Basel II Pillar 3 Disclosure for 2017

- **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
BRC	:	Board Risk Committee
CAF	:	Capital Adequacy Framework and, in some instances referred to as the Risk-Weighted Capital Adequacy Framework
CAFIB	:	Capital Adequacy Framework for Islamic Banks
CAR	:	Capital Adequacy Ratio and, in some instances referred to as the Risk-Weighted Capital Ratio
CBSM	:	Capital and Balance Sheet Management
CCR	:	Counterparty Credit Risk
CIMBBG	:	CIMB Bank, CIMBISLG, CIMBTH, CIMB Bank PLC (Cambodia), CIMB 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	:	Group Chief Risk Officer
CSA	:	Credit Support Annexes, International Swaps and Derivatives Association Agreement
DFIs	:	Development Financial Institutions
EAD	:	Exposure At Default
EaR	:	Earnings-at-Risk
ECAIs	:	External Credit Assessment Institutions
EL	:	Expected Loss
EP	:	Eligible Provision
EVE	:	Economic Value of Equity
EWRM	:	Enterprise Wide Risk Management
Group EXCO	:	Group Executive Committee
GSOC	:	Group Strategic Oversight Committee
F-IRB Approach	:	Foundation Internal Ratings Based Approach
Fitch	:	Fitch Ratings

ABBREVIATIONS *(continued)*

GALCO	: Group Asset Liability Management Committee
GCC	: Group Credit Committee
GIB	: Group Islamic Banking
GMRC	: Group Market Risk Committee
GRC	: Group Risk Committee
GRD	: Group Risk Division
GUC	: Group Underwriting Committee
HPE	: Hire Purchase Exposures
IRB Approach	: Internal Ratings Based Approach
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 2017 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 2017.

The basis of consolidation for financial accounting purposes is described in the 2017 financial statements. The capital requirements are generally based on the principles of consolidation adopted in the preparation of financial statements. During the financial year, CIMB 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 2017 financial statements as the credit risk exposure definition within the ambit of accounting standards represent the balance outstanding as at balance sheet date and do not take into account the expected undisbursed contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2017 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;

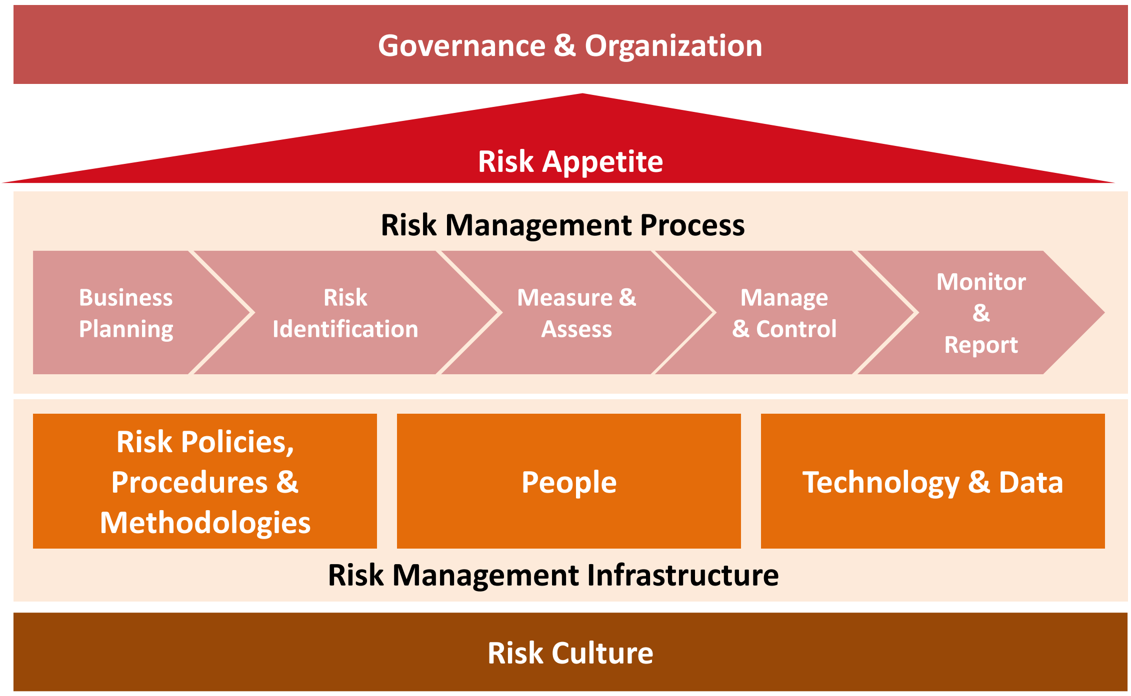
(ii) ensure risk taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and

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

Enterprise Wide Risk Management Framework

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

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



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

RISK MANAGEMENT OVERVIEW *(continued)*

Enterprise Wide Risk Management Framework (continued)

The key features of the EWRM framework include:

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

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

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

d) **Risk Management Infrastructure**
   - Risk Policies, Methodologies and Procedures: Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Methodologies provide specific requirements, rules or criteria that must be met in order to comply with the policy. Procedures provide guidance for day-to-day risk taking activities.
   - People: Attracting the right talent and skillset are key to ensuring a well-functioning EWRM Framework. The organization continuously evolves and proactively responds to the increasing complexity of the Group as well as the economic and regulatory environment.
   - Technology and Data: Appropriate technology and sound data management support risk management activities.

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

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance

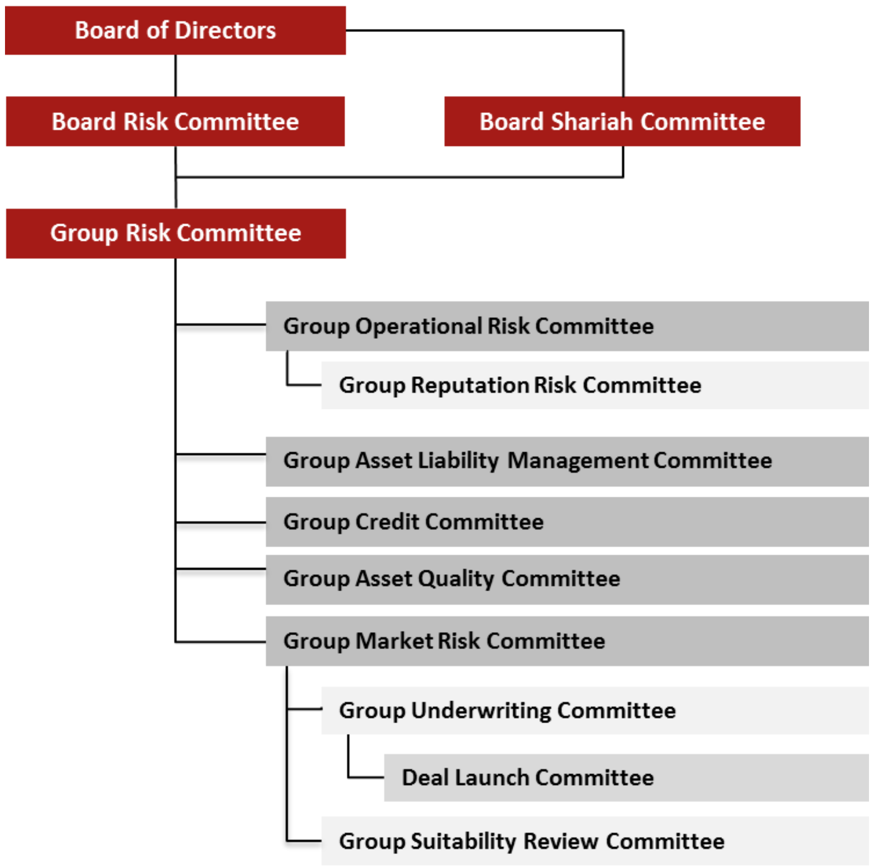
At the apex of the governance structure are the respective boards of entities within the Group, which decides on the entity's Risk Appetite corresponding to its business strategies. Each BRC reports directly into the respective boards and assumes responsibility on behalf of the respective boards for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

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

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

(i) Market risk, arising from fluctuations in the market value of the trading; or investment exposure arising from changes to market risk factors such as rates of returns, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility;
(ii) Credit risk, arising from the possibility of losses due to an obligor or market counterparty or issuer of securities or other instruments held, having failed to perform its contractual obligations to our Group;
(iii) Liquidity risk, arising from a bank's inability to efficiently meet its present and future funding needs or regulatory obligations, when they come due, which may adversely affect its daily operations and incur unacceptable losses;
(iv) Operational risk, arising from risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events;
(v) Rate of return risk in the banking book, which is the current and potential risk to the Group's earning 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 of our Group, thereby resulting in a potential capital charge; and
(vii) Shariah Non-Compliance (SNC) risk, arising from possible failure to comply with the Shariah requirements as determined by SAC of BNM and SC, the BSC of the Group and other Shariah regulatory authorities of the jurisdictions in which the Group operates.

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



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

Three-Lines of Defence

Our Group’s risk management approach is based on the three-lines of defence concept whereby risks are managed from the point of risk-taking activities. This is to ensure clear accountability of risks across our Group and risk management as an enabler of the business units. Line management (including all business units and units which undertake client facing activities) provides the first line of defence. It is primarily responsible for risk management on a day-to-day basis by taking appropriate actions to mitigate risks through effective controls. The second line of defence provides oversight functions, performs independent monitoring of business activities and reporting to management to ensure that our Group is conducting business and operating within the approved appetite, and is also in compliance to regulations. The third line of defence is Group Internal Audit Division who provides independent assurance on the adequacy and effectiveness of the internal controls and risk management process.

RISK MANAGEMENT OVERVIEW *(continued)*

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

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

The organisational structure of GRD is made of two major components, namely the Chief Risk Officer (CRO) and the Risk Centres of Excellence ("CoE"). 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.

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

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

a) Risk Analytics & Infrastructure CoE

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

b) Market Risk CoE

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

c) Operational Risk CoE

The Operational Risk CoE ensures the first line of defence manages their operational risk by providing an operational risk framework that enables them to identify, assess, manage and report their operational risks. The team also provides constructive challenge and assessment to the first line of defence's execution of the operational risk framework.

d) Asset Liability Management CoE

The Asset Liability Management 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 CRO and Group Risk Division (continued)

e) Credit Risk CoE

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

f) Shariah Risk Management CoE

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

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

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

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

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 Bank Berhad.

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

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

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

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

Shariah non-compliance income occurring during the year

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

CAPITAL MANAGEMENT

Key Capital Management Principles

The key driving principles of 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

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

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

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

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

(i) Application of a 20% risk weight for the portion of residential mortgages guaranteed by Cagamas SRP Berhad under Cagamas MGP, Skim Rumah Pertamaku, and Skim Perumahan Belia;
(ii) Application of a 100% risk weight to all residential mortgages with a 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.

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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.

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	
	2017	2016
Common Equity Tier 1 capital		
Ordinary shares	1,000,000	1,000,000
Other reserves	3,575,715	2,930,140
Common Equity Tier 1 capital before regulatory adjustments	**4,575,715**	**3,930,140**
Less: Regulatory adjustments		
Goodwill	(136,000)	(136,000)
Intangible assets	(78,777)	(80,961)
Deferred Tax Assets	(18,110)	(15,507)
Others	(291,600)	(231,915)
Common equity Tier 1 capital after regulatory adjustments	**4,051,228**	**3,465,757**
Additional Tier 1 capital		
Perpetual preference shares	185,000	192,000
Additional Tier 1 capital before regulatory adjustments	185,000	192,000
Total Tier 1 capital	**4,236,228**	**3,657,757**
Tier 2 Capital		
Subordinated notes	610,000	520,000
Surplus of eligible provision over expected	40,691	-
Portfolio impairment allowance and regulatory reserves	80,754	68,594
Tier 2 capital before regulatory adjustments	**731,445**	**588,594**
Less: Regulatory adjustments		
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-
Total Tier 2 Capital	**731,445**	**588,594**
Total Capital	**4,967,673**	**4,246,351**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position for CIMB Islamic

(RM'000)	**CIMB Islamic**	
	2017	**2016**
RWA		
Credit risk	27,492,260	20,854,131
Market risk	629,312	537,923
Operational risk	2,371,944	2,166,412
Total RWA	**30,493,516**	**23,558,466**
Capital Adequacy Ratios		
Common Equity Tier 1 Ratio	13.286%	14.711%
Tier 1 ratio	13.892%	15.526%
Total capital ratio	16.291%	18.025%

The total capital ratio decreased in 2017 compared to 2016 due to increase in RWA. The increase in credit RWA was mainly due to increased corporate RWA and retail RWA. The increase in market RWA was mainly contributed by increased Profit Risk RWA but offset by decreased 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 for CIMB Islamic

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 for CIMB Islamic *(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**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2016					**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	18,989,607	18,989,607	4,898	4,898	392
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	868,698	868,698	323,684	323,684	25,895
Takaful Operators, Securities Firms & Fund Managers	779	269	269	269	21
Corporate	7,155,619	2,583,345	2,522,806	2,522,806	201,825
Regulatory Retail	3,036,436	3,015,344	2,577,908	2,577,908	206,233
RRE Financing	13,006	13,006	10,349	10,349	828
Higher Risk Assets	575	575	863	863	69
Other Assets	48,068	48,068	36,538	36,538	2,923
Securitisation	51,053	51,053	10,211	10,211	817
Total for SA	**30,163,841**	**25,569,965**	**5,487,526**	**5,487,526**	**439,002**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,586,159	1,586,159	356,721	356,721	28,538
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	17,905,664	17,905,664	9,689,602	7,384,869	590,790
RRE Financing	11,215,328	11,215,328	2,689,228	2,689,228	215,138
Qualifying Revolving Retail	221,412	221,412	149,157	149,157	11,933
Hire Purchase	4,002,618	4,002,618	2,448,662	2,448,662	195,893
Other Retail	4,382,127	4,382,127	1,468,161	1,468,161	117,453
Securitisation	-	-	-	-	-
Total for IRB Approach	**39,313,307**	**39,313,307**	**16,801,530**	**14,496,797**	**1,159,744**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2016	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)	**69,477,148**	**64,883,272**	**23,297,148**	**20,854,131**	**1,668,330**
Large Exposure Risk Requirement	**-**	**-**	**-**	**-**	**-**
Market Risk (SA)					
Profit Rate Risk			415,727	415,727	33,258
Foreign Currency Risk			122,196	122,196	9,776
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**537,923**	**537,923**	**43,034**
Operational Risk (BIA)			**2,166,412**	**2,166,412**	**173,313**
Total RWA and Capital Requirement			**26,001,483**	**23,558,466**	**1,884,677**

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 BRC for approval and the Board for notification.

CREDIT RISK

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

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

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

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

Credit Risk Management

Without effective credit risk management, the impact of the potential losses can be overwhelming. The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with risks.

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

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

Our Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities holders between business units and Group Risk, to the various credit committees. The credit approving committees are set up to enhance the efficiency and effectiveness of the credit oversight as well as the credit approval process for all credit applications originating from the business units. For corporate, commercial and private banking financings, credit applications are independently evaluated by 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 GRC with the support of Group Credit Committee, Group Asset Quality Committee, other relevant credit committees as well as Group Risk is responsible for ensuring the adherence to the Board's approved risk appetite and risk posture. This amongst others; includes the reviewing and analysing of portfolio trends, asset quality, watch-list reporting and reviewing policy. It is also responsible for articulating key credit risk and its mitigating controls.

CREDIT RISK *(continued)*

Credit Risk Management (continued)

Adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral are approaches adopted to address concentration risk to any large sector or industry, or to a particular counterparty group or individual.

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

It is our Group policy that all exposures must be rated or scored based on the appropriate internal rating models, where available. Retail exposures are managed on a portfolio basis and the risk rating models are designed to assess the credit worthiness and the likelihood of the obligors to 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 GRC and BRC so that deteriorating exposures are identified, analysed and discussed with the relevant business units for appropriate remedial actions including recovery actions, if required.

In addition to the above, the Group also employs VaR to measure credit concentration risk. The Group adopted the Monte Carlo simulation approach in the generation of possible portfolio scenarios to obtain the standalone and portfolio VaR. This approach takes into account the credit concentration risk and the correlation between obligors/counterparties and industries.

CREDIT RISK (continued)

Summary of Credit Exposures

i) Gross Credit Exposures by Geographic Distribution

The geographic distribution is based on the country in which the portfolio is geographically managed.

The following tables represent CIMB Islamic ‘credit exposures by geographic region:

Table 3: Geographic Distribution of Credit Exposures for CIMB Islamic

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**

2016					**CIMB Islamic**
(RM'000) Exposure Class	**Malaysia**	**Singapore**	**Thailand**	**Other Countries**	**Total**
Sovereign	18,989,607	-	-	-	18,989,607
Bank	2,454,856	-	-	-	2,454,856
Corporate	25,062,061	-	-	-	25,062,061
RRE Financing	11,228,334	-	-	-	11,228,334
HPE	4,002,618	-	-	-	4,002,618
QRRE	221,412	-	-	-	221,412
Other Retail	7,418,563	-	-	-	7,418,563
Other Exposures	99,697	-	-	-	99,697
Total Gross Credit Exposure	**69,477,148**	**-**	**-**	**-**	**69,477,148**

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 for CIMB Islamic

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)

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

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

2016												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	54,449	-	-	275,969	493,294	-	215,883	8,277,840	9,046,545	-	625,625	18,989,607
Bank	-	-	-	-	-	-	-	2,454,856	-	-	-	2,454,856
Corporate	1,315,099	916,236	1,325,589	680,744	3,742,765	1,069,014	2,521,173	5,674,387	1,359,166	6,407,453	50,436	25,062,061
RRE Financing	-	-	-	-	-	-	-	-	-	11,228,334	-	11,228,334
HPE	-	-	-	-	-	-	-	-	-	4,002,618	-	4,002,618
QRRE	-	-	-	-	-	-	-	-	-	221,412	-	221,412
Other Retail	12,631	7,777	52,532	2,015	65,563	146,012	5,235	209,594	35,303	6,846,610	35,292	7,418,563
Other Exposures	-	-	-	-	-	-	-	575	51,053	-	48,068	99,697
Total Gross Credit Exposure	**1,382,179**	**924,013**	**1,378,120**	**958,728**	**4,301,622**	**1,215,026**	**2,742,291**	**16,617,253**	**10,492,068**	**28,706,426**	**759,422**	**69,477,148**

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 for CIMB Islamic

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**

2016				**CIMB Islamic**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	8,162,122	7,772,720	3,054,764	18,989,607
Bank	1,103,639	572,918	778,300	2,454,856
Corporate	5,328,467	4,839,350	14,894,245	25,062,061
RRE Financing	2,526	85,396	11,140,413	11,228,334
HPE	65,276	2,023,262	1,914,080	4,002,618
QRRE	221,412	-	-	221,412
Other Retail	51,591	308,014	7,058,958	7,418,563
Other Exposures	45,601	499	53,597	99,697
Total Gross Credit Exposure	**14,980,634**	**15,602,158**	**38,894,356**	**69,477,148**

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 2017 and 31 December 2016 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	
	2017	2016
Primary Agriculture	6,437	12,971
Mining and Quarrying	24	35
Manufacturing	7,454	7,513
Electricity, Gas and Water Supply	-	-
Construction	19,925	33,638
Wholesale and Retail Trade, and Restaurants and Hotels	47,302	19,449
Transport, Storage and Communication	2,112	2,859
Islamic Finance, Takaful, Real Estate and Business Activities	43,771	48,394
Education, Health and Others	4,725	6,337
Household	2,953,212	2,935,679
Others*	278	2,120
Total	**3,085,240**	**3,068,995**

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	
	2017	2016
Malaysia	3,085,240	3,068,995
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**3,085,240**	**3,068,995**

CREDIT RISK *(continued)*

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

ii) 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)

ii) Impaired Financing *(continued)*

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

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

(RM'000)	CIMB Islamic	
	2017	2016
Primary Agriculture	2,589	45,049
Mining and Quarrying	2,528	2,490
Manufacturing	21,636	20,348
Electricity, Gas and Water Supply	-	-
Construction	7,306	16,114
Wholesale and Retail Trade, and Restaurants and Hotels	1,672	16,845
Transport, Storage and Communication	60,185	69,253
Islamic Finance, Takaful, Real Estate and Business Activities	23,886	46,433
Education, Health and Others	11,967	19,200
Household	248,060	230,392
Others*	2,041	241
Total	**381,870**	**466,365**

Note: *All sectors above are Shariah compliant.*

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

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

(RM'000)	CIMB Islamic	
	2017	2016
Malaysia	381,870	466,365
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**381,870**	**466,365**

CREDIT RISK *(continued)*

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

ii) Impaired Financing *(continued)*

Table 10: Individual Impairment and Portfolio Impairment Allowances by Sector for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	-	5,646	7,380	4,243
Mining and Quarrying	52	548	343	164
Manufacturing	1,377	3,847	1,306	3,709
Electricity, Gas and Water Supply	-	166	-	284
Construction	450	4,183	6,712	5,046
Wholesale and Retail Trade, and Restaurants and Hotels	-	7,479	5,280	4,806
Transport, Storage and Communication	41,342	2,308	19,295	2,040
Islamic Finance, Takaful, Real Estate and Business Activities	4,395	16,634	4,587	11,581
Education, Health and Others	1,736	4,785	3,159	4,987
Household	-	198,408	-	205,727
Others*	-	669	-	275
Total	**49,352**	**244,673**	**48,062**	**242,862**

Note: *All sectors above are Shariah compliant.*

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

Table 11: Individual Impairment and Portfolio Impairment Allowances by Geographic Distribution for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	49,352	244,673	48,062	242,862
Singapore	-	-	-	-
Thailand	-	-	-	-
Other Countries	-	-	-	-
Total	**49,352**	**244,673**	**48,062**	**242,862**

CREDIT RISK *(continued)*

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

ii) Impaired Financing *(continued)*

Table 12: Charges for Individual Impairment Provision and Write Offs During the Year for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	Charges/(Write Back)	Write-Off	Charges(Write Back)	Write-Off
Primary Agriculture	(7,681)	-	7,346	-
Mining and Quarrying	(291)	-	343	-
Manufacturing	54	-	1,315	-
Electricity, Gas and Water Supply	-	-	-	-
Construction	(709)	4,827	(3,138)	-
Wholesale and Retail Trade, and Restaurants and Hotels	(3,847)	1,900	2,596	-
Transport, Storage and Communication	22,033	-	(9,340)	-
Islamic Finance, Takaful, Real Estate and Business Activities	(180)	-	1,082	-
Education, Health and Others	383	1,745	1,690	-
Household	-	-	-	-
Others*	-	-	-	-
Total	**9,762**	**8,472**	**1,894**	**-**

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) Impaired Financing *(continued)*

Table 13: Analysis of movement for Loan/Financing Impairment Allowances for the Year Ended 31 December 2017 and 31 December 2016 for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Balance as at 1 January	48,062	242,862	46,168	314,054
Allowance (written back)/made during the financial period/year	9,762	124,660	1,894	54,681
Amount transferred to portfolio impairment allowance	-	-	-	-
Amount written back in respect of recoveries	-	-	-	-
Allowance made and charged to deferred assets	-	-	-	-
Allowance made in relation to jointly controlled entity	-	-	-	-
Amount written off	(8,472)	(122,680)	-	(125,315)
Transfer(to)/from intercompany	-	(73)	-	(596)
Disposal of subsidiary	-	-	-	-
Unwinding income	-	-	-	-
Exchange fluctuation	-	(96)	-	38
Total	**49,352**	**244,673**	**48,062**	**242,862**

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 for CIMB Islamic

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)

Table 14: Disclosure by Risk Weight under SA for CIMB Islamic

2016												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%	18,965,116	-	221,329	-	-	-	-	-	11,531	-	19,197,976	-
20%	24,491	-	1	-	-	-	-	-	-	51,053	75,545	15,109
35%	-	-	-	-	-	-	1,256	-	-	-	1,256	440
50%	-	-	647,368	-	127,527	649,070	3,681	-	-	-	1,427,646	713,823
75%	-	-	-	-	-	454,660	-	-	-	-	454,660	340,995
100%	-	-	-	269	2,449,611	1,910,085	8,069	-	36,538	-	4,404,571	4,404,571
100% < RW < 1250%	-	-	-	-	6,197	1,529	-	575	-	-	8,301	12,451
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**18,989,607**	**-**	**868,698**	**269**	**2,583,345**	**3,015,344**	**13,006**	**575**	**48,068**	**51,053**	**25,569,965**	**5,487,526**
Average Risk Weight	**0%**	**-**	**37%**	**100%**	**98%**	**85%**	**80%**	**150%**	**76%**	**20%**	**21%**	
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 for CIMB Islamic

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

2016				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	-	-	779	779
Corporate	-	-	7,155,619	7,155,619
Sovereign/Central Banks	1,844,848	-	17,144,758	18,989,607
Banks, MDBs and DFIs	647,369	-	221,329	868,698
Total	**2,492,217**	**-**	**24,522,485**	**27,014,702**

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

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

2016				CIMB Islamic
(RM '000) Exposure Class	Investment Grade	Non Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Securitisation	51,053	-	-	**51,053**

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 used to assist the approving committees in making informed decisions of the credit application. Product owners consult GRD for input on internal rating for consideration on pricing of product.

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

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

Retail Exposures

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 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 physical 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 2017 and 31 December 2016:

Table 17: Retail Credit Exposures by PD Band for CIMB Islamic

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 17: Retail Credit Exposures by PD Band for CIMB Islamic (continued)

2016				**CIMB Islamic**
(RM'000) **PD Range of Retail Exposures**	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**16,090,900**	**3,459,403**	**271,181**	**19,821,485**
RRE Financing	9,557,916	1,532,512	124,899	11,215,328
QRRE	134,942	83,825	2,644	221,412
Hire Purchase	3,151,560	742,506	108,552	4,002,618
Other Retail	3,246,481	1,100,560	35,086	4,382,127
Exposure Weighted Average LGD				
RRE Financing	23%	24%	27%	
QRRE	90%	90%	90%	
Hire Purchase	51%	54%	58%	
Other Retail	28%	35%	54%	
Exposure Weighted Average Risk Weight				
RRE Financing	14%	76%	151%	
QRRE	32%	126%	2%	
Hire Purchase	51%	88%	180%	
Other Retail	24%	60%	123%	

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 for CIMB Islamic

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%	

2016				**CIMB Islamic**
(RM'000) EL Range of Retail Exposures	**EL ≤ 1%**	**1% < EL < 100%**	**EL = 100%**	**Total**
Total Retail Exposure	**17,439,759**	**2,380,810**	**916**	**19,821,485**
RRE Financing	10,648,959	566,346	23	11,215,328
QRRE	99,097	122,205	110	221,412
Hire Purchase	3,157,029	845,214	375	4,002,618
Other Retail	3,534,673	847,045	408	4,382,127
Exposure Weighted Average LGD				
RRE Financing	23%	25%	15%	
QRRE	90%	90%	90%	
Hire Purchase	51%	54%	57%	
Other Retail	28%	40%	95%	

Note: Subsequent to the disclosure, there was amendment to the 2016 figures.

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 2017 and 31 December 2016:

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

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**

2016						**CIMB Islamic**
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	107,344	157,807	-	-	-	265,150
Object Finance	-	-	-	-	-	-
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	350,275	1,230,022	12,926	20,819	13,378	1,627,420
RWA	**228,809**	**1,064,489**	**14,865**	**52,048**	**-**	**1,360,212**

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 for CIMB Islamic

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%	-	

2016					**CIMB Islamic**
(RM'000) Internal Risk Grading	**1 - 3**	**4 - 9**	**10 - 13**	**Default**	**Total**
Total Non-Retail Exposure	**7,597,784**	**6,586,937**	**3,185,701**	**228,830**	**17,599,252**
Bank	1,368,169	216,124	1,866	-	1,586,159
Corporate (excluding Specialised Financing)	6,229,616	6,370,813	3,183,835	228,830	16,013,093
Exposure Weighted Average LGD					
Bank	45%	45%	45%	-	
Corporate (excluding Specialised Financing)	45%	40%	37%	35%	
Exposure Weighted Average Risk Weight					
Bank	19%	44%	129%	-	
Corporate (excluding Specialised Financing)	11%	71%	98%	-	

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 for CIMB Islamic

				CIMB Islamic
		2017		2016
(RM'000) Exposure Class	Regulatory Expected Losses as at 31 December 2016	Actual Losses for the year ended 31 December 2017	Regulatory Expected Losses as at 31 December 2015	Actual Losses for the year ended 31 December 2016
Sovereign	-	-	-	-
Bank	518	-	347	-
Corporate	84,747	10,381	99,629	(555)
RRE Financing	37,608	9,105	27,385	2,914
HPE	50,343	33,904	54,241	11,341
QRRE	7,519	3,745	8,781	4,998
Other Retail	48,556	7,850	33,678	6,814
Total	**229,291**	**64,984**	**224,061**	**25,512**

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 2017 and 31 December 2016 there was no requirement for additional collateral to be posted.

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

The following tables disclose the Off-Balance Sheet exposures and CCR as at 31 December 2017 and 31 December 2016:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

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)

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

2016	CIMB Islamic			
(RM'000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk-Weighted Assets**
Direct Credit Substitutes	211,264		211,264	131,313
Transaction Related Contingent Items	514,540		257,270	131,047
Short Term Self Liquidating Trade Related Contingencies	145,808		29,162	8,792
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	42,705,317	597,254	1,426,557	293,176
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,258,432		5,149,243	1,729,335
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	3,129,008		-	-
Unutilised credit card lines	252,389		100,464	53,674
Off-balance sheet items for securitisation exposures	-		-	-
Total	**53,216,758**	**597,254**	**7,173,961**	**2,347,337**

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 for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	-	-	-	-
Client Intermediation Activities	-	25,000	-	40,575
Total	**-**	**25,000**	**-**	**40,575**
Credit Default Swaps	-	-	-	-
Total Return Swaps	-	25,000	-	40,575
Total	**-**	**25,000**	**-**	**40,575**

Credit Risk Mitigation

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

i) Collaterals/Securities

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

iv) Portfolio diversification for better clarity

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

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

Table 24: Disclosure on Credit Risk Mitigation for CIMB Islamic

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.

CREDIT RISK *(continued)*

Credit Risk Mitigation (continued)

Table 24: Disclosure on Credit Risk Mitigation for CIMB Islamic

2016				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	18,989,607	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	2,454,856	-	-	-
Takaful Operators, Securities Firms & Fund Managers	779	-	510	-
Corporate	24,796,688	2,231,558	5,063,169	3,603,677
RRE Financing	11,140,031	-	-	-
Qualifying Revolving Retail	218,767	-	-	-
Hire Purchase	3,894,066	-	-	-
Other Retail	7,379,531	-	20,750	-
Securitisation	51,053	-	-	-
Higher Risk Assets	575	-	-	-
Other Assets	48,068	-	-	-
Defaulted Exposures	354,688	-	33,229	98,291
Total Exposures	**69,328,709**	**2,231,558**	**5,117,658**	**3,701,968**

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

SECURITISATION

The Role CIMB Plays in the Securitisation Process

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

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

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

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

Disclosure on Securitisation for Trading Book

The following tables show the disclosure on Securitisation for Trading and Banking Book for 31 December 2017 and 31 December 2016:

Table 25: Disclosure on Securitisation for Trading and Banking Book

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

2016 (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	799,552	276,143	2,916	249

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 for CIMB Islamic

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 for CIMB Islamic *(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 *(continued)*

Securitisation under the SA for Banking Book (continued)

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

2016													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	51,053	-	-	-	51,053	-	-	-	-				10,211
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 for CIMB Islamic *(continued)*

2016												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	**51,053**				**51,053**							**10,211**

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

As at 31 December 2017 and 31 December 2016, 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 market value of a trading or investment position arising from changes to market risk factors such as profit rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatilities.

Market Risk Management

Our Group adopts various measures as part of risk management process to mitigate market risk. An accurate and timely valuation of a position is critical in ensuring current market exposure is not mismatched. Our GRC with the assistance of GMRC and GUC ensure that the risk exposures undertaken by our Group is within the risk appetite approved by our Board. GRC, GMRC and GUC, are responsible for measuring and controlling our Group's market risk through robust measurement and market risk limit monitoring while facilitating business growth within a controlled and transparent risk management framework.

Market Risk CoE evaluates the market exposures using the applicable market price and pricing model. The valuation process is carried out on held for trading and available-for-sale positions on a daily basis in compliance with the independent price verification requirements. This valuation methodology is applied to restate the security value to its current value for the purpose of calculating the profits and losses or to confirm that margins requirements are being met.

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

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

Our Group adopts the VaR methodology as an approach in the measurement of market risk. Backtesting is performed to validate and reassess the accuracy of the existing VaR model. VaR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level. Back-testing involves the comparison of the daily model-generated VaR against the actual or hypothetical profit or loss data over the corresponding period.

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

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

Capital Treatment for Market Risk

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

Details on RWA and capital requirements related to Market Risk are disclosed separately for CIMB Islamic for the following in Tables 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, mitigation and control of operational risks for the implementation by respective risk owners across the Group. The ORM department also independently oversees the operational risk monitoring that resides within the first line of defence.

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

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

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

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

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

Operational Risk Management Approach

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

i) Sound risk management practices in accordance with Basel II and regulatory guidelines;
ii) Board and senior management oversight;
iii) Well-defined responsibilities for all personnel concerned;
iv) Establishment of a risk management culture; and
v) Deployment of ORM tools including:
    - Operational Event and Loss Data Management;
    - Risk Control Self-Assessment;
    - Control Issue Management;

OPERATIONAL RISK *(continued)*

Operational Risk Management Approach (continued)

- New Product Approval Process; and
- Scenario Analysis

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

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

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

Capital Treatment for Operational Risk

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

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

EQUITY EXPOSURES IN BANKING BOOK

The Group's banking book equity investments consist of:

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

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

The Group's and CIMB Islamic Bank's banking book equity investments are classified and measured in accordance with Financial Reporting Standards and are categorised as financial investments available-for-sale in the 2017 financial statements.

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

As at 31 December 2017 and 31 December 2016, 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 2017 and 31 December 2016:

Table 27: Analysis of Equity Investments by Grouping and RWA for CIMB Islamic

(RM'000)	CIMB Islamic			
	2017		2016	
	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. In the context of Pillar 2, this risk is confined to the banking book positions, given that the rate of return risk in the trading book is covered under the Pillar 1 market risk regulations.

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

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 GRC. 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 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 day-to-day management of exposure 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 for CIMB Islamic

(RM'000)	CIMB Islamic	
	2017	2016
Currency	+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)	
Ringgit Malaysia	(589,821)	(536,280)
US Dollar	46,623	25,871
Thai Baht	(7)	(7)
Singapore Dollar	(2)	(168)
Others	273	555
Total	**(542,934)**	**(510,029)**

Note: Subsequent to the disclosure, there was amendment to the 2016 figures.

- 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 is taking into consideration forecasts on budgeted, new business generation and product pricing strategies.

For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel 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 for CIMB Islamic

(RM'000)	CIMB Islamic	
	2017	2016
Currency	**+100bps Increase (Decline) in Earnings (Value in RM Equivalent)**	
Ringgit Malaysia	(16,550)	(61,711)
US Dollar	(3,904)	(5,211)
Thai Baht	172	156
Singapore Dollar	59	3,948
Others	(1,216)	(463)
Total	**(21,439)**	**(63,281)**

Note: Subsequent to the disclosure, there was amendment to the 2016 figures.

[END OF SECTION]