Assessment Allowance at 30 June RM'000	Total Impairment Allowances for Financing, Advances and Financing RM'000
Malaysia	23,484	7,289	1,100	(7,273)	1,116	73,184	74,300
	23,484	7,289	1,100	(7,273)	1,116	73,184	74,300

Group and Bank 31 Dec 2016	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	43,144	7,461	379	-	7,289	81,796	89,086
	43,144	7,461	379	-	7,289	81,796	89,086

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. The Group recognizes market risk 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, commercial and wholesale banking assets and liabilities as well as financial instruments designated as available for sale and held to maturity.

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 2017		31 Dec 2016	
	Impact on profit after tax RM'000	Impact on Equity RM'000	Impact on profit after tax RM'000	Impact on Equity RM'000
+ 1 basis points	(2,828)	(57,294)	(3,697)	(72,411)
- 1 basis points	2,828	57,294	3,697	72,411

(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 2017		31 Dec 2016	
	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%	451	451	318	318
- 5%	(451)	(451)	(318)	(318)

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 processes, procedures, systems or controls and external events. 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 management of operational risk is an important priority for the Bank. To mitigate such operational risks, the Bank has developed an operational risk program and essential methodologies that enables identification, measurement, monitoring and reporting of inherent and emerging operational risks.

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 authorisation processes. An incident reporting process is also established to capture and analyse frauds and control lapses.

A periodic Risk and Control Self-Assessment ("RCSA") process is established for business and support units to pre-emptively identify risks and evaluate control effectiveness. Action plans are developed for the control issues identified.

Fraud risk is also covered under Operational Risk and same methodology applied. However, the main objectives of fraud risk as follow:

- To identify, assess, measures, monitor and manage fraud risk 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.

IT Risk falls under the purview of Operational Risk 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 business 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.

6. Operational Risk (Cont'd)

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 2017		31 Dec 2016	
	Risk weighted assets RM'000	Capital Requirement RM'000	Risk weighted assets RM'000	Capital Requirement RM'000
Operational Risk	333,360	26,669	329,719	26,378

Risk Management Approach

(a) Strategy and Processes

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.

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 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.

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

To manage and mitigate operational risk, the Group uses various tools including:

- Risk and Control Self-Assessment ("RCSA") – to enhance management assessment of the state of the risk and control environment.
- Key risk indicators – 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
- 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.

6. Operational Risk (Cont'd)

(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 Workings 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 rules and principles as determined by the Shariah Board of the Bank or National Shariah Advisory Council of Bank Negara Malaysia (on advice of Shariah Board).

This risk is managed according to the Bank's Risk Management Framework, 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 to perform due diligence over the effective implementation of the SGF and testify that policies and procedures relating to Shariah matters are implemented accordingly. 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 perform diligent oversight over the effective functioning of the Bank's SGF. Besides, the Management is responsible to ensure the execution of the Bank's operations and activities are in accordance to Shariah principles.

The Shariah Advisory and Research function strengthen 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 Review and 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)

The Shariah Risk Management is responsible to systematically identify, measure, monitor and control of Shariah non-compliance risks to mitigate any possible of non-compliance events. The function is supported by the establishment of the Shariah Compliance Working Committee 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.

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

During the financial period, there was no shariah non-compliant events being detected. Should there be any shariah non-compliant events being detected, the rectification process involves immediate refund of amount to the rightful owner(s) and proper distribution of amount 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 2017 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