Basel II Pillar 3 Disclosure for 2010

CIMB Investment Bank Berhad

Abbreviations

A-IRB Approach	:	Advanced Internal Ratings Based Approach
BAFIA	:	Banking and Financial Institution Act 1989
BI	:	Banking Institutions
BCC	:	Business Credit Committee
BNM	:	Bank Negara Malaysia
BRC	:	Board Risk Committee
BSMC	:	Balance Sheet Management Committee
CaR	:	Capital-at-Risk
CCR	:	Counterparty Credit Risk
CIMBBG	:	CIMB Bank Berhad, CIMB Islamic Bank Berhad, CIMB Thai Bank Public Company Ltd and its subsidiaries, CIMB Bank PLC (Cambodia) and CIMB Factor Lease Berhad
CIMBIBG	:	Consist of CIMB Investment Bank Berhad and CIMB Futures Sdn Bhd
CIMBGH Group	:	Group of Companies under CIMB Group Holdings Berhad
CIMB Bank	:	CIMB Bank Berhad and CIMB Bank (L) Ltd (as determined under the RWCAF to include its wholly owned offshore banking subsidiary company)
CIMB Group or the Group	:	Collectively CIMBBG, CIMBIBG and CIMB Islamic as described within this Report
CIMB IB	:	CIMB Investment Bank Berhad
CIMB Islamic	:	CIMB Islamic Bank Berhad
CRC	:	Credit Risk Committee
CRM	:	Credit Risk Mitigants
CSA	:	Credit Support Annexes, International Swaps and Derivatives Association Agreement
DFIs	:	Development Financial Institutions
EAD	:	Exposure At Default
EaR	:	Earnings-at-Risk
ECAIs	:	External Credit Assessment Institutions
EL	:	Expected Loss
EP	:	Eligible Provision
EVE	:	Economic Value of Equity
EWRM	:	Enterprise Wide Risk Management
Group EXCO	:	Group Executive Committee
FDIs	:	Foreign Direct Investment

F-IRB Approach	:	Foundation Internal Ratings Based Approach
Fitch	:	Fitch Ratings
GC	:	Group Credit
GMRC	:	Group Market Risk Committee
GRC	:	Group Risk Committee
GRD	:	Group Risk Division
GRM	:	Group Risk Management
HPE	:	Hire Purchase
IRB Approach	:	Internal Ratings Based Approach
IRRBB	:	Interest Rate Risk in the Banking Book
LGD	:	Loss Given Default
MARC	:	Malaysian Rating Corporation Berhad
MDBs	:	Multilateral Development Bank
MATs	:	Management Action Triggers
Moody's	:	Moody's Investors Service
MTM	:	Mark-to-Market and/or Mark-to-Model
ORC	:	Operational Risk Committee
ORM	:	Operational Risk Management
ORMF	:	Operational Risk Management Framework
OTC	:	Over The Counter
PD	:	Probability of Default
PSEs	:	Non-Federal Government Public Sector Entities
PSIA	:	Profit Sharing Investment Accounts
QRRE	:	Qualifying Revolving Retail Exposures
R&I	:	Rating and Investment Information, Inc
RAM	:	RAM Rating Services Berhad
RAROC	:	Risk Adjusted Return On Capital
RCC	:	Regional Credit Committee
RCM	:	Regional Credit Management
RLRC	:	Regional Liquidity Risk Committee
RMA	:	Risk Management & Analytics
RMO	:	Risk Middle Office
RRE	:	Residential Real Estate
RWA	:	Risk Weighted Assets
RWCAF	:	Risk Weighted Capital Adequacy Framework (Basel II)
RWCR	:	Risk Weighted Capital Ratio
S&P	:	Standard & Poor's
SA	:	Standardised Approach
SBCC	:	Singapore Business Credit Committee
SMEs	:	Small and Medium Enterprises

Overview of Basel II and Pillar 3

Basel II Regulatory Capital Framework seeks to increase the risk sensitivity in capital computations and prescribed a number of different approaches to risk calculation that allows the use of internal models to calculate regulatory capital. The particular approach selected must commensurate with the bank's risk management capabilities. The Basel II requirements are stipulated within three broad 'Pillars' or sections.

Pillar 1 focuses on the minimum capital measurement methodologies and their respective qualifying criteria to use specified approaches available to calculate the RWA for credit, market and operational risks. CIMB Bank and its subsidiaries, CIMB IB and its subsidiaries and CIMB Islamic (collectively known as 'CIMB Group' or 'the Group' for purposes of this disclosure) have the approval from BNM to apply the IRB Approach for its major credit exposures since 1 July 2010. The IRB Approach prescribes two approaches, the F-IRB Approach and A-IRB Approach. Under F-IRB Approach, the Group applies its own PD and the regulator prescribed LGD, whereas under the A-IRB Approach, the Group applies its own risk estimates of PD, LGD and EAD. As at 31 December 2010, CIMB IB does not have any retail credit exposures under the IRB Approach and for the purposes of this Report, CIMB IB discloses its non-retail credit exposures measured under F-IRB Approach.

Pillar 2 focuses on how sound risk management practices should be implemented from the Supervisory Review perspective. It requires financial institutions to make their own assessments of capital adequacy in light of their risk profile and to have a strategy in place for maintaining their capital levels. In light of BNM's guidelines on the RWCAF – Internal Capital Adequacy Assessment Process (Pillar 2), a comprehensive self assessment to evaluate existing capital and risk management practices against the expectations set forth in the BNM's guidelines and development of action plans to close any gaps identified is underway and due for submission to BNM by 30 June 2011.

Pillar 3 complements Pillar 1 and Pillar 2 by presenting disclosure requirements aimed to encourage market discipline in a sense that every market participants can assess key pieces of information attributed to the capital adequacy framework of financial institutions. These disclosures herein are formulated in accordance with the requirements of BNM's guidelines on RWCAF – Disclosure Requirements (Pillar 3).

The qualitative disclosures in this Report are required to be updated on an annual basis and more frequently if significant changes to policies are made. The capital structure and adequacy disclosures are published on a quarterly basis. All other quantitative disclosures are published semi-annually in conjunction with the Group's half yearly reporting cycles. These disclosures are available on the Group's corporate website (www.cimb.com). The consolidated disclosures for CIMB Bank and CIMBIB are also available in CIMBGH Group's 2010 annual report and corporate website.

All these disclosures published are for the year ended 31 December 2010. The basis of consolidation for financial accounting purposes is described in the 2010 financial statements. The capital requirements are generally based on the principles of consolidation adopted in the preparation of financial statements with the exception of subsidiaries engaged in non-financial activities which have been excluded from the regulatory consolidation and have been deducted from regulatory capital. During the financial year, CIMB IB did not experience any impediments in the distribution of dividends. There were also no capital deficiencies in any subsidiaries that are not included in the consolidation for regulatory purposes. For the purposes of this Report, the disclosures presented within will be representative of the CIMB IB entity disclosures only.

The term 'credit exposure' as used in this report is a prescribed definition by BNM based on the RWCAF – Disclosure Requirements (Pillar 3). Credit exposure is defined as the estimated maximum amount a banking institution may be exposed to counterparty in the event of a default or EAD. This differs with similar terms applied in the 2010 financial statements as the credit risk exposure definition within the ambit of accounting standards represent the balance outstanding as at balance sheet date and do not take into account the expected undrawn contractual commitments. Therefore, information within this Report is not directly comparable to that of the 2010 financial statements for CIMB IB.

The Group has applied the provision in paragraph 7.2 of BNM's guidelines on RWCAF – Disclosure Requirements (Pillar 3) whereby the Group has been exempted from disclosing comparative information as a first time adoption of this requirement. These disclosures have been reviewed and verified by internal auditors and approved by the Board of Directors of CIMBGH Group.

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RISK MANAGEMENT OVERVIEW

Risk management is an integral component of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, GRM is involved at the early stage of the risk taking process by providing independent inputs such as the relevant valuations, credit evaluations, new product assessments and CaR quantifications. These inputs enable business units to align their business strategies with the Group's risk appetite.

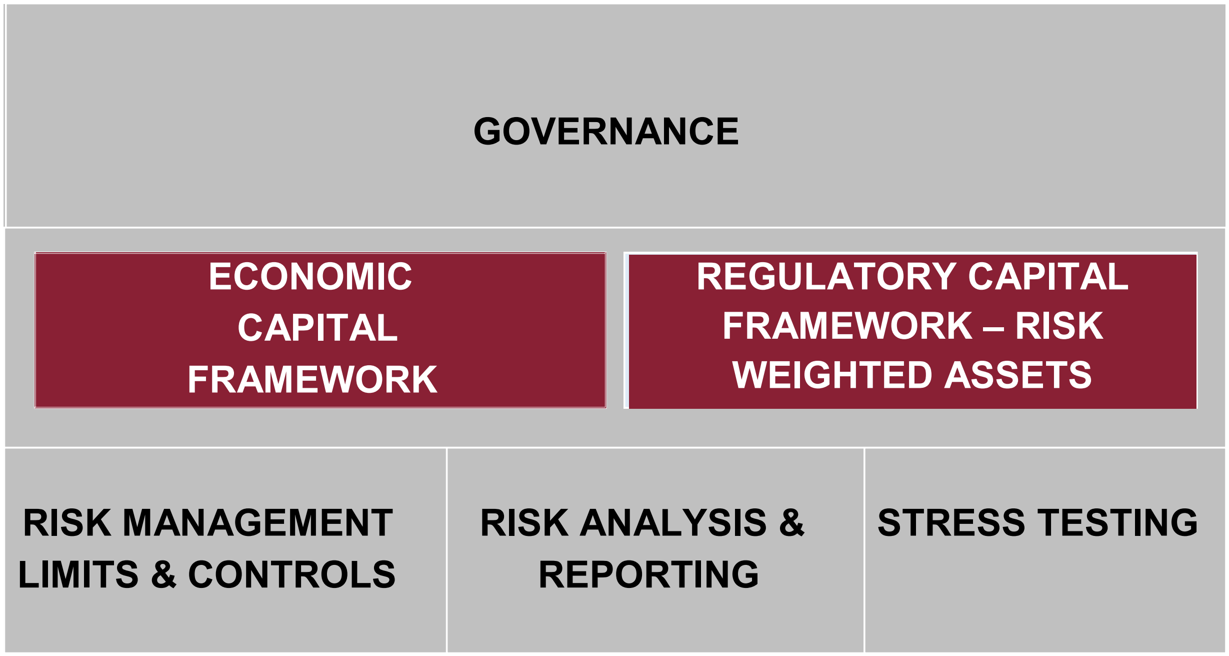
The objectives of CIMB Group's risk management activities are to:

- Identify the various risk exposures and risk capital requirements;
- Ensure risk taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and
- Help create shareholder value through proper allocation of risk capital and facilitate development of new business and products.

Enterprise Wide Risk Management Framework

CIMB Group employs the EWRM framework to manage its risk and opportunity effectively. It is an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the Group implemented through various Board appointed committees.

The key components of the Group's EWRM framework are represented in the diagram below:



The framework is centered on resilient risk and capital management which requires the Group to identify, evaluate, measure, manage and control its significant risks and risk appetite, and relate these to its capital requirements and at all times ensure capital adequacy. CIMB Group employs CaR as the common and consistent measurement of risk across CIMB Group. The CaR framework provides the basis of allocating economic capital within CIMB IB. It provides a benchmark to facilitate the comparison of risk across business units and risk types. This enables CIMB IB to consider both the downside risk, for risk protection and upside potential, for earnings growth. Hence, allowing the Group to measure the performance of each business on an absolute basis (economic profit) and relative percentage return basis (RAROC) against CIMB IB's costs of capital.

Strong risk governance holds the EWRM together. The Board of Directors through the BRC is ultimately responsible for the implementation of EWRM. GRD has been principally tasked to assist the various committees and undertakes the performance of the day-to-day risk management functions of the EWRM. The implementation of the EWRM is subjected to the independent assurance and assessment by the Group Internal Audit.

The foundation of the EWRM is made up of three major building blocks, which are Limits and Controls, Analysis and Reports, and Stress Testing. Limits constitute the key mechanism to control allowable risk taking activities and are regularly reviewed in the face of changing business needs, market conditions, and regulatory changes. Timely reports and meaningful analysis of risk positions are critical to enable the Board and its management to exercise control over all exposures and make informed business decisions.

Stress testing involves identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on CIMB IB's exposure and the assessment of CIMB IB's ability to withstand such changes, usually in relation to the capacity of its capital and earnings to absorb potentially significant losses as well as the sufficiency of its liquidity surplus and reserves. Steps are then identified to manage risk and conserve capital. Group wide stress test is performed semi-annually while stress tests on selected portfolios are performed on an ad hoc basis.

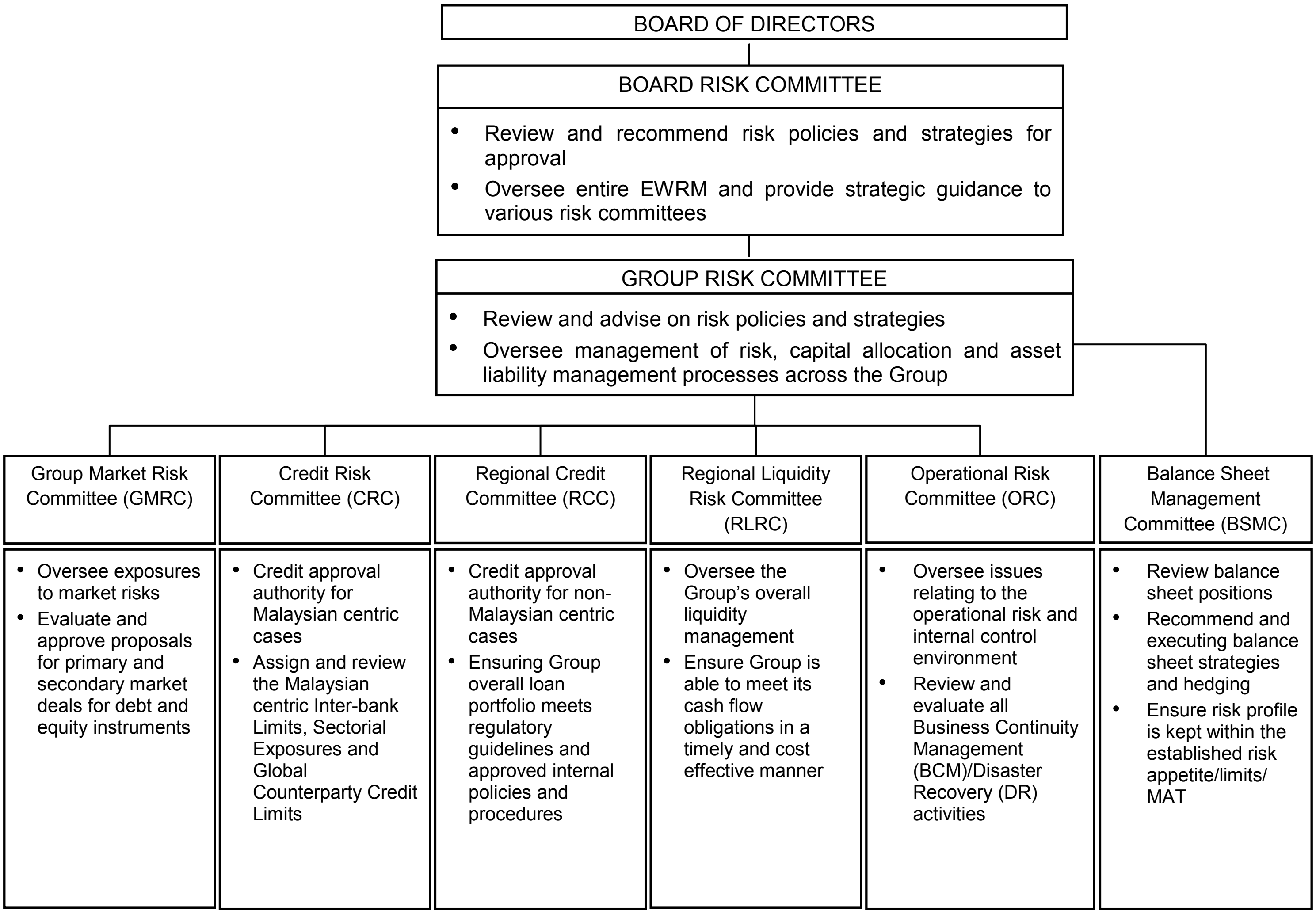
Risk Governance

The BRC assumes the ultimate responsibility on behalf of the boards of directors for the supervision of risk management within CIMB Group. In line with best practices, the BRC determines the risk policy objectives and also decides on the yearly allocation of risk capital to support all risks taken by the Group.

GRC is the primary delegated authority for managing risk on a group-wide basis and reports directly to BRC. Sub-committees, namely CRC, GMRC, RCC, RLRC and ORC, delegated from the GRC are set up to manage and control specific risk areas. In relation to IRRBB, GRC is further assisted by BSMC that is responsible for recommending and executing strategies and hedging proposal of the banking book as well as ensuring CIMB IB's interest rate risk profile is within the risk limits/MATs endorsed by the GRC. With this set-up, the Board and BRC through the various risk committees and BSMC maintain oversight of various risks across CIMB IB.

Each committee is chaired by a director respectively. The composition of the committees includes senior management and individuals from business divisions as well as divisions which are independent from the business units. BRC reviews the composition of these committees except for BSMC, to reflect a balance of experienced independent and non-independent individuals with the necessary skills and qualifications to carry out the roles and responsibilities of the relevant committee.

The chart below sets out the organisational structure of the risk management committees overseeing risk management activities and an overview of the respective committee's roles and responsibilities:



The roles of Group Risk Division

The primary oversight body for risk management activities is GRD, comprising GRM, GC and RCM, which are independent of business units and assist the Group's management and the various risk committees in monitoring and controlling the Group's risk exposures.

The key responsibilities of GRD are to identify, analyse, monitor and review the principal risks to which the Group is exposed. It also helps to create shareholder value through proper allocation of risk capital, development of risk-based pricing framework and facilitate development of new businesses and products.

In ensuring a standardised approach to risk management across the Group, all risk management teams within the Group are required to conform to the Group's EWRM framework, subject to necessary adjustments required for local regulations. For branches and subsidiaries without any risk management outfit, all risk management activities will be centralised at GRD. Otherwise, the risk management activities will be performed by the local risk management team with matrix reporting line to GRD.

- *Group Risk Management*

  GRM monitors risk-taking activities, initiates and proposes risk policies, risk measurement methodologies, risk limits and risk capital allocation, performs independent review of loan assets quality and loan recovery plan, coordinates new products deployments and develops the risk-based product pricing framework for loan portfolios.

  In propagating and ensuring compliance to the market risk framework, GRM reviews and analyses treasury trading strategy, positions and activities vis-à-vis changes in the financial market and performs mark-to-market as part of financial valuation.

  GRM is also tasked with the co-ordination of the Group's effort towards implementation of the Basel II framework in compliance with the International Convergence of Capital Measurement and Capital Standards prescribed by the Bank of International Settlements and as adopted by BNM. In this regard, GRM develops, implements and validates all internal rating and scoring models and closely monitors the usage of the rating and scoring systems to ensure relevancy to current market conditions and integrity of the ratings.

GRM adds value to business propositions by providing advice on market valuations, CaR quantifications and independent risk assessment. This enables the business units to prepare for the potential risks associated with the new transactions or business ventures and consequently, addresses the management and mitigation of such risks from the early stage of the proposition. The business units gain understanding of the risk-reward equation of the proposition, consider the risk factors in the pricing decision, and ensure that the projected returns from the business propositions commensurate with the risks taken. In order to ensure the independence of GRM in such an arrangement, GRM's remuneration is not linked to the success of particular transactions or deals.

- *Group Credit*

  GC carries out independent assessments and evaluations of all credit risk related proposals originating from the various business units such as loans and advances, fixed income, derivatives, sales and trading, prior to submission to the BCC, CRC, the EXCO or Board for approval. GC ensures proper grouping of entities and counterparties under the single customer framework. GC also reviews the Bank's holdings of all fixed income assets issued by Malaysian companies and recommends the internal ratings for CRC's approval.

- *Regional Credit Management*

  A regional credit platform was established with a primary objective of enhancing efficiency and effectiveness of the credit oversight as well as credit approval process for all non-Malaysian centric Corporate and Financial Institutions at the CIMB Group level. The platform includes 2 credit committees, SBCC for smaller-sized exposures and RCC for larger regional exposures. All credit proposals submitted to the 2 credit committees for approval/concurrence are routed through RCM for independent assessment and due recommendation to the credit committees.

Strategies and Processes for Various Risk Management

These information are available in later sections for each Credit Risk, Market Risk, Operational Risk and Interest Rate Risk in the Banking Book.

CAPITAL MANAGEMENT

Key Capital Management Principles

The key driving principles of CIMBGH Group's capital management policies are to diversify its sources of capital to allocate capital efficiently, and achieve and maintain an optimal and efficient capital structure of the CIMBGH Group, with the objective of balancing the need to meet the requirements of all key constituencies, including regulators, shareholders and rating agencies.

The Bank sets an internal minimum capital adequacy target which is substantially above the minimum regulatory requirement. In establishing this internal capital adequacy target, CIMB IB considers many critical factors, including, amongst others, credit rating implication, current and future operating environment and peers comparisons. The capital management process is centrally supervised by the Group EXCO, GRC and BRC who periodically assess and review the capital requirements and source of capital across CIMB IB, taking into account all ongoing and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Available capital is allocated across competing demands, guided by the predetermined policies, and to ensure regulatory compliance. Monthly updates on capital position of the CIMBGH Group and the Group are also provided to the Board of Directors.

Capital Structure and Adequacy

Notes 19 to 21 in CIMB IB separate financial statements show the summary information of terms and conditions of the main features of capital instruments. The table below sets out the summary of the sources of capital and the capital adequacy ratios for CIMB IB as at 31 December 2010:

Table 1: Capital Position as at 31 December 2010

(RM '000)	CIMB IB
Tier 1 Capital	
Paid-up share capital + Share Premium	100,000
Non-Innovative Tier 1 instruments	-
Innovative Tier 1 instruments	-
Statutory Reserve	155,175
Retained Earnings	129,641
Minority Interest	-
Less: Deductions from Tier 1 capital	
Goodwill	-
Deductions in excess of Tier 2 capital	8,181
Eligible Tier 1 capital	**376,635**
Subordinated Debt Capital	-
Cumulative Preference Shares	10
General Provision	650
Surplus of EP over EL	209
Tier 2 Capital Subject to Limits	869
Less: Deductions from Tier 2 capital	869
Investment in subsidiaries	9,050
Investment in capital instruments of other B	-
Other Deductions	-
Eligible Tier 2 capital	-
Total eligible capital	**376,635**
RWA	
Credit	1,008,040
Credit RWA Absorbed by PSIA	-
Market	192,289
Operational	757,404
Large Exposure for Equity Holdings	-
Total RWA	**1,957,732**
Tier 1 Capital Adequacy Ratio (%)	19.24%
Total Capital Adequacy Ratio (%)	19.24%
Proposed Dividends	(53,500)
RWCR After Dividends	
Core Capital Ratio	16.51%
RWCR	16.51%

Table 2: Disclosure on Minimum Capital Requirement for CIMB IB as at 31 December 2010

(RM '000)

Exposure Class	Net Exposure before CRM (SA)/EAD (IRB)	Net Exposure after CRM (SA)/EAD (IRB)	RWA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
Credit Risk					
Exposures under the Standardised Approach					
Sovereign/Central Banks	301,070	301,070	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	-	-	-	-	-
Regulatory Retail	13,047	13,047	10,346	10,346	828
Residential Mortgages	30,961	30,961	11,746	11,746	940
Higher Risk Assets	6,331	6,331	9,496	9,496	760
Other Assets	876,837	876,837	523,064	523,064	41,845
Securitisation	-	-	-	-	-
Total - Standardised Approach	1,228,246	1,228,246	554,652	554,652	44,372
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	2,398,976	2,398,976	346,498	346,498	27,720
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	40,802	40,802	81,227	81,227	6,498
Residential Mortgages	-	-	-	-	-
Qualifying Revolving Retail	-	-	-	-	-
Hire Purchase	-	-	-	-	-
Other Retail	-	-	-	-	-
Securitisation	-	-	-	-	-
Total - IRB Approach	2,439,777	2,439,777	427,725	427,725	34,218
Exposures under the IRB Approach After Scaling Factor)	3,668,024	3,668,024	1,008,040	1,008,040	80,643
Large Exposure Risk Requirement	-	-	-	-	-
Market Risk (Standardised Approach)					
Interest Rate Risk			154,567	154,567	12,365
Foreign Currency Risk			31,429	31,429	2,514
Equity Risk			6,294	6,294	503
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			192,289	192,289	15,383
Operational Risk (Basic Indicator Approach)			757,404	757,404	60,592
Total RWA and Capital Requirement			1,957,732	1,957,732	156,619

The summation method is due to actual summation and rounded up to the nearest thousands.

CREDIT RISK

Credit risk, is defined as arising from losses due to the obligor, market counterparty or issuer of securities or other instruments held, failing to perform its contractual obligations to the Group. It arises primarily from lending activities through loans as well as commitments to support clients' obligations to third parties, i.e. guarantees. In sales and trading activities, credit risk arises from the possibility that the Group's counterparties will not be able or willing to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as interest rate swaps, are not able to or willing to fulfil their obligation to pay the positive fair value or receivable resulting from the execution of contract terms. Credit risk may also arise where the downgrading of an entity's rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

CREDIT RISK MANAGEMENT

The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with risk.

The credit approving authority is established and documented in the Group's credit policy. The Group adopts a multi-tiered credit approving authority spanning various delegated authorities and various credit committees. The credit committees namely, BCC, SBCC, CRC and RCC are set up to enhance the efficiency and effectiveness of the credit oversight as well as the credit approval process for all credit applications originating from the Group's business units. The Committees also ensure the overall loan portfolio meets the guidelines of the regulatory authorities and adherence to the approved credit policies and procedures.

All credit applications are independently evaluated by GC/RCM prior to submission to the relevant committees for approval and are monitored against approved limits on a regular basis. Adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral are approaches adopted to address concentration risk to any large sector/industry, or to a particular counterparty group or individual.

Adherence to established credit limits is monitored daily by GRM, which combines all exposures for each counterparty or group, including off balance sheet items and potential exposures. Limits are also monitored based on rating classification of the obligor and/or counterparty.

It is a policy of the Group that all exposures must be rated or scored based on the appropriate internal rating models, where available. Retail exposures are managed on a portfolio basis and the risk rating models are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts, performed by way of statistical analysis from credit bureau and demographic information of the obligors. The risk rating models for non-retail exposures are designed to assess the credit worthiness of the corporations or entities in paying their obligations, derived from risk factors such as financial history and demographics or company profile. These rating models are developed and implemented to standardise and enhance the credit underwriting and decision-making process for the Group's retail and non-retail exposures.

Credit reviews and rating are conducted on the credit exposures on an annual basis and more frequent when material information on the obligor or other external factors come to light.

The exposures are actively monitored, reviewed on a regular basis and reported monthly to GRC and BRC so that deteriorating exposures are identified, analysed and discussed with the relevant business units for appropriate remedial actions including recovery actions, if required.

In addition to the above, the Group also employs CaR to measure and manage credit portfolio risk due to credit events. The Group adopted the Monte Carlo simulation approach in the generation of possible portfolio scenarios to obtain the standalone and portfolio CaR. This approach takes into account the credit concentration risk and the correlation between obligors/counterparties and industries. In estimating the portfolio CaR, the Group uses 25,000 simulation numbers at 99% confidence level. The generated portfolio CaR, and any shortfall in the provision for defaulted accounts make up to the total Credit CaR utilization to be compared against the allocated capital. The CaR usage versus pre-determined limit is monitored by RMA within GRM. Any exception will be highlighted to Management in accordance with the Group's exception management procedures. These are summarised and reported to GRC and BRC on a monthly basis.

SUMMARY OF CREDIT EXPOSURES

Gross Credit Exposures by Geographic Distribution

The following table represents CIMB IB's credit exposures by geographic region. The geographic distribution is based on the country in which the portfolio is geographically managed.

Table 3: Geographic distribution of credit exposures for CIMB IB as at 31 December 2010

(RM '000)

Exposure Class	Malaysia	Singapore	Thailand	Other Countries
Sovereign	301,070	-	-	-
Bank	2,398,976	-	-	-
Corporate	40,802	-	-	-
Mortgage	30,961	-	-	-
HPE	-	-	-	-
QRRE	-	-	-	-
Other Retail	13,047	-	-	-
Others	883,167	-	-	-
Total Gross Credit Exposure	3,668,024	-	-	-

The summation method is due to actual summation and rounded up to the nearest thousands

Gross credit exposures by sector

The following table represents CIMB IB's credit exposure analysed by sector.

Table 4: Distribution of credit exposures for CIMB IB as at 31 December 2010 by sector

(RM '000)

Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail Trade, and Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business Activities	Education, Health and Others	Others*
Sovereign	-	-	-	-	-	-	-	301,070	-	-
Bank	-	-	-	-	-	-	-	2,398,976	-	-
Corporate	8,000	-	-	-	-	-	-	-	-	32,802
Mortgage	-	-	-	-	-	-	-	-	-	30,961
HPE	-	-	-	-	-	-	-	-	-	-
QRRE	-	-	-	-	-	-	-	-	-	-
Other Retail	-	-	-	-	-	-	-	-	-	13,047
Others	-	-	-	-	-	-	-	-	-	883,167
Total Gross Credit Exposure	8,000	-	-	-	-	-	-	2,700,046	-	959,978

**Others include Retail exposures and exposures which are not elsewhere classified.*

The summation method is due to actual summation and rounded up to the nearest thousands.

Gross credit exposures by residual contractual maturity

Table 5: Residual Contractual Maturity Breakdown by Major Types of Gross Credit Exposures for CIMB IB as at 31 December 2010

Exposure Class	Less than 1 year	1 to 5 years	More than 5 years	Total
Sovereign	300,683	-	387	301,070
Bank	2,319,652	79,323	-	2,398,976
Corporate	8,000	-	32,802	40,802
Mortgage	-	-	30,961	30,961
HPE	-	-	-	-
QRRE	-	-	-	-
Other Retail	-	-	13,047	13,047
Others	2,571	-	880,597	883,167
Total Gross Credit Exposure	2,630,906	79,323	957,794	3,668,024

The summation method is due to actual summation and rounded up to the nearest thousands.

CREDIT QUALITY OF LOANS AND ADVANCES

Past Due But Not Impaired

A loan is considered past due when any payment due under strict contractual terms is received late or missed. Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. For the purposes of this analysis, an asset is considered past due when any payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset, not just the payment, of principal or interest or both, overdue.

As at 31 December 2010, CIMB IB has no loans and advances that were past due but not impaired.

Impaired Loans

CIMB IB deems a financial asset or a group of financial asset to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Impairment losses are calculated on individual loans and on loans assessed collectively.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a portfolio of loans has occurred. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

CIMB IB assesses individually whether objective evidence of impairment exists for all assets deemed to be individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the individual impairment allowance account and the amount of the loss is recognised in the statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income.

Loans that have not been individually assessed are grouped together for portfolio impairment assessment. These loans are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The following tables provide an analysis of the outstanding balances as at 31 December 2010 which were impaired by sector and geographical respectively.

Table 6(a): Impaired Loans and Advances by sector for CIMB IB as at 31 December 2010

(RM'000)	
Primary Agriculture	-
Mining and Quarrying	-
Manufacturing	-
Electricity, Gas and Water Supply	-
Construction	-
Wholesale and Retail Trade, and Restaurants and Hotels	-
Transport, Storage and Communication	-
Finance, Insurance, Real Estate and Business Activities	-
Education, Health and Others	-
Others*	822
	822

* *Others include Retail exposures and exposures which are not elsewhere classified.*

Table 6(b): Impaired Loans and Advances by Geographic Distribution for CIMB IB as at 31 December 2010

(RM'000)

	Impaired
Malaysia	822
Singapore	-
Thailand	-
Other Countries	-
	822

The following tables provide an analysis of the impairment allowance as at 31 December 2010 respectively.

Table 7: Individual Impairment and Portfolio Impairment Allowances by Sector for CIMB IB as at 31 December 2010

	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	-	-
Mining and Quarrying	-	-
Manufacturing	-	-
Electricity, Gas and Water Supply	-	-
Construction	-	-
Wholesale and Retail Trade, and Restaurants and Hotels	-	-
Transport, Storage and Communication	-	-
Finance, Insurance, Real Estate and Business Activities	-	-
Education, Health and Others	-	-
Others*	822	650
	822	650

** Others include Retail exposures and exposures which are not elsewhere classified.*

Table 8: Individual Impairment and Portfolio Impairment Allowances by Geographical Areas for CIMB IB as at 31 December 2010

(RM'000)

	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	822	650
Singapore	-	-
Thailand	-	-
Other Countries	-	-
	822	650

Table 9: Charges for Individual Impairment Provision and Write Offs During Year 2010 for CIMB IB

(RM'000)

	Charges / Writeback	Write-off
Primary Agriculture	-	-
Mining and Quarrying	-	-
Manufacturing	-	-
Electricity, Gas and Water Supply	-	-
Construction	-	-
Wholesale and Retail Trade, and Restaurants and Hotels	-	-
Transport, Storage and Communication	-	-
Finance, Insurance, Real Estate and Business Activities	-	-
Education, Health and Others	-	-
Others*	(55)	-
	(55)	-

* *Others include Retail exposures and exposures which are not elsewhere classified.*

Table 10: Analysis of movement for Loan Impairment Allowances for the Year Ended 31 December 2010

(RM'000)

	Individual Impairment Allowance	Portfolio Impairment Allowance
Balance as at 1 January	-	-
Adoption of FRS 139	877	679
Adjusted 1 January	877	679
Allowance (written back)/made during the financial period/year	214	(29)
Amount transferred to portfolio impairment allowance	-	-
Amount written back in respect of recoveries	(269)	-
Allowance made and charged to deferred assets	-	-
Allowance made in relation to jointly controlled entity	-	-
Amount written off	-	-
Amount transferred in respect of loans converted to securities	-	-
Sale of impaired loans	-	-
Amount reclassified to non-current assets held for sale	-	-
Transfer(to)/from intercompany	-	
Disposal of subsidiary		
Unwinding income	-	-
Exchange fluctuation	-	-
	822	650

CREDIT RISK – DISCLOSURE FOR PORTFOLIOS UNDER THE STANDARDISED APPROACH (SA)

Credit exposures under SA are mainly exposures where the IRB Approach is not applicable or exposures that will eventually adopt the IRB Approach. Under SA, the regulator prescribes the risk weights for all asset types.

Exposures which are rated externally relate to sovereign and central banks while the unrated exposures relate to personal financing and other exposures. The Group applies external ratings for credit exposures under SA from S&P, Moody's, Fitch, RAM, MARC and R&I. CIMB Group follows the process prescribed under BNM's guidelines on RWCAF - Risk-Weighted Assets Computation to map the ratings to the relevant risk weights for computation of regulatory capital.

The following table presents the credit exposures by risk weights and after credit risk mitigation:

Table 11: Disclosure by Risk Weight under SA for CIMB IB as at 31 December 2010

(RM '000)

Risk Weights	Sovereigns/ Central Banks	PSEs	Banks, MDBs and DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Securitisation	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	301,070	-	-	-	-	-	-	-	32	-	301,102	-
20%	-	-	-	-	-	-	-	-	442,176	-	442,176	88,435
35%	-	-	-	-	-	-	24,898	-	-	-	24,898	8,714
50%	-	-	-	-	-	-	6,063	-	-	-	6,063	3,032
75%	-	-	-	-	-	12,300	-	-	-	-	12,300	9,225
100%	-	-	-	-	-	-	-	-	434,629	-	434,629	434,629
150%	-	-	-	-	-	747	-	6,331	-	-	7,078	10,616
Total	301,070	-	-	-	-	13,047	30,961	6,331	876,837	-	1,228,246	554,652
Average Risk Weight	0%	-	-	-	-	79%	38%	150%	60%	-	45%	
Deducation from Capital Base										-		

The summation method is due to actual summation and rounded up to the nearest thousands.

The following table presents the non-retail credit exposures before the effect of credit risk mitigation, according to ratings by ECAIs:

Table 12: Disclosure of Rated Non-Retail Exposures under SA according to Ratings by ECAIs for CIMB IB

(RM '000)

Exposure Class	Investment Grade	Non Investment Grade	No Rating
On and Off-Balance-Sheet Exposures			
Credit Exposures (using Corporate Risk Weights)			
Public Sector Entities	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-
Corporate	-	-	-
Sovereign/Central Banks	-	-	301,070
Banks, MDBs and DFIs	-	-	-
Total	-	-	301,070

The summation method is due to actual summation and rounded up to the nearest thousands.

As at 31 December 2010, CIMB IB has no Securitisation exposure under SA according to ratings by ECAIs.

CREDIT RISK – DISCLOSURE FOR PORTFOLIOS UNDER THE IRB APPROACH

CIMB Group adopts the A-IRB Approach for its retail exposures and F-IRB Approach for its non-retail exposures. The IRB Approach allows the Group to adopt various rating systems to measure its credit risk to both retail and non-retail exposures. The internal risk rating systems are used not only for regulatory capital purposes, but also for credit approval and risk management reporting.

For retail exposures, application scorecards are integral to the credit approval process. Credit officers use scorecard outputs in the determination of approval of a credit application. Behavioural scorecards are used to determine the future conduct of the account and predict potential revenue based on the behaviour pattern of the customer.

For non-retail exposures, internal ratings are used to assist the approving committees in making informed decisions of the credit application. Product owners consult GRM for input on internal rating for consideration on pricing of product.

The models used in the internal rating systems are subject to strict governance and controls. The models are developed and maintained by GRM with input from business units to ensure that material risks are captured. Before the models are implemented, they are subject to approval by GRC and subsequently BRC. After implementation, the models are subject to regular performance monitoring to ensure that they continue to perform as expected and the risk parameters remain appropriate.

New models are assessed by a validation team, which is independent from the development team, to ensure robustness of the model development process, completeness of the documentation, and accuracy of the risk estimates. The validation exercise also ensures that the models meet regulatory standards. Existing models are assessed on an annual basis by the validation team to ensure that the models continue to be appropriate and the risk estimates continue to be accurate.

Retail Exposures

As at 31 December 2010, CIMB IB does not have any retail credit exposures under the IRB Approach.

Non-retail Exposures

Non-retail exposures covered under the F-IRB Approach include corporates (Specialised Lending uses supervisory slotting criteria), SMEs and banks. The PDs of these exposures are estimated from internal ratings assigned across a spectrum of risk levels on a master scale. Each internal rating has a corresponding 1-year average PD and a likely corresponding regulatory loan classification.

The process by which an internal rating is assigned to an obligor is governed by the Obligor Risk Rating framework. Firstly, a risk model uses a weighted combination of quantitative and qualitative risk factors to generate an initial rating. The quantitative risk factors and weights are derived through statistical techniques and the qualitative risk factors and weights are derived through deliberation with credit experts. The initial rating may subsequently be upgraded or downgraded based on a predefined set of criteria, such as quality of financial statements and support from a parent entity. Finally, an approving authority deliberates before deciding on a final rating. If a facility is guaranteed by one or more corporate guarantors, then the framework recognises the credit risk mitigation by upgrading the final rating accordingly.

For Corporates, SMEs and Banks, the quantitative risk factors and weights are chosen to be those that best explain the historical default or non-default status of clients by means of a logistic function. A client is considered to be in default if it is ever 90 days past due, restructured or rescheduled.

For sovereign exposures with external ratings, the internal rating is taken to correspond to the second best long-term issuer rating published by S&P, Moody's and Fitch or any other rating agencies approved by approving authority based on the Group's internal rating system.

The following table summarises CIMB IB's non-retail credit exposures measured under F-IRB Approach as at 31 December 2010:

Table 14: Non Retail Exposures Under IRB Approach by Risk Grades for CIMB IB

(RM '000)

BI's Internal Risk Grading of Non-Retail Exposures	**1 - 6**	**7 - 12**	**13**	**Default**
Total Non-Retail Exposure (EAD)	2,398,976	-	32,802	8,000
Bank	2,398,976	-	-	-
Corporate (excluding Specialised Lending)	-	-	32,802	8,000
Exposure Weighted LGD %				
Bank	45%	-	-	-
Corporate (excluding Specialised Lending)	-	-	45%	45%
Exposure Weighted Average Risk Weight %				
Bank	14%	-	-	-
Corporate (excluding Specialised Lending)	-	-	248%	-

The summation method is due to actual summation and rounded up to the nearest thousands.

As at 31 December 2010, CIMB IB does not have any exposures subject to the Supervisory Risk Weights under the IRB Approach, High Volatility Commercial Real Estate and Equities under the Simple Risk Weight Approach.

CREDIT RISK MITIGATION

The employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and/or third party support form an integral part of the credit risk management process. Credit risk mitigants are taken where possible and is considered secondary recourse to the obligor for the credit risk underwritten.

Collaterals/Securities

All extension of credit in so far as deemed prudent, must be appropriately and adequately secured. A credit proposal is considered secured only when the entire proposal is fully covered by approved collateral/securities within their approved margins as set out in the relevant credit policy guides. GRC is empowered to approve any inclusion of new acceptable collaterals.

Recognised collaterals include both financial and physical assets. Financial collaterals consist of mainly cash deposits, shares, unit trusts and debt securities, while physical collateral include land and buildings and vehicles. Guarantors accepted are in line with BNM's RWCAF guidelines. Eligible credit protection is also used to mitigate credit losses in the event that the obligor/counterparty defaults.

Collateral Valuation and Management

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants.

The collateral is valued periodically ranging from daily to annually, depending on the type of collateral. Specifically for real estate properties, a framework for valuation of real estate properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of real estate properties and other related activities in relation to the interpretation, monitoring and management of valuation of real estate properties.

Netting

In mitigating the credit risks in swaps and derivative transactions, the Group enters into master agreements that provide for closeout and settlement netting arrangements with counterparties, whenever possible. A master agreement that governs all transactions between two parties, creates the greatest legal certainty that credit exposure will be netted. In effect, it enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

Concentrations within risk mitigation

CIMB Group avoids unwanted credit or market risk concentrations by diversifying its portfolios through a number of measures. Amongst others, there are guidelines in place relating to maximum exposure to any counterparty, sectors and country.

The following table summarises the extent of which exposures are covered by eligible credit risk mitigants as at 31 December 2010.

Table 15: Disclosure on Credit Risk Mitigation for CIMB IB

(RM '000) Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Performing Exposures				
Sovereigns/Central Banks	301,070	-	-	-
Public Sector Entities	-	-	-	-
MDBs	2,398,976	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporate	32,802	-	-	-
Residential Mortgages	30,961	-	-	-
Qualifying Revolving Retail	-	-	-	-
Hire Purchase	-	-	-	-
Other Retail	13,047	-	-	-
Securisation	-	-	-	-
Higher Risk Assets	6,331	-	-	-
Other Assets	876,837	-	-	-
Defaulted Exposures	8,000	-	-	-
Total Exposures	3,668,024	-	-	-

The summation method is due to actual summation and rounded up to the nearest thousands.

The type of collateral recognised in each asset class is in accordance to the approach adopted in computing the RWA. The CRM shown is computed after taking into account the haircut as prescribed by the guidelines. For assets under SA, only financial collateral and guarantee are recognised. For assets under F-IRB Approach, guarantee, financial collateral and other eligible collateral are recognised. For assets under A-IRB Approach, the collateral has been taken into consideration in the computation of LGD, hence, excluded from the CRM disclosure.

OFF BALANCE SHEET EXPOSURES AND CCR

CCR limits are established at the individual counterparty level and approved by CRC and/or RCC. These limits are monitored and reported at both business and at the Group level.

Credit Risk Mitigation

For credit derivatives and swaps transactions, CIMB IB enters into master agreement with counterparties, whenever possible. Further, CIMB IB may also enter into CSA with counterparties. The net credit exposure with each counterparty is monitored and our Group may request for additional margin for any exposures above the agreed threshold, in accordance with the terms specified in the relevant CSA or the master agreement. The eligibility of collaterals and frequency calls are negotiated with the counterparty and endorsed by CRC and/or RCC.

Treatment of Rating Downgrade

Based on the terms of the existing CSA and our exposure as at 31 December 2010, there will be no requirement for additional collateral to be posted in the event of a one-notch downgrade of rating.

On the other hand, counterparty rating is being monitored and in the event of a rating downgrade, remedial actions such as revision of the counterparty credit limit, suspension of the limit or the request for additional collateral may be taken.

The following table discloses the Off-Balance Sheet exposures and CCR as at 31 December 2010:

Table 16: Disclosure on Off-Balance Sheet Exposures and CCR for CIMB IB

(RM '000)

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Direct Credit Substitutes	-		-	-
Transaction Related Contingent Items	-		-	-
Short Term Self Liquidating Trade Related Contingencies	-		-	-
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign Exchange Related Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	1,031,607	42,089	112,125	92,684
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	218		-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-		-	-
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-		-	-
Unutilised credit card lines	-		-	-
Off-balance sheet items for securitisation exposures	-		-	-
Off-balance sheet expoures due to early amortisation provisions	-		-	-
Total	1,031,825	42,089	112,125	92,684

The summation method is due to actual summation and rounded up to the nearest thousands.

The table below shows the credit derivative transactions that create exposures to CCR (notional value) segregated between own use and client intermediation activities:

Table 17: Disclosure on Credit Derivative Transactions for CIMB IB

(RM '000)	Notional of Credit Derivatives	
	Protection Bought	Protection Sold
Own Credit Portfolio	-	-
Client Intermediation Activities	131,650	87,950
Total	131,650	87,950
Credit Default Swaps	-	-
Total Return Swaps	131,650	87,950
Total	131,650	87,950

The summation method is due to actual summation and rounded up to the nearest thousands.

SECURITISATION

The Role CIMB Plays In The Securitisation Process

In the course of its business, CIMB Group has undertaken securitisations of its own originated assets, as well as securitisations of third party assets as part of its debt capital markets services for external clients.

The Group securitises its own assets in order to manage credit risk and its capital position and to generate term funding for the Group balance sheet.

CIMB Group adopts the following roles in the securitisation activities in which it is involved:

- Originator and servicer of securitised assets
- Executor of securitisation trades including bond marketing and syndication
- Provider of liquidity facilities to self-originated and third-party transactions
- Purchaser of third-party securitisations (where CIMB is not originator or sponsor)

Summary of Accounting Policies for Securitisation Activities

CIMB has sponsored special purpose vehicles (SPVs) pursuant to securitisation activities involving assets of the Group. Such SPVs are consolidated when the substance of the relationship between the Group and that entity indicates control. Potential indicators of control include, inter alia, an assessment of the Group’s exposure to the risks and rewards of the assets of the SPV.

Assets that have been transferred wholly or proportionately to an unconsolidated entity will also remain on the Group balance sheet, with a liability recognised for the proceeds received, unless (a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or (b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group’s continuing involvement.

Other than (a) or (b) above, securitisations are treated as financing in the separate financial statements of these entities.

ECAIs Used For Securitisation Process

CIMB may employ external credit assessment institutions to provide ratings for its asset backed securities. CIMB has used RAM and MARC for securitisations of its own originated assets as well as securitisations for third-party clients.

For securitisations of CIMB-originated assets, RAM has rated a securitisation of corporate bonds, and MARC has rated a securitisation of auto-hire purchase receivables. Both RAM Ratings and MARC have rated a securitisation programme for a joint-venture of auto-hire purchase receivables.

As at 31 December 2010, there were no outstanding exposure securitised by CIMB IB for Trading and Banking Book and no securitisation under the SA for Banking Book exposures.

MARKET RISK – SA

Market risk is defined as the potential change in market value of trading and investment securities held by the Group arising from adverse changes to market parameters such as interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and volatility.

Market Risk Management

The function of RMA Team in CIMB is to measure and control market risk of the Group through robust measurement and the setting of limits while facilitating business growth within a controlled and transparent risk management framework. Here, the CaR framework is employed to measure market risk where CaR represents the worst expected loss in portfolio value under normal market conditions over a specific time interval at a given confidence level. The Group has adopted a historical simulation approach to compute CaR. This approach assesses potential loss in portfolio value based on the last 500 daily historical movements of relevant market parameters and 99% confidence level at 1-day holding period.

Broadly, the Group is exposed to four major types of market risk namely equity risk, interest rate risk, foreign exchange risk and commodity risk. Each business unit is allocated CaR limits for each type of market risk undertaken for effective risk monitoring and control. These limits are approved by the GRC and utilisation of limits is monitored on a daily basis. Daily risk reports are sent to the relevant traders, Group Treasury's Market Risk Team and RMO within GRM. The head of each business unit is accountable for all market risk under his/her purview. Any excession will be escalated to management in accordance to the Group's exception management procedures.

In addition to daily monitoring of CaR usage, on a monthly basis, all market exposures and CaR of the Group will be summarised and submitted to GRC and BRC for its perusal.

Although historical simulation provides a reasonable estimate of market risk, this approach relies heavily on historical daily price movements of the market parameter of interest. Hence, the resulting market CaR is exposed to the danger that price and rate changes over the stipulated time horizon might not be typical. Example, if the past 500 daily price movements were observed over a period of exceptionally low volatility, then the CaR computed would understate the risk of the portfolio and vice versa.

In order to ensure historical simulation gives an adequate estimation of market CaR, backtesting of the historical simulation approach is performed annually. Backtesting involves comparing the derived 1-day CaR against the hypothetical change in portfolio value assuming end-of-day positions in the portfolio were to remain unchanged. The number of exceptions would be the number of times the difference in hypothetical value exceeds the computed 1-day CaR.

The Group also complements CaR with stress testing exercises to capture event risk that are not observed in the historical time period selected to compute CaR. Stress testing exercise at the group-wide level involves assessing potential losses to the Group’s market risk exposures under pre-specified scenarios. This type of scenario analysis is performed twice yearly. Scenarios are designed in collaboration with the Regional Research Team to reflect extreme and yet highly plausible stress scenarios. Stress test results are presented to the GRC to provide senior management with an overview of the impact to the Group if such stress scenarios were to materialise.

In addition to the above, RMO under GRM undertakes the monitoring and oversight process at Group Treasury and Equity Market & Derivatives trading floors, which include reviewing treasury trading strategy, analysing positions and activities vis-à-vis changes in the financial markets, monitoring limits usage, assessing limits adequacy and verifying transaction prices.

RMO also provides accurate and timely valuation of the Group’s position on a daily basis. Exposures are valued using market price (Mark-to-Market) or a pricing model (Mark-to-Model) (collectively known as ‘MTM’) where appropriate. The MTM process is carried out on all positions classified as Held for Trading as well as Available for Sale on a daily basis for the purpose of meeting independent price verification requirements, calculation of profits/losses as well as to confirm that margins required are met.

Treasury products approval processes will be led by RMO to ensure the bank is operational ready before launching. All new products are assessed by components and in totality to ensure financial risks are accurately identified, monitored and effectively managed.

All valuation methods and models used are validated by the Quantitative Analysts to assess its applicability to market conditions. The process includes verification of the inputs, assumptions used, programming codes and model reporting capability. Existing valuation models are reviewed at least on a yearly basis to ensure that they remain relevant to changing market conditions. Back-test of newly approved or revised models may be conducted to review the model and input data used.

Capital Treatment for Market Risk

At present, CIMB IB adopts the Standardised Approach to compute market risk capital requirement under BNM's guidelines on RWCAF - Risk-Weighted Assets Computation.

Details on RWA and capital requirements related to Market Risk are disclosed separately for CIMB IB for the following in Table 2:

- Interest Rate Risk
- Foreign Currency Risk
- Equity Risk
- Commodity Risk
- Options Risk

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

Operational Risk Management

CIMB Group recognises that the key determinant for a well managed universal banking operation is to cultivate an organisational wide discipline and risk management culture among its staff.

Operational risks arise from inadequate or failed internal processes, people and systems or from external events. These risks are managed by CIMB Group through the following key measures:

(i) Sound risk management practices in accordance with Basel II and regulatory guidelines;
(ii) Board and senior management oversight;
(iii) Well-defined responsibilities for all personnel concerned; and
(iv) Establishment of a risk management culture.

It encompasses legal risk that also carries a Shariah component but excludes strategic or reputational risks.

In pursuit of managing and controlling operational risk, the Group adopts the ORMF that have as its objectives the following:

(i) Provide guidance to the management teams towards establishing a common platform and consistent approach to ORM across the Group;
(ii) Ensure readiness and compliance to BNM as the home supervisor and other regulators' requirements, including preparation towards the Basel II implementation; and
(iii) Assist in the integration of risk factors by providing a singular view of operational risk across the Group's business/support units/entities for effective and efficient ORM.

The ORMF is premised on a set of pillars of Operational Risk Standards and employs various tools including control self-assessment, risk event management, key risk indicator monitoring and process risk mapping as measures of supervision.

A key structure of the ORMF is the Corporate Governance that is founded on the 3 Lines of Defense approach which underlines the participation of members of the Board of Directors; Senior Management and supported by every employee of the Group as the first line of defense.

The philosophy of the governance structure in the ORMF recognises the following:

(i) Ownership of the risk by the business/support areas (line management);
(ii) Oversight by independent risk management; and
(iii) Independent review by Internal Audit.

Consequently, the Group has strengthened its infrastructure and has applied several techniques for the administration of its operational risks together with the use of rating matrixes. These tools are constantly used to aid self assessments, controls and monitoring. Moreover, in line with best practices, incidents on loss events are tracked and captured for analytical risk profiling and to further enhance controls.

Escalation and reporting processes are well instituted through various management committees notably the ORC and GRC as well as the Board. The responsibilities of the committees and the Board include the following:

(i) Oversight and implementation of the ORMF;
(ii) Establish risk appetite and provide strategic and specific directions;
(iii) Review operational risks reports and profiles regularly;
(iv) Address operational risk issues; and
(v) Ensure compliance to regulatory and internal requirements including disclosures.

Group Internal Audit plays its role in ensuring an independent assurance of the implementation of the 'Framework' through their conduct of regular reviews and report to the Board.

Capital Treatment for Operational Risk

CIMB IB adopts the Basic Indicator Approach to compute operational risk capital requirement under BNM's guidelines on RWCAF - Risk-Weighted Assets Computation.

Details on RWA and capital requirements related to Operational Risk are disclosed for CIMB IB in Table 2.

EQUITY EXPOSURES IN BANKING BOOK

The Group's banking book equity investments consist of:

- Strategic stakes in entities held as part of growth initiatives and/or in support of business operations; and
- Investments held for yield and/or long-term capital gains.

The Group's and CIMB IB's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as either financial investments available-for-sale or Investment in Associates in the 2010 financial statements.

Details of CIMB IB's investments in financial investments available-for-sale are also set out in the financial statements.

As at 31 December 2010, there was no realised and unrealised gained or losses recorded for equity holdings in banking book for CIMB IB.

The following table shows an analysis of equity investments by appropriate equity groupings and risk weighted assets as at 31 December 2010:

Table 18: Analysis of Equity Investments by Grouping and RWA for CIMB IB

(RM '000)

	Exposures subject to Risk-Weighting	RWA
CIMB IB		
Privately held	6,331	9,496
Publicly traded	-	-
Total	6,331	9,496

The summation method is due to actual summation and rounded up to the nearest thousands.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Background

Interest Rate Risk is defined as the current and potential risk to the Group's earnings and economic value arising from the adverse movements in interest rate. In the context of Pillar 2, this risk is confined to the Banking Book, given that the interest rate risk in the trading book is covered under the Pillar 1 market risk regulations. The principal sources of IRRBB are:

- *Repricing risk*: arises from the timing differences in the maturity and repricing of the Bank's assets, liabilities and off-balance sheet positions.
- *Yield curve risk:* arises from the changes in the slope and the shape of the yield curve.
- *Basis risk:* arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- *Optionality:* arises from the rate of return related options embedded in banking book products.

IRRBB Framework

The Group's objective is to manage interest rate risk within its risk appetite. The risk appetite is established by the BRC on behalf of the Board. BRC delegates the authority to GRC, which comprises senior management of CIMB Group and is supported by GRM, to oversee the asset liability management process including the management of IRRBB for the Group. The BSMC, which is chaired by the Group Chief Executive and comprises senior management of CIMB, is responsible for the review of the balance sheet and recommends strategies, including hedging activities to manage the overall interest rate risk. Group Treasury is responsible to execute the hedging strategies.

The framework is subject to a regular review by the Group.

Measurement of IRRBB

The movement of interest rate affects the CIMB IB's reported earnings and its underlying economic value by changing the net interest income and market value of the bank's balance sheet positions. Therefore, the management of IRRBB within CIMB IB is from the:

- Earnings perspective:

  The Earnings perspective considers how interest rate changes affect the CIMB IB's net interest income. It focuses on risk to net interest income in the near term. CIMB IB adopts the EaR methodology for this purpose.

EaR measures the impact of the changes in interest rate to the CIMB IB's net interest income in the next 12 months. Repricing gap table forms the foundation for this measure, where rate sensitive positions are slotted in the table according to their contractual repricing profile or remaining maturity, whichever is earlier. Sensitivity analysis is subsequently derived and the impact under various rate scenarios is measured.

For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate shock is applied. The treatments and assumptions applied are based on the contractual repricing maturity and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and so forth.

Table 19 below illustrates CIMB IB's IRRBB under a 100 bps parallel upward interest rate shock from the earnings perspective.

Table 19: IRRBB as at 31 December 2010 for CIMB IB – Impact on Earnings

Currency	**+100bps Increase (Decline) in Earnings (RM '000, Value in RM Equivalent)**
Ringgit Malaysia	3,450
US Dollar	(217)
Others	42
Total	**3,275**

The summation method is due to actual summation and rounded up to the nearest thousands.

The sign reflects the nature of the rate sensitivity, with a negative number indicating exposure to increase in interest rates and vice versa.

- Economic value perspective:

The economic value perspective provides a measure of the underlying value of the CIMB IB's current positions and evaluates the sensitivity of that value to changes in interest rate. It is a long term measure i.e. focuses on how the economic value of the assets, liabilities, and off balance sheet's rate sensitive instruments change with movements in interest rate. CIMB IB assesses the changes in the economic value through the application of the EVE methodology. Similar to EaR, various rate scenarios are applied to measure the impact on economic value.

For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate shock is applied. The treatments and assumptions applied are based on the contractual repricing maturity and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and so forth. The table below illustrates CIMB IB's IRRBB under a 100 bps parallel upward interest rate shock from economic value perspective.

Table 20: IRRBB as at 31 December 2010 for CIMB IB – Impact on Economic Value

Currency	**+100bps Increase (Decline) in Economic Value (RM '000, Value in RM Equivalent)**
Ringgit Malaysia	3,770
US Dollar	9
Others	(2)
Total	**3,777**

The summation method is due to actual summation and rounded up to the nearest thousands.

The sign reflects the nature of the rate sensitivity, with a negative number indicating exposure to increase in interest rates and vice versa.