Basel II Pillar 3 Disclosure for 2015

- **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
F-IRB Approach	:	Foundation Internal Ratings Based Approach
Fitch	:	Fitch Ratings

ABBREVIATIONS *(continued)*

GALCO	: Group Asset Liability Management Committee
GCC	: Group Credit Committee
GIBD	: Group Islamic Banking Division
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 2015Annual 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 2015.

The basis of consolidation for financial accounting purposes is described in the 2015 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 2015financial statements as the credit risk exposure definition within the ambit of accounting standards represent the balance outstanding as at balance sheet date and do not take into account the expected undrawn contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2015 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 theBoard Risk Committee of CIMB Group, as delegated by the Board of Directors of CIMBGH Group.

RISK MANAGEMENT OVERVIEW

The Group embraces risk management as an integral component of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, 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 value of their propositions and thus enable risk to be priced appropriately in relation to the return.

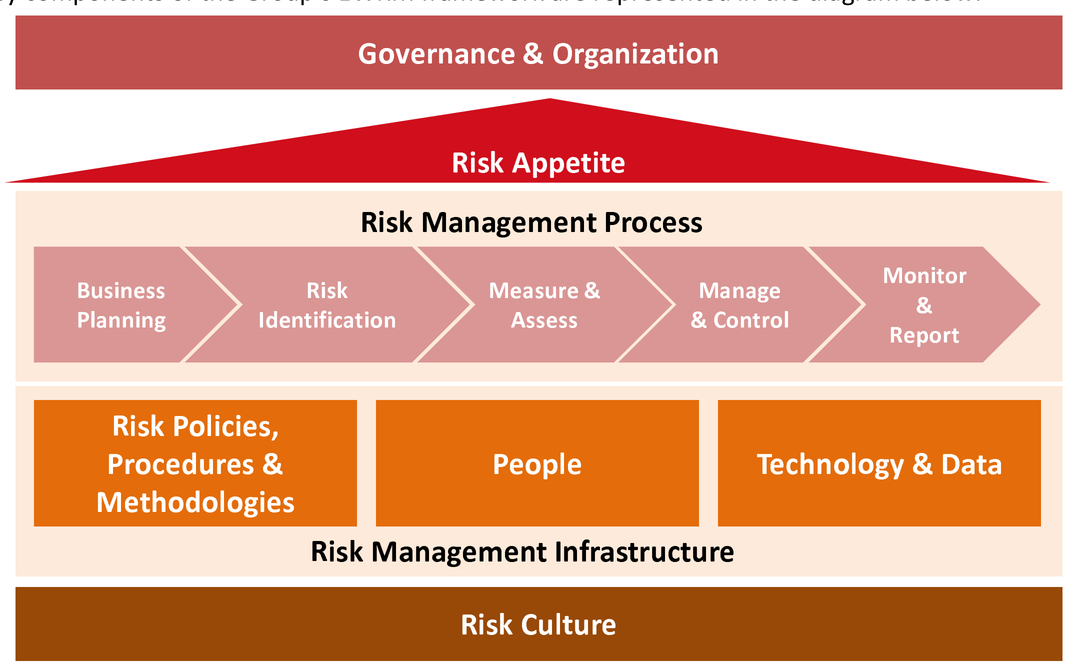
The objectives of CIMB Group's risk management activities are to:

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

Enterprise Wide Risk Management Framework

CIMB Group employs an EWRM framework as a standardised approach to manage its risk and opportunity effectively. The EWRM framework provides the 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, operating and regulatory environment and functional activities.

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 the Group.

RISK MANAGEMENT OVERVIEW *(continued)*

Enterprise Wide Risk Management Framework (continued)

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 risk management activities, sets the strategic directions, risk appetite and relevant frameworks for the Group. The Board is assisted by various risk committees and control functions in ensuring that the Group's risk management framework is carried out effectively.

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.

CIMB Group has a dedicated team that facilitates the risk appetite setting process including reviewing, monitoring and reporting. BRC and GRC receive monthly reports on compliance with the risk appetite.

c) **Risk Management Process**:
- Business Planning: Risk is central to the business planning process, including setting 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 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 risk appetite. Risk adjusted performance is monitored.

d) Risk Management Infrastructure
- Risk Policies, Procedures and Methodologies: Well-defined risk policies by risk type provide the principles by which the Group manages its risks. Procedures provide guidance for day-to-day risk taking activities. Methodologies provide specific requirements, rules or criteria that must be met to comply with the policy.
- People: Attracting the right talent and skills 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. Performance measurement and compensation are aligned to the strategy plan and risk appetite.
- Technology and Data: Appropriate technology and sound data management are enablers to 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

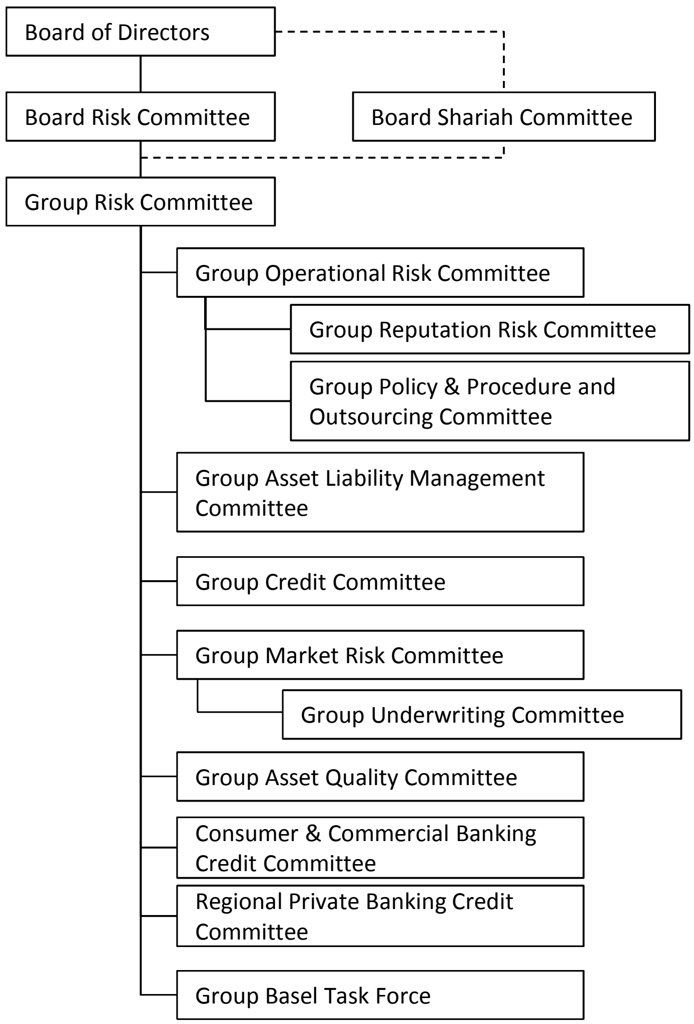
At the apex of the governance structure are the respective Boards, which decides on the entity's Risk Appetite corresponding to its business strategies. In accordance to the Group's risk management structure, the BRC reports directly into each Board and assumes responsibility on behalf of the Board for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

In order to facilitate the effective implementation of the EWRM framework, the BRC has established various risk committees within the Group with distinct lines of responsibilities and functions, which are clearly defined in the terms of reference. The composition of the committees includes senior management and individuals from business divisions as well as divisions which are independent from the business units.

The responsibility of the supervision of the risk management functions is delegated to the GRC, which reports directly to the BRC. The 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 the Group. The GRC is further 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, with each committee providing oversight and responsibility for specific risk areas namely, credit risk, market risk, operational risk, liquidity risk and capital risk.

Similar risk committees are set-up in each of the Group's overseas subsidiaries in their respective jurisdictions. Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, the Group also strives to ensure a consistent and standardised approach in its risk governance process. As such, the relevant Group and Regional committees have consultative and advisory responsibilities on regional matters across the Group. This structure increases the regional communication, sharing of technical knowledge and support towards managing and responding to risk management issues, thus allowing the Board to have a comprehensive view of the activities in the Group.

The Group's risk management governance and reporting structure is depicted as follows:



Three-Lines of Defence

The 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 the Group and risk management as an enabler of the business units. As a first line of defence, the line management, including all business units and units which undertake client facing activities, are 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 reports to management to ensure that the Group is conducting business and operating within the approved appetite and in compliance to regulations. The third line of defence is Group Internal Audit Division which provides independent assurance to the Boards that the internal controls and risk management activities are functioning effectively.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of CRO and Group Risk Division

Within the second line of defence is GRD, a function independent of business units that assists the Group's management and various risk committees in the monitoring and controlling of the Group's risk exposures.

The organisational structure of GRD is made of two major components, namely the Chief Risk Officers and the Risk Centres of Excellence. GRD is headed by the Group Chief Risk Officer who is appointed by the Board to spearhead risk management functions and implementation of the Enterprise-Wide Risk Management. The CRO:

a) Actively engages the 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 country of operations, there is a local Chief Risk Officer or a Country Risk Lead Officer, whose main function is to assess and manage the enterprise risk and regulators in the respective country.

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

a) Risk Analytics & Infrastructure Centre of Excellence

Risk Analytics & Infrastructure Centre of Excellence designs, builds and implements standardised infrastructure used to measure, monitor and manage risk across the region.

b) Market Risk Centre of Excellence

In propagating and ensuring compliance to the market risk framework, the Market Risk Centre of Excellence reviews treasury trading strategies, analyses positions and activities vis-à-vis changes in the financial market and performs mark-to-market valuation.

c) Operational Risk Centre of Excellence

The Operational Risk Centre of Excellence provides the methodology, tools and processes for the identification, assessment, reporting, mitigation and control of operational risks by the respective risk owners across the Group. It provides challenge and oversight over the execution of this framework by the first line of defence. Management of operational risks is present in the Group's products, services, activities, processes and systems.

d) Asset Liability Management Centre of Excellence

It is primarily responsible for the independent monitoring and assessment of the Group's asset and liability management process governing liquidity risk and rate of return in the banking bookas well as recommending policies and methodologies to manage the said risks. It conducts regular stress testing of the liquidity risk profile, ensuring CIMB Group's adherence and compliance with internal and regulatory requirements, and maintains the early warning system indicators and Contingency Funding Plan (CFP).

RISK MANAGEMENT OVERVIEW *(continued)*
The Roles of CRO and Group Risk Division (continued)

e) Credit Risk Centre of Excellence

The Credit Risk Centre of Excellence is dedicated to the assessment, measurement, management and monitoring of credit risk of CIMB Group. It ensures a homogenous and consistent approach to:

- Credit Risk Policies and Procedures;
- Credit Risk Models;
- Credit Risk Methodologies; and
- Portfolio Analytics,

as well as a holistic and integrated approach to identification, assessment, decision-making and reporting of credit risk of the Group.

f) Shariah Risk Management Centre of Excellence

The Shariah Risk Management Centre of Excellence (SRM 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 SRM policies & guidelines; and develops and implements processes for SNC risk awareness.

In addition to the above Risk Centres of Excellence, the Regional Risk & International Offices oversees the risk management functions of the regional offices, the Group's unit trust and securities businesses and also houses the validation team.

The regional offices and the respective teams in risk management units within the unit trust business and securities businesses identify measure and assess, manage and control, monitor and report the relevant material risk exposures of each individual country and/or businesses.

The Regional Risk Validation Team is independent from the risk taking units and model development team. The function of this unit is to perform validation, as guided by regulatory guidelines and industry best practices on Basel related risk models and components comprising credit risk, traded risk, non traded risk and other Basel related risk models. The unit provides recommendations to the modeling team and the business users. The findings and recommendations will be reported to Model Risk Management Working Group (MRMWG), thereafter to Group Risk Committee (GRC) and Board Risk Committee (BRC) for approval.

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

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 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.

Whilst the Board of Directors is accountable for the overall Shariah governance and compliance of the Islamic businesses in CIMB Group, the day-to-day running of Shariah management is performed by the CEO of GIB.

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 Centre of Excellence, 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 2015, 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 Group EXCO who periodically asses and review the capital requirements and source of capital across the Group, taking into account all on-going and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Quarterly updates on capital position of the Group are also provided to the Board of Directors.

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

Capital Structure and Adequacy

The 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 31in 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 2015 for the Common Equity Tier 1 ratio, Tier 1 ratio and Total Capital ratio are 4.5%, 6.0% and 8.0% 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.

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

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position for CIMB Islamic

(RM'000)	CIMB Islamic	
	2015	2014
Common Equity Tier 1 capital		
Ordinary shares	1,000,000	1,000,000
Other reserves	2,386,083	1,991,444
Common Equity Tier 1 capital before regulatory adjustments	**3,386,083**	**2,991,444**
Less: Regulatory adjustments		
Goodwill	(136,000)	(136,000)
Intangible assets	(82,210)	(89,744)
Deferred Tax Assets	(31,184)	(22,855)
Others	(122,352)	(115,689)
Common equity Tier 1 capital after regulatory adjustments / total	**3,014,337**	**2,627,156**
Additional Tier 1 capital		
Perpetual preference shares	199,000	206,000
Additional Tier 1 capital before regulatory adjustments	199,000	206,000
Total Tier 1 capital before regulatory adjustments	**3,213,337**	**2,833,156**
Tier 2 Capital		
Subordinated notes	595,000	680,000
Portfolio impairment allowance and regulatory reserves	48,698	42,233
Tier 2 capital before regulatory adjustments	**643,698**	722,233
Less: Regulatory adjustments		
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-
Total Tier 2 Capital	**643,698**	**722,233**
Total Capital	**3,857,035**	**3,555,389**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position for CIMB Islamic

(RM'000)	CIMB Islamic	
	2015	**2014**
RWA		
Credit risk	21,088,362	20,439,165
Market risk	532,642	498,080
Operational risk	2,080,723	2,011,728
Total RWA	**23,701,726**	**22,948,973**
Capital Adequacy Ratios		
Common Equity Tier 1 Ratio	12.718%	11.448%
Tier 1 ratio	13.557%	12.345%
Total capital ratio	16.273%	15.493%

Total capital ratio increased in 2015 compared to 2014 due to the increase in Other reserves. Credit RWA increased mainly due to the growth in corporate portfolio. Market RWA increased mainly contributed by increased FX RWA due to increased exposure to USD with higher USD deposits coupled with depreciation of MYR in 2015, but offset by decreased profit rate RWA by RM50m yoy basis mainly attributed to net disposal of MYR sukuk.

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

2015					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	13,475,964	13,475,964	4,737	4,737	379
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	403,927	403,927	201,963	201,963	16,157
Takaful Operators, Securities Firms & Fund Managers	1,022	502	502	502	40
Corporate	3,109,519	1,386,895	1,318,610	1,318,610	105,489
Regulatory Retail	3,288,808	3,272,450	2,795,420	2,795,420	223,634
RRE Financing	-	-	-	-	-
Higher Risk Assets	575	575	863	863	69
Other Assets	49,689	49,689	40,664	40,664	3,253
Securitisation	54,395	54,395	10,879	10,879	870
Total for SA	**20,383,900**	**18,644,398**	**4,373,638**	**4,373,638**	**349,891**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,426,351	1,426,351	281,997	281,997	22,560
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	15,465,951	15,465,951	9,525,032	7,940,251	635,220
RRE Financing	10,085,876	10,085,876	3,290,794	3,290,794	263,264
Qualifying Revolving Retail	208,616	208,616	156,972	156,972	12,558
Hire Purchase	4,301,949	4,301,949	2,635,175	2,635,175	210,814
Other Retail	3,856,734	3,856,734	1,463,418	1,463,418	117,073
Securitisation	-	-	-	-	-
Total for IRB Approach	**35,345,476**	**35,345,476**	**17,353,388**	**15,768,607**	**1,261,489**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2015					CIMB Islamic
(RM'000) Exposure Class	Gross Exposure before CRM (SA)/EAD (IRB)	Net Exposure after CRM (SA)/EAD (IRB)	RWA	Total RWA after effects of PSIA	Minimum capital requiremen t at 8%
Total Credit Risk (Exempted Exposures and Exposures under the IRB Approach After Scaling Factor)	**55,729,376**	**53,989,874**	**22,768,229**	**21,088,362**	**1,687,069**
Large Exposure Risk Requirement	-	-	-	-	-
Market Risk (SA)					
Benchmark Rate Risk			407,049	407,049	32,564
Foreign Currency Risk			125,592	125,592	10,047
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**532,642**	**532,642**	**42,611**
Operational Risk (BIA)			**2,080,723**	**2,080,723**	**166,458**
Total RWA and Capital Requirement			**25,381,593**	**23,701,726**	**1,896,138**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2014					**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	12,682,935	12,682,935	3,950	3,950	316
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	181,869	181,869	85,434	85,434	6,835
Takaful Operators, Securities Firms & Fund Managers	6,432	5,957	5,957	5,957	477
Corporate	1,092,030	629,822	539,386	539,386	43,151
Regulatory Retail	4,618,139	4,587,640	3,567,007	3,567,007	285,361
RRE Financing	-	-	-	-	-
Higher Risk Assets	575	575	863	863	69
Other Assets	250,029	250,029	250,029	250,029	20,002
Securitisation	3,485	3,485	697	697	56
Total for SA	**18,835,495**	**18,342,312**	**4,453,322**	**4,453,322**	**356,266**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	1,594,212	1,594,212	300,458	300,458	24,037
Takaful Operators, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	12,606,449	12,606,449	8,516,842	7,263,404	581,072
RRE Financing	8,374,426	8,374,426	2,698,247	2,698,247	215,860
Qualifying Revolving Retail	201,289	201,289	155,195	155,195	12,416
Hire Purchase	5,288,540	5,288,540	3,510,755	3,510,755	280,860
Other Retail	3,148,084	3,148,084	1,152,926	1,152,926	92,234
Securitisation	-	-	-	-	-
Total for IRB Approach	**31,212,999**	**31,212,999**	**16,334,423**	**15,080,984**	**1,206,479**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2014	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)	**50,048,493**	**49,555,310**	**21,767,811**	**20,439,165**	**1,635,133**
Large Exposure Risk Requirement	-	-	-	-	-
Market Risk (SA)					
Benchmark Rate Risk			457,356	457,356	36,588
Foreign Currency Risk			40,724	40,724	3,258
Equity Risk			-	-	-
Commodity Risk			-	-	-
Options Risk			-	-	-
Total Market Risk			**498,080**	**498,080**	**39,846**
Operational Risk (BIA)			**2,011,728**	**2,011,728**	**160,938**
Total RWA and Capital Requirement			**24,277,618**	**22,948,973**	**1,835,918**

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 the obligor, market counterparty or issuer of securities or other instruments held, failing to perform its contractual obligations to the Group.

It arises primarily from 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 the Group's counterparties will not be able or willing to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able to or willing to fulfil their obligation to pay the positive fair value or receivable resulting from the execution of contract terms. Credit risk may also arise where the downgrading of an entity's rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

Credit Risk Management

The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with 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 GRD as a function independent from the business units is the second line of defence. This enhances the collaboration between GRD and the business units.

The Framework encompass the 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. CIMB Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities holders between business units and GRD, 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 and commercial financing, credit applications are independently evaluated by Credit Risk Centre of Excellence team prior to submission to the relevant committees for approval. For retail financing, all credit applications are evaluated and approved by Consumer Credit Operations according to the designated delegated authority with exceptions approved at Consumer and Commercial Banking Credit Committee (CBCC).

The GRC with the support of Group Credit Committee, Group Asset Quality Committee, Consumer and Commercial Banking Credit Committee, Regional Private Banking Credit Committee and GRD is responsible for ensuring the adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. This amongst others; includes the reviewing and analysing of portfolio trends, asset quality, watch-list reporting and policy review. It is also responsible for articulating key credit risk and its mitigating controls.

Approaches or mitigating controls adopted to address concentration risk to any large sector/industry, or to a particular counterparty group or individual include adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral.

Adherence to established credit limits is monitored daily by GRD, 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 GRD.

CREDIT RISK *(continued)*

Credit Risk Management (continued)

It is a policy of the Group that all exposures must be rated or scored based on the appropriate internal rating models, where available. Retail exposures are managed on a portfolio basis and the risk rating models are designed to assess the credit worthiness and the likelihood of the obligors to 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 risk factors such as financial history and demographics or company profile. These rating models are developed and implemented to standardise and enhance the credit underwriting and decision-making process for the Group's retail and non-retail exposures.

Credit reviews and rating are conducted on the credit exposures at least 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

2015					CIMB Islamic
(RM'000) Exposure Class	**Malaysia**	**Singapore**	**Thailand**	**Other Countries**	**Total**
Sovereign	13,475,964	-	-	-	13,475,964
Bank	1,830,277	-	-	-	1,830,277
Corporate	18,576,492	-	-	-	18,576,492
RRE Financing	10,085,876	-	-	-	10,085,876
HPE	4,301,949	-	-	-	4,301,949
QRRE	208,616	-	-	-	208,616
Other Retail	7,145,542	-	-	-	7,145,542
Other Exposures	104,659	-	-	-	104,659
Total Gross Credit Exposure	**55,729,376**	**-**	**-**	**-**	**55,729,376**

2014					CIMB Islamic
(RM'000) Exposure Class	**Malaysia**	**Singapore**	**Thailand**	**Other Countries**	**Total**
Sovereign	12,682,935	-	-	-	12,682,935
Bank	1,776,081	-	-	-	1,776,081
Corporate	13,704,910	-	-	-	13,704,910
RRE Financing	8,374,426	-	-	-	8,374,426
HPE	5,288,540	-	-	-	5,288,540
QRRE	201,289	-	-	-	201,289
Other Retail	7,766,223	-	-	-	7,766,223
Other Exposures	254,089	-	-	-	254,089
Total Gross Credit Exposure	**50,048,493**	**-**	**-**	**-**	**50,048,493**

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

2015												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	54,167	-	-	181,156	156,834	-	94,760	4,233,552	8,755,495	-	-	13,475,964
Bank	-	-	-	-	-	-	-	1,830,277	-	-	-	1,830,277
Corporate	1,354,458	911,253	1,232,881	424,122	2,685,376	1,029,524	2,326,512	5,037,844	849,207	2,522,590	202,725	18,576,492
RRE Financing	-	-	-	-	-	-	-	-	-	10,085,876	-	10,085,876
HPE	-	-	-	-	-	-	-	-	-	4,301,949	-	4,301,949
QRRE	-	-	-	-	-	-	-	-	-	208,616	-	208,616
Other Retail	12,743	9,271	52,487	2,266	77,670	154,362	9,186	207,191	38,422	6,542,502	39,441	7,145,542
Other Exposures	-	-	-	-	-	-	-	575	54,395	-	49,689	104,659
Total Gross Credit Exposure	**1,421,369**	**920,524**	**1,285,368**	**607,544**	**2,919,880**	**1,183,885**	**2,430,458**	**11,309,439**	**9,697,519**	**23,661,534**	**291,856**	**55,729,376**

***Note:** All sectors above are Shariah compliant.*

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

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

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

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

2014												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	54,141	-	-	-	167,314	-	55,750	4,046,349	8,359,381	-	-	12,682,935
Bank	-	-	-	-	-	-	-	1,776,081	-	-		1,776,081
Corporate	944,860	27,976	1,196,500	204,145	3,010,313	923,911	1,604,958	3,954,241	1,009,995	722,480	105,530	13,704,910
RRE Financing	-	-	-	-	-	-	-	-	-	8,374,426	-	8,374,426
HPE	-	-	-	-	-	-	-	-	-	5,288,540	-	5,288,540
QRRE	-	-	-	-	-	-	-	-	-	201,289	-	201,289
Other Retail	17,634	7,240	60,156	2,162	80,371	163,849	7,517	218,369	41,456	7,121,403	46,066	7,766,223
Other Exposures	-	-	-	-	-	-	-	575	3,485	-	250,029	254,089
Total Gross Credit Exposure	**1,016,636**	**35,217**	**1,256,657**	**206,306**	**3,257,998**	**1,087,761**	**1,668,224**	**9,995,616**	**9,414,317**	**21,708,137**	**401,625**	**50,048,493**

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

2015				**CIMB Islamic**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	4,202,990	7,066,395	2,206,579	13,475,964
Bank	1,175,957	250,393	403,927	1,830,277
Corporate	3,646,582	4,174,636	10,755,274	18,576,492
RRE Financing	2,434	80,440	10,003,002	10,085,876
HPE	42,953	1,881,209	2,377,786	4,301,949
QRRE	208,616	-	-	208,616
Other Retail	49,785	362,951	6,732,807	7,145,542
Other Exposures	-	49,504	55,155	104,659
Total Gross Credit Exposure	**9,329,317**	**13,865,528**	**32,534,530**	**55,729,376**

2014				**CIMB Islamic**
(RM'000) Exposure Class	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	4,031,738	3,689,251	4,961,946	12,682,935
Bank	1,175,419	287,661	313,001	1,776,081
Corporate	3,049,213	4,766,017	5,889,680	13,704,910
RRE Financing	2,469	68,192	8,303,765	8,374,426
HPE	48,784	2,072,292	3,167,464	5,288,540
QRRE	201,289	-	-	201,289
Other Retail	83,012	437,063	7,246,148	7,766,223
Other Exposures	-	3,485	250,604	254,089
Total Gross Credit Exposure	**8,591,923**	**11,323,961**	**30,132,609**	**50,048,493**

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 2015 and 31 December 2014 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	
	2015	**2014**
Primary Agriculture	39,555	7,432
Mining and Quarrying	49	722
Manufacturing	1,883	8,354
Electricity, Gas and Water Supply	-	-
Construction	24,700	15,973
Wholesale and Retail Trade, and Restaurants and Hotels	15,357	13,564
Transport, Storage and Communication	3,241	2,960
Islamic Finance, Takaful, Real Estate and Business Activities	27,669	9,398
Education, Health and Others	16,712	5,038
Household	2,241,063	2,671,091
Others*	32	21
Total	**2,370,261**	**2,734,553**

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	
	2015	**2014**
Malaysia	2,370,261	**2,734,553**
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**2,370,261**	**2,734,553**

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 2015 and 31 December 2014 which were impaired by sector and geographical respectively:

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

(RM'000)	CIMB Islamic	
	2015	2014
Primary Agriculture	6,860	10,547
Mining and Quarrying	307	227
Manufacturing	22,166	14,203
Electricity, Gas and Water Supply	365	557
Construction	43,504	36,039
Wholesale and Retail Trade, and Restaurants and Hotels	13,211	12,630
Transport, Storage and Communication	75,752	86,471
Islamic Finance, Takaful, Real Estate and Business Activities	7,161	5,790
Education, Health and Others	14,274	15,817
Household	240,508	275,254
Others*	277	326
Total	**424,385**	**457,861**

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	
	2015	2014
Malaysia	424,385	457,861
Singapore	-	-
Thailand	-	-
Other Countries	-	-
Total	**424,385**	**457,861**

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			
	2015		2014	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	32	10,595	1,487	6,169
Mining and Quarrying	-	285	-	317
Manufacturing	-	4,923	-	8,644
Electricity, Gas and Water Supply	-	640	-	586
Construction	11,509	8,582	8,617	10,184
Wholesale and Retail Trade, and Restaurants and Hotels	2,667	7,719	2,232	10,797
Transport, Storage and Communication	28,602	2,372	22,330	2,203
Islamic Finance, Takaful, Real Estate and Business Activities	1,890	12,582	2,766	14,560
Education, Health and Others	1,468	2,417	2,281	4,666
Household	-	263,595	-	287,736
Others*	-	344	-	568
Total	**46,168**	**314,054**	**39,713**	**346,430**

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			
	2015		2014	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	46,168	314,054	39,713	346,430
Singapore	-	-	-	-
Thailand	-	-	-	-
Other Countries	-	-	-	-
Total	**46,168**	**314,054**	**39,713**	**346,430**

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			
	2015		2014	
	Charges/(Write Back)	Write-Off	Charges(Write Back)	Write-Off
Primary Agriculture	(1,706)	1	60	-
Mining and Quarrying	-	-	-	3,068
Manufacturing	(25)	-	(36)	-
Electricity, Gas and Water Supply	-	-	-	-
Construction	3,695	520	(5)	-
Wholesale and Retail Trade, and Restaurants and Hotels	418	-	(4,609)	4,474
Transport, Storage and Communication	6,114	-	22,499	1,563
Islamic Finance, Takaful, Real Estate and Business Activities	(959)	-	(424)	-
Education, Health and Others	(101)	460	1,532	-
Household	-	-	-	-
Others*	-	-	-	-
Total	**7,436**	**981**	**19,017**	**9,105**

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 2015 and 31 December 2014 for CIMB Islamic

(RM'000)	CIMB Islamic			
	2015		2014	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Balance as at 1 January	39,713	346,430	29,801	376,849
Allowance (written back)/made during the financial period/year	7,436	125,204	19,017	123,405
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	(981)	(157,580)	(9,105)	(153,824)
Transfer(to)/from intercompany	-	-	-	-
Disposal of subsidiary	-	-	-	-
Unwinding income	-	-	-	-
Exchange fluctuation	-	-	-	-
Total	**46,168**	**314,054**	**39,713**	**346,430**

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

2015												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%	13,452,281	-	-	-	-	-	-	-	8,758		13,461,038	-
20%	23,684	-	-	-	-	-	-	-	335	54,395	78,413	15,683
35%	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	403,927	-	137,956	700,830	-	-	-	-	1,242,713	621,357
75%	-	-	-	-		508,251	-	-	-	-	508,251	381,189
100%	-	-	-	502	1,247,795	2,062,472	-	-	40,597	-	3,351,366	3,351,366
100% < RW < 1250%	-	-	-	-	1,133	896	-	575	-	-	2,604	3,906
1250%	-	-	-	-	11	-	-	-	-	-	11	138
Total	**13,475,964**	**-**	**403,927**	**502**	**1,386,895**	**3,272,450**	**-**	**575**	**49,689**	**54,395**	**18,644,398**	**4,373,638**
Average Risk Weight	0%	-	50%	100%	95%	85%	-	150%	82%	20%	23%	
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

2014												**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%	12,663,185	-	11,000	-	-	-	-	-	-	-	12,674,185	-
20%	19,750	-	-	-	-	-	-	-	-	3,485	23,236	4,647
35%	-	-	-	-	-	-	-	-	-		-	-
50%	-	-	170,869	-	181,711	1,732,979	-	-	-	-	2,085,558	1,042,779
75%	-	-	-	-	-	622,577	-	-	-		622,577	466,933
100%	-	-	-	5,957	447,711	2,229,083	-	-	250,029	-	2,932,780	2,932,780
100% < RW < 1250%	-	-	-	-	380	3,001	-	575	-	-	3,956	5,934
1250%	-	-	-	-	20	-	-	-	-		20	250
Total	**12,682,935**	**-**	**181,869**	**5,957**	**629,822**	**4,587,640**	**-**	**575**	**250,029**	**3,485**	**18,342,312**	**4,453,322**
Average Risk Weight	0%	-	47%	100%	86%	78%	-	150%	100%	20%	24%	
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

2015				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	-	-	1,022	1,022
Corporate	-	-	3,109,519	3,109,519
Sovereign/Central Banks	1,442,903	-	12,033,062	13,475,964
Banks, MDBs and DFIs	403,927	-	-	403,927
Total	**1,846,829**	**-**	**15,143,603**	**16,990,433**

2014				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	-	-	6,432	6,432
Corporate	-	-	1,092,030	1,092,030
Sovereign/Central Banks	828,375	-	11,854,560	12,682,935
Banks, MDBs and DFIs	170,869	-	11,000	181,869
Total	**999,244**	**-**	**12,964,022**	**13,963,266**

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

2015				CIMB Islamic
(RM '000) Exposure Class	**Investment Grade**	**Non Investment Grade**	**No Rating**	**Total**
On and Off-Balance-Sheet Exposures				
Securitisation	54,395	-	-	**54,395**

2014				CIMB Islamic
(RM '000) Exposure Class	**Investment Grade**	**Non Investment Grade**	**No Rating**	**Total**
On and Off-Balance-Sheet Exposures				
Securitisation	3,485	**-**	**-**	**3,485**

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 2015and 31 December 2014:

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

2015				CIMB Islamic
(RM'000) PD Range of Retail Exposures	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**16,550,415**	**1,664,260**	**238,500**	**18,453,175**
RRE Financing	9,607,678	391,352	86,847	10,085,876
QRRE	113,546	92,807	2,263	208,616
Hire Purchase	3,622,292	571,209	108,448	4,301,949
Other Retail	3,206,900	608,892	40,942	3,856,734
Exposure Weighted Average LGD				
RRE Financing	24%	25%	29%	
QRRE	90%	90%	90%	
Hire Purchase	52%	55%	58%	
Other Retail	30%	41%	59%	
Exposure Weighted Average Risk Weight				
RRE Financing	30%	83%	73%	
QRRE	34%	128%	-	
Hire Purchase	53%	97%	164%	
Other Retail	31%	66%	172%	

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)

2014				CIMB Islamic
(RM'000) PD Range of Retail Exposures	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**15,117,177**	**1,628,766**	**266,395**	**17,012,338**
RRE Financing	8,029,338	265,918	79,169	8,374,426
QRRE	106,201	93,176	1,912	201,289
Hire Purchase	4,397,587	742,485	148,468	5,288,540
Other Retail	2,584,051	527,187	36,846	3,148,084
Exposure Weighted Average LGD				
RRE Financing	24%	24%	33%	
QRRE	90%	90%	90%	
Hire Purchase	52%	54%	57%	
Other Retail	26%	43%	62%	
Exposure Weighted Average Risk Weight				
RRE Financing	30%	94%	46%	
QRRE	34%	127%	-	
Hire Purchase	52%	104%	292%	
Other Retail	28%	72%	157%	

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

2015				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**17,029,160**	**1,423,125**	**890**	**18,453,175**
RRE Financing	9,799,452	286,402	22	10,085,876
QRRE	70,995	137,621	-	208,616
Hire Purchase	3,622,397	679,140	411	4,301,949
Other Retail	3,536,315	319,962	456	3,856,734
Exposure Weighted Average LGD				
RRE Financing	24%	26%	15%	
QRRE	90%	90%	-	
Hire Purchase	52%	56%	59%	
Other Retail	30%	57%	94%	

2014				CIMB Islamic
(RM'000) EL Range of Retail Exposures	EL ≤ 1%	1% < EL < 100%	EL = 100%	Total
Total Retail Exposure	**15,427,430**	**1,584,206**	**703**	**17,012,338**
RRE Financing	8,122,020	252,384	22	8,374,426
QRRE	62,418	138,871	-	201,289
Hire Purchase	4,392,435	895,783	322	5,288,540
Other Retail	2,850,556	297,169	358	3,148,084
Exposure Weighted Average LGD				
RRE Financing	24%	28%	15%	
QRRE	90%	90%	-	
Hire Purchase	52%	55%	55%	
Other Retail	26%	62%	100%	

CREDIT RISK *(continued)*

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

Non-retail Exposures

Non-retail exposures covered under the F-IRB Approach include foreign sovereigns, corporates (Specialised Financing uses supervisory slotting criteria), SMEs and banks. The PDs of these exposures are estimated from internal ratings assigned across a spectrum of risk levels on a master scale. Each internal rating has a corresponding 1-year average PD and a likely corresponding regulatory financing classification. The LGDs of these exposures are assigned as per the CAFIB (Risk-Weighted Assets); that is an LGD of 45% for senior exposures and 75% for subordinated exposures, with appropriate adjustments for eligible collateral.

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

The following tables summarise CIMB Islamic's non-retail credit exposures measured under F-IRB Approach as at 31 December 2015 and 31 December 2014:

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

2015						**CIMB Islamic**
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	117,664	-	-	-	-	117,664
Object Finance	220,848	-	34,272	-	-	255,120
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	368,544	820,192	50,359	-	1,932	1,241,026
RWA	**397,697**	**604,121**	**97,326**	**-**	**-**	**1,099,144**

2014						**CIMB Islamic**
(RM'000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	130,871	-	-	-	-	130,871
Object Finance	-	-	70,795	-	-	70,795
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	40,517	857,068	27,165	17,846	-	942,596
RWA	**117,760**	**733,985**	**112,654**	**44,616**	**-**	**1,009,015**

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 Simple Risk Weight Approach.

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

2015					CIMB Islamic
(RM'000) Internal Risk Grading	1 - 3	4 - 9	10 - 13	Default	Total
Total Non-Retail Exposure	**6,134,332**	**5,912,879**	**3,046,605**	**184,676**	**15,278,491**
Bank	1,402,381	22,439	1,530	-	1,426,351
Corporate (excluding Specialised Financing)	4,731,951	5,890,440	3,045,075	184,676	13,852,141
Exposure Weighted Average LGD					
Bank	45%	45%	45%	-	
Corporate (excluding Specialised Financing)	45%	42%	38%	40%	
Exposure Weighted Average Risk Weight					
Bank	19%	44%	126%	-	
Corporate (excluding Specialised Financing)	15%	75%	107%	-	

2014					CIMB Islamic
(RM'000) Internal Risk Grading	1 - 3	4 - 9	10 - 13	Default	Total
Total Non-Retail Exposure	**3,929,570**	**6,717,964**	**2,222,183**	**186,681**	**13,056,398**
Bank	1,559,241	33,921	1,050	-	1,594,212
Corporate (excluding Specialised Financing)	2,370,328	6,684,043	2,221,133	186,681	11,462,186
Exposure Weighted Average LGD					
Bank	45%	45%	45%	-	
Corporate (excluding Specialised Financing)	45%	43%	39%	41%	
Exposure Weighted Average Risk Weight					
Bank	18%	47%	137%	-	
Corporate (excluding Specialised Financing)	12%	71%	111%	-	

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
	2015		2014	
(RM'000) Exposure Class	Regulatory Expected Losses as at 31 December 2014	Actual Losses for the year ended 31 December 2015	Regulatory Expected Losses as at 31 December 2013	Actual Losses for the year ended 31 December 2014
Sovereign	-	-	-	-
Bank	371	-	731	-
Corporate	93,492	4,932	87,749	(5,196)
RRE Financing	23,016	593	27,268	981
HPE	82,384	55,534	128,144	50,944
QRRE	8,843	4,743	8,071	4,496
Other Retail	32,238	4,930	30,653	16,730
Total	**240,344**	**70,732**	**282,616**	**67,955**

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 2015and 31 December 2014, 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 2015 and 31 December 2014:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CRR (continued)

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

2015				CIMB Islamic
(RM'000) Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
Direct Credit Substitutes	173,023		173,023	122,135
Transaction Related Contingent Items	516,888		258,444	178,235
Short Term Self Liquidating Trade Related Contingencies	146,447		29,289	11,414
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	21,157,738	278,326	714,094	184,738
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,695,400		3,079,191	1,529,298
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	2,766,516		-	-
Unutilised credit card lines	222,571		93,444	53,705
Off-balance sheet items for securitisation exposures	-		-	-
Total	**28,678,582**	**278,326**	**4,347,486**	**2,079,526**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR (continued)

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

2014				CIMB Islamic
(RM'000) Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
Direct Credit Substitutes	137,152		137,152	111,315
Transaction Related Contingent Items	349,549		174,775	124,690
Short Term Self Liquidating Trade Related Contingencies	77,102		15,420	9,601
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	21,109,383	72,431	429,323	102,503
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,706,093		2,990,453	1,553,781
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	87,675		65,756	58,273
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	1,727,274		-	-
Unutilised credit card lines	210,597		89,335	54,879
Off-balance sheet items for securitisation exposures	-		-	-
Total	**27,404,825**	**72,431**	**3,902,214**	**2,015,043**

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			
	2015		2014	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	-	-	-	-
Client Intermediation Activities	-	52,260	-	56,900
Total	**-**	**52,260**	**-**	**56,900**
Credit Default Swaps	-	-	-	-
Total Return Swaps	-	52,260	-	56,900
Total	**-**	**52,260**	**-**	**56,900**

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 2015 and 31 December 2014:

Table 24: Disclosure on Credit Risk Mitigation for CIMB Islamic

2015				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	13,475,964	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	1,830,277	-	-	-
Takaful Operators, Securities Firms & Fund Managers	1,022	-	520	-
Corporate	18,385,448	985,393	1,933,724	3,165,206
RRE Financing	9,999,030	-	-	-
Qualifying Revolving Retail	206,353	-	-	-
Hire Purchase	4,193,500	-	-	-
Other Retail	7,101,121	-	16,212	-
Securitisation	54,395	-	-	-
Higher Risk Assets	575	-	-	-
Other Assets	49,689	-	-	-
Defaulted Exposures	271,501	-	4,772	68,692
Total Exposures	**55,568,877**	**985,393**	**1,955,228**	**3,233,898**

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

2014	**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	12,682,935	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	1,776,081	-	-	-
Takaful Operators, Securities Firms & Fund Managers	6,432	-	475	-
Corporate	13,509,659	532,700	628,618	1,820,777
RRE Financing	8,295,256	-	-	-
Qualifying Revolving Retail	199,377	-	-	-
Hire Purchase	5,140,072	-	-	-
Other Retail	7,724,733	-	30,105	-
Securitisation	3,485	-	-	-
Higher Risk Assets	575	-	-	-
Other Assets	250,029	-	-	-
Defaulted Exposures	317,970	-	4,337	51,468
Total Exposures	**49,906,604**	**532,700**	**663,536**	**1,872,245**

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 sukuk capital markets services for external clients.

The Group securitises its own assets in order to, amongst others, manage credit risk and its capital position and to manage term funding for the 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-2014, the Group has completed securitisations of corporate bonds 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

There was no outstanding exposure securitised by CIMB Islamic as at 31 December 2015 and as at 31 December 2014.

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 25: Disclosure on Securitisation under the SA for Banking Book Exposures for CIMB Islamic

2015													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	54,395	-	-	-	54,395	-	-	-	-				10,879
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 25: Disclosure on Securitisation under the SA for Banking Book Exposures for CIMB Islamic *(continued)*

2015													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		
<u>*Originating Banking Institution*</u>												
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	**54,395**				**54,395**							**10,879**

SECURITISATION *(continued)*

Securitisation under the SA for Banking Book (continued)

Table 25: Disclosure on Securitisation under the SA for Banking Book Exposures for CIMB Islamic *(continued)*

2014													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	3,485	-	-	-	3,485	-	-	-	-				697
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 25: Disclosure on Securitisation under the SA for Banking Book Exposures for CIMB Islamic *(continued)*

2014													**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	**3,485**	**-**	**-**	**-**	**3,485**	**-**	**-**	**-**	**-**	**-**	**-**	**697**

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

As at 31 December 2015 and 31 December 2014, 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 exposure arising from changes to market risk factors such as benchmark rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility.

Market risk is inherent in the business activities of an institution that trades and invests in securities, derivatives and other structured financial products. Market risk may arise from the trading book and investment activities in the banking book. For the trading book, it can arise from customer-related businesses or from the Group's proprietary positions. As for investment activities in the banking book, the Group holds the investment portfolio to meet liquidity and statutory reserves requirement and for investment purposes.

Market Risk Management

Market risk is evaluated by considering the risk/reward relationship and market exposures across a variety of dimensions such as volatility, concentration/diversification and maturity. The GRC with the support of Group Market Risk Committee and Group Underwriting Committee ensure that the risk exposures undertaken by the Group is within the risk appetite approved by the Board. GRC, GMRC and GUC, supported by the Market Risk Centre of Excellence in GRD is responsible to measure and control market risk of the Group through robust measurement and the setting of limits while facilitating business growth within a controlled and transparent risk management framework.

CIMB Group employs the VaR framework to measure market risk where VaR represents the worst expected loss in portfolio value under normal market conditions over a specific time interval at a given confidence level. The Group has adopted a historical simulation approach to compute VaR. This approach assesses potential loss in portfolio value based on the last 500 daily historical movements of relevant market parameters and 99% confidence level at 1-day holding period.

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

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

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

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

MARKET RISK *(continued)*

Market Risk Management (continued)

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

In addition to the above, the Market Risk Centre of Excellence undertakes the monitoring and oversight process at Treasury & Marketstrading floors, which include reviewing treasury trading strategy, analysing positions and activities vis-à-vis changes in the financial markets, monitoring limits usage, assessing limits adequacy and verifying transaction prices.

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

All valuation methods and models used are documented and validated by the quantitative analysts to assess its applicability to market conditions. The process includes verification of rate sources, parameters, assumptions in modelling approach and its implementation. Existing valuation models are reviewed periodically to ensure that they remain relevant to changing market conditions. Back-testing of newly approved or revised models may be conducted to assess the appropriateness of the model and input data used.

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:

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

OPERATIONAL RISK

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

Operational Risk Management

CIMB Group recognises that cultivation of an organisational-wide discipline and risk management culture among its staff is the key determinant for a well-managed universal banking operation. Hence, the Group has deployed a set of tools to identify, assess, monitor and control the operational risk inherent in the Group.

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

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

These tools form part of the operational risk framework that allows CIMB Group to effectively identify, measure, mitigate and report its operational risks.

Each new or varied product with changes to the process flow are 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 Group's New Product Approval Policy also safeguards and protects the interest of customers through proper regulatory disclosure requirements, the availability of options or choices when the products and services are offered to the public.

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

OPERATIONAL RISK *(continued)*

Operational Risk Management (continued)

CIMB Group has progressively set the various foundations to move towards Basel II Standardised Approach.

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

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

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

Capital Treatment for Operational Risk

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 2015 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 2015 and 31 December 2014, 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 2015 and 31 December 2014:

Table 24: Analysis of Equity Investments by Grouping and RWA for CIMB Islamic

(RM'000)	CIMB Islamic			
	2015		2014	
	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 benchmark 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 benchmark 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

CIMB Group manages its exposure of fluctuations in profit rates in the banking book through policies established by Group Asset & Liability Management Committee ("GALCO"). RORBB undertaken by the Group is governed by an established risk appetite that defines the acceptable level of risk to be assumed by the Group. The risk appetite is established by the Board. Group Asset Liability Management Committee is a Board delegated Committee which reports to the GRC. With the support from Asset Liability Management Centre of Excellence and CBSM, the Group Asset Liability Management Committee 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

  EVE sensitivity measures the long term impact of sudden benchmark rate movement across the full maturity spectrum of the 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 benchmark rates. Such 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 benchmark 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 benchmark rate shock from economic value perspective:

Table 25: RORBB – Impact on Economic Value for CIMB Islamic

(RM'000)	CIMB Islamic	
	2015	2014
Currency	+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)	
Ringgit Malaysia	(598,093)	(503,184)
US Dollar	15,187	(443)
Thai Baht	(1)	(1)
Singapore Dollar	1	-
Others	154	21
Total	**(582,752)**	**(503,607)**

- Earnings at Risk (EaR)

  EaR measures the short term impact of sudden benchmark rate movement on reported earnings over the next 12 months. It defines and quantifies rate of return as the change net rate income caused by changes in benchmark rates.

  For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel benchmark 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 benchmark rate shock from the earnings perspective:

Table 26: RORBB – Impact on Earnings for CIMB Islamic

(RM'000)	CIMB Islamic	
	2015	2014
Currency	**+100bps Increase (Decline) in Earnings (Value in RM Equivalent)**	
Ringgit Malaysia	(73,515)	(118,195)
US Dollar	(6,817)	(5,843)
Thai Baht	13	16
Singapore Dollar	(25)	(11)
Others	(1,568)	1,872
Total	**(81,912)**	**(122,161)**

[END OF SECTION]