Basel II Pillar 3 Disclosure for 2020

- **CIMB Islamic Bank Berhad**

Contents

ABBREVIATIONS

A-IRB Approach	: Advanced Internal Ratings Based Approach
ALM COE	: Asset Liability Management Centre of Excellence
ASB	: Amanah Saham Bumiputra
BI	: Banking Institutions
BIA	: Basic Indicator Approach
BNM	: Bank Negara Malaysia
BRCC	: Board Risk & Compliance Committee
CAF	: Capital Adequacy Framework and, in some instances referred to as the Risk-Weighted Capital Adequacy Framework
CAFIB	: Capital Adequacy Framework for Islamic Banks
CAR	: Capital Adequacy Ratio and, in some instances referred to as the Risk-Weighted Capital Ratio
CBSM	: Capital and Balance Sheet Management
CCR	: Counterparty Credit Risk
CIMBBG	: CIMB Bank, CIMBISLG, CIMBTH, CIMB Bank PLC (Cambodia), CIMB Factorlease Berhad, CIMB Bank (Vietnam) Limited and non-financial subsidiaries
CIMBIBG	: CIMB Investment Bank Berhad, CIMB Futures Sdn Bhd and non-financial subsidiaries
CIMBISLG	: CIMB Islamic Bank Berhad, CIMB Islamic Nominees (Asing) Sdn Bhd and CIMB Islamic Nominees (Tempatan) Sdn Bhd
CIMBGH Group	: Group of Companies under CIMB Group Holdings Berhad
CIMBTH	: CIMB Thai Bank Public Company Ltd and its subsidiaries
CIMB Bank	: CIMB Bank Berhad and CIMB Bank (L) Ltd (as determined under the CAF (Capital Components) and CAFIB (Capital Components) to include its wholly owned offshore banking subsidiary company)
CIMB Group or the Group	: Collectively CIMBBG, CIMBIBG and CIMBISLG as described within this disclosure
CIMB IB	: CIMB Investment Bank Berhad
CIMB Islamic	: CIMB Islamic Bank Berhad
CRM	: Credit Risk Mitigants
CRO	: Chief Risk Officer
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
GSOC	: Group Strategic Oversight Committee
F-IRB Approach	: Foundation Internal Ratings Based Approach

ABBREVIATIONS *(continued)*

Fitch	: Fitch Ratings
GALCO	: Group Asset Liability Management Committee
GCC	: Group Credit Committee
GIB	: Group Islamic Banking
GMRC	: Group Market Risk Committee
GRCC	: Group Risk & Compliance Committee
GRD	: Group Risk Division
GUC	: Group Underwriting Committee
HPE	: Hire Purchase Exposures
IRB Approach	: Internal Ratings Based Approach
KRI	: Key Risk Indicators
LGD	: Loss Given Default
MARC	: Malaysian Rating Corporation Berhad
MDBs	: Multilateral Development Banks
Moody’s	: Moody’s Investors Service
MRMWG	: Model Risk Management Working Group
MTM	: Mark-to-Market and/or Mark-to-Model
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
RORBB	: Rate of Return Risk in the Banking Book
RRE	: Residential Real Estate
RWA	: Risk-Weighted Assets
RWCAF	: Risk-Weighted Capital Adequacy Framework and, in some instances referred to as the Capital Adequacy Framework
S&P	: Standard & Poor’s
SA	: Standardised Approach
SMEs	: Small and Medium Enterprises
SNC	: Shariah Non Compliance
SRM	: Shariah Risk Management
VaR	: Value-at-Risk

OVERVIEW OF BASEL II AND PILLAR 3

The 'International Convergence of Capital Measurement and Capital Standards: A Revised Framework' or commonly known as 'Basel II' issued by the Bank of International Settlements, as adopted by BNM seeks to increase the risk sensitivity in capital computations and prescribes a number of different approaches to risk calculation that allow the use of internal models to calculate regulatory capital. The particular approach selected must commensurate with the financial institution'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 including CIMBISLG which offers Islamic banking financial services (collectively known as 'CIMBBG'), apply the IRB Approach for its major credit exposures. 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. The remaining credit exposures are on the SA and where relevant, will progressively migrate to the IRB Approach. CIMBIB and its subsidiaries ('CIMBIBG') adopt the SA for credit risk. CIMBBG, CIMBISLG and CIMBIBG (collectively known as 'CIMB Group' or the 'Group') adopt the SA for market risk and BIA for operational risk.

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.

Pillar 3 complements Pillar 1 and Pillar 2 by presenting disclosures in accordance with requirements aimed to encourage market discipline in a manner that every market participant can assess key pieces of information attributed to the capital adequacy framework of financial institutions.

Frequency of Disclosure

The qualitative disclosures contained herein 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.

Medium and Location of Disclosure

The disclosures are available on CIMBGH Group's corporate website (www.cimb.com). The consolidated disclosures for CIMB Bank, CIMB Islamic and CIMB IB are also available in CIMBGH Group's 2020 Annual Report and corporate website.

Basis of Disclosure

The disclosures herein are formulated in accordance with the requirements of BNM's guidelines on CAFIB – Disclosure Requirements (Pillar 3). These disclosures published are for the year ended 31 December 2020.

The basis of consolidation for financial accounting purposes is described in the 2020 financial statements. The capital requirements are generally based on the principles of consolidation adopted in the preparation of financial statements. During the financial year, CIMB Islamic 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 disclosure, the disclosures presented within will be representative of the CIMB Islamic entity disclosures only.

The term 'credit exposure' as used in the disclosures is a prescribed definition by BNM based on the CAFIB – Disclosure Requirements (Pillar 3). Credit exposure is defined as the estimated maximum amount a banking institution may be exposed to a counterparty in the event of a default or EAD. This differs with similar terms applied in the 2020 financial statements as the credit risk exposure definition within the ambit of accounting standards represents the balance outstanding as at balance sheet date and does not take into account the expected undisbursed contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2020 financial statements.

Any discrepancies between the totals and sum of the components in the tables contained in the disclosures are due to actual summation method and then rounded up to the nearest thousands.

These disclosures have been reviewed and verified by internal auditors and approved by the Board Risk Committee of CIMB Group, as delegated by the Board of Directors of CIMBGH Group.

RISK MANAGEMENT OVERVIEW

Our Group embraces risk management as an integral part of our Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, the risk management teams are involved at the early stage of the risk-taking process by providing independent inputs, including relevant valuations, credit evaluations, new product assessments and quantification of capital requirements. These inputs enable the business units to assess the risk-vs-reward of their propositions, thus enabling risk to be priced appropriately in relation to the return.

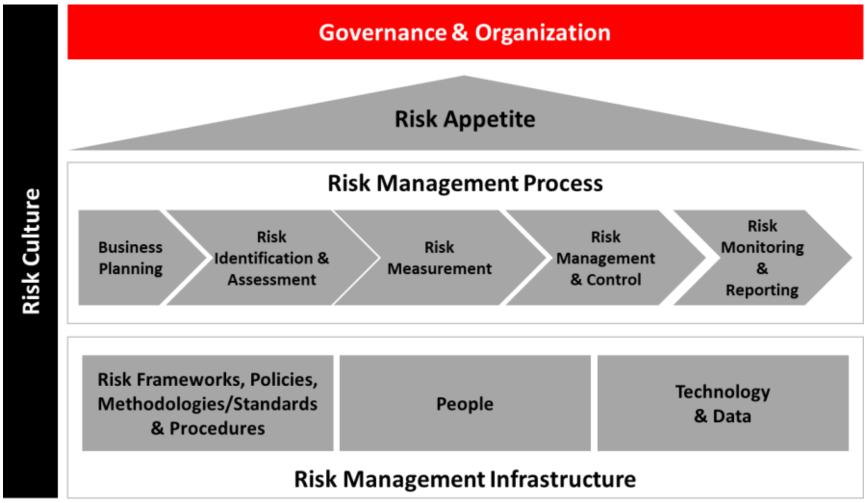
Generally, the objectives of our risk management activities are to:

- identify the various risk exposures and capital requirements;
- ensure risk-taking activities are consistent with risk policies and the aggregated risk positions are within the risk appetite as approved by the Board; and
- create shareholder value through sound risk management framework.

Enterprise Wide Risk Management Framework

Our Group employs a Group Enterprise-Wide Risk Management (EWRM) framework as a standardised approach to effectively manage our risks and opportunities. The Group EWRM framework provides our Board and management with tools to anticipate and manage both the existing and potential risks, taking into consideration changing risk profiles as dictated by changes in business strategies, the external environment and/or regulatory environment.

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



The design of the Group EWRM framework involves a complementary 'top-down strategic' and 'bottom-up tactical' risk management approach.

RISK MANAGEMENT OVERVIEW *(continued)*

Enterprise Wide Risk Management Framework (continued)

The key features of the Group EWRM framework include:

a) **Risk Culture**: The Group embraces risk management as an integral part of its culture and decision-making processes. The Group's risk management philosophy is embodied in the Three Lines-of-Defence approach, whereby risks are initially managed at the point of risk-taking activities. There is clear accountability of risk ownership across the Group.

b) **Governance & Organisation**: A strong governance structure is important to ensure an effective and consistent implementation of the Group EWRM framework. The Board is ultimately responsible for the Group's strategic direction, which is supported by the risk appetite and relevant risk management frameworks, policies, methodologies/standards, and procedures. The Board is assisted by various risk committees and control functions in ensuring that the Group's risk management framework is effectively maintained.

c) **Risk Appetite**: It is defined as the amount and type of risks that the Group is able and willing to accept in pursuit of its strategic and business objectives. Risk appetite is set in conjunction with the annual strategy and business planning process to ensure appropriate alignment between strategy, growth aspirations, operating plans, capital and risk.

d) **Risk Management Process**:
- Business Planning: Risk management is central to the business planning process, including setting frameworks for risk appetite, risk posture and new product/new business activities.
- Risk Identification & Assessment: Risks are systematically identified and assessed through the robust application of the Group's risk frameworks, policies, methodologies/standards and procedures.
- Risk Measurement: Risks are measured and aggregated using the Group-wide methodologies across each of the risk types, including stress testing.
- Risk Management and Control: Risk management limits and controls are used to manage risk exposures within the risk appetite set by the Board. Risk management limits and controls are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are taken to mitigate risks.
- Risk Monitoring and Reporting: Risks on an individual as well as on a portfolio basis are regularly monitored and reported to ensure they remain within the Group's risk appetite.

e) **Risk Management Infrastructure**
- Risk **Frameworks,** Policies, Methodologies/Standards and Procedures addressing all areas of material risks: Frameworks provide broad objectives and overarching risk management architecture for managing risks. Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Methodologies/Standards provide specific directions that help support and enforce policies. Procedures provide more detailed guidance to assist with the implementation of policies.
- People: Attracting the right talent and skills is key to ensuring a well-functioning Group EWRM framework. The organisation continuously evolves and proactively responds to the increasing complexity of the Group as well as the economic and regulatory environment.
- Technology and Data: Appropriate technology and sound data management support risk management activities.

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance

At the apex of the governance structure are the respective Boards of entities within the Group, which decides on the entity's risk appetite corresponding to its business strategies. Each BRCC reports directly into the respective Boards and assumes responsibility on behalf of the respective Boards for the supervision of risk management and control activities. Each BRCC determines the relevant entity's risk strategies and policies, keeping them aligned with the principles within the risk appetite. Each BRCC also oversees the implementation of the Group EWRM framework, provides strategic guidance and reviews the decisions of our GRCC.

To facilitate the effective implementation of the Group EWRM framework, our BRCC has established various specialised/sub-risk committees within our Group, each with distinct lines of responsibilities and functions, which are clearly defined in the terms of reference.

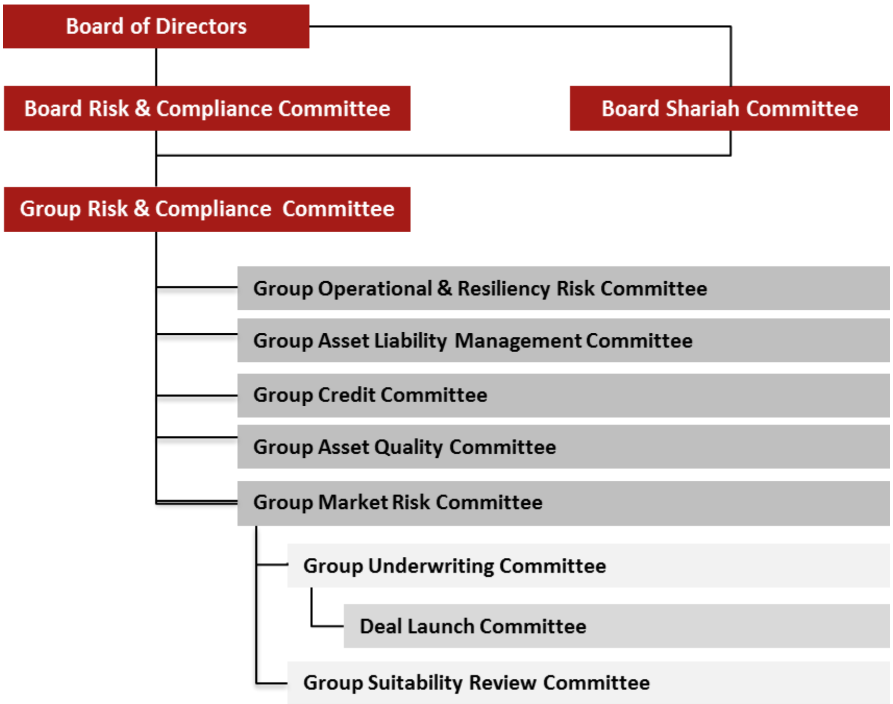
The responsibility of risk management supervision and control is delegated to our GRCC, which reports directly to our BRCC. Our GRCC, comprised of senior management of the Group, performs the oversight function for the overall management of risks. Our GRCC is supported by specialised/sub-risk committees, namely Group Credit Committee, Group Market Risk Committee, Group Operational & Resiliency Risk Committee, Group Asset Liability Management Committee and Group Asset Quality Committee, each addressing one or more of the following:

(i) Market risk, defined as any fluctuations in the value of a trading or investment exposure arising from changes to market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility;
(ii) Credit risk, defined as the possibility of losses due to an obligor, market counterparty or an issuer of securities or other instruments held, failing to perform its contractual obligations to the Group;
(iii) Liquidity and Funding risk, defined as the current and potential risk to earnings, shareholders' funds or reputation arising from the inability to efficiently meet its present and future (both anticipated and unanticipated) funding needs or regulatory obligations when they come due, which may adversely affect its daily operations and incur unacceptable losses;
(iv) Operational risk, defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
(v) Interest rate/rate of return risk in the banking book, which is the current and potential risk to the Group's earnings and economic value arising from movements in interest/profit rates;
(vi) Capital risk, defined as the risk of a bank not having sufficient capital to withstand potential losses suffered in its operations. Capital is important as it can be used to repay depositors, customers, creditors, and other claimants in case there is insufficient liquidity during a crisis;
(vii) SNC risk, defined as the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which CIMB Group may suffer arising from possible failure to comply with the rulings of the Shariah Advisory Council ("**SAC**") of BNM and SC, standards on Shariah matters issued by BNM pursuant to Section 29(1) of the IFSA, or decisions or advice of the BSC of the CIMB Islamic Bank or other Shariah authorities / committees of the jurisdictions in which the Group operates;
(viii) Fraud risk, defined as the risk of loss resulting from an act or course of deception or omission with the intention to conceal, omit, distort, misrepresent, falsify or etc. to: (i) gain unlawful/illegal/unfair personal advantages, (ii) induce another individual(s) to surrender willing/unwilling of a legal right/possession or (iii) damage another individual(s) resulting in a loss to another; and
(ix) Technology risk, is the risk of loss resulting from inadequate or weaknesses in strategy, people, process, technology or external events, which includes financial risk, regulatory/compliance risk and the risk of reputational loss/damage.

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance (continued)

The structure of CIMB Group Risk Committees is depicted in the following chart:



Our overseas subsidiaries' risk committees are set-up in a similar structure in their respective jurisdictions. Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, our Group strives to ensure a consistent and standardised approach in its risk governance process. As such, our Group and regional committees have consultative and advisory responsibilities on regional matters across our Group as regulators allow. This structure increases regional communication regarding technical knowledge. It further enhances support towards managing and responding to risk management issues, thus providing our Board with a comprehensive view of the activities within our Group.

Three Lines-of-Defence

Our Group's risk management culture is embodied through the adoption of the Three Lines-of-Defence philosophy, whereby risks are managed from the point of risk-taking activities. This is to ensure clear accountability of risks across our Group and risk management as an enabler of business units. As a first line-of-defence, the line management (including key Business Pillars and Enablers) is primarily responsible for risk management on a day-to-day basis by taking appropriate actions to mitigate risks through effective controls. The second line-of-defence provides oversight and performs independent monitoring of business activities with reporting to the Board and management to ensure that our Group conducts business and operates within the approved appetite, and is in compliance with regulations. The third line-of-defence is Group Corporate Assurance Division who provides independent assurance of the adequacy and effectiveness of the internal controls and risk management processes.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of Group CRO and Group Risk Division

Within the second line-of-defence is Group Risk, a function independent of business units. It assists our Group's management and stakeholders in the monitoring and controlling of risk exposures within the Board-approved risk appetite statement.

Group Risk is headed by the Group CRO, appointed by our Board to lead the Group-wide risk management functions, including implementation of the Group EWRM framework. Our Group CRO:

a) actively engages the respective boards and senior management on risk management issues and initiatives; and

b) maintains an oversight on risk management functions across all entities within our Group. In each key country of operations, there is a local CRO or a local Head of Risk Management, whose main functions are to assess and manage the enterprise risk and liaise with regulators in the respective countries.

The organisational structure of Group Risk is made up of two major components, namely the CRO and the Risk Centres of Excellence ("CoE"):

(a) CRO

(i) CRO's main function is to assess and manage the enterprise risk and liaise with regulators in the respective country/entity under his/her purview.
(ii) The CRO is supported by the CRO International Offices who oversee the risk management functions of the regional offices e.g. branches and small overseas banking subsidiaries.
(iii) For countries where a CRO is not present and/or not required, a local Head of Risk Management is appointed to be the overall risk coordinator for that country.

(b) Risk Centres of Excellence

(i) These are specialised teams of risk officers responsible for the active oversight of Group-wide functional risk management and the teams support respective CROs in the various geographies.
(ii) The Risk CoEs consist of Risk Analytics, Credit Risk Infrastructure, Market Risk, Non-Financial Risk Management (comprising Operational, Shariah, Business Continuity Management, Technology, Outsourcing & Fraud Risk Management), Asset Liability Management and Credit Risk CoEs.

- Risk Analytics CoE

  The Risk Analytics (RA) CoE ensures the Group's compliance to regulatory requirements prescribed for IRB Approach and facilitates other Risk CoEs in their respective risk management through Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite and Stress Testing. RA CoE also validates credit risk models and performs non-retail credit risk analytics, asset quality reporting and Single Counterparty Exposure Limit (SCEL) regulatory reporting.

- Credit Risk Infrastructure CoE

  The Credit Risk Infrastructure (CRI) CoE implements risk infrastructure of loan decision engine and rating system, which encompass credit risk models and lending criteria. The CoE also manages a Risk Data Mart that facilitates Credit Risk, Risk Weighted Asset (RWA) and SCEL reporting and analytics.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of Group CRO and Group Risk Division (continued)

(b) Risk Centres of Excellence (continued)

- Market Risk CoE
  The Market Risk CoE recommends the framework and policies for the independent assessment, measurement and monitoring of market risk. This is operationalized through the review of treasury positions versus limits, performing mark-to-market valuation, calculating Value-at-Risk and market risk capital, as well as performing stress testing.

- Non-Financial Risk Management CoE
  The Non-Financial Risk Management (NFRM) CoE ensures the first line-of-defence manages their operational risk by providing an operational risk framework that enables them to identity, assess, manage and report their operational risks. The team also provides constructive challenge and assessment to the first line-of-defence's execution of the operational risk framework and act as a consultant with the Group in providing operational risk expertise and reporting to senior management.

  The Shariah Risk Management ("SRM") unit within the NFRM CoE facilitates the process of identifying, measuring, controlling and monitoring SNC risks inherent in the Group's Islamic banking businesses and services. It formulates, recommends and implements appropriate SRM policies and guidelines; as well as develops and implements processes for SNC risk awareness.

  NFRM CoE also extend its specialist risk oversight to cover Business Continuity Management, Fraud, Technology and Outsourcing risks.

- Asset Liability Management CoE
  The Asset Liability Management CoE recommends the framework and policies for the independent assessment, measurement, monitoring and reporting of liquidity risk and interest rate/rate of return risk in the banking book. It conducts regular stress testing on the Group's liquidity and interest rate risk / rate of return profile, by leveraging on the standardised infrastructure it has designed, built and implemented across the region. It provides the framework and tools for maintenance of the early warning system indicators and contingency funding plan by business owners across the Group.

- Credit Risk CoE
  The Credit Risk CoE consists of retail and non-retail credit risk and is dedicated to the assessment, measurement, management, monitoring and reporting of credit risk of the Group. It ensures a homogenous and consistent approach to credit risk policies, methodologies and procedures; credit risk (and alternate underwriting) models; underwriting; and portfolio analytics.

In ensuring a standardised approach to risk management across the Group, all risk management teams within our Group are required to conform to the Group EWRM framework, subject to necessary adjustments required for local regulations. For branches and subsidiaries without a risk management department, all risk management activities are centralised at relevant Risk CoEs. Otherwise, the risk management activities are performed by the local risk management team with matrix reporting line to relevant Risk CoEs.

Strategies and Processes for Various Risk Management

Information on strategies and processes for Credit Risk, Market Risk, Operational Risk and Rate of Return Risk in the Banking Book are available in the later sections.

SHARIAH GOVERNANCE DISCLOSURE

The Islamic business in CIMB Group is managed and overseen by the Group Islamic Banking (GIB). Its products and services are managed in strict compliance with Shariah under the guidance of CIMB Islamic Board Shariah Committee.

The Board of Directors of CIMB Group, CIMB Investment Bank Berhad, and CIMB Bank Berhad delegate and empower the Board of Directors of CIMB Islamic Bank Berhad to undertake the overall oversight function of the Islamic businesses and operations of the whole CIMB Group, which in turn delegates overseeing of the Shariah governance of Islamic businesses and activities in CIMB Group to CIMB's Board Shariah Committee established under CIMB Islamic Bank Berhad.

Whilst the Board of Directors is accountable for the overall Shariah governance and compliance of the Islamic businesses in CIMB Group, the Management is to ensure executions of business and operations are in accordance with Shariah principles and to provide necessary support to the Board Shariah Committee.

Shariah Advisory & Governance Department (S&G) of GIB which is basically a component of the Management serves as a coordinator of the overall Shariah governance of the Islamic businesses in CIMB Group. S&G is responsible to carry out Shariah Research, Advisory and Secretariat functions, whilst Shariah Review, Shariah Risk Management and Shariah Audit functions are performed by CIMB Group Compliance, Group Risk and Group Corporate Assurance Division respectively.

CIMB Group operates on a dual banking leverage model that utilises the full resources and infrastructure of CIMB Group. Accordingly, all divisions and staff of CIMB Group are responsible for complying with Shariah in their respective Islamic business activities.

In ensuring Islamic business activities are Shariah compliant and Shariah governance process are in place, S&G is to provide Shariah advisory and conduct in-depth Shariah research prior to submission to CIMB Board Shariah Committee. It is supported by control measures by Shariah Risk Management, regular review by Shariah Compliance Review and independent assessment by Shariah Audit. In CIMB Group, the Shariah Risk Management, Shariah Review, and Shariah Audit functions reside in Group Risk Division, Group Compliance, and Group Corporate Assurance Division respectively.

Shariah non-compliance income during the year

During the year ended 31 December 2020, there was no SNC income.

CAPITAL MANAGEMENT

Key Capital Management Principles

The key driving principles of Group's and the Bank'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 Group, with the objective of balancing the need to meet the requirements of all key constituencies, including regulators, shareholders and rating agencies.

This is supported by the Capital Management Plan which is centrally supervised by the Group EXCO who periodically asses and review the capital requirements and source of capital across the Group, taking into account all on-going and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Quarterly updates on capital position of the Group are also provided to the Board of Directors.

Included in the annual Capital Management Plan is the establishment of the internal minimum capital adequacy target which is substantially above the minimum regulatory requirement. In establishing this internal capital adequacy target, the Group considers many critical factors, including, amongst others, phasing-in of the capital adequacy requirement and capital buffer requirements, credit rating implication, current and future operating environment and peer comparisons.

Capital Structure and Adequacy

The capital adequacy framework applicable to the Malaysian banking entities is based on the Bank Negara Malaysia ("BNM") Capital Adequacy Framework (Capital Components)/Capital Adequacy Framework for Islamic Banks (Capital Components), of which the latest revisions were issued on 9 December 2020. The revised guidelines took effect on 9 December 2020 for all banking institutions and financial holding companies and sets out the regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance with Basel III.

The risk-weighted assets of CIMB Islamic Bank are computed in accordance with the Capital Adequacy Framework for Islamic Banks (Basel II - Risk-Weighted Assets), of which the latest revision was issued on 3 May 2019. The IRB Approach is applied for the major credit exposures. It prescribes two approaches, the F-IRB Approach and A-IRB Approach. The remaining credit exposures and Market Risk are on the Standardised Approach while Operational Risk is based on the Basic Indicator Approach. The components of eligible regulatory capital are based on the Capital Adequacy Framework for Islamic Banks (Capital Components).

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

The table below presents the Capital Position of CIMB Islamic Bank Berhad.

Table 1: Capital Position for CIMB Islamic

(RM'000)	CIMB Islamic	
	2020	2019
Common Equity Tier 1 capital		
Ordinary shares	1,000,000	1,000,000
Other reserves	5,614,034	5,111,867
Common Equity Tier 1 capital before regulatory adjustments	**6,614,034**	**6,111,867**
Less: Regulatory adjustments		
Goodwill	(136,000)	(136,000)
Intangible assets	(55,420)	(63,256)
Deferred tax assets	(86,469)	(23,402)
Regulatory reserve	(213,032)	(513,533)
Others	(17,222)	(12,530)
Common equity Tier 1 capital after regulatory adjustments	**6,105,891**	**5,363,146**
Additional Tier 1 capital		
Perpetual preference shares	364,000	171,000
Additional Tier 1 capital before regulatory adjustments	364,000	171,000
Less: Regulatory adjustments	-	-
Additional Tier 1 capital after regulatory adjustments	364,000	171,000
Total Tier 1 capital	**6,469,891**	**5,534,146**
Tier II Capital		
Subordinated Sukuk	1,110,000	1,110,000
Surplus of eligible provision over expected loss	40,647	116,786
General provisions	69,729	59,550
Tier II capital before regulatory adjustments	**1,220,376**	**1,286,336**
Total Tier II Capital	**1,220,376**	**1,286,336**
Total Capital	**7,690,267**	**6,820,482**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position for CIMB Islamic

(RM'000)	CIMB Islamic	
	2020	**2019**
RWA		
Credit risk	41,382,225	36,238,155
Market risk	869,519	689,054
Operational risk	3,633,429	3,241,779
Total RWA	**45,885,173**	**40,168,988**
Capital Adequacy Ratios		
Common Equity Tier 1 Ratio	13.307%	13.351%
Tier 1 ratio	14.100%	13.777%
Total capital ratio	16.760%	16.979%

The total capital ratio decreased in 2020 compared to 2019 mainly due to (i) higher RWA; offset by (ii) higher retained earnings and (iii) issuance of RM200 mil Additional Tier 1 Perpetual Preference Shares. The increase in RWA is mainly due to higher Credit RWA.

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

The tables below show the RWA under various exposure classes under the relevant approach and applying the minimum regulatory capital requirement at 8% to establish the minimum capital required for each of the exposure classes:

Table 2: Disclosure on Total RWA and Minimum Capital Requirement

2020					CIMB Islamic
(RM'000) Exposure Class	Gross 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 SA					
Sovereign/Central Banks	21,144,480	21,144,480	-	-	-
Public Sector Entities	3,822,133	3,822,133	34,163	34,163	2,733
Banks, DFIs & MDBs	1,562	1,562	781	781	62
Takaful Operators, Securities Firms & Fund Managers	15,706	15,706	3,141	3,141	251
Corporate	1,825,516	1,777,218	1,116,958	1,077,261	86,181
Regulatory Retail	7,550,678	6,769,900	4,309,074	4,138,528	331,082
RRE Financing	206,795	206,795	102,439	101,446	8,116
Higher Risk Assets	-	-	-	-	-
Other Assets	261,836	261,836	222,994	222,994	17,840
Securitisation	-	-	-	-	-
Total for SA	**34,828,705**	**33,999,629**	**5,789,550**	**5,578,314**	**446,265**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	884,083	884,083	180,987	180,987	14,479
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	25,658,323	25,658,323	16,285,964	14,946,316	1,195,705
RRE Financing	25,116,424	25,116,424	7,090,204	6,946,512	555,721
Qualifying Revolving Retail	254,331	254,331	164,652	164,652	13,172
Hire Purchase	11,638,117	11,638,117	6,926,253	6,490,668	519,253
Other Retail	24,899,393	24,899,393	5,054,582	5,048,138	403,851
Securitisation	-	-	-	-	-
Total for IRB Approach	**88,450,671**	**88,450,671**	**35,702,642**	**33,777,275**	**2,702,182**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 2: Disclosure on Total RWA and Minimum Capital Requirement *(continued)*

2020					CIMB Islamic
(RM'000) Exposure Class	Gross 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%
Total Credit Risk (Exempted Exposures and Exposures under the IRB Approach After Scaling Factor)	**123,279,376**	**122,450,299**	**43,634,350**	**41,382,225**	**3,310,578**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Profit Rate Risk			787,286	787,286	62,983
Foreign Currency Risk			82,234	82,234	6,579
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**869,519**	**869,519**	**69,562**
Operational Risk (BIA)			**3,633,429**	**3,633,429**	**290,674**
Total RWA and Capital Requirement			**48,137,299**	**45,885,174**	**3,670,814**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 2: Disclosure on Total RWA and Minimum Capital Requirement *(continued)*

2019					CIMB Islamic
(RM'000) Exposure Class	Gross 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 SA					
Sovereign/Central Banks	18,036,722	18,036,722	-	-	-
Public Sector Entities	3,696,314	3,696,314	39,263	39,263	3,141
Banks, DFIs & MDBs	5,071	5,071	2,535	2,535	203
Takaful Operators, Securities Firms & Fund Managers	15,464	15,464	3,093	3,093	247
Corporate	1,411,810	1,385,417	886,960	860,365	68,829
Regulatory Retail	6,239,410	6,014,188	3,905,591	3,781,017	302,481
RRE Financing	39,260	39,260	19,420	14,600	1,168
Higher Risk Assets	-	-	-	-	-
Other Assets	97,766	97,766	59,034	59,034	4,723
Securitisation	20,379	20,379	4,076	4,076	326
Total for SA	**29,562,195**	**29,310,581**	**4,919,972**	**4,763,982**	**381,119**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,301,557	1,301,557	258,697	258,697	20,696
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	26,576,431	26,576,431	16,075,599	14,651,511	1,172,121
RRE Financing	20,765,279	20,765,279	5,443,912	5,175,107	414,009
Qualifying Revolving Retail	278,485	278,485	213,475	213,475	17,078
Hire Purchase	9,015,762	9,015,762	5,222,189	4,693,936	375,515
Other Retail	24,906,423	24,906,423	4,704,592	4,699,889	375,991
Securitisation	-	-	-	-	-
Total for IRB Approach	**82,843,938**	**82,843,938**	**31,918,463**	**29,692,616**	**2,375,409**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 2: Disclosure on Total RWA and Minimum Capital Requirement *(continued)*

2019					**CIMB Islamic**
(RM'000) Exposure Class	**Gross 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%**
Total Credit Risk (Exempted Exposures and Exposures under the IRB Approach After Scaling Factor)	**112,406,133**	**112,154,519**	**38,753,543**	**36,238,155**	**2,899,052**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Profit Rate Risk			625,893	625,893	50,071
Foreign Currency Risk			63,161	63,161	5,053
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**689,054**	**689,054**	**55,124**
Operational Risk (BIA)			**3,241,779**	**3,241,779**	**259,342**
Total RWA and Capital Requirement			**42,684,376**	**40,168,987**	**3,213,519**

Internal Capital Adequacy Assessment Process (ICAAP)

The Group has in place an EWRM framework that aligns ICAAP requirements into the Group's risk management and control activities. The coverage of ICAAP includes the following:

a) Assessing the risk profile of the bank.
b) Assessing the capital adequacy and capital management strategies.
c) Monitoring compliance with regulatory requirement on capital adequacy.
d) Reporting to management and regulator on ICAAP.
e) Governance and independent review.

The full ICAAP cycle, from initial planning to regulatory submission and independent review, involves close coordination among the risk, capital and finance functions together with business and support divisions. In line with BNM's guidelines on CAFIB – ICAAP (Pillar 2), the Group submits its ICAAP report to the BRCC for approval and the Board for notification.

CREDIT RISK

Credit risk is defined as the possibility of losses due to an obligor, market counterparty or an issuer of securities or other instruments held, failing to perform its contractual obligations to the Group.

Credit risk is inherent in banking activities and arises from traditional financing activities through conventional loans, financing facilities, trade finance, as well as commitments to support clients' obligations to third parties, e.g. guarantees or kafalah contracts. In derivatives, sales and trading activities, credit risk arises from the possibility that our Group's counterparties will be unable or unwilling to fulfil their obligation on transactions on or before settlement dates.

Credit Risk Management

Without effective credit risk management, the impact of the potential losses can be overwhelming. 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 risks.

Consistent with the three lines-of-defence model on risk management where risks are managed from the point of risk-taking activities, our Group implemented the risk-based delegated authority framework. This framework promotes clarity of risk accountability whereby the business unit, being the first line-of-defence, manages risk in a proactive manner with Group Risk as a function independent from the business units as the second line-of-defence. This enhances the collaboration between Group Risk and the business units.

The risk-based delegated authority framework encompasses joint delegated authority, enhanced credit approval process and outlines a clear set of policies and procedures that defines the limits and types of authority designated to specific individuals.

Our Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities between business units and Group Risk, to the various credit committees. The credit approving committees 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 business units. For corporate, commercial and private banking loans, credit applications are independently evaluated by the Credit Risk CoE team prior to submission to the joint delegated authority or the relevant committees for approval; certain business units' officers are delegated with credit approving authority to approve low valued credit facilities. For retail loans, all credit applications are evaluated and approved by Consumer Credit Operations according to the designated delegated authority with higher limits submitted to joint delegated authority or relevant committees for approval.

The GRCC with the support of Group Credit Committee, Group Asset Quality Committee, other relevant credit committees as well as Group Risk is responsible for ensuring adherence to the Board's approved risk appetite and risk posture. This, amongst others, includes reviewing and analysing portfolio trends, asset quality, watch-list reporting and policy reviews. The committee is also responsible for articulating key credit risks and mitigating controls.

CREDIT RISK ***(continued)***

Credit Risk Management (continued)

Adherence to and compliance with country sector limit, single customer and country and global counterparty limits, are approaches adopted to address concentration risk to any large sector or industry, or to a particular counterparty group or individual.

Adherence to the above established credit limits is monitored daily by Group Risk, which combines all exposures for each counterparty or group, including off balance sheet items and potential exposures. For retail products, portfolio limits are monitored monthly by Group Risk.

It is our Group policy 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 both quantitative and qualitative 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 our Group's retail and non-retail exposures.

Credit reviews and rating are conducted on the non-retail credit exposures at minimum on an annual basis, and more frequently when material information on the obligor or other external factors is made available.

The exposures are actively monitored, reviewed on a regular basis and reported regularly to GRCC and BRCC. Asset quality is closely monitored 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 VaR to measure credit concentration risk. The Group adopted the Monte Carlo simulation approach in the generation of possible portfolio scenarios to obtain the standalone and portfolio VaR. This approach takes into account the credit concentration risk and the correlation between obligors/counterparties and industries.

CREDIT RISK (continued)

Summary of Credit Exposures

i) Gross Credit Exposures by Geographic Distribution

The geographic distribution is based on the country in which the portfolio is geographically managed. The following tables represent CIMB Islamic 'credit exposures by geographic region:

Table 3: Geographic Distribution of Credit Exposures

2020					CIMB Islamic
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	21,144,480	-	-	-	21,144,480
PSE	3,822,133	-	-	-	3,822,133
Bank	885,644	-	-	-	885,644
Corporate	27,499,545	-	-	-	27,499,545
RRE Financing	25,323,218	-	-	-	25,323,218
HPE	11,638,117	-	-	-	11,638,117
QRRE	254,331	-	-	-	254,331
Other Retail	32,450,071	-	-	-	32,450,071
Other Exposures	261,836	-	-	-	261,836
Total Gross Credit Exposure	**123,279,376**	**-**	**-**	**-**	**123,279,376**

2019					CIMB Islamic
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	18,036,722	-	-	-	18,036,722
PSE	3,696,314	-	-	-	3,696,314
Bank	1,306,628	-	-	-	1,306,628
Corporate	28,003,705	-	-	-	28,003,705
RRE Financing	20,804,539	-	-	-	20,804,539
HPE	9,015,762	-	-	-	9,015,762
QRRE	278,485	-	-	-	278,485
Other Retail	31,145,833	-	-	-	31,145,833
Other Exposures	118,145	-	-	-	118,145
Total Gross Credit Exposure	**112,406,133**	**-**	**-**	**-**	**112,406,133**

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

ii) Gross Credit Exposures by Sector

The following tables represent CIMB Islamic's credit exposure analysed by sector:

Table 4: Distribution of Credit Exposures by Sector

2020												CIMB Islamic
(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	Islamic Finance, Takaful, Real Estate and Business Activities	Education, Health and Others	Household	Others*	Total
Sovereign	9,919	-	-	403,513	1,846,821	-	1,056,476	12,362,594	4,087,316	-	1,377,841	21,144,480
PSE	-	-	-	-	-	-	-	160,488	3,661,645	-	-	3,822,133
Bank	-	-	-	-	-	-	-	885,644	-	-	-	885,644
Corporate	3,446,972	1,041,864	2,673,003	931,392	3,664,181	2,456,528	3,515,904	8,740,154	974,839	16,155	38,555	27,499,545
RRE Financing	-	-	-	-	-	-	-	-	-	25,323,218	-	25,323,218
HPE	-	-	-	-	-	-	-	-	-	11,638,117	-	11,638,117
QRRE	-	-	-	-	-	-	-	-	-	254,331	-	254,331
Other Retail	119,618	16,229	714,286	18,555	428,003	1,410,666	146,526	1,158,364	204,083	28,187,048	46,693	32,450,071
Other Exposures	-	-	-	-	-	-	-	-	-	-	261,836	261,836
Total Gross Credit Exposure	**3,576,509**	**1,058,093**	**3,387,289**	**1,353,460**	**5,939,005**	**3,867,194**	**4,718,907**	**23,307,244**	**8,927,882**	**65,418,869**	**1,724,924**	**123,279,376**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

ii) Gross Credit Exposures by Sector *(continued)*

Table 4: Distribution of Credit Exposures by Sector *(continued)*

2019												CIMB Islamic
(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	Islamic Finance, Takaful, Real Estate and Business Activities	Education, Health and Others	Household	Others*	Total
Sovereign	9,851	-	-	418,755	1,956,694	-	986,589	9,168,065	4,084,664	-	1,412,103	18,036,722
PSE	-	-	-	-	-	-	-	172,121	3,524,193	-	-	3,696,314
Bank	-	-	-	-	-	-	-	1,306,628	-	-	-	1,306,628
Corporate	3,529,158	1,418,566	2,528,319	530,450	3,589,284	2,480,414	4,144,097	8,605,724	1,114,510	14,091	49,091	28,003,705
RRE Financing	-	-	-	-	-	-	-	-	-	20,804,539	-	20,804,539
HPE	-	-	-	-	-	-	-	-	-	9,015,762	-	9,015,762
QRRE	-	-	-	-	-	-	-	-	-	278,485	-	278,485
Other Retail	113,428	12,222	608,434	15,804	389,656	1,137,693	122,772	969,948	174,328	27,553,817	47,732	31,145,833
Other Exposures	-	-	-	-	-	-	-	-	20,379	-	97,766	118,145
Total Gross Credit Exposure	**3,652,437**	**1,430,789**	**3,136,753**	**965,009**	**5,935,634**	**3,618,106**	**5,253,457**	**20,222,486**	**8,918,075**	**57,666,694**	**1,606,693**	**112,406,133**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

iii) Gross Credit Exposures by Residual Contractual Maturity

The following tables represent CIMB Islamic's credit exposure analysed by residual contractual maturity:

Table 5: Distribution of Credit Exposures by Residual Contractual Maturity

2020				**CIMB Islamic**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	12,920,749	3,957,524	4,266,207	21,144,480
PSE	3,424,114	334,413	63,607	3,822,133
Bank	367,848	378,724	139,072	885,644
Corporate	8,341,739	6,098,481	13,059,325	27,499,545
RRE Financing	6,113	91,250	25,225,855	25,323,218
HPE	46,063	1,544,246	10,047,808	11,638,117
QRRE	254,331	-	-	254,331
Other Retail	92,845	839,278	31,517,948	32,450,071
Other Exposures	-	-	261,836	261,836
Total Gross Credit Exposure	**25,453,802**	**13,243,916**	**84,581,657**	**123,279,376**

2019				**CIMB Islamic**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	7,697,717	3,854,522	6,484,484	18,036,722
PSE	3,053,605	515,714	126,995	3,696,314
Bank	843,956	356,597	106,075	1,306,628
Corporate	7,538,278	7,587,222	12,878,204	28,003,705
RRE Financing	5,875	99,794	20,698,870	20,804,539
HPE	52,625	1,488,445	7,474,693	9,015,762
QRRE	278,485	-	-	278,485
Other Retail	69,116	783,847	30,292,870	31,145,833
Other Exposures	20,379	-	97,766	118,145
Total Gross Credit Exposure	**19,560,035**	**14,686,140**	**78,159,958**	**112,406,133**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing

i) Past Due But Not Impaired

A financing 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 customer can lead to a financial asset being past due but not impaired. Therefore, financing 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 and included below 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 profit or both, overdue.

The following tables provide an analysis of the outstanding balances as at 31 December 2020 and 31 December 2019 which were past due but not impaired by sector and geographical respectively:

Table 6: Past Due but Not Impaired Loans, Advances and Financing by Sector

(RM'000)	CIMB Islamic	
	2020	2019
Primary Agriculture	470	16,605
Mining and Quarrying	315	1,429
Manufacturing	8,786	6,891
Electricity, Gas and Water Supply	1,155	88
Construction	42,027	21,001
Wholesale and Retail Trade, and Restaurants and Hotels	45,774	27,755
Transport, Storage and Communication	3,515	5,370
Finance, Takaful, Real Estate and Business Activities	100,258	49,098
Education, Health and Others	32,547	6,659
Household	3,251,319	3,738,069
Others*	244	3,962
Total	**3,486,410**	**3,876,927**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

Table 7: Past Due but Not Impaired Loans, Advances and Financing by Geographic Distribution

(RM'000)	CIMB Islamic	
	2020	2019
Malaysia	3,486,410	3,876,927
Total	**3,486,410**	**3,876,927**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

ii) Credit Impaired Loans/Financings

The Bank classifies a loan, advances and financing as credit impaired when it meets one or more of the following criteria:

(a) Where the principal or interest/profit or both of the credit facility is past due for more than 90 days or 3 months;
(b) In the case of revolving credit facilities (e.g. overdraft facilities), where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
(c) Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, and the credit facility exhibits weaknesses in accordance with the Bank's internal credit risk rating framework; or
(d) As soon as a default occurs where the principal and /or interest/profit repayments/payments are scheduled on intervals of 3 months or longer. For the purpose of ascertaining the period in arrears:
    - Repayment/payment on each of the instalment amount must be made in full. A partial repayment/payment made on an instalment amount shall be deemed to be still in arrears; and
    - Where a moratorium on credit facilities is granted in relation to the rescheduling and restructuring exercise due to specific and exceptional circumstances as set in the Bank's internal policy, the determination of period in arrears shall exclude the moratorium period granted.
(e) Force Impaired Credit Facilities
    The credit facility is force impaired due to various reasons, such as bankruptcy, appointment of Independent Financial Advisor, etc. In the event where a credit facility is not in default or past due but force impaired, the credit facility shall be classified as impaired upon approval by GAQC.
(f) Cross Default
    When an obligor/counterparty has multiple credit facilities with the Bank and cross default obligation applies, an assessment of provision is required under which default of one debt/financing obligation triggers default on another debt/financing obligation (cross default). Where there is no right to set off clause is available, assessment of provision needs to be performed on individual credit facility level instead of consolidated obligor/counterparty level.

The Bank assesses on a forward looking basis the expected credit losses (ECL) associated with its loans, advances and financing. The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The 12-month or lifetime ECL reflects multiple forward-looking scenarios and is weighted based on the probability of occurrence for each scenario. The ECL can be assessed and measured either on collective or individual basis.

For collective assessment, the ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. The three components are multiplied together to calculate an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

ii) Credit Impaired Loans/Financings *(continued)*

For individual assessment, the ECL allowance is determined by comparing the outstanding exposure with the present value of cash flow which is expected to be received from the borrower.

The following tables provide an analysis of the outstanding balances as at 31 December 2020 and 31 December 2019 which were credit impaired by sector and geographical respectively:

Table 8: Credit Impaired Loans, Advances and Financing by Sector

(RM'000)	CIMB Islamic	
	2020	2019
Primary Agriculture	19,370	18,391
Mining and Quarrying	1,340	812
Manufacturing	694,217	747,255
Electricity, Gas and Water Supply	1	-
Construction	16,505	9,705
Wholesale and Retail Trade, and Restaurants and Hotels	92,310	49,806
Transport, Storage and Communication	3,796	861
Finance, Takaful, Real Estate and Business Activities	39,048	47,080
Education, Health and Others	3,567	4,576
Household	627,086	363,609
Others*	2	2
Total	**1,497,242**	**1,242,097**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

Table 9: Credit Impaired Loans, Advances and Financing by Geographic Distribution

(RM'000)	CIMB Islamic	
	2020	2019
Malaysia	1,497,242	1,242,097
Total	**1,497,242**	**1,242,097**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses

Table 10: Expected credit losses (Stage 1, 2 and 3) by Sector

(RM'000)	CIMB Islamic			
	2020			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses – credit impaired (Stage 3)	Total
Primary Agriculture	956	7,368	1,168	9,492
Mining and Quarrying	235	4,308	5	4,548
Manufacturing	3,117	989	40,537	44,643
Electricity, Gas and Water Supply	887	224	-	1,111
Construction	1,245	485	7,795	9,525
Wholesale and Retail Trade, and Restaurants and Hotels	4,000	5,498	36,954	46,452
Transport, Storage and Communications	2,046	1,283	3,641	6,970
Finance, Takaful, Real Estate and Business Activities	3,908	1,782	4,719	10,409
Education, Health and Others	537	480	471	1,488
Household	237,400	359,371	243,862	840,633
Others*	73	58	1	132
Total	**254,404**	**381,846**	**339,153**	**975,403**

Note: *All sectors above are Shariah compliant.*

******Others are exposures which are not elsewhere classified.*

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 10: Expected credit losses (Stage 1, 2 and 3) by Sector (continued)

(RM'000)	CIMB Islamic			
	2019			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses – credit impaired (Stage 3)	Total
Primary Agriculture	4,327	2,020	944	7,291
Mining and Quarrying	1,413	-	-	1,413
Manufacturing	2,589	715	27,408	30,712
Electricity, Gas and Water Supply	87	-	-	87
Construction	1,906	273	4,106	6,285
Wholesale and Retail Trade, and Restaurants and Hotels	4,630	906	6,315	11,851
Transport, Storage and Communications	2,812	320	252	3,384
Finance, Takaful, Real Estate and Business Activities	4,106	2,587	2,192	8,885
Education, Health and Others	542	81	505	1,128
Household	112,083	125,036	126,303	363,422
Others*	72	116	2	190
Total	**134,567**	**132,054**	**168,027**	**434,648**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 11: Expected credit losses (Stage 1, 2 and 3) by Geographic Distribution

(RM'000)	CIMB Islamic 2020			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses – credit impaired (Stage 3	Total
Malaysia	254,404	381,846	339,153	975,403
Total	**254,404**	**381,846**	**339,153**	**975,403**

(RM'000)	CIMB Islamic 2019			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses – credit impaired (Stage 3	Total
Malaysia	134,567	132,054	168,027	434,648
Total	**134,567**	**132,054**	**168,027**	**434,648**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 12: Expected credit losses charges/(write back) and write-off for Stage 3

(RM'000)	CIMB Islamic	
	2020	
	Charges/(write back)	Write-off
	Lifetime expected credit losses - Credit impaired (Stage 3)	Lifetime expected credit losses - Credit impaired (Stage 3)
Primary Agriculture	157	-
Mining and Quarrying	4	-
Manufacturing	13,514	93
Electricity, Gas and Water Supply	-	-
Construction	4,707	6
Wholesale and Retail Trade, and Restaurants and Hotels	40,210	11
Transport, Storage and Communications	1,801	191
Finance, Takaful, Real Estate and Business Activities	3,032	99
Education, Health and Others	291	138
Household	172,761	89,377
Others*	8,430	-
Total	**244,907**	**89,915**

Note: *All sectors above are Shariah compliant.*

**Others are exposures which are not elsewhere classified.*

CREDIT RISK (CONTINUED)

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 12: Expected credit losses charges/(write back) and write-off for Stage 3 (continued)

(RM'000)	CIMB Islamic	
	2019	
	Charges/(write back)	Write-off
	Lifetime expected credit losses - Credit impaired (Stage 3)	Lifetime expected credit losses - Credit impaired (Stage 3)
Primary Agriculture	545	1,604
Mining and Quarrying	1,289	583
Manufacturing	22,705	3,706
Electricity, Gas and Water Supply	-	-
Construction	(4,230)	9,837
Wholesale and Retail Trade, and Restaurants and Hotels	5,696	4,078
Transport, Storage and Communications	(66,761)	47
Finance, Takaful, Real Estate and Business Activities	2,418	4,951
Education, Health and Others	(1,529)	32
Household	174,478	105,533
Others*	1	-
Total	**134,612**	**130,371**

Note: *All sectors above are Shariah compliant.*

*****Others are exposures which are not elsewhere classified.*

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 13: Analysis of movement in the Expected Credit Losses for Loans, Advances and Financing

(RM'000)	CIMB Islamic			
	2020			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not credit impaired (Stage 2)	Lifetime expected credit losses - credit impaired (Stage 3)	Total
At 1 January 2020	134,567	132,054	168,027	434,648
Changes in expected credit losses due to transferred within stages	(126,796)	115,144	11,652	-
Transferred to Stage 1	105,759	(82,281)	(23,478)	-
Transferred to Stage 2	(231,780)	339,942	(108,162)	-
Transferred to Stage 3	(775)	(142,517)	143,292	-
Total charge to Income Statement	246,643	134,861	244,907	626,411
New financial assets originated	81,920	5,138	61,547	148,605
Financial assets that have been derecognised	(51,255)	(19,025)	-	(70,280)
Write back in respect of full recoveries	-	-	(60,469)	(60,469)
Change in credit risk	215,978	148,748	243,829	608,555
Write-offs	(221)	(70)	(89,915)	(90,206)
Other movements	211	(143)	4,482	4,550
Total	**254,404**	**381,846**	**339,153**	**975,403**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances and Financing (continued)

iii) Expected Credit Losses *(continued)*

Table 13: Analysis of movement in the Expected Credit Losses for Loans, Advances and Financing (continued)

(RM'000)	CIMB Islamic			
	2019			
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not credit impaired (Stage 2)	Lifetime expected credit losses - credit impaired (Stage 3)	Total
At 1 January 2019	172,096	75,042	199,048	446,186
Changes in expected credit losses due to transferred within stages	183,922	(128,927)	(54,995)	-
Transferred to Stage 1	228,124	(204,504)	(23,620)	-
Transferred to Stage 2	(43,897)	153,736	(109,839)	-
Transferred to Stage 3	(305)	(78,159)	78,464	-
Total charge to Income Statement	(220,396)	185,939	134,612	100,155
New financial assets originated	91,254	112	40,261	131,627
Financial assets that have been derecognised	(52,554)	(9,565)	-	(62,119)
Write back in respect of full recoveries	-	-	(116,886)	(116,886)
Change in credit risk	(259,096)	195,392	211,237	147,533
Write-offs	-	-	(130,371)	(130,371)
Other movements	(1,055)	-	19,733	18,678
Total	**134,567**	**132,054**	**168,027**	**434,648**

CREDIT RISK *(continued)*

Capital Treatment for Credit Risk

Details on RWA and capital requirements related to Credit Risk are disclosed separately for CIMB Islamic in Table 2. Details on the disclosure for portfolios under the SA and the IRB Approach are in the sections that followed.

Credit Risk – Disclosure for Portfolios under the 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 CAFIB (Risk-Weighted Assets) to map the ratings to the relevant risk weights for computation of regulatory capital.

The following tables present the credit exposures by risk weights and after credit risk mitigation:

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the SA (continued)

Table 14: Disclosure by Risk Weight under SA

2020												CIMB Islamic
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Takaful Operators, Securities Firms & Fund Managers	Corporate	Regulatory Retail	RRE Financing	Higher Risk Assets	Other Assets	Securitisation*	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk-Weighted Assets
0%	21,144,480	3,651,317	-	-	-	2,416	-	-	38,842	-	24,837,054	-
20%	-	170,816	0.004	15,706	3,092	347,694	-	-	-	-	537,308	107,462
35%	-	-	-	-	-	-	6,390	-	-	-	6,390	2,237
50%	-	-	1,562	-	1,318,143	3,744,999	200,405	-	-	-	5,265,109	2,632,554
75%	-	-	-	-	-	1,231,604	-	-	-	-	1,231,604	923,703
100%	-	-	-	0.01	453,654	1,442,896	-	-	222,994	-	2,119,544	2,119,544
100% < RW < 1250%	-	-	-	-	2,317	291	-	-	-	-	2,608	3,913
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**21,144,480**	**3,822,133**	**1,562**	**15,706**	**1,777,218**	**6,769,900**	**206,795**	**-**	**261,836**	**-**	**33,999,629**	**5,789,550**
Average Risk Weight	-	**1%**	**50%**	**20%**	**63%**	**64%**	**50%**	**-**	**85%**	**-**	**17%**	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

**The total includes the portion which is deducted from Capital Base, if any.*

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the SA (continued)

Table 14: Disclosure by Risk Weight under SA (continued)

2019												CIMB Islamic
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Takaful Operators, Securities Firms & Fund Managers	Corporate	Regulatory Retail	RRE Financing	Higher Risk Assets	Other Assets	Securitisation*	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk-Weighted Assets
0%	18,036,722	3,500,000	-	-	-	1,539	-	-	38,732	-	21,576,993	-
20%	-	196,314	-	15,464	1,342	325,356	-	-	-	20,379	558,854	111,771
35%	-	-	-	-	-	-	1,398	-	-	-	1,398	489
50%	-	-	5,071	-	996,629	3,242,254	37,862	-	-	-	4,281,816	2,140,908
75%	-	-	-	-	-	905,224	-	-	-	-	905,224	678,918
100%	-	-	-	-	385,829	1,538,495	-	-	59,034	-	1,983,358	1,983,358
100% < RW < 1250%	-	-	-	-	1,607	1,320	-	-	-	-	2,927	4,391
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**18,036,722**	**3,696,314**	**5,071**	**15,464**	**1,385,417**	**6,014,188**	**39,260**	**-**	**97,766**	**20,379**	**29,310,581**	**4,919,972**
Average Risk Weight	-	1%	50%	20%	64%	65%	49%	-	60%	**20%**	**17%**	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

**The total includes the portion which is deducted from Capital Base, if any.*

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the SA (continued)

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

Table 15: Disclosures of Rated and Unrated Non-Retail Exposures under SA according to Ratings by ECAIs

2020				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	3,822,133	3,822,133
Takaful Operators, Securities Firms & Fund Managers	15,706	-	0.01	15,706
Corporate	-	-	1,825,516	1,825,516
Sovereign/Central Banks	8,244,966	-	12,899,514	21,144,480
Banks, MDBs and DFIs	1,562	-	-	1,562
Total	**8,262,234**	**-**	**18,547,163**	**26,809,397**

2019				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	3,696,314	3,696,314
Takaful Operators, Securities Firms & Fund Managers	15,464	-	-	15,464
Corporate	-	-	1,411,810	1,411,810
Sovereign/Central Banks	8,975,340	-	9,061,382	18,036,722
Banks, MDBs and DFIs	5,071	-	-	5,071
Total	**8,995,875**	**-**	**14,169,505**	**23,165,380**

Table 16: Disclosures of Securitisation under SA according to Ratings by ECAIs

2020				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Securitisation	-	**-**	**-**	**-**

2019				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Securitisation	20,379	**-**	**-**	**20,379**

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach

CIMB Islamic adopts the A-IRB Approach for its retail exposures and F-IRB Approach for its non-retail exposures. The IRB Approach allows CIMB Islamic to adopt various rating systems to measure its credit risk for 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 for collection and portfolio management purposes.

For non-retail exposures, internal ratings are one of the tools used to assist the approving committees in making informed decisions of the credit application.

The models used in the internal rating systems are subject to strict governance and controls. The models are developed and maintained by GRD with inputs from business units to ensure that material risks are captured. Before the models are implemented, they are subject to approval by GRCC and subsequently BRCC. 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

Retail exposures is a portfolio large in numbers and are similarly managed due to its homogeneous characteristics. This applies to both exposures to individuals as well as exposures to small businesses which are managed on a pooled basis. The exposure of a single retail facility is typically low and usually referred to as program lending/ financing.

Retail exposures covered under the A-IRB Approach include credit cards, auto loans/financing, Xpress Cash, residential mortgages, business premises loans/financing and ASB financing. The PDs of these exposures are typically estimated from the outputs of application scorecards for new customers and behavioural scorecards for existing customers. The models deployed for retail portfolio include application, behavioural, , PD, LGD and EAD segmentation models.

a) PD, LGD and EAD Segmentation Models for Retail Exposures

The risk estimates are generally developed based on internal historical data and complies with BNM guidelines on CAF (Basel II - Risk-Weighted Assets) and CAFIB (Risk-Weighted Assets). However, in instances of insufficient historical data, the respective model risk estimate is developed based on expert judgment or available industry data with margin of conservatism.

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Retail Exposures (continued)

PD Calibration

- PD is defined as the probability of a customer defaulting within a one year time horizon.
- PD estimated for each pool must be representative of the long term average. In the event the internal historical data is not sufficient to cover an economic cycle, appropriate adjustment (via Cycle Scaling Factor) will be incorporated based on proxy data which are relevant and of longer history to derive the long term average PD, which is normally referred to as "Central Tendency".

EAD Estimation

- EAD represents the expected level of usage of the facility when default occurs.
- The EAD for retail exposures is generally based on the respective portfolio's summed outstanding exposure including any undrawn balances, and for revolving exposures such as credit card receivables, each loan/financing EAD estimation includes the estimated net additional drawings over the next 12 months.

LGD Estimation

- LGD is the estimated amount of loss expected if a loan/financing defaults, calculated as a percentage of EAD. The value depends on the collateral (if any) and other factors such as internal, external, direct and indirect costs associated with recoveries.
- LGD for retail exposures is estimated based on historical internal data and the following sources of recoveries are incorporated into the estimation:
  - (i) Regularisation of defaulted accounts.
  - (ii) Sale proceeds from collaterals.
  - (iii) Cash receipts from customers.

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Retail Exposures (continued)

The following tables summarise the retail credit exposures measured under A-IRB Approach as at 31 December 2020 and 31 December 2019:

Table 17: Retail Exposures under the IRB Approach by PD Band

2020				CIMB Islamic
(RM'000) PD Range of Retail Exposures	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**40,397,648**	**20,441,566**	**1,069,051**	**61,908,265**
RRE Financing	21,781,511	2,615,980	718,932	25,116,424
QRRE	166,601	86,635	1,095	254,331
Hire Purchase	9,553,637	1,973,300	111,180	11,638,117
Other Retail	8,895,898	15,765,651	237,845	24,899,393
Exposure Weighted Average LGD				
RRE Financing	24%	26%	30%	
QRRE	90%	90%	90%	
Hire Purchase	53%	53%	55%	
Other Retail	27%	10%	31%	
Exposure Weighted Average Risk Weight				
RRE Financing	14%	105%	189%	
QRRE	34%	121%	361%	
Hire Purchase	53%	83%	236%	
Other Retail	24%	16%	149%	

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Retail Exposures (continued)

Table 17: Retail Exposures under the IRB Approach by PD Band (continued)

2019				CIMB Islamic
(RM'000) **PD Range of Retail Exposures**	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**33,032,564**	**21,291,877**	**641,509**	**54,965,950**
RRE Financing	17,589,463	2,712,257	463,560	20,765,279
QRRE	156,880	119,503	2,103	278,485
Hire Purchase	7,344,550	1,599,104	72,108	9,015,762
Other Retail	7,941,672	16,861,014	103,738	24,906,423
Exposure Weighted Average LGD				
RRE Financing	21%	23%	28%	
QRRE	90%	90%	90%	
Hire Purchase	52%	53%	55%	
Other Retail	25%	10%	41%	
Exposure Weighted Average Risk Weight				
RRE Financing	13%	79%	228%	
QRRE	34%	128%	351%	
Hire Purchase	52%	81%	178%	
Other Retail	23%	16%	199%	

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Retail Exposures (continued)

Table 18: Retail Exposures under the IRB Approach by Expected Loss Range

2020				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**54,018,790**	**7,847,453**	**42,022**	**61,908,265**
RRE Financing	23,064,921	2,026,957	24,545	25,116,424
QRRE	126,772	127,552	7.05	254,331
Hire Purchase	9,572,103	2,065,702	312	11,638,117
Other Retail	21,254,994	3,627,242	17,157	24,899,393
Exposure Weighted Average LGD				
RRE Financing	24%	30%	40%	
QRRE	90%	90%	90%	
Hire Purchase	53%	54%	54%	
Other Retail	15%	24%	54%	

2019				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**48,335,897**	**6,593,902**	**36,152**	**54,965,950**
RRE Financing	19,366,442	1,379,097	19,740	20,765,279
QRRE	116,300	162,163	22.57	278,485
Hire Purchase	7,361,458	1,652,365	1,939	9,015,762
Other Retail	21,491,697	3,400,276	14,450	24,906,423
Exposure Weighted Average LGD				
RRE Financing	21%	26%	40%	
QRRE	90%	90%	90%	
Hire Purchase	52%	53%	57%	
Other Retail	14%	24%	56%	

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Non-retail Exposures

Non-retail exposures covered under the F-IRB Approach include foreign sovereigns, corporates (Specialised Financing 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 financing classification. The LGDs of these exposures are assigned as per the CAFIB (Risk-Weighted Assets); that is an LGD of 45% for senior exposures and 75% for subordinated exposures, with appropriate adjustments for eligible collateral.

The process by which an internal rating is assigned to an obligor is governed by the Group Credit Risk Rating Methodology. 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 substituting the obligor rating with the corporate guarantor's rating.

The following tables summarise CIMB Islamic's non-retail credit exposures measured under F-IRB Approach as at 31 December 2020 and 31 December 2019:

Table 19: Credit Exposures Subject to Supervisory Risk Weight under IRB Approach

2020						**CIMB Islamic**
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	48,017	213,305	-	1,381	-	262,703
Object Finance	-	-	-	-	-	-
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	144,233	955,870	159,081	178,780	0.03	1,437,964
RWA	**96,125**	**858,890**	**182,943**	**450,402**	**-**	**1,588,360**

2019						**CIMB Islamic**
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	88,049	228,613	-	-	-	316,661
Object Finance	-	-	-	-	-	-
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	117,481	1,129,527	29,779	90,379	2,064	1,369,230
RWA	**102,765**	**943,720**	**34,246**	**225,947**	**-**	**1,306,677**

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Non-retail Exposures (continued)

CIMB Islamic have no exposure to High Volatility Commercial Real Estate and Equities under the Supervisory Slotting Criteria.

Table 20: Non Retail Exposures under IRB Approach by Risk Grades

2020					**CIMB Islamic**
(RM'000) **Internal Risk Grading**	**1 - 3**	**4 - 9**	**10 - 13**	**Default**	**Total**
Total Non-Retail Exposure	**8,059,342**	**9,669,711**	**6,156,096**	**956,590**	**24,841,739**
Bank	758,010	126,005	68	0.01	884,083
Corporate (excluding Specialised Financing)	7,301,332	9,543,706	6,156,028	956,590	23,957,656
Exposure Weighted Average LGD					
Bank	41%	38%	45%	45%	
Corporate (excluding Specialised Financing)	44%	40%	38%	38%	
Exposure Weighted Average Risk Weight					
Bank	17%	39%	210%	-	
Corporate (excluding Specialised Financing)	10%	74%	111%	-	

2019					**CIMB Islamic**
(RM'000) **Internal Risk Grading**	**1 - 3**	**4 - 9**	**10 - 13**	**Default**	**Total**
Total Non-Retail Exposure	**8,679,178**	**11,198,194**	**5,426,843**	**887,883**	**26,192,097**
Bank	1,192,753	108,768	37	-	1,301,557
Corporate (excluding Specialised Financing)	7,486,425	11,089,426	5,426,806	887,883	24,890,539
Exposure Weighted Average LGD					
Bank	45%	41%	45%	-	
Corporate (excluding Specialised Financing)	44%	41%	37%	41%	
Exposure Weighted Average Risk Weight					
Bank	18%	42%	191%	-	
Corporate (excluding Specialised Financing)	10%	75%	104%	-	

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach (continued)

Expected Losses versus Actual Losses by Portfolio Types

The following tables summarise the expected losses versus actual losses by portfolio type:

Table 21: Analysis of Expected Loss versus Actual Losses by Portfolio Types

				CIMB Islamic
	2020		2019	
(RM'000) Exposure Class	Regulatory Expected Losses as at 31 December 2019	Actual Losses for the year ended 31 December 2020	Regulatory Expected Losses as at 31 December 2018	Actual Losses for the year ended 31 December 2019
Sovereign	-	-	-	-
Bank	340	0.003	484	-
Corporate	181,713	74,784	140,035	(40,921)
RRE Financing	78,799	58,788	68,666	27,508
HPE	88,414	72,902	65,451	93,261
QRRE	10,551	2,596	12,299	4,994
Other Retail	159,066	30,620	143,217	29,189
Total	**518,884**	**239,691**	**430,153**	**114,032**

Actual loss refers to impairment provisions and direct write-offs, if any during the year.

On the other hand, EL measures the loss expected from non-defaulted exposures at the start of the year. It is computed based on the risk parameters of the adopted IRB Approach. While a comparison of actual losses and EL provides some insight of the predictive power of the IRB Approach models used by the Group, the two metrics are not directly comparable due to the differences in methodology.

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

Off-Balance Sheet exposures are exposures such as derivatives, trade facilities and undrawn commitments. The Group adopts the Current Exposure method to compute the capital requirement for CCR under BNM's guidelines on CAFIB (Risk-Weighted Assets).

i) Credit Risk Mitigation

For credit derivatives and swaps transactions, the Group enters into master agreement with counterparties, whenever possible. Further, the Group may also enter into CSA with counterparties. The net credit exposure with each counterparty is monitored based on the threshold agreed in the master agreement and the 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 GCC or the relevant credit approving authority

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ii) Treatment of Rating Downgrade

In the event of a one-notch downgrade of rating, based on the terms of the existing CSA and exposure as at 31 December 2020 and 31 December 2019 there was no requirement for additional collateral to be posted.

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 tables disclose the Off-Balance Sheet exposures and CCR as at 31 December 2020 and 31 December 2019:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

Table 22: Disclosure on Off-Balance Sheet Exposures and CCR

2020				**CIMB Islamic**
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	293,219		293,219	211,432
Transaction Related Contingent Items	698,857		349,429	227,022
Short Term Self Liquidating Trade Related Contingencies	60,296		12,059	9,034
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Commitments to buy back Islamic securities under Sales and Buy Back agreement	-		-	-
Foreign Exchange Related Contracts				
One year or less	5,719,347	7,498	88,867	50,134
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Profit Rate Related Contracts				
One year or less	266,332	1,320	5,275	2,376
Over one year to five years	378,170	23,131	48,335	7,723
Over five years	257,943	2,470	65,193	14,010
Commodity contracts				
One year or less	-	-	-	-
Over one year to five years	1,403	1,521	1,689	2,219
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	17,312,856	201,632	491,851	146,509
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	11,940,705		10,338,508	3,290,130
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 customer's creditworthiness	8,624,312		-	-
Unutilised credit card lines	404,339		119,869	58,306
Off-balance sheet items for securitisation exposures	-		-	-
Total	**45,957,777**	**237,572**	**11,814,294**	**4,018,894**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

Table 22: Disclosure on Off-Balance Sheet Exposures and CCR *(continued)*

2019				CIMB Islamic
(RM'000) Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
Direct Credit Substitutes	244,673		244,673	165,434
Transaction Related Contingent Items	854,087		427,044	273,915
Short Term Self Liquidating Trade Related Contingencies	35,640		7,128	5,680
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Commitments to buy back Islamic securities under Sales and Buy Back agreement	-		-	-
Foreign Exchange Related Contracts				
One year or less	3,539,945	1,710	47,698	17,735
Over one year to five years	195,197	-	12,211	5,601
Over five years	-	-	-	-
Profit Rate Related Contracts				
One year or less	331,274	262	3,779	2,244
Over one year to five years	1,384,773	23,334	69,238	22,091
Over five years	388,835	39,201	126,995	25,399
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	22,474,126	149,781	416,402	110,509
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	10,916,641		9,642,170	3,272,200
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 customer's creditworthiness	7,654,799		-	-
Unutilised credit card lines	418,448		129,559	81,947
Off-balance sheet items for securitisation exposures	-		-	-
Total	**48,438,439**	**214,288**	**11,126,898**	**3,982,755**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

Table 23: Disclosure on Credit Derivative Transactions

(RM'000)	CIMB Islamic			
	2020		2019	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	-	-	-	-
Client Intermediation Activities	-	20,750	-	20,750
Total	**-**	**20,750**	**-**	**20,750**
Credit Default Swaps	-	-	-	-
Total Return Swaps	-	20,750	-	20,750
Total	**-**	**20,750**	**-**	**20,750**

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 are considered secondary recourse to the obligor for the credit risk underwritten.

i) Collaterals/Securities

All extension of secured credit facilities must be appropriately and adequately collateralised. 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. GCC or the relevant credit approving authority is empowered to approve any inclusion of new acceptable collaterals/securities.

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

ii) 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.

CREDIT RISK *(continued)*

Credit Risk Mitigation (continued)

iii) Netting

In mitigating the counterparty credit risks in foreign exchange and derivative transactions, our Group enters into master agreements that provide for closeout netting with counterparties, whenever possible. A master agreement that governs all transactions between two parties, creates greater legal certainty that the netting of outstanding obligations can be enforced upon termination of outstanding transactions if an event of default occurs.

iv) Portfolio diversification for better clarity

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

The following tables summarise the extent of which exposures are covered by eligible credit risk mitigants as at 31 December 2020 and 31 December 2019:

Table 24: Disclosure on Credit Risk Mitigation

2020				**CIMB Islamic**
(RM'000) Exposure Class	**Exposures before CRM**	**Exposures Covered by Guarantees/ Credit Derivatives**	**Exposures Covered by Eligible Financial Collateral**	**Exposures Covered by Other Eligible Collateral**
Performing Exposures				
Sovereign/Central Banks	21,144,480	-	-	-
Public Sector Entities	3,822,133	3,651,317	-	-
Banks, DFIs & MDBs	885,644	-	79,212	-
Takaful Operators, Securities Firms & Fund Managers	15,706	-	-	-
Corporate	26,499,130	2,638,064	636,941	7,285,208
RRE Financing	24,908,500	-	-	-
Qualifying Revolving Retail	253,267	-	-	-
Hire Purchase	11,526,937	-	-	-
Other Retail	32,218,873	349,123	777,598	-
Securitisation	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	261,836	-	-	-
Defaulted Exposures	1,287,674	987	54,063	469,048
Total Exposures	**122,824,180**	**6,639,491**	**1,547,814**	**7,754,257**

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.

CREDIT RISK *(continued)*

Credit Risk Mitigation (continued)

Table 24: Disclosure on Credit Risk Mitigation (continued)

2019				CIMB Islamic
(RM'000) Exposure Class	**Exposures before CRM**	**Exposures Covered by Guarantees/ Credit Derivatives**	**Exposures Covered by Eligible Financial Collateral**	**Exposures Covered by Other Eligible Collateral**
Performing Exposures				
Sovereign/Central Banks	18,036,722	-	-	-
Public Sector Entities	3,696,314	3,500,000	-	-
Banks, DFIs & MDBs	1,306,628	-	20,617	-
Takaful Operators, Securities Firms & Fund Managers	15,464	-	-	-
Corporate	27,087,269	3,124,732	682,806	6,526,387
RRE Financing	20,569,815	-	-	-
Qualifying Revolving Retail	276,426	-	-	-
Hire Purchase	8,943,654	-	-	-
Other Retail	31,056,524	326,895	223,492	-
Securitisation	20,379	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	97,766	-	-	-
Defaulted Exposures	1,026,901	-	51,584	116,381
Total Exposures	**112,133,862**	**6,951,627**	**978,499**	**6,642,768**

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.

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 a means of diversifying funding source, as well as advised on securitisations of third party assets as part of its regional debt capital markets services for its clients.

CIMB Group securitises its own assets in order to, amongst others, manage credit risk and to manage term funding for CIMB Group's balance sheet. Typically, CIMB Group undertakes the following roles in the securitisation activities (either singularly or in combination):

- Originator and servicer of securitised assets
- Asset-backed securities marketing, syndication and trading
- Provider of liquidity facilities to self-originated and third-party transactions
- Investor of third-party securitisations (where CIMB is not originator or sponsor)

Disclosure on Securitisation for Banking Book

The following tables show the disclosure on Securitisation for Banking Book for 31 December 2020 and 31 December 2019:

Table 25: Disclosure on Securitisation for Banking Book

2020 (RM'000)	CIMB Islamic			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Credit Impaired**	**Gains/(Losses) Recognised during the year**
TRADITIONAL SECURITISATION (Banking Book)				
Originated by the Banking Institution				
Hire Purchase Exposure	115,753	15,295	3,949	(2,052)

2019 (RM'000)	CIMB Islamic			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Credit Impaired**	**Gains/(Losses) Recognised during the year**
TRADITIONAL SECURITISATION (Banking Book)				
Originated by the Banking Institution				
Hire Purchase Exposure	187,803	23,186	5,132	(2,067)

SECURITISATION *(continued)*

Disclosure on Securitisation under the SA for Banking Book

The tables below represent the disclosure on Securitisation under the SA for Banking Book:

Table 26: Disclosure on Securitisation under the SA for Banking Book Exposures

2020												CIMB Islamic
(RM'000) Exposure Class	Net Exposure After CRM	Exposures subject to deduction	Distribution of Exposures after CRM according to Applicable Risk Weights									Risk-Weighted Assets
			Rated Securitisation Exposures							Unrated (Look Through)		
			0%	10%	20%	50%	100%	350%	1250%	Weighted Average RW	Exposure Amount	
Traditional Securitisation (Banking Book)												
Non-originating Banking Institution												
On-Balance Sheet												
Most senior	-	-	-	-	-	-	-	-	-			-
Mezzanine	-	-	-	-	-	-	-	-	-			-
First loss	-	-	-	-	-	-	-	-	-			-
Off-Balance Sheet												
Rated eligible liquidity facilities	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity < 1 year)	-	-			-	-	-	-	-			-
Eligible servicer cash advance facilities	-	-			-	-	-	-	-			-
Eligible underwriting facilities	-	-			-	-	-	-	-			-
Guarantees and credit derivatives	-	-			-	-	-	-	-			-
Other off-balance sheet securitisation exposures (excl. guarantees and credit derivatives)	-	-			-	-	-	-	-			-

SECURITISATION *(continued)*

Securitisation under the SA for Banking Book (continued)

Table 26: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2020												CIMB Islamic
(RM'000)	Net	Exposures	Distribution of Exposures after CRM according to Applicable Risk Weights									Risk-
	Exposure	subject to	Rated Securitisation Exposures							Unrated (Look Through)		Weighted
Exposure Class	After CRM	deduction	0%	10%	20%	50%	100%	350%	1250%	Weighted Average RW	Exposure Amount	Assets
Originating Banking Institution												
On-Balance Sheet												
Most senior	-	-	-	-	-	-	-	-	-			-
Mezzanine	-	-	-	-	-	-	-	-	-			-
First loss	-	-	-	-	-	-	-	-	-			-
Off-Balance Sheet												
Rated eligible liquidity facilities	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	-	-			-	-	-	-	-	-	-	-
Unrated eligible liquidity facilities (with original maturity < 1 year)	-	-			-	-	-	-	-			-
Eligible servicer cash advance facilities	-	-			-	-	-	-	-			-
Eligible underwriting facilities	-	-			-	-	-	-	-			-
Guarantees and credit derivatives	-	-			-	-	-	-	-			-
Other off-balance sheet securitisation exposures (excl. guarantees and credit derivatives)	-	-			-	-	-	-	-			-
Total Exposures	**-**	-	-	-	-	-	-	-	-	-	-	-

SECURITISATION *(continued)*

Securitisation under the SA for Banking Book (continued)

Table 26: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2019													CIMB Islamic
(RM'000) Exposure Class	Net Exposure After CRM	Exposures subject to deduction	Distribution of Exposures after CRM according to Applicable Risk Weights										Risk-Weighted Assets
			Rated Securitisation Exposures							Unrated (Look Through)			
			0%	10%	20%	50%	100%	350%	1250%	Weighted Average RW	Exposure Amount	
Traditional Securitisation (Banking Book)												
Non-originating Banking Institution												
On-Balance Sheet												
Most senior	20,379	-	-	-	20,379	-	-	-	-			4,076
Mezzanine	-	-	-	-	-	-	-	-	-			-
First loss	-	-	-	-	-	-	-	-	-			-
Off-Balance Sheet												
Rated eligible liquidity facilities	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity < 1 year)	-	-			-	-	-	-	-			-
Eligible servicer cash advance facilities	-	-			-	-	-	-	-			-
Eligible underwriting facilities	-	-			-	-	-	-	-			-
Guarantees and credit derivatives	-	-			-	-	-	-	-			-
Other off-balance sheet securitisation exposures (excl. guarantees and credit derivatives)	-	-			-	-	-	-	-			-

SECURITISATION *(continued)*

Securitisation under the SA for Banking Book (continued)

Table 26: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2019												CIMB Islamic
(RM'000) Exposure Class	Net Exposure After CRM	Exposures subject to deduction	Distribution of Exposures after CRM according to Applicable Risk Weights									Risk-Weighted Assets
			Rated Securitisation Exposures							Unrated (Look Through)		
			0%	10%	20%	50%	100%	350%	1250%	Weighted Average RW	Exposure Amount	
Originating Banking Institution												
On-Balance Sheet												
Most senior	-	-	-	-	-	-	-	-	-			-
Mezzanine	-	-	-	-	-	-	-	-	-			-
First loss	-	-	-	-	-	-	-	-	-			-
Off-Balance Sheet												
Rated eligible liquidity facilities	-	-			-	-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	-	-			-	-	-	-	-	-	-	-
Unrated eligible liquidity facilities (with original maturity < 1 year)	-	-			-	-	-	-	-			-
Eligible servicer cash advance facilities	-	-			-	-	-	-	-			-
Eligible underwriting facilities	-	-			-	-	-	-	-			-
Guarantees and credit derivatives	-	-			-	-	-	-	-			-
Other off-balance sheet securitisation exposures (excl. guarantees and credit derivatives)	-	-			-	-	-	-	-			-
Total Exposures	**20,379**	**-**	**-**	**-**	**20,379**	**-**	**-**	**-**	**-**	**-**	**-**	**4,076**

Securitisation under the SA for Trading Book Exposures subject to Market Risk Capital Charge

As at 31 December 2020 and 31 December 2019, CIMB Islamic has no Securitisation under the SA for Trading Book Exposures subject to Market Risk Capital Charge.

MARKET RISK

Market risk is defined as any fluctuation in the value of a trading or investment exposure arising from changes to market risk factors such as interest rates/profit rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility.

Market Risk Management

Our Group adopts various measures as part of the risk management process. Our GRCC with the assistance of GMRC and its delegated committees ensure that the risk exposures undertaken by our Group is within the risk appetite approved by our Board.

Market Risk CoE is responsible for measuring and controlling our Group's market risk through robust measurement and market risk limit monitoring while facilitating business growth within a controlled and transparent risk management framework.

Market Risk CoE evaluates the market exposures using the applicable market price and pricing model. The valuation process is carried out with the independent price verification requirements to ensure that financial assets/liabilities are recorded at fair value. The valuation methods and models used are validated by risk management quantitative analysts to assess their applicability relative to market conditions.

Our Group adopts the VaR methodology as an approach in the measurement of market risk. VaR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level.

Stress testing is conducted to capture the potential market risk exposures from an unexpected market movement. In formulating stress scenarios, consideration is given to various aspects of the market; for example, identification of areas where unexpected losses can occur and areas where historical correlation may no longer hold true.

In addition to the above, Market Risk CoE undertakes the monitoring and oversight process at Treasury & Markets' trading floors, which include reviewing and analysing treasury trading activities vis-à-vis changes in the financial markets, monitoring limit usage, assessing limit adequacy and verifying transaction prices.

Capital Treatment for Market Risk

At present, the Group adopts the Standardised Approach to compute market risk capital requirement under BNM's guidelines on CAFIB (Risk-Weighted Assets).

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

- Profit Rate Risk;
- Foreign Currency Risk;
- Equity Risk;
- Commodity Risk; and
- Options Risk.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk but excludes strategic and reputation risks.

Operational Risk Management Oversight

The NFRM CoE, within GRD, provides the methodology, tools and processes for the identification, assessment, reporting and management of operational risks by the respective risk owners across the Group. The NFRM CoE also independently oversees the operational risk controls monitoring that resides within the first line-of-defence.

Identified risks are rated using a defined risk rating methodology applied across the Group's three lines-of-defence. Monitoring of the identified risks is primarily done through the Operational Risk Committee or relevant risk management committees operating in each material geography and business line. These committees report up to the relevant functional or country level committees.

A strong governance structure is in place to ensure an effective and consistent implementation of the Group's Operational Risk framework. The Board is ultimately responsible for the Group's risk management activities, sets the strategic directions, risk appetite and relevant frameworks for the Group.

The responsibility of risk management supervision and control is delegated to the Group Risk and Compliance Committee (GRCC), which reports to the Board Risk and Compliance Committee (BRCC). The GRCC, comprising Senior Management of the Group, performs the oversight function for the overall management of risks. The GRCC is supported by the Group Operational & Resiliency Risk Committee which is a specialised sub-committee providing oversight on operational risk matters across the Bank.

Escalation and reporting processes are well instituted through the various management Committees mentioned above. The responsibilities of the Committees and the Board include the following:

i) Oversight and implementation of the Operational Risk Management Framework
ii) Establish and monitor operational risk appetite
iii) Establish effective policies, processes and systems for managing operational risk and an internal governance structure
iv) Be aware of key operational risk issues
v) Ensure that product risks are well managed and the needs and rights of consumers are appropriately addressed
vi) Ensure compliance to regulatory and internal requirements including disclosures.

Group Corporate Assurance Division performs regular reviews and assessments of the operational risk management framework, processes and systems. Results are communicated to the Board and senior management.

Operational Risk Management Approach

CIMB Group recognizes that the key determinant for a well-managed banking operation is to cultivate an organisational-wide risk management discipline and culture. Our Group manages operational risks through the following key measures:

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

OPERATIONAL RISK (continued)

Operational Risk Management Approach (continued)

v) Deployment of Operational Risk Management (ORM)tools that include:

- Operational Event and Loss Data Management;
- Risk & Control Self-Assessment;
- Control Issue Management;
- Key Risk Indicators;
- New Product Approval Process; and
- Scenario Analysis.

These tools form part of the operational risk framework that allows the Group to effectively identify, measure, mitigate and report its operational risks. Each material division of the Group self-assesses on their internal risk and control environment rating and report key control deficiencies with remediation plans.

Each new or varied product with changes to the process flow is subjected to a rigorous risk review, where all critical and relevant areas of risk are being appropriately identified and assessed independently from the risk takers or product owners.

The promotion of a risk management culture within our Group, whereby the demand for integrity and honesty is non-negotiable, remains the core theme in our operational risk awareness program. Additionally, the e-learning module on operational risk management has enhanced the awareness of operational risk amongst the staff.

Capital Treatment for Operational Risk

The Bank adopts the Basic Indicator Approach to compute operational risk capital requirement under BNM's guidelines on CAF (Basel II - Risk-Weighted Assets) and CAFIB (Risk-Weighted Assets).

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

EQUITY EXPOSURES IN BANKING BOOK

The Group's banking book equity investments consist of:

i) Strategic stakes in entities held as part of growth initiatives and/or in support of business operations; and

ii) Investments held for yield and/or long-term capital gains.

The Group's and CIMB Islamic Bank's banking book equity investments are measured at fair value in accordance with Malaysian Financial Reporting Standards.

As at 31 December 2020 and 31 December 2019, there were no realised and unrealised gains and losses recorded for equity holdings in Banking Book for CIMB Islamic Bank.

The following table shows an analysis of equity investments by appropriate equity groupings and risk weighted assets as at 31 December 2020 and 31 December 2019:

Table 27: Analysis of Equity Investments by Grouping and RWA

(RM'000)	CIMB Islamic			
	2020		2019	
	Exposures subject to Risk-Weighting	RWA	Exposures subject to Risk-Weighting	RWA
Privately held	-	-	-	-
Publicly traded	-	-	-	-
Total	**-**	**-**	**-**	**-**

RATE OF RETURN RISK IN THE BANKING BOOK

RORBB is defined as the current and potential risk to the Group's earnings and economic value arising from movement of interest rates / profit rates.

RORBB Management

Our Group manages its banking book exposure of fluctuations in the interest rates/profit rates through policies established by GALCO. The GALCO is a board-delegated committee which reports to the GRCC. IRRBB/RORBB undertaken by our Group is governed by an established risk appetite that defines the acceptable level of risk to be assumed by our Group. The risk appetite is established by the Board. With the support from ALM COE under Group Risk, and CBSM under Group Finance, our GALCO is responsible for steering Group's balance sheet and hedging strategies, the overall interest rate risk/rate of return risk in the banking book profile and ensuring that such risk profile is within the established risk appetite. Treasury & Markets together with Capital & Balance Sheet Management are responsible for the day-to-day management of exposures and gapping activities, including execution of hedging strategies.

RORBB is measured by:

- Economic Value of Equity sensitivity:

  measures the long term impact of sudden interest rate/profit rate movement across the full maturity spectrum of our Group's assets and liabilities. It defines and quantifies interest rate risk/rate of return risk as the change in the economic value of equity (e.g. present value of potential future earnings and capital) as asset portfolio values and liability portfolio values would rise and fall with changes in interest rates/profit rates. This measure helps the Group to quantify the risk and impact on capital with the focus on current banking book positions.

For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate/ profit 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.

RATE OF RETURN RISK IN THE BANKING BOOK *(continued)*

RORBB Management (continued)

- Economic Value of Equity sensitivity (continued)

  The table below illustrates CIMB Islamic's RORBB under a 100 bps parallel upward profit rate shock from economic value perspective:

Table 28: RORBB – Impact on Economic Value

(RM'000)	CIMB Islamic	
	2020	2019
Currency	+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)	
Ringgit Malaysia	(706,510)	(596,338)
US Dollar	(1,409)	(3,445)
Thai Baht	-	-
Singapore Dollar	(1)	(18)
Others	126	721
Total	**(707,794)**	**(599,080)**

- Earnings-at-Risk:

  is the potential impact of interest/profit rate changes on the bank's accruing or reported earnings. It focuses on risk to earnings in the near term, typically the next one year. Fluctuations in interest rates/profit rate generally affect reported earnings through changes in the bank's net interest/profit income, which is the difference between total interest/profit income earned from assets and total interest/profit expense incurred from liabilities. Our Group's EAR is taking into consideration forecasts on budgeted new business generation and product pricing strategies.

For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate/profit rate shock is applied to the static balance sheet positions. 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.

RATE OF RETURN RISK IN THE BANKING BOOK *(continued)*

RORBB Management (continued)

- Earnings-at-Risk (continued)

  The table below illustrates CIMB Islamic's RORBB under a 100 bps parallel upward profit rate shock from the earnings perspective:

Table 29: RORBB – Impact on Earnings

(RM'000)	CIMB Islamic	
	2020	2019
Currency	**+100bps Increase (Decline) in Earnings (Value in RM Equivalent)**	
Ringgit Malaysia	(38,198)	(37,891)
US Dollar	(14,693)	(8,136)
Thai Baht	9	9
Singapore Dollar	9	425
Others	227	(10,097)
Total	**(52,646)**	**(55,690)**

[END OF SECTION]