Basel II Pillar 3 Disclosure for 2017

- CIMB Investment Bank Berhad

Contents

ABBREVIATIONS

A-IRB Approach	:	Advanced Internal Ratings Based Approach
ALM COE	:	Asset Liability Management Centre of Excellence
BI	:	Banking Institutions
BIA	:	Basic Indicator Approach
BNM	:	Bank Negara Malaysia
BRC	:	Board Risk 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 FactorleaseBerhad and other non-financial subsidiaries
CIMBISLG	:	CIMB Islamic BankBerhad, CIMB Islamic Nominees (Asing) SdnBhd and CIMB Islamic Nominees (Tempatan) SdnBhd
CIMBIBG	:	CIMB Investment Bank Berhad, CIMB Futures SdnBhd and other non-financial subsidiaries
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	:	Group 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
Fitch	:	Fitch Ratings

ABBREVIATIONS *(continued)*

GALCO	: Group Asset Liability Management Committee
GCC	: Group Credit Committee
GIB	: Group Islamic Banking
GMRC	: Group Market Risk Committee
GRC	: Group Risk Committee
GRD	: Group Risk Division
GUC	: Group Underwriting Committee
HPE	: Hire Purchase Exposures
IRB Approach	: Internal Ratings Based Approach
IRRBB	: Interest Rate Risk in the Banking Book
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
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 COE	: Shariah Risk Management Centre of Excellence
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 prescribed a number of different approaches to risk calculation that allows the use of internal models to calculate regulatory capital. The particular approach selected must commensurate with the 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 disclosure requirements aimed to encourage market discipline in a sense 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 CIMBIB are also available in CIMBGH Group's 2017 Annual Report and corporate website.

OVERVIEW OF BASEL II AND PILLAR 3 *(continued)*

Basis of Disclosure

The disclosures herein are formulated in accordance with the requirements of BNM's guidelines on RWCAF (Basel II) – Disclosure Requirements (Pillar 3). The disclosures published are for the year ended 31 December 2017.

The basis of consolidation for financial accounting purposes is described in the 2017 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 IB did not experience any impediments in the distribution of dividends. There were also no capital deficiencies in any subsidiaries that are not included in the consolidation for regulatory purposes. For the purposes of this disclosure, the disclosures presented within will be representative of the CIMB IB entity disclosures only.

The term 'credit exposure' as used in this disclosure is a prescribed definition by BNM based on the RWCAF (Basel II) – 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 2017 financial statements as the credit risk exposure definition within the ambit of accounting standards represent the balance outstanding as at balance sheet date and do not take into account the expected undrawn contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2017 financial statements of CIMB IB.

Any discrepancies between the totals and sum of the components in the tables contained in this disclosure 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:

(i) identify the various risk exposures and capital requirements;

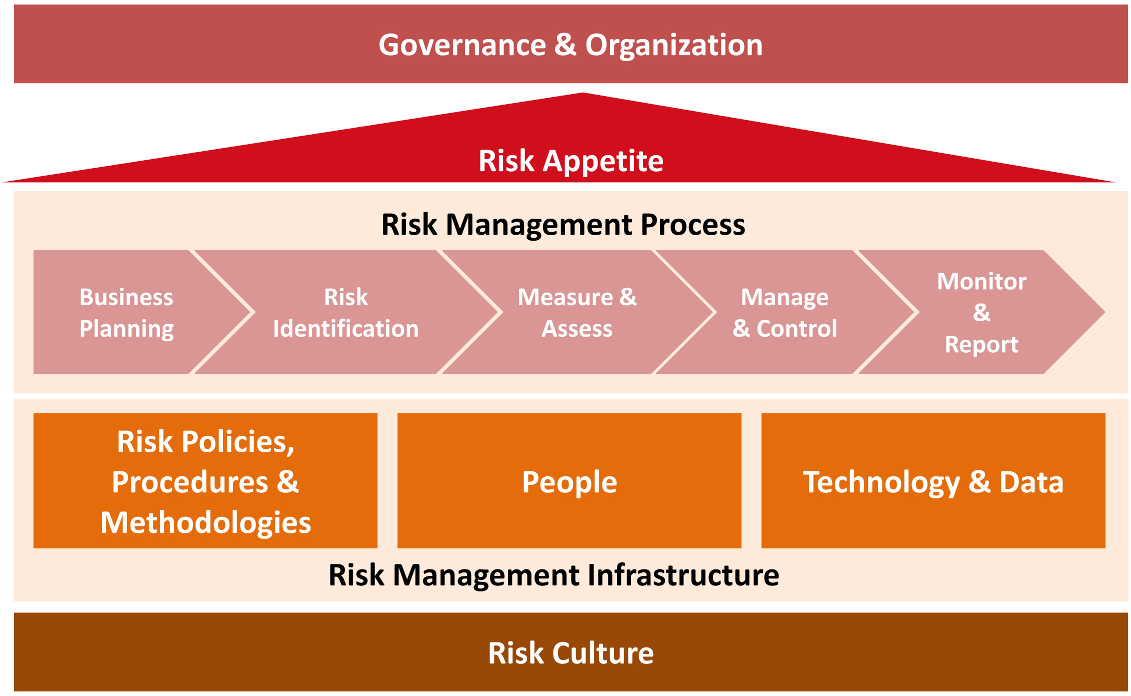
(ii) ensure risk taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and

(iii) create shareholder value through proper allocation of capital and facilitate development of new businesses.

Enterprise Wide Risk Management Framework

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

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



The design of the EWRM framework involves a complementary 'top-down strategic' and 'bottom-up tactical' risk management approach with formal policies and procedures addressing all areas of significant risks for our Group.

RISK MANAGEMENT OVERVIEW *(continued)*

Enterprise Wide Risk Management Framework (continued)

The key features of the EWRM framework include:

a) **Governance & Organisation**: A strong governance structure is important to ensure an effective and consistent implementation of the Group's 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 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.

b) **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.

c) **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: Risks are systematically identified through the robust application of the Group's risk frameworks, policies and procedures.
- Measure and Assess: Risks are measured and aggregated using the Group wide methodologies across each of the risk types, including stress testing.
- Manage and Control: Controls and limits are used to manage risk exposures within the risk appetite set by the Board. Controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes. Corrective actions are taken to mitigate risks.
- Monitor and Report: Risks on an individual as well as a portfolio basis are regularly monitored and reported to ensure they remain within the Group's risk appetite.

d) **Risk Management Infrastructure**
- Risk Policies, Methodologies and Procedures: Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Methodologies provide specific requirements, rules or criteria that must be met in order to comply with the policy. Procedures provide guidance for day-to-day risk taking activities.
- People: Attracting the right talent and skillset are key to ensuring a well-functioning EWRM Framework. The organization 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.

e) **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 Defense approach, whereby risks are managed at the point of risk-taking activity. There is clear accountability of risk ownership across the Group.

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance

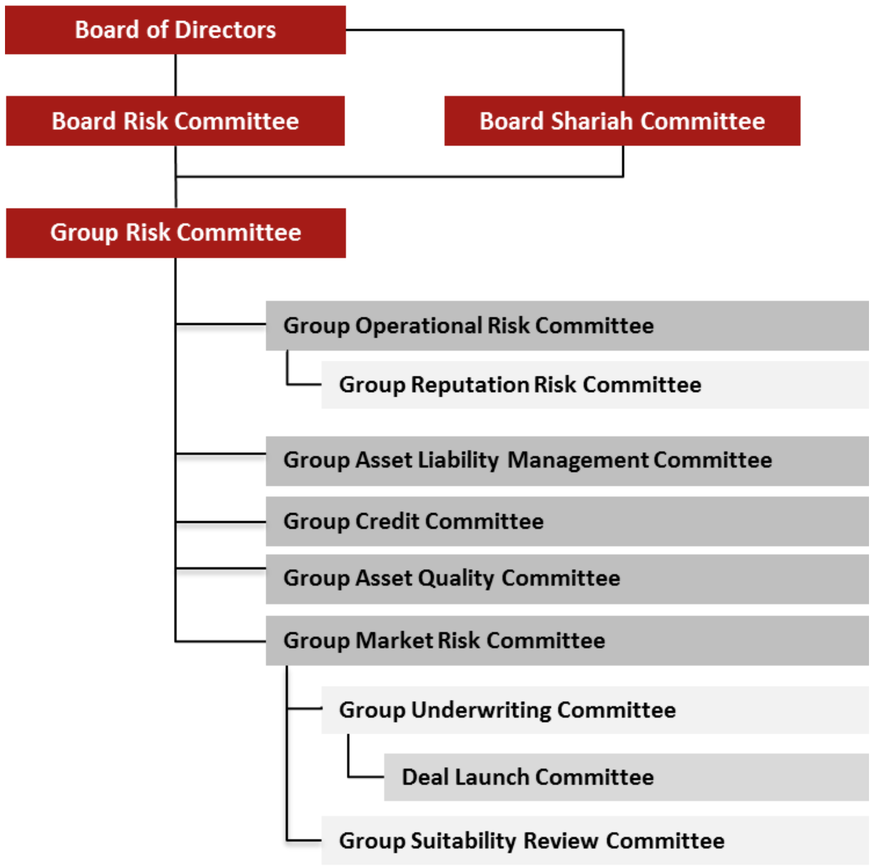
At the apex of the governance structure are the respective boards of entities within the group, which decides on the entity's Risk Appetite corresponding to its business strategies. Each BRC reports directly into the respective boards and assumes responsibility on behalf of the respective boards for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

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

The responsibility of the supervision of the risk management functions is delegated to our GRC comprised of senior management of our Group and reports directly to our BRC. Our GRC performs the oversight function on overall risks undertaken by the Group in delivering its business plan vis-à-vis the stated risk appetite of our Group. Our GRC is supported by specialised risk committees, namely Group Credit Committee, Group Market Risk Committee, Group Operational Risk Committee, Group Asset Liability Management Committee and Group Asset Quality Committee, each addressing one or more of the following:

(i) Market risk, arising from fluctuations in the market value of the 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, arising from the possibility of losses due to an obligor or market counterparty or issuer of securities or other instruments held, having failed to perform its contractual obligations to our Group;
(iii) Liquidity risk, arising from a bank's inability to efficiently meet its present and future funding needs or regulatory obligations, when they come due, which may adversely affect its daily operations and incur unacceptable losses;
(iv) Operational risk, arising from risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
(v) Interest rate risk in the banking book, which is the current and potential risk to the Group's earning and economic value arising from movement in interest rates;
(vi) Capital risk, arising from the failure to meet minimum regulatory and internal requirements which could incur regulatory sanction of our Group, thereby resulting in a potential capital charge; and
(vii) Shariah Non-Compliance (SNC) risk, arising from possible failure to comply with the Shariah requirements as determined by SAC of BNM and SC, the BSC of the Group and other Shariah regulatory authorities of the jurisdictions in which the Group operates.

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. This structure increases regional communication, regarding technical knowledge. It further enhances support towards managing and responding to risk management issues, thus allowing our Board with a comprehensive view of the activities within our Group.

Three-Lines of Defence

Our Group's risk management approach is based on the three-lines of defence concept 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 the business units. Line management (including all business units and units which undertake client facing activities) provides the first line of defence. It 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 functions, performs independent monitoring of business activities and reporting to management to ensure that our Group is conducting business and operating within the approved appetite and is also in compliance to regulations. The third line of defence is Group Internal Audit Division who provides independent assurance on the adequacy and effectiveness of the internal controls and risk management process.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of Group Chief Risk Officer (CRO) and Group Risk

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

The organisational structure of GRD is made of two major components, namely the Chief Risk Officer (CRO) and the Risk Centres of Excellence (“CoE”). GRD is headed by the Group CRO who is appointed by our Board to lead the Group-wide risk management functions including implementation of the EWRM framework. Our Group CRO:

a) actively engages our Board and senior management on risk management issues and initiatives.

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

The GRD teams are organised into several Risk CoEs in order to facilitate the implementation of the Group’s EWRM framework. The Risk CoEs consisting of Risk Analytics & Infrastructure, Market Risk, Operational Risk, Asset Liability Management, Credit Risk and Shariah Risk Management CoEs are specialised teams of risk officers responsible for the active oversight of group-wide functional risk management.

a) Risk Analytics & Infrastructure CoE

The Risk Analytics & Infrastructure CoE designs frameworks, develops risk models and tools and implements standardised infrastructure for risk management across the Group.

b) 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.

c) Operational Risk CoE

The Operational Risk CoE ensures the first line of defence manages their operational risk by providing an operational risk framework that enables them to identify, 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.

d) Asset Liability Management CoE

The Asset Liability Management recommends the framework and policies for the independent assessment, measurement and monitoring of liquidity risk and interest rate risk in the banking book. It conducts regular stress testing on the Group’s liquidity and interest rate risk 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.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of CRO and GroupRisk Division (continued)

e) 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 models; underwriting and portfolio analytics.

f) Shariah Risk Management CoE

The Shariah Risk Management CoE facilitates the process of identifying, measuring, controlling and monitoring Shariah Non Compliance (SNC) risks inherent in the Group's Islamic banking businesses and services. SRM COE formulates, recommends and implements appropriate Shariah Risk Management (SRM) policies & guidelines; and develops and implements processes for SNC risk awareness.

In addition to the above Risk CoEs, there is also specialised team within Group Risk:

- The Regional Risk & CRO International Offices team oversees the risk management functions of the regional offices, our Group's unit trust and securities businesses and also houses the validation team.

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's EWRM framework, subject to necessary adjustments required for local regulations. For branches and subsidiaries without risk management department, all risk management activities are centralised at relevant Risk CoEs. Otherwise, the risk management activities will be performed by the local risk management team with matrix reporting line to relevant Risk CoEs.

RISK MANAGEMENT OVERVIEW *(continued)*

Strategies and Processes for Various Risk Management

Information on strategies and processes for Credit Risk, Market Risk, Operational Risk and Interest Rate 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 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 & Governance Department (S&G) of GIB which is basically a component of the Management serves as a coordinator and manager of the overall Shariah governance and compliance of the Islamic businesses in CIMB Group. S&G is responsible to carry out Shariah Research, Advisory and Secretariat functions. In performing its roles, S&G is complemented by the roles of the Shariah Compliance functions consisting of Shariah Risk Management COE, Shariah Compliance Review and Shariah Audit.

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 Compliance Review, and Shariah Audit functions reside in Group Risk Division, Group Compliance, and Group Internal Audit Division respectively.

Shariah non-compliance income occurring during the year

During the year ended 31 December 2017, there was no Shariah non-compliance (SNC) income.

CAPITAL MANAGEMENT

Key Capital Management Principles

The key driving principles of the 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 GSOC who periodically assess 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 relevant entities under the Group have issued various capital instruments pursuant to the respective regulatory guidelines, including Tier 2 subordinated debt, innovative and non-innovative Tier 1 hybrid securities that qualify as capital pursuant to the RWCAF and CAFIB issued by BNM. However, with the implementation of Basel III under the Capital Adequacy Framework (Capital Components) beginning 1 January 2013, these capital instruments are subject to a gradual phase-out treatment which will eventually result in a full derecognition by 1 January 2022. Therefore, in order for the Group to maintain adequate capital it has issued a few Basel III compliant instruments during the financial year and will continually review potential future issuances under the Capital Management Plan. Notes 29 to 31 in CIMBGH Financial Statements show the summary of terms and conditions of the capital instruments.

The components of eligible regulatory capital are based on the Capital Adequacy Framework (Capital Components). The minimum regulatory capital adequacy requirements in 2017 for the Common Equity Tier 1 ratio, Tier 1 ratio and Total Capital ratio are 5.750%, 7.250% and 9.250% respectively.

On 13 October 2015, BNM issued revised guidelines on the Capital Adequacy Framework (Capital Components), of which will take effect beginning 1 January 2016 and 1 January 2019 for banking institutions and financial holding company respectively. BNM also issued updated guidelines on the Capital Adequacy Framework (Basel II – Risk-Weighted Assets) which are applicable to all banking institutions with immediate effect and all financial holding companies with effect from 1 January 2019.

On 1 August 2016, BNM issued an updated framework which revised capital treatment for credit derivatives transactions in the trading book. In addition, the framework also clarifies on the following;

(i) Application of a 20% risk weight for the portion of residential mortgages guaranteed by Cagamas SRP Berhad under Cagamas MGP, Skim Rumah Pertamaku, and Skim Perumahan Belia;
(ii) Application of a 100% risk weight to all residential mortgages with a loan-to-value ratio of more than 90% approved and disbursed by banking institutions on or after 1 February 2011; and
(iii) Removal of the treatment for CGC's SME Assistance Guarantee Scheme as the scheme is no longer available.

CAPITAL MANAGEMENT *(continued)*
Capital Structure and Adequacy (continued)

On 2 March 2017, BNM issued an updated framework whereby Banking institutions are provided the option to adopt the internal estimate method in computing effective maturity for non-retail exposures under F-IRB upon notifying the Bank. In addition, the framework also lists additional requirements to determine effective maturity for each facility under Advanced IRB approach.

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

Table 1: Capital Position for CIMB Investment

(RM'000)	CIMB IB	
	2017	**2016**
Common Equity Tier 1 capital		
Ordinary shares	**100,000**	**100,000**
Other reserves	544,682	508,706
Proposed dividends	(92,000)	(57,000)
Common Equity Tier 1 capital before regulatory adjustments	**552,682**	**551,706**
Less: Regulatory adjustments		
Goodwill	-	-
Deferred Tax Assets	(21,217)	(15,771)
Deductions in excess of Tier 2 capital	(1,503)	(1,636)
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	(7,200)	(5,767)
Others	(1,952)	(2,104)
Common equity tier 1 capital after regulatory adjustments / total Tier 1 capital	**520,810**	**526,428**
Tier 2 Capital		
Redeemable Preference Shares	5	6
Portfolio impairment allowance and regulatory reserves	2,037	2,203
Tier 2 capital before regulatory adjustments	**2,042**	**2,209**
Less: Regulatory adjustments		
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	(3,545)	(3,845)
Total Tier 2 Capital	-	-
Total Capital	**520,810**	**526,428**
RWA		
Credit risk	869,393	842,875
Market risk	55,924	53,119
Operational risk	622,356	579,052
Total RWA	**1,547,673**	**1,475,046**
Capital Adequacy Ratios		
Common Equity Tier 1 Ratio	33.651%	35.689%
Tier 1 ratio	33.651%	35.689%
Total capital ratio	33.651%	35.689%

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Total capital ratio decreased in 2017 compared to 2016 predominantly from increased market RWA. The increase in market RWA was mainly contributed by increased FX RWA but offset by decreased option 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

2017					CIMB IB
(RM'000) Exposure Class	**Gross Exposure before CRM (SA)**	**Net Exposure after CRM (SA)**	**RWA**	**Total RWA after effects of PSIA**	**Minimum capital requirement at 8%**
Credit Risk (SA)					
Sovereign/Central Banks	1,065,440	1,065,440	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	911,862	911,862	448,692	448,692	35,895
Insurance Cos, Securities Firms & Fund Managers	12,097	12,097	12,097	12,097	968
Corporate	18,301	18,187	18,762	18,762	1,501
Regulatory Retail	106	106	79	79	6
Residential Mortgages	155,283	155,283	82,122	82,122	6,570
Higher Risk Assets	-	-	-	-	-
Other Assets	307,661	307,661	307,641	307,641	24,611
Securitisation	-	-	-	-	-
Total Credit Risk	**2,470,749**	**2,470,635**	**869,393**	**869,393**	**69,551**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Interest Rate Risk			9,113	9,113	729
Foreign Currency Risk			44,845	44,845	3,588
Equity Risk			1,967	1,967	157
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**55,924**	**55,924**	**4,474**
Operational Risk (BIA)			**622,356**	**622,356**	**49,789**
Total RWA and Capital Requirement			**1,547,674**	**1,547,674**	**123,814**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2016					CIMB IB
(RM'000) Exposure Class	Gross Exposure before CRM (SA)	Net Exposure after CRM (SA)	RWA	Total RWA after effects of PSIA	Minimum capital requirement at 8%
Credit Risk (SA)					
Sovereign/Central Banks	1,225,518	1,225,518	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	800,204	800,204	389,403	389,403	31,152
Insurance Cos, Securities Firms & Fund Managers	13,847	13,847	13,847	13,847	1,108
Corporate	31,823	31,823	32,398	32,398	2,592
Regulatory Retail	3,423	3,423	2,567	2,567	205
Residential Mortgages	157,953	157,953	85,499	85,499	6,840
Higher Risk Assets	-	-	-	-	-
Other Assets	319,337	319,337	319,162	319,162	25,533
Securitisation	-	-	-	-	-
Total Credit Risk	**2,552,104**	**2,552,104**	**842,875**	**842,875**	**67,430**
Large Exposure Risk Requirement	-	-	-	-	-
Market Risk (SA)					
Interest Rate Risk			10,599	10,599	848
Foreign Currency Risk			23,313	23,313	1,865
Equity Risk			644	644	52
Commodity Risk			-	-	-
Options Risk			18,563	18,563	1,485
Total Market Risk			**53,119**	**53,119**	**4,249**
Operational Risk (BIA)			**579,052**	**579,052**	**46,324**
Total RWA and Capital Requirement			**1,475,047**	**1,475,047**	**118,004**

CAPITAL MANAGEMENT *(continued)*

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 RWCAF (Basel II) – ICAAP (Pillar 2) and CAFIB – ICAAP (Pillar 2),the Group submits its ICAAP report to the BRC for approval and the Board for notification.

CREDIT RISK

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

Credit risk is inherent in banking activities arises from traditional financing activities through conventional loans, financing facilities, trade finance as well as commitments to support customer's obligation to third parties, e.g. guarantees.

In sales and trading activities, credit risk arises from the possibility that our Group's counterparties are unable or unwilling to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, are unable or unwilling to fulfil their obligation to pay the positive fair value or receivable resulting from the execution of contract terms.

Credit risk may also arise where the downgrading of an entity's rating causes the fair value of our Group's investment in that entity's financial instruments to fall.

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, the 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 encompass joint delegated authority, enhanced credit approval process and a clear set of policies and procedures that defines the limits and types of authority designated to the specific individuals.

Our Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities holders 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 limit approved at joint delegated authority and at relevant credit committee.

The GRC 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 the reviewing and analysing of portfolio trends, asset quality, watch-list reporting and reviewing policy. It is also responsible for articulating key credit risks and mitigating controls.

CREDIT RISK *(continued)*

Credit Risk Management (continued)

Adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral are approaches adopted to address concentration risk to any large sector 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. Limits are also monitored based on rating classification of the obligor and/or counterparty. 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 come to light.

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

In addition to the above, the Group also employs 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 IB's credit exposures by geographic region:

Table 3: Geographic Distribution of Credit Exposures

2017					CIMB IB
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	1,065,440	-	-	-	1,065,440
Bank	911,862	-	-	-	911,862
Corporate	30,398	-	-	-	30,398
Mortgage	155,283	-	-	-	155,283
HPE	-	-	-	-	-
QRRE	-	-	-	-	-
Other Retail	106	-	-	-	106
Other Exposures	307,661	-	-	-	307,661
Total Gross Credit Exposure	**2,470,749**	**-**	**-**	**-**	**2,470,749**

2016					CIMB IB
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	1,225,518	-	-	-	1,225,518
Bank	800,204	-	-	-	800,204
Corporate	45,669	-	-	-	45,669
Mortgage	157,953	-	-	-	157,953
HPE	-	-	-	-	-
QRRE	-	-	-	-	-
Other Retail	3,423	-	-	-	3,423
Other Exposures	319,337	-	-	-	319,337
Total Gross Credit Exposure	**2,552,104**	**-**	**-**	**-**	**2,552,104**

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

ii) Gross Credit Exposures by Sector

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

Table 4: Distribution of Credit Exposures by Sector

2017												CIMB IB
(RM'000) Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail Trade, and Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business Activities	Education, Health and Others	Household	Others*	Total
Sovereign	-	-	-	-	-	-	-	1,065,440	-	-	-	1,065,440
Bank	-	-	-	-	-	-	-	911,862	-	-	-	911,862
Corporate	-	-	-	-	0	0	-	2,047	687	15,126	12,538	30,398
Mortgage	-	-	-	-	-	-	-	-	-	155,283	-	155,283
HPE	-	-	-	-	-	-	-	-	-	-	-	-
QRRE	-	-	-	-	-	-	-	-	-	-	-	-
Other Retail	-	-	-	-	-	-	-	-	-	106	-	106
Other Exposures	-	-	-	-	-	-	-	-	-	349	307,312	307,661
Total Gross Credit Exposure	**-**	**-**	**-**	**-**	**0**	**0**	**-**	**1,979,349**	**687**	**170,863**	**319,850**	**2,470,749**

**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)*

2016												CIMB IB
(RM'000) Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail Trade, and Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business Activities	Education, Health and Others	Household	Others*	Total
Sovereign	-	-	-	-	-	-	-	1,225,518	-	-	-	1,225,518
Bank	-	-	-	-	-	-	-	774,508	920	-	24,776	800,204
Corporate	-	-	-	-	0	0	-	1,506	197	28,946	15,020	45,669
Mortgage	-	-	-	-	-	-	-	-	-	157,953	-	157,953
HPE	-	-	-	-	-	-	-	-	-	-	-	-
QRRE	-	-	-	-	-	-	-	-	-	-	-	-
Other Retail	-	-	-	-	-	-	-	-	-	3,423	-	3,423
Other Exposures	-	-	-	-	-	-	-	-	-	360	318,978	319,337
Total Gross Credit Exposure	**-**	**-**	**-**	**-**	**0**	**0**	**-**	**2,001,532**	**1,117**	**190,680**	**358,774**	**2,552,104**

*****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 IB's credit exposure analysed by residual contractual maturity:

Table 5: Distribution of Credit Exposures by Residual Contractual Maturity

2017				**CIMB IB**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	1,065,257	-	182	1,065,440
Bank	893,557	16,866	1,439	911,862
Corporate	110	2,362	27,925	30,398
Mortgage	30	1,105	154,147	155,283
HPE	-	-	-	-
QRRE	-	-	-	-
Other Retail	26	80	-	106
Other Exposures	349	-	307,312	307,661
Total Gross Credit Exposure	**1,959,329**	**20,414**	**491,006**	**2,470,749**

2016				**CIMB IB**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	1,225,201	-	317	1,225,518
Bank	778,361	7,713	14,130	800,204
Corporate	10	1,688	43,971	45,669
Mortgage	50	990	156,912	157,953
HPE	-	-	-	-
QRRE	-	-	-	-
Other Retail	235	2,872	316	3,423
Other Exposures	360	-	318,978	319,337
Total Gross Credit Exposure	**2,004,217**	**13,264**	**534,623**	**2,552,104**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing

i) Past Due But Not Impaired

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

As at 31 December 2017 and 31 December 2016, CIMB IB has no loans and advances that were past due but not impaired.

ii) Impaired Loans

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

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

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

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

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans*(continued)*

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

The following tables provide an analysis of the outstanding balances as at 31 December 2017 and 31 December 2016 which were impaired by sector and geographical respectively.

Table 6: Impaired Loans, Advances and Financing by Sector

(RM'000)	CIMB IB	
	2017	2016
Primary Agriculture	-	-
Mining and Quarrying	-	-
Manufacturing	-	-
Electricity, Gas and Water Supply	-	-
Construction	-	-
Wholesale and Retail Trade, and Restaurants and Hotels	-	-
Transport, Storage and Communication	-	-
Finance, Insurance, Real Estate and Business Activities	-	-
Education, Health and Others	-	-
Household	1,905	2,075
Others*	-	-
Total	**1,905**	**2,075**

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

Table 7: Impaired Loans, Advances and Financing by Geographic Distribution

(RM'000)	CIMB IB	
	2017	2016
Malaysia	1,905	2,075
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**1,905**	**2,075**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans *(continued)*

Table 8: Individual Impairment and Portfolio Impairment Allowances by Sector

(RM'000)	CIMB IB			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	-	-	-	-
Mining and Quarrying	-	-	-	-
Manufacturing	-	-	-	-
Electricity, Gas and Water Supply	-	-	-	-
Construction	-	-	-	-
Wholesale and Retail Trade, and Restaurants and Hotels	-	-	-	-
Transport, Storage and Communication	-	-	-	-
Finance, Insurance, Real Estate and Business Activities	-	-	-	-
Education, Health and Others	-	-	-	-
Household	1,905	85	2,075	99
Others*	-	-	-	-
Total	**1,905**	**85**	**2,075**	**99**

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

Table 9: Individual Impairment and Portfolio Impairment Allowances by Geographic Distribution

(RM'000)	CIMB IB			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	1,905	85	2,075	99
Singapore	-	-	-	-
Thailand	-	-	-	-
Other Countries	-	-	-	-
Total	**1,905**	**85**	**2,075**	**99**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans *(continued)*

Table 10: Charges for Individual Impairment Provision and Write Offs During the Year

(RM'000)	CIMB IB			
	2017		2016	
	Charges/(Write Back)	Write-Off	Charges/(Write Back)	Write-Off
Primary Agriculture	-	-	-	-
Mining and Quarrying	-	-	-	-
Manufacturing	-	-	-	-
Electricity, Gas and Water Supply	-	-	-	-
Construction	-	-	-	-
Wholesale and Retail Trade, and Restaurants and Hotels	-	-	-	-
Transport, Storage and Communication	-	-	-	-
Finance, Insurance, Real Estate and Business Activities	-	-	-	-
Education, Health and Others	-	-	-	-
Household	(170)	-	847	-
Others*	-	-	-	-
Total	**(170)**	**-**	**847**	**-**

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

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans *(continued)*

Table 11: Analysis of movement for Loan Impairment Allowances for the Year Ended 31 December 2017 and 31 December 2016

(RM'000)	CIMB IB			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
At 1 January	2,075	99	1,228	159
Allowance (written back)/made during the financial period/year	2,034	(14)	1,132	(60)
Amount transferred to portfolio impairment allowance	-	-	-	-
Amount written back in respect of recoveries	(2,204)	-	(285)	-
Allowance made and charged to deferred assets	-	-	-	-
Allowance made in relation to jointly controlled entity	-	-	-	-
Amount written off	-	-	-	-
Transfer(to)/from intercompany	-	-	-	-
Disposal of subsidiary	-	-	-	-
Unwinding income	-	-	-	-
Exchange fluctuation	-	-	-	-
Total	**1,905**	**85**	**2,075**	**99**

CREDIT RISK *(continued)*

Capital Treatment for Credit Risk for Portfolios under the SA

Details on RWA and capital requirements related to Credit Risk are disclosed separately for CIMB IB in Table 2. Details on the disclosure for portfolios under the SA are in the following section.

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 CAF (Basel II – 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 12: Disclosure by Risk Weight under SA

2017											CIMB IB	
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Securitisation*	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk-Weighted Assets
0%	1,065,440	-	-	-	-	-	-	-	20	-	1,065,460	-
20%	-	-	24,131	-	-	-	-	-	-	-	24,131	4,826
35%	-	-	-	-	-	-	61,960	-	-	-	61,960	21,686
50%	-	-	887,731	-	-	-	65,677	-	-	-	953,408	476,704
75%	-	-	-	-	-	106	193	-	-	-	298	224
100%	-	-	-	12,097	18,137	-	27,453	-	307,641	-	365,328	365,328
100% < RW < 1250%	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	50	-	-	-	-	-	50	625
Total	**1,065,440**	**-**	**911,862**	**12,097**	**18,187**	**106**	**155,283**	**-**	**307,661**	**-**	**2,470,635**	**869,393**
Average Risk Weight	**0%**	**-**	**49%**	**100%**	**103%**	**75%**	**53%**	**-**	**100%**	**-**	**35%**	
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 12: Disclosure by Risk Weight under SA*(continued)*

2016												CIMB IB
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Securitisation*	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk-Weighted Assets
0%	1,225,518	-	-	-	-	-	-	-	175	-	1,225,693	-
20%	-	-	35,663	-	-	-	-	-	-	-	35,663	7,133
35%	-	-	-	-	-	-	56,889	-	-	-	56,889	19,911
50%	-	-	764,541	-	-	-	70,830	-	-	-	835,371	417,685
75%	-	-	-	-	-	3,423	245	-	-	-	3,667	2,751
100%	-	-	-	13,847	31,773	-	29,989	-	319,162	-	394,771	394,771
100% < RW < 1250%	-	-	-	-	-	0	-	-	-	-	0	0
1250%	-	-	-	-	50	-	-	-	-	-	50	625
Total	**1,225,518**	**-**	**800,204**	**13,847**	**31,823**	**3,423**	**157,953**	**-**	**319,337**	**-**	**2,552,104**	**842,875**
Average Risk Weight	**0%**	**-**	**49%**	**100%**	**102%**	**75%**	**54%**	**-**	**100%**	**-**	**33%**	
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 13: Disclosures of Rated and Unrated Non-Retail Exposures under SA according to Ratings by ECAIs

2017				CIMB IB
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	12,097	12,097
Corporate	-	-	18,301	18,301
Sovereign/Central Banks	-	-	1,065,440	1,065,440
Banks, MDBs and DFIs	901,059	-	10,803	911,862
Total	**901,059**	**-**	**1,106,640**	**2,007,700**

2016				CIMB IB
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	13,847	13,847
Corporate	-	-	31,823	31,823
Sovereign/Central Banks	-	-	1,225,518	1,225,518
Banks, MDBs and DFIs	782,221	-	17,983	800,204
Total	**782,221**	**-**	**1,289,170**	**2,071,391**

As at 31 December 2017 and 31 December 2016, CIMB IB has no Securitisation exposure under SA according to ratings by ECAIs.

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 CAF (Basel II – 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.

(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 2017 and 31 December 2016 respectively, 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 2017 and 31 December 2016:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

Table 14: Disclosure on Off-Balance Sheet Exposures and CCR

2017				**CIMB IB**
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	776,891		776,891	388,446
Transaction Related Contingent Items	-		-	-
Short Term Self Liquidating Trade Related Contingencies	-		-	-
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign Exchange Related Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	279,104	-	28,963	20,530
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,354		677	675
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-		-	-
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-		-	-
Unutilised credit card lines	-		-	-
Off-balance sheet items for securitisation exposures	-		-	-
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	**1,057,349**	**-**	**806,531**	**409,651**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

Table 14: Disclosure on Off-Balance Sheet Exposures and CCR *(continued)*

2016				**CIMB IB**
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	671,266		671,266	335,633
Transaction Related Contingent Items	-		-	-
Short Term Self Liquidating Trade Related Contingencies	-		-	-
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign Exchange Related Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	317,435	-	21,559	17,703
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,564		3,282	3,272
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-		-	-
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-		-	-
Unutilised credit card lines	-		-	-
Off-balance sheet items for securitisation exposures	-		-	-
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	**995,265**	**-**	**696,108**	**356,608**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

Table 15: Disclosure on Credit Derivative Transactions

(RM'000)	CIMB IB			
	2017		2016	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	-	-	-	-
Client Intermediation Activities	-	138,550	-	141,050
Total	**-**	**138,550**	**-**	**141,050**
Credit Default Swaps	-	-	-	-
Total Return Swaps	-	138,550	-	141,050
Total	**-**	**138,550**	**-**	**141,050**

CREDIT RISK *(continued)*

Credit Risk Mitigation

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

i) Collaterals/Securities

All extension of secured credit facilities as deemed prudent, 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 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, shares, unit trusts and debt securities, while physical collateral includes land and buildings and vehicles. Guarantors accepted are in line with BNM's CAF (Basel II – 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.

iii) Netting

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

iv) Portfolio diversification for better clarity

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

CREDIT RISK *(continued)*

Credit Risk Mitigation (continued)

The following tables summarise the extent of which exposures are covered by eligible credit risk mitigants as at 31 December 2017 and 31 December 2016:

Table 16: Disclosure on Credit Risk Mitigation

2017				CIMB IB
(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	1,065,440	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	911,862	-	-	-
Insurance Cos, Securities Firms & Fund Managers	12,097	-	-	-
Corporate	18,187	-	-	-
Residential Mortgages	155,283	-	-	-
Qualifying Revolving Retail	-	-	-	-
Hire Purchase	-	-	-	-
Other Retail	106	-	-	-
Securitisation	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	307,661	-	-	-
Defaulted Exposures	114	-	114	-
Total Exposures	**2,470,749**	**-**	**114**	**-**

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 16: Disclosure on Credit Risk Mitigation *(continued)*

2016				**CIMB IB**
(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	1,225,518	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	800,204	-	-	-
Insurance Cos, Securities Firms & Fund Managers	13,847	-	-	-
Corporate	31,823	-	-	-
Residential Mortgages	157,953	-	-	-
Qualifying Revolving Retail	-	-	-	-
Hire Purchase	-	-	-	-
Other Retail	3,423	-	-	-
Securitisation	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	319,337	-	-	-
Defaulted Exposures	-	-	-	-
Total Exposures	**2,552,104**	**-**	**-**	**-**

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 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)

Up to end-2017, CIMB Group has completed securitisations of corporate bonds/sukuks and auto hire purchase receivables for its own account, and auto hire purchase receivables originated by a joint-venture company, in funded traditional securitisations. CIMB Group does not maintain or act as sponsor of any conduit for the securitisation of third-party receivables.

CIMB's Involvement in Securitisation in 2017

In 2017, CIMB Group continues to advise, arrange and manage securitisation transactions for its clients.

Disclosure on Securitisation for Trading and Banking Book

As at 31 December 2017 and 31 December 2016, there was no outstanding exposure securitised by CIMB IB for Trading and Banking Book.

Disclosure on Securitisation under the SA for Banking Book

As at 31 December 2017 and 31 December 2016, there was no exposure for securitisation under the SA for Banking Book exposures.

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

As at 31 December 2017 and 31 December 2016, there was no exposure for 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 market value of a trading or investment position arising from changes to market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatilities.

Market Risk Management

Our Group adopts various measures as part of risk management process to mitigate market risk. An accurate and timely valuation of a position is critical in ensuring current market exposure is not mismatched. Our GRC with the assistance of GMRC and GUC ensure that the risk exposures undertaken by our Group is within the risk appetite approved by our Board. GRC, GMRC and GUC, are 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 on held for trading and available-for-sale positions on a daily basis in compliance with the independent price verification requirements. This valuation methodology is applied to restate the security value to its current value for the purpose of calculating the profits and losses or to confirm that margins requirements are being met.

Treasury products approval processes shall be coordinated by the Market Risk CoE to ensure operational readiness before launching. The proposed new products are assessed to ensure financial risks are accurately identified, monitored and effectively managed.

The valuation methods and models used are validated by the quantitative analysts to assess their applicability relative to market conditions. The process includes verification of the inputs, assumptions used, programming codes and model reporting capability. Existing valuation models are reviewed periodically to ensure that they remain relevant to changing market conditions.

Our Group adopts the VaR methodology as an approach in the measurement of market risk. Backtesting is performed to validate and reassess the accuracy of the existing VaR model. 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. Back-testing involves the comparison of the daily model-generated VaR against the actual or hypothetical profit or loss data over the corresponding period.

Stress testing is conducted to complement VaR 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.

Market Risk CoE undertakes the monitoring and oversight process on treasury activities, which include monitoring limits utilisation, reviewing and analysing treasury trading activities vis-à-vis changes in the financial markets, assessing limits adequacy and verifying transaction prices. All approved market risk limits are monitored on daily basis. Any excess in limit will be escalated to management in accordance with the exception management procedures.

Capital Treatment for Market Risk

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

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

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

OPERATIONAL RISK

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

Operational Risk Management Oversight

The Operational Risk Management (ORM) department, a second line of defence function, provides the methodology, tools and processes for the identification, assessment, reporting, mitigation and control of operational risks for the implementation by respective risk owners across the Group. The ORM department also independently oversees the operational risk monitoring that resides within the first line of defence.

The identification of risks are rated using a universal risk rating methodology applied across the Group's three lines of defence. Monitoring of known risks is primarily done through a network of Operational Risk Committees operating in each material geography and business line. These committees report up to the relevant business function or country level committees.

The Group Operational Risk Management Committee (GORC) is the senior management group that reviews the operational risk framework and policies to ensure they are appropriate for the size and complexity of the current and future operations of CIMB Group and make recommendation to the Board Risk Committee (BRC) for approval. GORC oversees and monitors the overall control environment of CIMB Group and report to the Group Risk Committee (GRC) and Board Risk Committee (BRC) on material operational risks.

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 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 Internal Audit 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 organizational 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 II and regulatory guidelines;
ii) Board and senior management oversight;
iii) Well-defined responsibilities for all personnel concerned;
iv) Establishment of a risk management culture; and
v) Deployment of ORM tools including:
    - Operational Event and Loss Data Management;

OPERATIONAL RISK *(continued)*

Operational Risk Management Approach (continued)

- Risk Control Self-Assessment;
- Control Issue Management;
- New Product Approval Process; and
- Key Risk Indicators; and
- Scenario Analysis

These tools form part of the operational risk policy that allows CIMB Group to effectively identify, measure, mitigate and report the Group's operational risks. Each material division of the CIMB Group self-assesses their internal risk and control environment 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 through sign-offs from the relevant stakeholders 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 Group adopts the Basic Indicator Approach to compute operational risk capital requirement under BNM's guidelines on CAF (Basel II - Risk-Weighted Assets).

However, the Group is now moving towards the Basel II Standardised Approach where the foundation pillars are in progress. Details on RWA and capital requirements related to Operational Risk are disclosed for CIMB IB in Table 2.

EQUITY EXPOSURES IN BANKING BOOK

The Group's banking book equity investments consist of:

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 IB's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as either financial investments available-for-sale or Investment in Associates in the 2017 financial statements.

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

Realised and unrealised gains or losses arising from sales and liquidations of equities for CIMB IB for the year ended 31 December 2017 and 31 December 2016 is as follows:

Table 17: Realised Gains/Losses from Sales and Liquidations, and Unrealised Gains of Equities

(RM'000)	CIMB Bank	
	2017	2016
Realised gains		
Shares, private equity funds and unit trusts	(38)	-
Unrealised gains		
Shares, private equity funds and unit trusts	-	-

The following table shows an analysis of equity investments by appropriate equity groupings and risk weighted assets as at 31 December 2017 and 31 December 2016:

Table 18: Analysis of Equity Investments by Grouping and RWA

(RM'000)	CIMB IB			
	2017		2016	
	Exposures subject to Risk-Weighting	RWA	Exposures subject to Risk-Weighting	RWA
Privately held	-	-	-	-
Publicly traded	-	-	-	-
Total	-	-	-	-

INTEREST RATE RISK IN THE BANKING BOOK

IRRBB is defined as the current and potential risk to the Group's earnings and economic value arising from movement of interest rates. In the context of Pillar 2, this risk is confined to the banking book positions, given that the interest rate risk in the trading book is covered under the Pillar 1 market risk regulations.

The material sources of IRRBB are repricing risk (which arises from timing differences in the maturity and repricing dates of cash flows), yield curve risk (which arises from the changes in both the overall interest rates and the relative level of rates across the yield curve), basis risk (arises from imperfect correlation between changes in the rates earned and paid on banking book positions), and option risk (arises from interest rate related options embedded in banking book products).

IRRBB Management

Our Group manages its exposure of fluctuations in the interest rates through policies established by GALCO. IRRBB 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. The GALCO is a Board delegated committee which reports to the GRC. With the support from ALM COE under Group Risk and CBSM under Group Finance, our GALCO is responsible for the review and monitoring of Group's balance sheet, business and hedging strategies, the overall interest rate risk profile and ensuring that such risk profile is within the established risk appetite. Treasury & Market is responsible for day-to-day management of exposure and gapping activities, including execution of hedging strategies.

IRRBB is measured by:

- Economic Value of Equity (EVE) sensitivity:

  measures the long term impact of sudden interest rate movement across the full maturity spectrum of our Group's assets and liabilities. It defines and quantifies interest rate 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. 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 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.

INTEREST RATE RISK IN THE BANKING BOOK *(continued)*

IRRBB Management (continued)

The table below illustrates CIMB IB's IRRBB under a 100 bps parallel upward interest rate shock from economic value perspective:

Table 19: IRRBB – Impact on Economic Value

(RM'000)	CIMB IB	
	2017	2016
Currency	**+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)**	
Ringgit Malaysia	(1,321)	(1,804)
US Dollar	-	7
Thai Baht	-	-
Singapore Dollar	-	-
Others	-	-
Total	**(1,321)**	**(1,797)**

- Earnings At Risk:
  is the potential impact of interest rate change 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 generally affect reported earnings through changes in the bank's net interest income, which is the difference between total interest earned from assets and total interest 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 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.

INTEREST RATE RISK IN THE BANKING BOOK *(continued)*

IRRBB Management (continued)

The table below illustrates CIMB IB's IRRBB under a 100 bps parallel upward interest rate shock from the earnings perspective:

Table 20: IRRBB – Impact on Earnings

(RM'000)	CIMB IB	
	2017	2016
Currency	**+100bps Increase (Decline) in Earnings (Value in RM Equivalent)**	
Ringgit Malaysia	3,671	2,353
US Dollar	-	(168)
Thai Baht	-	-
Singapore Dollar	-	-
Others	(5)	(4)
Total	**3,666**	**2,181**

[END OF SECTION]