Basel II Pillar 3 Disclosure for 2018

- **CIMB Islamic 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
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 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
Fitch	:	Fitch Ratings

ABBREVIATIONS *(continued)*

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 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 CIMB IB are also available in CIMBGH Group's 2018 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 2018.

The basis of consolidation for financial accounting purposes is described in the 2018 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 this disclosure 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 2018 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 undisbursed contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2018 financial statements.

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;

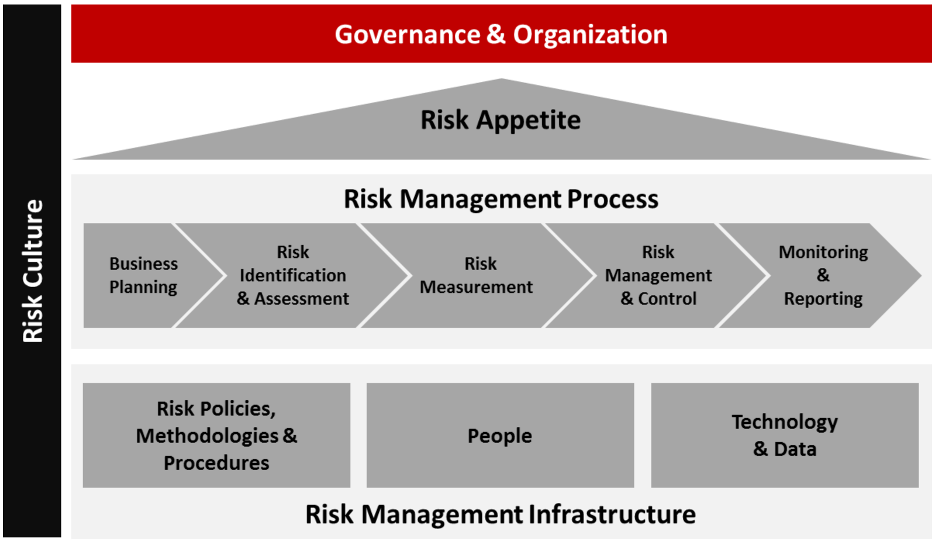
(ii) ensure risk taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and

(iii) create shareholder value through sound risk management framework.

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 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 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) **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 managed at the point of risk-taking activity. 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'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.

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 policies, methodologies/standards and procedures/process guides.
- 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 Policies, Methodologies/Standards and Procedures/Process Guides: 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/Process Guides provide more detailed guidance to assist with the implementation of policies.
- People: Attracting the right talent and skillset is 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.

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance

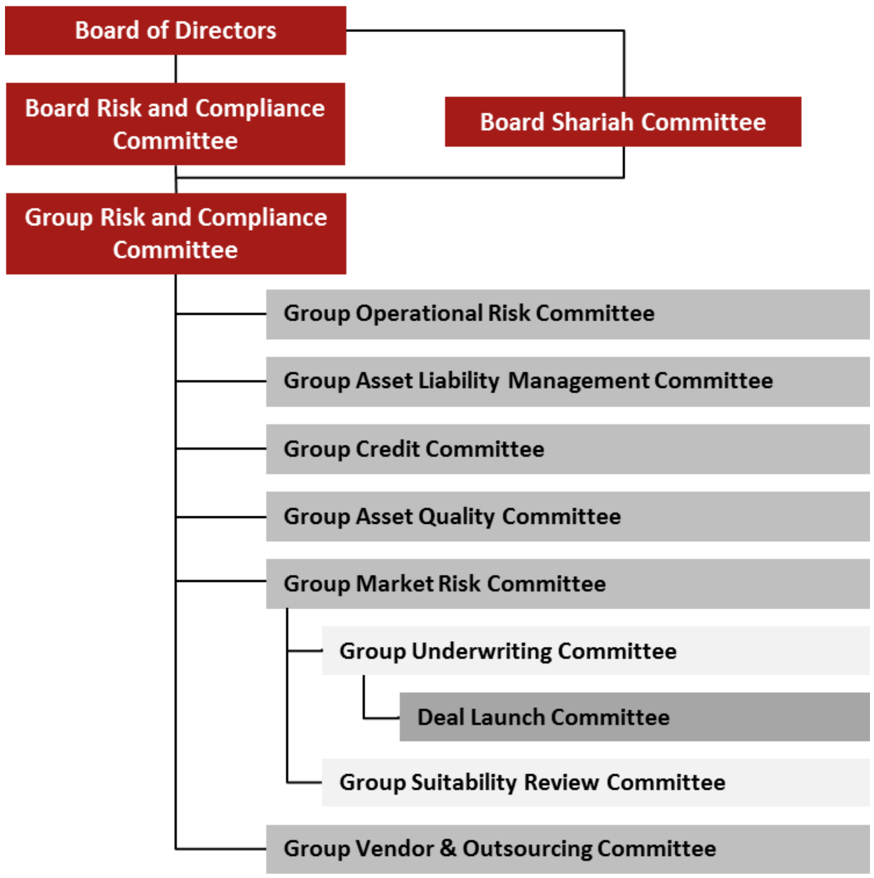
At the apex of the governance structure are the respective Boards of entities within the Group, which decides on the entity's risk appetite corresponding to its business strategies. Each BRCC reports directly into the respective Boards and assumes responsibility on behalf of the respective Boards for 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 EWRM framework, provides strategic guidance and reviews the decisions of our GRCC.

To facilitate the effective implementation of the 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 supervising risk management functions is delegated to our GRCC, comprised of senior management and reports directly to our BRCC. Our GRCC 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 GRCC 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 value of the trading or investment exposure resulting from movements in market risk factors such as rates of return, 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, market counterparty or an issuer of securities or other instruments held, failing to perform its contractual obligations to the 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) 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 movement in rate of return;
(vi) Capital risk, arising from the failure to meet minimum regulatory and internal requirements which could incur regulatory sanction on our Group, thereby resulting in a potential capital charge; and
(vii) SNC risk, arising from risk of possible failure to comply with the Shariah requirements as determined by the Shariah Advisory Council ("SAC") of BNM and Securities Commission ("SC"), Board Shariah Committee ("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 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, 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 and reporting to 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 Internal Audit 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

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 of risk exposures within the Board-approved risk appetite statement.

Group Risk 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; and
b) maintains an oversight on risk management functions across all entities within our Group. In each key country of operation, there is a local CRO 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 organisational structure of GRD 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 & Infrastructure, Market Risk, Operational Risk (including Shariah Risk Management), Asset Liability Management and Credit Risk CoEs.

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

- 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.

- 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 and act as a consultant with the Group in providing operational risk expertise and reporting to senior management.

In October 2018, Shariah Risk Management ("SRM") CoE has been integrated with the Operational Risk CoE. The SRM unit 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.

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

RISK MANAGEMENT OVERVIEW *(continued)*

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

- 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/standards and procedures/process guides, credit risk models, underwriting and portfolio analytics.

In addition to the above Risk CoEs, there is also Group Data Governance CoE within Group Risk that formulates the Data Governance and Data Management framework, policy and procedures. It ensures standardization and consistency of data governance and data management structure, methodology and data governance model across the Group and for country adoption.

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 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 Internal Audit 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 Internal Audit Division respectively.

Shariah non-compliance income during the year

During the year ended 31 December 2018, 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 GSOC 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

On 13 October 2015, BNM issued revised guidelines on the Capital Adequacy Framework (Capital Components), which took 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 financing-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.

Effective 1 August 2016, Commodity Finance and Object Finance portfolios are treated under Standardised Approach.

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.

On 2 February 2018, BNM issued an updated Capital Adequacy Framework (Basel II – Risk-Weighted Assets) and Capital Adequacy Framework (Capital Components). The framework has been updated to incorporate the revised definition of General Provisions and Specific Provisions arising from the implementation of MFRS 9 Financial Instruments.

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

On 2 February 2018, BNM issued an updated Capital Adequacy Framework for Islamic Banks (Basel II – Risk-Weighted Assets) and Capital Adequacy Framework for Islamic Banks (Capital Components). The framework has been updated to incorporate the revised definition of General Provisions and Specific Provisions arising from the implementation of MFRS 9 Financial Instruments.

The risk weighted assets of the CIMB Bank Group (other than CIMB Thai Bank and CIMB Bank PLC), CIMB Bank and CIMB Islamic Bank are computed in accordance with the Capital Adequacy Framework (Basel II - Risk-Weighted Assets). 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 Basic Indicator Approach.

The risk-weighted assets of CIMB Investment Bank Group are computed in accordance with Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk based on the Capital Adequacy Framework (Basel II - Risk Weighted Assets).

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	
	2018	2017
Common Equity Tier 1 capital		
Ordinary shares	1,000,000	1,000,000
Other reserves	4,295,342	3,575,715
Common Equity Tier 1 capital before regulatory adjustments	**5,295,342**	**4,575,715**
Less: Regulatory adjustments		
Goodwill	(136,000)	(136,000)
Intangible assets	(71,330)	(78,777)
Deferred tax assets	(77,454)	(18,110)
Regulatory reserve	(404,378)	(291,600)
Others	-	-
Common equity Tier 1 capital after regulatory adjustments	**4,606,180**	**4,051,228**
Additional Tier 1 capital		
Perpetual preference shares	178,000	185,000
Additional Tier 1 capital before regulatory adjustments	178,000	185,000
Total Tier 1 capital	**4,784,180**	**4,236,228**
Tier 2 Capital		
Subordinated notes	610,000	610,000
Surplus of eligible provision over expected	67,111	40,691
General provisions	62,111	80,754
Tier 2 capital before regulatory adjustments	**739,222**	**731,445**
Less: Regulatory adjustments		
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-
Total Tier 2 Capital	**739,222**	**731,445**
Total Capital	**5,523,402**	**4,967,673**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position for CIMB Islamic

(RM'000)	CIMB Islamic	
	2018	**2017**
RWA		
Credit risk	30,912,888	27,492,260
Market risk	452,745	629,312
Operational risk	2,742,729	2,371,944
Total RWA	**34,108,362**	**30,493,516**
Capital Adequacy Ratios		
Common Equity Tier 1 Ratio	13.505%	13.286%
Tier 1 ratio	14.026%	13.892%
Total capital ratio	16.194%	16.291%

The total capital ratio decreased in 2018 compared to 2017 due to increase in RWA. The increase in credit RWA was mainly due to increased corporate RWA and retail RWA. However, market RWA decreased mainly contributed by decreased increased Profit Risk RWA and FX 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

2018					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 requiremen t at 8%
Credit Risk					
Exposures under the SA					
Sovereign/Central Banks	19,140,796	19,140,796	-	-	-
Public Sector Entities	5,315,313	5,315,313	63,063	63,063	5,045
Banks, DFIs & MDBs	176,018	176,018	5,115	5,115	409
Takaful Operators, Securities Firms & Fund Managers	15,758	15,248	3,050	3,050	244
Corporate	2,781,983	2,756,530	2,621,674	2,605,736	208,459
Regulatory Retail	2,638,263	2,593,541	2,231,567	2,230,981	178,478
RRE Financing	27,813	27,813	13,775	12,359	989
Higher Risk Assets	575	575	863	863	69
Other Assets	71,285	71,285	43,547	43,547	3,484
Securitisation	21,006	21,006	4,201	4,201	336
Total for SA	**30,188,810**	**30,118,125**	**4,986,854**	**4,968,914**	**397,513**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,619,133	1,619,133	350,506	336,571	26,926
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	27,223,174	27,223,174	16,583,627	11,897,559	951,805
RRE Financing	16,860,233	16,860,233	4,277,123	4,192,358	335,389
Qualifying Revolving Retail	272,379	272,379	207,112	207,112	16,569
Hire Purchase	7,388,722	7,388,722	4,212,472	3,889,174	311,134
Other Retail	21,055,250	21,055,250	3,959,130	3,952,672	316,214
Securitisation	-	-	-	-	-
Total for IRB Approach	**74,418,890**	**74,418,890**	**29,589,971**	**24,475,447**	**1,958,036**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2018					**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)	**104,607,701**	**104,537,016**	**36,352,223**	**30,912,888**	**2,473,031**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Profit Rate Risk			413,836	413,836	33,107
Foreign Currency Risk			38,908	38,908	3,113
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**452,745**	**452,745**	**36,220**
Operational Risk (BIA)			**2,742,729**	**2,742,729**	**219,418**
Total RWA and Capital Requirement			**39,547,697**	**34,108,361**	**2,728,669**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2017					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	18,365,790	18,365,790	4,421	4,421	354
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,085,851	1,085,851	458,318	458,318	36,665
Takaful Operators, Securities Firms & Fund Managers	3,899	3,389	1,694	1,694	136
Corporate	10,214,813	3,495,605	3,450,220	3,401,563	272,125
Regulatory Retail	2,791,211	2,762,406	2,390,301	2,390,301	191,224
RRE Financing	4,052	4,052	2,026	2,026	162
Higher Risk Assets	575	575	863	863	69
Other Assets	167,611	167,611	152,416	152,416	12,193
Securitisation	502	502	100	100	8
Total for SA	**32,634,305**	**25,885,781**	**6,460,359**	**6,411,702**	**512,936**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	2,331,544	2,331,544	544,272	521,513	41,721
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	28,456,918	28,456,918	13,926,006	9,762,397	780,992
RRE Financing	13,477,280	13,477,280	4,118,383	4,032,255	322,580
Qualifying Revolving Retail	252,713	252,713	174,837	174,837	13,987
Hire Purchase	5,679,624	5,679,624	3,332,887	3,332,887	266,631
Other Retail	6,515,474	6,515,474	2,064,143	2,063,429	165,074
Securitisation	-	-	-	-	-
Total for IRB Approach	**56,713,553**	**56,713,553**	**24,160,528**	**19,887,319**	**1,590,986**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2017					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)	**89,347,858**	**82,599,334**	**32,070,519**	**27,492,260**	**2,199,381**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Profit Rate Risk			558,502	558,502	44,680
Foreign Currency Risk			70,810	70,810	5,665
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**629,312**	**629,312**	**50,345**
Operational Risk (BIA)			**2,371,944**	**2,371,944**	**189,756**
Total RWA and Capital Requirement			**35,071,775**	**30,493,516**	**2,439,481**

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 financing facilities, trade finance as well as commitments to support clients' obligation to third parties, e.g. 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 date.

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 and Group Risk as a function independent from the business units is 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 authority 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 financings, 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 financing, 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 relevant credit committee.

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 and 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 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 pay their obligations, 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 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

2018					CIMB Islamic
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	19,140,796	-	-	-	19,140,796
PSE	5,315,313	-	-	-	5,315,313
Bank	1,795,150	-	-	-	1,795,150
Corporate	30,020,915	-	-	-	30,020,915
RRE Financing	16,888,046	-	-	-	16,888,046
HPE	7,388,722	-	-	-	7,388,722
QRRE	272,379	-	-	-	272,379
Other Retail	23,693,513	-	-	-	23,693,513
Other Exposures	92,867	-	-	-	92,867
Total Gross Credit Exposure	**104,607,701**	**-**	**-**	**-**	**104,607,701**

2017					CIMB Islamic
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	18,365,790	-	-	-	18,365,790
Bank	3,417,396	-	-	-	3,417,396
Corporate	38,675,630	-	-	-	38,675,630
RRE Financing	13,481,332	-	-	-	13,481,332
HPE	5,679,624	-	-	-	5,679,624
QRRE	252,713	-	-	-	252,713
Other Retail	9,306,685	-	-	-	9,306,685
Other Exposures	168,688	-	-	-	168,688
Total Gross Credit Exposure	**89,347,858**	**-**	**-**	**-**	**89,347,858**

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

2018												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	54,814	-	-	221,175	1,210,734	-	1,001,651	12,071,350	3,378,888	-	1,202,183	19,140,796
PSE	-	-	-	-	-	-	-	271,731	5,043,582	-	-	5,315,313
Bank	-	-	-	-	-	-	-	1,795,150		-	-	1,795,150
Corporate	2,367,624	1,658,636	2,579,253	461,822	5,134,881	2,312,588	4,791,532	9,058,999	1,125,297	421,304	108,979	30,020,915
RRE Financing	-	-	-	-	-	-	-	-	-	16,888,046	-	16,888,046
HPE	-	-	-	-	-	-	-	-	-	7,388,722	-	7,388,722
QRRE	-	-	-	-	-	-	-	-	-	272,379	-	272,379
Other Retail	17,270	8,285	68,833	1,765	76,705	158,586	12,647	203,692	38,576	23,079,979	27,176	23,693,513
Other Exposures	-	-	-	-	-	-	-	575	21,006	-	71,285	92,867
Total Gross Credit Exposure	**2,439,707**	**1,666,921**	**2,648,086**	**684,761**	**6,422,321**	**2,471,174**	**5,805,831**	**23,401,497**	**9,607,350**	**48,050,430**	**1,409,624**	**104,607,701**

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)*

2017												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	54,630	-	-	215,744	639,900	-	688,221	13,783,946	2,317,511	-	665,839	18,365,790
Bank	-	-	-	-	-	-	-	3,417,396	-	-	-	3,417,396
Corporate	2,184,661	1,759,821	1,809,009	591,971	3,836,808	1,349,713	3,193,842	6,783,612	7,955,832	9,163,564	46,797	38,675,630
RRE Financing	-	-	-	-	-	-	-	-	-	13,481,332	-	13,481,332
HPE	-	-	-	-	-	-	-	-	-	5,679,624	-	5,679,624
QRRE	-	-	-	-	-	-	-	-	-	252,713	-	252,713
Other Retail	11,786	5,165	57,627	1,932	66,809	131,451	5,788	203,101	38,174	8,753,043	31,810	9,306,685
Other Exposures	-	-	-	-	-	-	-	575	502	-	167,611	168,688
Total Gross Credit Exposure	**2,251,076**	**1,764,986**	**1,866,636**	**809,646**	**4,543,517**	**1,481,164**	**3,887,851**	**24,188,630**	**10,312,019**	**37,330,276**	**912,057**	**89,347,858**

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

2018				CIMB Islamic
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	10,042,309	2,172,341	6,926,145	19,140,796
PSE	1,639,371	3,543,079	132,863	5,315,313
Bank	1,122,752	511,503	160,895	1,795,150
Corporate	10,384,274	6,344,323	13,292,318	30,020,915
RRE Financing	6,058	77,601	16,804,386	16,888,046
HPE	81,128	1,540,447	5,767,148	7,388,722
QRRE	272,379	-	-	272,379
Other Retail	50,077	469,846	23,173,590	23,693,513
Other Exposures	502	20,504	71,860	92,867
Total Gross Credit Exposure	**23,598,851**	**14,679,646**	**66,329,204**	**104,607,701**

2017				CIMB Islamic
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	12,232,524	1,462,202	4,671,064	18,365,790
Bank	1,806,353	542,362	1,068,681	3,417,396
Corporate	8,481,578	9,926,172	20,267,880	38,675,630
RRE Financing	4,113	80,355	13,396,863	13,481,332
HPE	81,961	1,885,071	3,712,592	5,679,624
QRRE	252,713	-	-	252,713
Other Retail	44,711	314,423	8,947,550	9,306,685
Other Exposures	-	502	168,186	168,688
Total Gross Credit Exposure	**22,903,953**	**14,211,087**	**52,232,817**	**89,347,858**

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances &Other Financing/Loans

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 2018 and 31 December 2017 which were past due but not impaired by sector and geographical respectively:

Table 6: Past Due but Not Impaired Financing, Advances & Other Financing/Loans by Sector

(RM'000)	CIMB Islamic	
	2018	2017
Primary Agriculture	75,395	6,437
Mining and Quarrying	3,186	24
Manufacturing	10,209	7,454
Electricity, Gas and Water Supply	1	-
Construction	8,616	19,925
Wholesale and Retail Trade, and Restaurants and Hotels	40,179	47,302
Transport, Storage and Communication	923	2,112
Islamic Finance, Takaful, Real Estate and Business Activities	38,349	43,771
Education, Health and Others	8,523	4,725
Household	3,574,968	2,953,212
Others*	243	278
Total	**3,760,592**	**3,085,240**

Note: *All sectors above are Shariah compliant.*

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

Table 7: Past Due but Not Impaired Financing, Advances & Other Financing/Loans by Geographic Distribution

(RM'000)	CIMB Islamic	
	2018	2017
Malaysia	3,760,592	3,085,240
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**3,760,592**	**3,085,240**

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans(continued)

ii) Credit Impaired/Impaired Financing

The Bank 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/financing and on financing assessed collectively.

Losses for impaired financing are recognised promptly when there is objective evidence that impairment of a portfolio of financing has occurred. Evidence of impairment may include indications that the customer or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in profit 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.

The Bank 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. Profit income continues to be accrued on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. The profit income is recorded as part of profit income.

Financing that have not been individually assessed are grouped together for portfolio impairment assessment. These financing 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.

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

iii) Credit Impaired/Impaired Financing *(continued)*

iv) The following tables provide an analysis of the outstanding balances as at 31 December 2018 and 31 December 2017 which were credit impaired/impaired by sector and geographical respectively:

Table 8: Credit Impaired/Impaired Financing, Advances & Other Financing by Sector

(RM'000)	CIMB Islamic	
	2018	2017
Primary Agriculture	6,658	2,589
Mining and Quarrying	2,779	2,528
Manufacturing	28,146	21,636
Electricity, Gas and Water Supply	-	-
Construction	25,435	7,306
Wholesale and Retail Trade, and Restaurants and Hotels	9,706	1,672
Transport, Storage and Communication	56,614	60,185
Islamic Finance, Takaful, Real Estate and Business Activities	44,369	23,886
Education, Health and Others	10,613	11,967
Household	253,390	248,060
Others*	2	2,041
Total	**437,712**	**381,870**

Note: *All sectors above are Shariah compliant.*

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

Table 9: Impaired Financing, Advances & Other Financing by Geographic Distribution

(RM'000)	CIMB Islamic	
	2018	2017
Malaysia	437,712	381,870
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**437,712**	**381,870**

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

ii) Credit Impaired/Impaired Financing *(continued)*

Table 10: Expected Credit Losses (Stage 1, 2 and 3, and Purchased Credit Impaired) by Sector

(RM'000)	CIMB Islamic				
	2018				
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses – credit impaired (Stage 3)	Purchased credit impaired	Total
Primary Agriculture	3,623	1,764	1,965	-	7,352
Mining and Quarrying	1,397	6,623	306	-	8,326
Manufacturing	9,133	1,302	10,881	-	21,316
Electricity, Gas and Water Supply	251	-	-	-	251
Construction	5,363	2,298	18,740	-	26,401
Wholesale and Retail Trade, and Restaurants and Hotels	12,783	4,315	4,851	-	21,949
Transport, Storage and Communications	2,536	242	56,255	-	59,033
Islamic Finance, Insurance/Takaful, Real Estate and Business Activities	16,498	2,736	4,313	-	23,547
Education, Health and Others	2,818	326	2,210	-	5,354
Household	117,083	55,079	99,525	-	271,687
Others*	611	357	2	-	970
Total	**172,096**	**75,042**	**199,048**	**-**	**446,186**

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

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

ii) Credit Impaired/Impaired Financing *(continued)*

Table 10: Individual Impairment and Portfolio Impairment Allowances by Sector

(RM'000)	CIMB Islamic	
	2017	
	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	-	5,646
Mining and Quarrying	52	548
Manufacturing	1,377	3,847
Electricity, Gas and Water Supply	-	166
Construction	450	4,183
Wholesale and Retail Trade, and Restaurants and Hotels	-	7,479
Transport, Storage and Communications	41,342	2,308
Islamic Finance, Insurance/Takaful, Real Estate and Business Activities	4,395	16,634
Education, Health and Others	1,736	4,785
Household	-	198,408
Others*	-	669
Total	**49,352**	**244,673**

Note: All sectors above are Shariah compliant.

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

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

ii) Credit Impaired/Impaired Financing *(continued)*

Table 11: Expected Credit Losses (Stage 1, 2 and 3, and Purchased Credit Impaired) by Geographic Distribution

(RM'000)	CIMB Islamic				
	2018				
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not credit impaired (Stage 2)	Lifetime expected credit losses –credit impaired (Stage 3	Purchased credit impaired	Total
Malaysia	172,096	75,042	199,048	-	446,186
Singapore	-	-	-	-	-
Thailand	-	-	-	-	-
Other Countries	-	-	-	-	-
Total	**172,096**	**75,042**	**199,048**	**-**	**446,186**

Table 11: Individual Impairment and Portfolio Impairment Allowances by Geographic Distribution

(RM'000)	CIMB Islamic	
	2017	
	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	49,352	244,673
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**49,352**	**244,673**

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

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

Table 12: Expected Credit Losses Charges/(Write back) and Write-off for Stage 3 and Purchased Credit Impaired

(RM'000)	CIMB Islamic			
	2018			
	Charges/(write back)		Write-off	
	Lifetime expected credit losses - Credit impaired (Stage 3)	Purchased credit impaired	Lifetime expected credit losses - Credit impaired (Stage 3)	Purchased credit impaired
Primary Agriculture	954	-	-	-
Mining and Quarrying	254	-	-	-
Manufacturing	4,803	-	8	-
Electricity, Gas and Water Supply	-	-	-	-
Construction	16,926	-	429	-
Wholesale and Retail Trade, and Restaurants and Hotels	3,909	-	457	-
Transport, Storage and Communications	14,921	-	90	-
Finance, Insurance/Takaful, Real Estate and Business Activities	(5,930)	-	4	-
Education, Health and Others	(916)	-	73	-
Household	141,557	-	117,673	-
Others*	6,839	-	-	-
Total	**183,317**	**-**	**118,734**	**-**

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)

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

Table 12: Charges for Individual Impairment Provision and Write Offs

(RM'000)	CIMB Islamic	
	2017	
	Charges/(Write back)	Write-off
Primary Agriculture	(7,681)	-
Mining and Quarrying	(291)	-
Manufacturing	54	-
Electricity, Gas and Water Supply	-	-
Construction	(709)	4,827
Wholesale and Retail Trade, and Restaurants and Hotels	(3,847)	1,900
Transport, Storage and Communications	22,033	-
Islamic Finance, Insurance/Takaful, Real Estate and Business Activities	(180)	-
Education, Health and Others	383	1,745
Household	-	-
Others*	-	-
Total	**9,762**	**8,472**

Note: All sectors above are Shariah compliant.

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

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

ii) Credit Impaired/Impaired Financing *(continued)*

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

(RM'000)	CIMB Islamic				
	2018				
	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not credit impaired (Stage 2)	Lifetime expected credit losses - Credit impaired (Stage 3)	Purchased credit impaired	Total
At 1 January 2018	-	-	-	-	-
Effect of adopting MFRS 9	114,725	116,363	161,712	-	392,800
Adjusted 1 January 2018	114,725	116,363	161,712	-	392,800
Changes in expected credit losses due to transferred within stages	219,579	(185,163)	(34,416)	-	-
Transferred to Stage 1	273,384	(230,727)	(42,657)	-	-
Transferred to Stage 2	(53,576)	110,989	(57,413)	-	-
Transferred to Stage 3	(229)	(65,425)	65,654	-	-
Total charge to Income Statement	(163,062)	137,309	183,317	-	157,564
New financial assets originated	161,688	56	462	-	162,206
Financial assets that have been derecognised	(107,361)	(1,295)	-	-	(108,656)
Write back in respect of full recoveries	-	-	(3,911)	-	(3,911)
Change in credit risk	(217,389)	138,548	186,766	-	107,925
Write-offs	-	-	(118,734)	-	(118,734)
Exchange fluctuation	-	-	-	-	-
Other movements	854	6,532	7,169	-	14,555
Total	**172,096**	**75,042**	**199,048**	**-**	**446,186**

CREDIT RISK *(continued)*

Credit Quality of Financing, Advances & Other Financing/Loans (continued)

ii) Credit Impaired/Impaired Financing *(continued)*

Table 13: Analysis of movement for Financing Impairment Allowances

(RM'000)	CIMB Islamic	
	2017	
	Individual Impairment Allowance	Portfolio Impairment Allowance
At 1 January 2017	48,062	242,863
Allowance (write back)/ made during the financial year	9,762	124,660
Amount transferred to portfolio impairment allowance	-	-
Allowance made and charged to deferred assets	-	-
Allowance made in relation to jointly controlled entity	-	-
Amount written off	(8,472)	(122,680)
Transfer (to)/from intercompany	-	(73)
Disposal of subsidiary	-	-
Unwinding income	-	-
Exchange fluctuation	-	(96)
Total	**49,352**	**244,673**

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

2018												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%	19,140,796	5,000,000	157,387	-	-	-	-	-	27,738	-	24,325,921	-
20%	-	315,313	14,001	15,248	81,421	232	-	-	-	21,006	447,222	89,444
35%	-	-	-	-	-	-	877	-	-	-	877	307
50%	-	-	4,629	-	139,714	563,246	26,936	-	-	-	734,525	367,263
75%	-	-	-	-	-	323,028	-	-	-	-	323,028	242,271
100%	-	-	-	-	2,535,362	1,705,850	-	-	43,547	-	4,284,759	4,284,759
100% < RW < 1250%	-	-	-	-	23	1,184	-	575	-	-	1,782	2,673
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**19,140,796**	**5,315,313**	**176,018**	**15,248**	**2,756,530**	**2,593,541**	**27,813**	**575**	**71,285**	**21,006**	**30,118,125**	**4,986,854**
Average Risk Weight		**1%**	**3%**	**20%**	**95%**	**86%**	**50%**	**150%**	**61%**	**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)

Table 14: Disclosure by Risk Weight under SA

2017												**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%	18,343,683	-	169,214	-	-	-	-	-	15,195	-	18,528,093	-
20%	22,107	-	2	-	2,630	370	-	-	-	502	25,611	5,122
35%	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	916,635	3,389	91,612	596,192	4,052	-	-	-	1,611,880	805,940
75%	-	-	-	-	-	298,367	-	-	-	-	298,367	223,775
100%	-	-	-	-	3,396,555	1,865,721	-	-	152,416	-	5,414,692	5,414,692
100% < RW < 1250%	-	-	-	-	4,797	1,756	-	575	-	-	7,128	10,693
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**18,365,790**		**1,085,851**	**3,389**	**3,495,605**	**2,762,406**	**4,052**	**575**	**167,611**	**502**	**25,885,781**	**6,460,359**
Average Risk Weight	**0%**	**-**	**42%**	**50%**	**99%**	**87%**	**50%**	**150%**	**91%**	**20%**	**25%**	
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

2018				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	5,315,313	5,315,313
Takaful Operators, Securities Firms & Fund Managers	15,248	-	510	15,758
Corporate	-	-	2,781,983	2,781,983
Sovereign/Central Banks	7,165,418	-	11,975,378	19,140,796
Banks, MDBs and DFIs	18,631	-	157,387	176,018
Total	**7,199,296**	**-**	**20,230,571**	**27,429,867**

2017				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non-Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	-	-
Insurance Cos/Takaful Operators, Securities Firms & Fund Managers	-	-	3,899	3,899
Corporate	-	-	10,214,813	10,214,813
Sovereign/Central Banks	4,617,854	-	13,747,936	18,365,790
Banks, MDBs and DFIs	916,637	-	169,214	1,085,851
Total	**5,534,491**	**-**	**24,135,862**	**29,670,354**

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

2018				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Securitisation	21,006	-	-	**21,006**

2017				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Securitisation	502	-	-	**502**

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 to both retail and non-retail exposures. The internal risk rating systems are used not only for regulatory capital purposes, but also for credit approval and risk management reporting.

For retail exposures, application scorecards are integral to the credit approval process. Credit officers use scorecard outputs in the determination of approval of a credit application. Behavioural scorecards are used to determine the future conduct of the account for collection and limit 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 input 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 are portfolio in large numbers of similarly managed exposures due to 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 as program financing.

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

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 CAFIB (Risk-Weighted Assets). However, in instances of insufficient historical data, the respective models risk estimate is developed based on expert judgment or aligned to available industry data with margins of conservatism applied.

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 financing’s EAD estimation includes the estimated net additional drawings for financing defaulting 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 (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 2018 and 31 December 2017:

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

2018				CIMB Islamic
(RM'000) PD Range of Retail Exposures	0% ≤ PD < 2%	2% ≤ PD < 100%	100% Or Default	Total
Total Retail Exposure	**27,324,707**	**17,808,273**	**443,604**	**45,576,584**
RRE Financing	14,229,041	2,314,089	317,103	16,860,233
QRRE	160,465	109,956	1,958	272,379
Hire Purchase	6,377,944	948,254	62,524	7,388,722
Other Retail	6,557,257	14,435,974	62,018	21,055,250
Exposure Weighted Average LGD				
RRE Financing	21%	22%	26%	
QRRE	90%	90%	90%	
Hire Purchase	52%	53%	56%	
Other Retail	25%	10%	45%	
Exposure Weighted Average Risk Weight				
RRE Financing	13%	78%	207%	
QRRE	32%	135%	365%	
Hire Purchase	52%	83%	206%	
Other Retail	23%	16%	160%	

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)

2017				CIMB Islamic
(RM'000) PD Range of Retail Exposures	0% ≤ PD < 2%	2% ≤ PD < 100%	100% Or Default	Total
Total Retail Exposure	**20,296,666**	**5,271,543**	**356,882**	**25,925,091**
RRE Financing	10,867,861	2,390,986	218,433	13,477,280
QRRE	154,277	96,321	2,115	252,713
Hire Purchase	4,510,204	1,083,293	86,127	5,679,624
Other Retail	4,764,324	1,700,944	50,207	6,515,474
Exposure Weighted Average LGD				
RRE Financing	23%	24%	26%	
QRRE	90%	90%	90%	
Hire Purchase	51%	55%	57%	
Other Retail	27%	32%	42%	
Exposure Weighted Average Risk Weight				
RRE Financing	16%	82%	191%	
QRRE	32%	124%	267%	
Hire Purchase	50%	84%	180%	
Other Retail	23%	51%	169%	

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

2018				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**39,991,283**	**5,552,591**	**32,710**	**45,576,584**
RRE Financing	15,735,489	1,107,027	17,716	16,860,233
QRRE	112,066	160,313	-	272,379
Hire Purchase	6,387,235	1,000,655	832	7,388,722
Other Retail	17,756,493	3,284,595	14,162	21,055,250
Exposure Weighted Average LGD				
RRE Financing	21%	25%	41%	
QRRE	90%	90%	90%	
Hire Purchase	52%	53%	56%	
Other Retail	14%	21%	55%	

2017				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**22,204,986**	**3,719,656**	**449**	**25,925,091**
RRE Financing	12,309,025	1,168,222	33	13,477,280
QRRE	106,642	146,068	2	252,713
Hire Purchase	4,519,257	1,160,216	151	5,679,624
Other Retail	5,270,062	1,245,150	262	6,515,474
Exposure Weighted Average LGD				
RRE Financing	23%	26%	13%	
QRRE	90%	90%	90%	
Hire Purchase	51%	55%	54%	
Other Retail	27%	37%	100%	

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 2018 and 31 December 2017:

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

2018						CIMB Islamic
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	175,378	332,430	-	13,500	-	521,308
Object Finance	-	-	-	-	-	-
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	37,415	1,529,366	143,533	27,852	1,970	1,740,135
RWA	**106,396**	**1,460,221**	**165,063**	**103,380**	**-**	**1,835,060**

2017						CIMB Islamic
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	244,081	300,959	-	13,500	-	558,540
Object Finance	-	-	-	-	-	-
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	44,068	1,294,703	72,960	12,106	12,210	1,436,047
RWA	**155,359**	**1,223,182**	**83,904**	**64,015**	**-**	**1,526,460**

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

2018					CIMB Islamic
(RM'000) Internal Risk Grading	1 - 3	4 - 9	10 - 13	Default	Total
Total Non-Retail Exposure	**9,732,747**	**10,619,642**	**5,679,014**	**549,460**	**26,580,863**
Bank	1,407,266	209,446	2,421	-	1,619,133
Corporate (excluding Specialised Financing)	8,325,481	10,410,196	5,676,593	549,460	24,961,730
Exposure Weighted Average LGD					
Bank	45%	45%	45%	-	
Corporate (excluding Specialised Financing)	45%	41%	38%	41%	
Exposure Weighted Average Risk Weight					
Bank	19%	42%	126%	-	
Corporate (excluding Specialised Financing)	8%	75%	110%	-	

2017					CIMB Islamic
(RM'000) Internal Risk Grading	1 - 3	4 - 9	10 - 13	Default	Total
Total Non-Retail Exposure	**13,658,564**	**10,927,600**	**4,103,337**	**104,374**	**28,793,874**
Bank	2,140,640	188,420	2,484	-	2,331,544
Corporate (excluding Specialised Financing)	11,517,924	10,739,179	4,100,853	104,374	26,462,330
Exposure Weighted Average LGD					
Bank	45%	45%	45%	-	
Corporate (excluding Specialised Financing)	44%	42%	38%	42%	
Exposure Weighted Average Risk Weight					
Bank	22%	42%	129%	-	
Corporate (excluding Specialised Financing)	5%	72%	102%	-	

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
	2018		2017	
(RM'000) Exposure Class	Regulatory Expected Losses as at 31 December 2017	Actual Losses for the year ended 31 December 2018	Regulatory Expected Losses as at 31 December 2016	Actual Losses for the year ended 31 December 2017
Sovereign	-	-	-	-
Bank	754	-	518	-
Corporate	100,694	27,400	84,747	10,381
RRE Financing	61,361	18,739	37,608	9,105
HPE	60,753	83,289	50,343	33,904
QRRE	8,190	3,673	7,519	3,745
Other Retail	57,689	25,177	48,556	7,850
Total	**289,441**	**158,279**	**229,291**	**64,984**

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.

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 2018 and 31 December 2017 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 2018 and 31 December 2017:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

2018				**CIMB Islamic**
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	252,242		252,242	183,973
Transaction Related Contingent Items	752,698		376,349	235,878
Short Term Self Liquidating Trade Related Contingencies	51,161		10,232	4,994
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	3,584,486	64,859	117,199	34,930
Over one year to five years	627,346	-	36,827	13,996
Over five years	-	-	-	-
Profit Rate Related Contracts				
One year or less	773,812	16,575	22,583	5,252
Over one year to five years	4,578,878	106,462	236,904	28,064
Over five years	735,023	40,207	151,433	54,348
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	28,557,406	90,220	388,929	129,878
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	10,479,473		9,173,423	2,935,266
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	7,487,489		-	-
Unutilised credit card lines	345,310		135,033	92,533
Off-balance sheet items for securitisation exposures	-		-	-
Total	**58,225,324**	**318,323**	**10,901,153**	**3,719,112**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

2017				CIMB Islamic
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	234,791		234,791	179,381
Transaction Related Contingent Items	709,788		354,894	247,814
Short Term Self Liquidating Trade Related Contingencies	19,157		3,831	2,314
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	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	39,504,980	189,101	799,825	175,993
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	7,749,274		6,680,910	2,621,589
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	30,000		22,500	14,826
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	5,531,798		-	-
Unutilised credit card lines	345,061		123,761	70,980
Off-balance sheet items for securitisation exposures	-		-	-
Total	**54,124,851**	**189,101**	**8,220,512**	**3,312,897**

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			
	2018		2017	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	-	-	-	-
Client Intermediation Activities	-	20,750	-	25,000
Total	**-**	**20,750**	**-**	**25,000**
Credit Default Swaps	-	-	-	-
Total Return Swaps	-	20,750	-	25,000
Total	**-**	**20,750**	**-**	**25,000**

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 as deemed prudent, should 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 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 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 the greatest 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 2018 and 31 December 2017:

Table 24: Disclosure on Credit Risk Mitigation

2018				**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	19,140,796	-	-	-
Public Sector Entities	5,315,313	5,000,000	-	-
Banks, DFIs & MDBs	1,795,150	-	1,822	-
Takaful Operators, Securities Firms & Fund Managers	15,758	-	510	-
Corporate	29,440,380	4,474,822	651,385	5,602,453
RRE Financing	16,735,171	-	-	-
Qualifying Revolving Retail	270,467	-	-	-
Hire Purchase	7,326,198	-	-	-
Other Retail	23,643,278	232	44,723	-
Securitisation	21,006	-	-	-
Higher Risk Assets	575	-	-	-
Other Assets	71,285	-	-	-
Defaulted Exposures	626,885	-	11	214,199
Total Exposures	**104,402,263**	**9,475,054**	**698,450**	**5,816,652**

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

2017				**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	18,365,790	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	3,417,396	-	-	-
Takaful Operators, Securities Firms & Fund Managers	3,899	-	510	-
Corporate	38,534,267	8,636,787	7,180,401	4,297,349
RRE Financing	13,358,041	-	-	-
Qualifying Revolving Retail	250,598	-	-	-
Hire Purchase	5,593,497	-	-	-
Other Retail	9,256,431	370	28,801	-
Securitisation	502	-	-	-
Higher Risk Assets	575	-	-	-
Other Assets	167,611	-	-	-
Defaulted Exposures	259,314	-	3,515	25,302
Total Exposures	**89,207,920**	**8,637,157**	**7,213,227**	**4,322,651**

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 Trading Book

The following tables show the disclosure on Securitisation for Trading and Banking Book for 31 December 2018 and 31 December 2017:

Table 25: Disclosure on Securitisation for Trading and Banking Book

2018 (RM'000)	CIMB Islamic			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Impaired**	**Gains/Losses Recognised during the year**
TRADITIONAL SECURITISATION (Banking Book)				
Originated by the Banking Institution				
Hire Purchase Exposure	343,306	36,301	6,361	(3,219)

2017 (RM'000)	CIMB Islamic			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Impaired**	**Gains/Losses Recognised during the year**
TRADITIONAL SECURITISATION (Banking Book)				
Originated by the Banking Institution				
Hire Purchase Exposure	554,490	178,409	9,171	1,714

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

2018												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	21,006	-	-	-	21,006	-	-	-	-			4,201
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)*

2018													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	**21,006**	**-**	**-**	**-**	**21,006**	**-**	**-**	**-**	**-**	**-**	**-**		**4,201**

SECURITISATION *(continued)*

Securitisation under the SA for Banking Book (continued)

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

2017													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	502	-	-	-	502	-	-	-	-				100
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)*

2017												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	**502**				**502**							**100**

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

As at 31 December 2018 and 31 December 2017, 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 resulting from movements in market risk factors such as 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. Our Group hedges the exposures to market risk by employing various strategies, including the use of derivative instruments.

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, assessing 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. 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 and management of operational risks for the implementation by respective risk owners across the Group. The ORM department 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 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 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 that include:

OPERATIONAL RISK *(continued)*

Operational Risk Management Approach (continued)

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

These tools form part of the operational risk policy 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 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 Group 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 separately for CIMBBG, CIMBISLG and CIMBIBG in Tables 2 (a), (b) and (c).

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 2018 and 31 December 2017, 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 2018 and 31 December 2017:

Table 27: Analysis of Equity Investments by Grouping and RWA

(RM'000)	CIMB Islamic			
	2018		2017	
	Exposures subject to Risk-Weighting	RWA	Exposures subject to Risk-Weighting	RWA
Privately held	575	863	575	863
Publicly traded	-	-	-	-
Total	**575**	**863**	**575**	**863**

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 profit rates.

RORBB Management

Our Group manages its exposure of fluctuations in profit rates through policies established by GALCO. 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. The GALCO is a Board-delegated committee which reports to the GRCC. With the support from Asset Liability Management CoE under Group Risk and CBSM under Group Finance, our GALCO is responsible for the review and monitoring of the Group's balance sheet, business and hedging strategies, the overall rate of return risk profile and ensuring that such risk profile is within the established risk appetite. Treasury & Markets is 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 (EVE) sensitivity:

  measures the long term impact of sudden profit rate movement across the full maturity spectrum of our Group's assets and liabilities. It defines and quantifies 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 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 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 (EVE) 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	
	2018	2017
Currency	**+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)**	
Ringgit Malaysia	(554,644)	(589,821)
US Dollar	(2,078)	46,623
Thai Baht	(7)	(7)
Singapore Dollar	(6)	(2)
Others	464	273
Total	**(556,271)**	**(542,934)**

- Earnings At Risk:
  is the potential impact of 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 profit rate generally affect reported earnings through changes in the bank's net profit income, which is the difference between total profit income earned from assets and total profit expense incurred from liabilities. Our Group's EAR takes 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 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 (EAR) (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	
	2018	2017
Currency	**+100bps Increase (Decline) in Earnings (Value in RM Equivalent)**	
Ringgit Malaysia	(44,630)	(16,550)
US Dollar	(8,650)	(3,904)
Thai Baht	162	172
Singapore Dollar	146	59
Others	(1,174)	(1,216)
Total	**(54,146)**	**(21,439)**

[END OF SECTION]