Basel II Pillar 3 Disclosures for 2012

- CIMB Bank Berhad

Contents

ABBREVIATIONS

A-IRB Approach	:	Advanced Internal Ratings Based Approach
BI	:	Banking Institutions
BNM	:	Bank Negara Malaysia
BRC	:	Board Risk Committee
BSMC	:	Balance Sheet Management Committee
CBCC	:	Consumer Bank Credit Committee
CBSM	:	Capital and Balance Sheet Management
CBTM	:	Corporate Banking, Treasury and Markets
CCR	:	Counterparty Credit Risk
CIMBBG	:	CIMB Bank, CIMB Islamic Bank Berhad, CIMBTH, CIMB Bank PLC (Cambodia) and CIMB Factorlease Berhad
CIMBIBG	:	Consist of CIMB Investment Bank Berhad and CIMB Futures 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 RWCAF and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) to include its wholly owned offshore banking subsidiary company)
CIMB Group or the Group	:	Collectively CIMBBG, CIMBIBG and CIMB Islamic 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
GC	:	Group Credit
GRC	:	Group Risk Committee
GRD	:	Group Risk Division

ABBREVIATIONS *(continued)*

GRM	:	Group Risk Management
GWBRC	:	Group Wholesale Bank Risk Committee
HPE	:	Hire Purchase Exposures
IRB Approach	:	Internal Ratings Based Approach
IRRBB	:	Interest Rate Risk in the Banking Book
KRI	:	Key Risk Indicators
LGD	:	Loss Given Default
MARC	:	Malaysian Rating Corporation Berhad
MRM	:	Market Risk Management
MDBs	:	Multilateral Development Banks
MATs	:	Management Action Triggers
Moody's	:	Moody's Investors Service
MTM	:	Mark-to-Market and/or Mark-to-Model
ORC	:	Operational Risk Committee
ORM	:	Operational Risk Management
ORMD	:	Operational Risk Management Department
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
RCC	:	Regional Credit Committee
RCM	:	Regional Credit Management
RCSA	:	Risk and Control Self Assessments
RLRC	:	Regional Liquidity Risk Committee
RMA	:	Risk Management & Analytics
RR	:	Regional Risk
RWA	:	Risk Weighted Assets
RWCAF	:	Risk Weighted Capital Adequacy Framework and, in some instances referred to as the Capital Adequacy Framework
RWCR	:	Risk Weighted Capital Ratio and, in some instances referred to as the Capital Adequacy Ratio
S&P	:	Standard & Poor's
SA	:	Standardised Approach
SBCC	:	Singapore Business Credit Committee
SMEs	:	Small and Medium Enterprises
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 CIMB Islamic ('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. CIMB IB and its subsidiaries ('CIMBIBG') adopt the SA for credit risk. CIMBBG, CIMB Islamic 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 and CIMB IB are also available in CIMBGH Group's 2012 annual report and corporate website.

Basis of Disclosure

The disclosures herein are formulated in accordance with the requirements of BNM's guidelines on RWCAF (Basel II) – Disclosure Requirements (Pillar 3). The disclosures published are for the year ended 31 December 2012. The basis of consolidation for financial accounting purposes is described in the 2012 financial statements. The capital requirements are generally based on the principles of consolidation adopted in the preparation of financial statements with the exception of subsidiaries engaged in non-financial activities which have been excluded from the regulatory consolidation and have been deducted from regulatory capital. During the financial year, CIMB Bank 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 Bank entity disclosures only.

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

Basis of Disclosure (continued)

The term 'credit exposure' as used in this disclosure is a prescribed definition by BNM based on the RWCAF (Basel II) – Disclosure Requirements (Pillar 3). Credit exposure is defined as the estimated maximum amount a banking institution may be exposed to a counterparty in the event of a default or EAD. This differs with similar terms applied in the 2012 financial statements as the credit risk exposure definition within the ambit of accounting standards represent the balance outstanding as at balance sheet date and do not take into account the expected undrawn contractual commitments. Therefore, information within this disclosure is not directly comparable to that of the 2012 financial statements for CIMB Bank.

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

These disclosures have been reviewed and verified by internal auditors and approved by the Board 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 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..

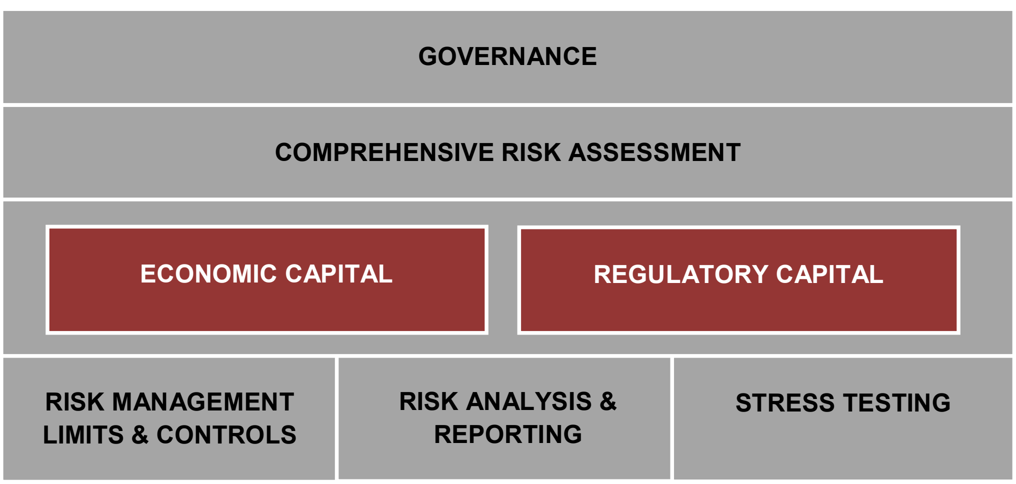
The objectives of CIMB Group's risk management activities are to:

- 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 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 Group acknowledges that strong risk governance forms the backbone that holds the EWRM together. The Board of Directors through the BRC is ultimately responsible for the Group's risk management activities and provides strategic direction through the risk appetite statement and the corresponding capital and risk management frameworks. The implementation of EWRM is supervised through several risk committees, with line management being primarily responsible for identifying and managing risks at the onset. GRD is principally tasked to assist the various risk committees and undertakes the performance of independent risk management, monitoring and reporting functions of the EWRM. The implementation of the EWRM is also subjected to the independent assurance and assessment by Group Internal Audit Division.

RISK MANAGEMENT OVERVIEW *(continued)*

Enterprise Wide Risk Management Framework (continued)

The EWRM starts its comprehensive risk assessment process by assessing all risk taking activities of the Group from the perspectives of its financial and brand reputation impact, thus identifying the Group's material risks. These material risks are assessed, measured, controlled, monitored and reported on an on-going basis in accordance with the Group's risk management processes embodied within the EWRM.

At the core of the EWRM is a robust risk and capital management framework that relates the Group's material risks to its capital requirements and planning activities, ensuring its capital adequacy at all time. The Group's Risk-based Performance Measurement Framework provides a common and consistent measurement of risk to facilitate comparison of risks across business units and risk types. This enables the Group to consider both the downside risk, for risk protection and upside potential, for earnings growth. Hence, allowing the Group to measure the performance of each business on an absolute basis (economic profit) and relative percentage return basis (RAROC) against the Group’s costs of capital. Each year capital is allocated to the business units based on the respective business plan, budgeted profit and targeted RAROC.

The foundation of the EWRM is made up of three major building blocks, which are Risk Management Limits and Controls, Risk Analysis and Reporting, and Stress Testing. Limits constitute the key mechanism to monitor and control allowable risk taking activities and are regularly reviewed in the face of changing business needs, market conditions, and regulatory requirements. Timely reports and meaningful analysis of risk positions are critical to enable the Board and its management to exercise control over all exposures and make informed business decisions.

Stress testing involves identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on the Group’s exposure and the assessment of the Group’s ability to withstand such changes, usually in relation to the capacity of its capital and earnings to absorb potentially significant losses as well as the sufficiency of its liquidity surplus and reserves. Steps are then identified to manage risk and conserve capital. Group wide stress test is performed semi-annually.

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance

In accordance with the Group's risk management structure, the BRC assumes the ultimate responsibility on behalf of the board of directors for the supervision of risk management within CIMB Group. In line with best practices, the BRC determines the risk policy objectives for the Group.

Responsibility for administering risk management and control is delegated to the GRC. The GRC is chaired by the Group Managing Director/Chief Executive Officer and undertakes the oversight function for overall risk limits, aligning them to the risk appetite. The GRC is further supported by several sub-committees, namely the GWBRC, CBCC, RCC, SBCC, RLRC and ORC, with each committee set up to manage and control specific risk areas. In relation to IRRBB, GRC is further assisted by the BSMC that is responsible for recommending and executing strategies and hedging proposals for the banking book as well as ensuring the CIMB Bank's interest rate risk profile is within the risk limits/MATs endorsed by GRC. With this set-up, the Board and BRC through the various risk committees and BSMC maintain oversight of various risks across CIMB Bank.

The composition of the committees includes senior management and individuals from business divisions as well as divisions which are independent from the business units. BRC reviews the composition of these committees except for the BSMC, to reflect a balance of experienced independent and non-independent individuals with the necessary skills and qualifications to carry out the roles and responsibilities of the relevant committee.

The following chart sets out the organisational structure of the risk management committees overseeing risk management activities and gives an overview of the respective committee's roles and responsibilities:

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance (continued)

BOARD OF DIRECTORS

BOARD RISK COMMITTEE

- Review and recommend risk policies and strategies for approval
- Oversee entire EWRM and provide strategic guidance to various risk committees

GROUP RISK COMMITTEE

- Review and advise on risk policies and strategies
- Oversee management of risk, oversee utilisation of capital allocation and asset liability management processes across the Group

Group Wholesale Bank Risk Committee (GWBRC)	Consumer Bank Credit Committee (CBCC)	Regional Credit Committee (RCC)	Singapore Business Credit Committee (SBCC)	Regional Liquidity Risk Committee (RLRC)	Operational Risk Committee (ORC)	Balance Sheet Management Committee (BSMC)
• Oversee Group's exposures to market risks • Evaluate and approve proposals for primary and secondary market deals for debt and equity instruments for the Group • Credit approval authority Malaysian centric credit exposures • Assign and review the Malaysian sector exposures • Review and approve Global Banking Institutions Limits for Malaysian centric banking groups	• Credit approval authority for Malaysian centric credit exposures • Ensuring Group overall loan portfolio/financing meets regulatory guidelines and approved internal policies and procedures • Oversee the development of credit policies and procedures, encompassing all products and businesses within Consumer Banking	• Review and approve or concur non-Malaysian credit exposures • Ensuring Group overall loan portfolio/financing meets regulatory guidelines and approved internal policies and procedures • Review and approve or concur all non-Malaysian Interbank Limit, Global Financial Institutions Counterparty Limits and Global Country Limit	• Credit approval authority for primarily Singapore centric credit exposures • Ensuring Group overall loan portfolio/financing meets regulatory guidelines and approved internal policies and procedures	• Oversee the Group's overall liquidity management • Ensure Group is able to meet its cash flow obligations in a timely and cost effective manner	• Oversee operational risk management in terms of best practices, policies and risk tolerance • Review controls and action plans to address identified risks • Oversight on all Business Continuity Management (BCM)/Disaster Recovery (DR) activities	• Review balance sheet positions • Recommend and executing balance sheet strategies and hedging • Ensure risk profile is kept within the established risk appetite/limits/MAT

RISK MANAGEMENT OVERVIEW *(continued)*

Risk Governance (continued)

The overseas subsidiaries' risk committees are set-up in a similar structure in their respective jurisdictions. Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, the Group 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 within the Group.

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 risk 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 client facing activities, are primarily responsible for risk management on a day-to-day basis by taking appropriate actions to mitigate risk through effective controls. The second line of defence provides oversight functions, performs independent monitoring of business activities and reporting to management to ensure that the Group is conducting business and operating within the approved appetite and also in compliance to regulations. The third line of defence is Group Internal Audit Division who provides independent assurance to the Boards that the internal controls and risk management activities are functioning effectively.

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. GRD comprises GRM, GC, RCM and RR and its key responsibilities are analyse, assess, measure, control, monitor and report the material risks to which the Group is exposed. GRD is headed by the CRO who is appointed by the Board to spearhead risk management functions and the implementation of the EWRM. The CRO actively engages the Board and senior management on risk management issues and initiatives. The CRO also maintains an oversight on risk management functions across all entities within the Group.

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 outfit, all risk management activities will be centralised at GRM. Otherwise, the risk management activities will be performed by the local risk management team with matrix reporting line to GRD.

- *Group Risk Management*

  GRM monitors risk-taking activities, initiates and proposes risk policies, risk measurement methodologies and risk limits, performs independent review of loan assets quality and loan recovery plan, coordinates capital market products deployments and develops the risk-based product pricing framework for loan portfolios.

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

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of CRO and Group Risk Division (continued)

- *Group Risk Management (continued)*

  GRM is also tasked with the co-ordination of the Group's effort towards implementation of Basel II. In this regard, GRM develops and implements all internal rating and scoring models and closely monitors the usage of the rating and scoring systems to ensure relevancy to current market conditions and integrity of the ratings.

  GRM adds value to business propositions by providing advice on market valuations, quantification of capital requirements and independent risk assessment. This enables the business units to prepare for the potential risks associated with the new transactions or business ventures and consequently, address the management and mitigation of such risks from the early stage of the proposition. The business units gain understanding of the risk-reward equation of the proposition, consider the risk factors in the pricing decision, and ensure that the projected returns from the business propositions commensurate with the risks taken. In order to ensure the independence of GRM in such an arrangement, GRM's remuneration is not linked to the success of particular transactions or deals.

- *Group Credit*

  GC carries out independent assessments and evaluations of all credit risk related proposals originating from the various business units such as loans and advances, fixed income, derivatives, sales and trading, prior to submission to the CBCC, GWBRC, the EXCO or Board for approval. GC ensures proper grouping of entities and counterparties under the single customer framework. GC also reviews the Group's holdings of all fixed income assets issued by Malaysian companies and recommends the internal ratings for GWBRC's approval.

- *Regional Credit Management*

  A regional credit platform was established with a primary objective of enhancing efficiency and effectiveness of the credit oversight as well as credit approval process for all non-Malaysian centric Corporate and Financial Institutions within the Group. The platform includes 2 credit committees, the SBCC for smaller-sized exposures and the RCC for larger regional exposures. All credit proposals submitted to the 2 credit committees for approval/concurrence are routed through RCM for independent assessment and due recommendation to the credit committees.

- *Regional Risk*

  RR was established with the objective of overseeing the risk management functions of the regional offices as well as the Group's unit trust and non-Malaysian securities businesses. RR also houses the validation team.

  For regional offices, the respective risk management team identifies, analyses, monitors, reviews, and reports the risk exposures of each individual country, including:

  i) Proprietary trading strategies, positions and activities against changes in the financial market on a daily basis.
  ii) Limit utilisation and adequacy, transaction prices and mark-to-market positions.
  iii) Credit reviews.
  iv) New product approval process.

  For the unit trust business, the risk management unit works with other departments in the areas of market, credit and operational risk. This risk management team reports into RR.

RISK MANAGEMENT OVERVIEW *(continued)*

The Roles of CRO and Group Risk Division (continued)

- *Regional Risk (continued)*

  Non-Malaysian securities businesses under the Group are consolidated under CIMB Securities International Pte Ltd. There is a risk management function set up within the entity to identify, analyse, monitor, review and report market, credit, operational and other principal risk exposures related to the securities businesses. This unit reports into RR.

  The Validation Team is independent from the risk taking units and model development team, and reports to RR. The function of this unit is to perform validation, as guided by regulatory guidelines and industry best practices on rating systems, estimates of the risk components, and the processes by which the internal ratings are obtained and used. The unit provides recommendations to the modelling team and the business users. The unit reports its findings and recommendation to GRC and BRC.

Strategies and Processes for Various Risk Management

These information are available in later sections for each Credit Risk, Market Risk, Operational Risk and Interest Rate Risk in the Banking Book.

CAPITAL MANAGEMENT

Key Capital Management Principles

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

The Bank sets an internal minimum capital adequacy target which is substantially above the minimum regulatory requirement. In establishing this internal capital adequacy target, CIMB Bank considers many critical factors, including, amongst others, credit rating implication, current and future operating environment and peers comparisons. The capital management process is centrally supervised by the Group EXCO, GRC and BRC who periodically assess and review the capital requirements and source of capital across CIMB Bank, taking into account all ongoing and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Available capital is allocated across competing demands, guided by the predetermined policies, and to ensure regulatory compliance. Quarterly updates on capital position of the CIMBGH Group and the Group are also provided to the Board of Directors.

On 28 November 2012, Bank Negara Malaysia (BNM) issued a new guideline on Basel III. The guideline outlines the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. It was developed based on the internationally-agreed standards on capital adequacy published by the Basel Committee on Banking Supervision. The guideline will be effective on 1 January 2013 and is applicable to all banking institutions licensed under the Banking and Financial Institutions Act 1989 (BAFIA) and all Islamic banks licensed under the Islamic Banking Act 1983 (IBA).

Capital Structure and Adequacy

The relevant entities under the Group issue various capital instruments pursuant to the respective regulatory guidelines, including tier 2 subordinated debt, innovative and non-innovative tier 1 hybrid securities that qualify as capital pursuant to the RWCAF issued by BNM. Notes 28 to 32 in CIMB Bank separate financial statements show the summary information of terms and conditions of the main features of capital instruments. The table below sets out the summary of the sources of capital and the capital adequacy ratios for CIMB Bank as at 31 December 2012 and 31 December 2011 respectively:

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position

(RM'000)	CIMB Bank	
	2012	**2011**
Tier 1 Capital		
Paid-up share capital + Share Premium	8,798,102	8,798,102
Non-Innovative Tier 1 instruments	1,200,000	1,200,000
Innovative Tier 1 instruments	1,611,800	1,635,400
Statutory Reserve	3,663,449	4,383,306
Retained Earnings / Profits	3,852,323	2,701,103
General Reserve Fund	22,817	245,282
Interim Dividend	-	-
Minority Interest	-	-
Less: Deductions from Tier 1 Capital		
Goodwill	3,555,075	3,555,075
Eligible Tier 1 Capital	**15,593,416**	**15,408,118**
Tier 2 Capital		
Subordinated Debt Capital	6,500,000	5,000,000
Cumulative Preference Shares	29,740	29,740
General Provision	1,064,173	619,903
Surplus of EP over EL	250,350	359,190
Tier 2 Capital Subject to Limits	7,844,263	6,008,833
Less: Deductions from Tier 2 capital	4,087,920	3,626,000
Investment in subsidiaries	3,688,556	3,208,833
Investment in capital instruments of other BI	333,743	347,051
Other Deductions	65,621	70,116
Eligible Tier 2 Capital	**3,756,343**	**2,382,833**
Total Eligible Capital	**19,349,759**	**17,790,951**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

Table 1: Capital Position *(continued)*

(RM'000)	CIMB Bank	
	2012	**2011**
RWA		
Credit	94,244,713	83,785,262
Credit RWA Absorbed by PSIA	-	-
Market	13,283,095	8,105,302
Operational	10,528,945	9,949,736
Large Exposure for Equity Holdings	397,786	400,148
Total RWA	**118,454,539**	**102,240,448**
Capital Adequacy Ratios		
Core Capital Ratio	13.16%	15.07%
RWCR	16.34%	17.40%
Proposed Dividends	(959,000)	(827,000)
Capital Adequacy Ratios After Dividends		
Core Capital Ratio	12.35%	14.45%
RWCR	15.53%	16.78%

RWCR after Dividends dropped from 16.78% to 15.53% mostly due to the increase in Credit RWA following the change in Credit Conversion Factor (CCF) for the undrawn of committed facility effective 1 January 2012. For those under the IRB Approach, the CCF is changed from 20% to 75%. For those under the SA, the CCF is changed from 20% to 50%, if residual maturity is more than 1 year. Growth in the corporate portfolio also contributed to the increase in Credit RWA. The drop in RWCR is partially offset by the increase in capital base due to the new issuance of sub-debt by CIMB Bank. The increase in Market RWA of RM 5.2 billion between December 2011 and December 2012 was largely attributed to higher interest rate and equity risk, following larger exposure to bonds, interest rate and non-deliverable interest rate swaps as well as equities.

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

2012					CIMB Bank
(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	24,796,700	24,796,700	24,677	24,677	1,974
Public Sector Entities	1,289	1,289	258	258	21
Banks, DFIs & MDBs	57,370	57,370	11,740	11,740	939
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	5,377,581	3,420,827	3,144,675	3,144,675	251,574
Regulatory Retail	25,151,045	18,003,102	14,040,628	14,040,628	1,123,250
Residential Mortgages	3,254,182	3,254,182	1,179,377	1,179,377	94,350
Higher Risk Assets	1,200,381	1,200,381	1,800,572	1,800,572	144,046
Other Assets	5,010,995	5,010,995	2,482,345	2,482,345	198,588
Securitisation	766,841	766,841	147,187	147,187	11,775
Total for SA	**65,616,384**	**56,511,687**	**22,831,458**	**22,831,458**	**1,826,517**
Exposures under the IRB Approach					
Sovereign/Central Banks	875,586	875,586	209,095	209,095	16,728
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	29,355,754	29,355,754	6,499,095	6,499,095	519,928
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	67,158,670	67,158,670	36,609,145	36,609,145	2,928,732
Residential Mortgages	33,250,486	33,250,486	12,415,616	12,415,616	993,249
Qualifying Revolving Retail	8,154,865	8,154,865	5,488,320	5,488,320	439,066
Hire Purchase	5,095,953	5,095,953	3,634,285	3,634,285	290,743
Other Retail	3,571,272	3,571,272	2,515,439	2,515,439	201,235
Securitisation	-	-	-	-	-
Total for IRB Approach	**147,462,585**	**147,462,585**	**67,370,995**	**67,370,995**	**5,389,680**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2012					CIMB Bank
(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)	**213,078,969**	**203,974,272**	**94,244,713**	**94,244,713**	**7,539,577**
Large Exposure Risk Requirement	**397,786**	**397,786**	**397,786**	**397,786**	**31,823**
Market Risk (SA)					
Interest Rate Risk			11,153,028	11,153,028	892,242
Foreign Currency Risk			379,101	379,101	30,328
Equity Risk			1,033,695	1,033,695	82,696
Commodity Risk			-	-	-
Options Risk			717,272	717,272	57,382
Total Market Risk			**13,283,095**	**13,283,095**	**1,062,648**
Operational Risk (BIA)			**10,528,945**	**10,528,945**	**842,316**
Total RWA and Capital Requirement			**118,454,539**	**118,454,539**	**9,476,363**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2011					**CIMB Bank**
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	29,256,760	29,256,760	143,433	143,433	11,475
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	816,742	816,742	163,348	163,348	13,068
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	4,118,322	3,706,850	3,741,086	3,741,086	299,287
Regulatory Retail	19,093,786	14,599,887	11,182,925	11,182,925	894,634
Residential Mortgages	3,141,601	3,141,601	1,126,885	1,126,885	90,151
Higher Risk Assets	1,230,937	1,230,937	1,846,405	1,846,405	147,712
Other Assets	4,260,161	4,260,161	2,290,515	2,290,515	183,241
Securitisation	750,581	750,581	149,810	149,810	11,985
Total for SA	**62,668,890**	**57,763,519**	**20,644,408**	**20,644,408**	**1,651,553**
Exposures under the IRB Approach					
Sovereign/Central Banks	-	-	-	-	-
Public Sector Entities	-	-	-	-	-
Banks, DFIs & MDBs	26,827,076	26,827,076	7,030,377	7,030,377	562,430
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-
Corporate	55,739,518	55,739,518	28,603,219	28,603,219	2,288,258
Residential Mortgages	30,710,235	30,710,235	11,693,248	11,693,248	935,460
Qualifying Revolving Retail	8,383,056	8,383,056	6,357,632	6,357,632	508,611
Hire Purchase	5,301,681	5,301,681	3,880,292	3,880,292	310,423
Other Retail	3,609,531	3,609,531	2,002,076	2,002,076	160,166
Securitisation	-	-	-	-	-
Total for IRB Approach	**130,571,097**	**130,571,097**	**59,566,843**	**59,566,843**	**4,765,347**
Total Credit Risk (Exempted Exposures and Exposures under the IRB Approach After Scaling Factor)	**193,239,987**	**188,334,615**	**83,785,262**	**83,785,262**	**6,702,821**

CAPITAL MANAGEMENT *(continued)*

Capital Structure and Adequacy (continued)

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

2011					CIMB Bank
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%
Large Exposure Risk Requirement	**400,148**	**400,148**	**400,148**	**400,148**	**32,012**
Market Risk (SA)					
Interest Rate Risk			6,160,998	6,160,998	492,880
Foreign Currency Risk			720,575	720,575	57,646
Equity Risk			727,377	727,377	58,190
Commodity Risk			21,147	21,147	1,692
Options Risk			475,204	475,204	38,016
Total Market Risk			**8,105,302**	**8,105,302**	**648,424**
Operational Risk (BIA)			**9,949,736**	**9,949,736**	**795,979**
Total RWA and Capital Requirement			**102,240,448**	**102,240,448**	**8,179,236**

Note: The term "Net Exposure before CRM (SA)" as presented in the previous disclosure has the same meaning as "Gross Exposure before CRM (SA)" as provided in the guidelines. It is net of specific impairment provisions and without taking into account the effects of netting and credit risk mitigation. For consistency purposes, the term has been changed to "Gross Exposure before CRM (SA)" as per the guidelines.

CAPITAL MANAGEMENT *(continued)*

Internal Capital Adequacy Assessment Process (ICAAP)

CIMB Group has in place an EWRM Framework that incorporates ICAAP requirements to ensure that the Group maintains adequate capital on an ongoing basis to supports its business operations.

The Group is still in the process of fully implementing ICAAP and will continuously enhance the process over the next few years, including deploying the process to the regional operations. The significant milestones achieved to-date are as follows:

i) Formalisation of the Risk Appetite Statement.

ii) Formalisation of a framework that integrates risk management to business planning, capital allocation and risk-based performance measurement.

iii) Comprehensive risk assessment where the bottom-up risk assessment by the business and support units are complemented by the top-down risk assessment by GRD.

iv) Formalisation of various frameworks to manage material risks inherent in the Group which are not quantifiable.

v) Quantification of non-Pillar 1 material risks which will be considered in the overall capital adequacy assessment.

vi) Ongoing validation of ICAAP by Group Internal Audit Division.

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 lending activities through loans as well as commitments to support clients' obligations to third parties, i.e. guarantees. 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 interest 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.

The credit approving authority is established and documented in the Group's credit policy. The Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level to the various credit committees. The credit approving committees namely, SBCC, CBCC, RCC and GWBRC 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. The committees also ensure the overall loan portfolio meets the guidelines of the regulatory authorities and adheres to the approved credit policies and procedures.

CREDIT RISK *(continued)*

Credit Risk Management (continued)

Credit applications are independently evaluated by GC/RCM prior to submission to the relevant committees for approval. Adherence to and compliance with single customer, country and global counterparty limits as well as the assessment of the quality of collateral are approaches adopted to address concentration risk to any large sector/industry, or to a particular counterparty group or individual.

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

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 repay their debts, performed by way of statistical analysis from credit bureau and demographic information of the obligors. The risk rating models for non-retail exposures are designed to assess the credit worthiness of the corporations or entities in paying their obligations, derived from 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 on at least 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 and manage credit portfolio risk due to credit events. 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 Bank's credit exposures by geographic region:

Table 3: Geographic Distribution of Credit Exposures

2012					CIMB Bank
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	24,285,867	1,386,419	-	-	25,672,286
Bank	23,081,966	4,793,656	-	1,538,791	29,414,413
Corporate	60,427,196	11,182,256	-	926,799	72,536,251
Mortgage	33,560,868	2,943,799	-	-	36,504,667
HPE	5,095,953	-	-	-	5,095,953
QRRE	8,154,865	-	-	-	8,154,865
Other Retail	25,494,552	3,208,150	-	19,615	28,722,318
Other Exposures	6,540,578	341,826	-	95,813	6,978,217
Total Gross Credit Exposure	**186,641,844**	**23,856,106**	**-**	**2,581,019**	**213,078,969**

2011					CIMB Bank
(RM'000) Exposure Class	Malaysia	Singapore	Thailand	Other Countries	Total
Sovereign	27,988,558	1,268,202	-	-	29,256,760
Bank	23,883,729	2,185,927	-	1,574,163	27,643,819
Corporate	50,774,591	8,137,703	-	945,546	59,857,840
Mortgage	31,010,527	2,841,308	-	-	33,851,836
HPE	5,301,681	-	-	-	5,301,681
QRRE	8,383,056	-	-	-	8,383,056
Other Retail	20,342,610	2,350,339	-	10,368	22,703,317
Other Exposures	5,984,770	193,452	-	63,456	6,241,679
Total Gross Credit Exposure	**173,669,523**	**16,976,931**	**-**	**2,593,533**	**193,239,987**

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

ii) Gross Credit Exposures by Sector

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

Table 4: Distribution of Credit Exposures by Sector

2012												CIMB Bank
(RM'000) Exposure Class	Primary Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale and Retail Trade, and Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance, Real Estate and Business Activities	Education, Health and Others	Household	Others*	Total
Sovereign	-	-	-	528,571	-	-	868,029	4,832,427	19,443,259	-	-	25,672,286
Bank	-	-	-	-	-	-	-	29,412,974	1,439	-	-	29,414,413
Corporate	2,886,769	2,581,701	7,499,349	3,531,524	5,927,000	6,802,942	9,201,287	19,637,560	3,717,037	-	10,751,081	72,536,251
Mortgage	-	-	-	-	-	-	-	-	-	36,504,667	-	36,504,667
HPE	-	-	-	-	-	-	-	-	-	5,095,953	-	5,095,953
QRRE	-	-	-	-	-	-	-	-	-	8,154,865	-	8,154,865
Other Retail	70,154	7,624	318,159	8,468	289,754	761,543	81,635	660,948	205,453	26,318,581	-	28,722,317
Other Exposures	-	-	-	-	-	-	-	850,337	-	-	6,127,880	6,978,217
Total Gross Credit Exposure	**2,956,922**	**2,589,325**	**7,817,508**	**4,068,563**	**6,216,754**	**7,564,485**	**10,150,952**	**55,394,246**	**23,367,187**	**76,074,065**	**16,878,961**	**213,078,969**

*****_Others are exposures which are not elsewhere classified._

CREDIT RISK *(continued)*

Summary of Credit Exposures (continued)

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

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

2011												CIMB Bank
(RM'000) Exposure Class	**Primary Agriculture**	**Mining and Quarrying**	**Manufacturing**	**Electricity, Gas and Water Supply**	**Construction**	**Wholesale and Retail Trade, and Restaurants and Hotels**	**Transport, Storage and Communication**	**Finance, Insurance, Real Estate and Business Activities**	**Education, Health and Others**	**Household**	**Others***	**Total**
Sovereign	-	-	-	720,394	-	-	419,276	18,915,641	9,201,448	-	-	29,256,760
Bank	-	-	-	-	-	-	-	27,615,837	27,982	-	-	27,643,819
Corporate	2,054,101	1,179,509	7,061,119	2,681,160	5,080,540	5,886,026	11,047,018	17,265,460	3,980,248	-	3,622,659	59,857,840
Mortgage	-	-	-	-	-	-	-	-	-	33,851,836	-	33,851,836
HPE	-	-	-	-	-	-	-	-	-	5,301,681	-	5,301,681
QRRE	-	-	-	-	-	-	-	-	-	8,383,056	-	8,383,056
Other Retail	51,979	7,896	243,383	6,428	270,085	709,426	75,096	396,553	114,647	20,827,824	-	22,703,317
Other Exposures	-	-	-	-	-	-	-	722,922	137,918	-	5,380,839	6,241,679
Total Gross Credit Exposure	**2,106,080**	**1,187,405**	**7,304,502**	**3,407,982**	**5,350,625**	**6,595,452**	**11,541,391**	**64,916,413**	**13,462,243**	**68,364,396**	**9,003,498**	**193,239,987**

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

Table 5: Distribution of Credit Exposures by Residual Contractual Maturity

2012				**CIMB Bank**
(RM'000) **Exposure Class**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	9,179,380	5,702,158	10,790,748	25,672,286
Bank	16,363,544	12,025,938	1,024,932	29,414,413
Corporate	25,687,352	27,729,050	19,119,850	72,536,251
Mortgage	19,756	468,022	36,016,890	36,504,667
HPE	130,329	2,122,952	2,842,672	5,095,953
QRRE	8,154,865	-	-	8,154,865
Other Retail	5,904,769	861,936	21,955,612	28,722,318
Other Exposures	15,702	617,646	6,344,869	6,978,217
Total Gross Credit Exposure	**65,455,695**	**49,527,701**	**98,095,573**	**213,078,969**

2011				**CIMB Bank**
(RM'000) **Exposure Class**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Sovereign	14,038,271	7,601,848	7,616,641	29,256,760
Bank	13,321,220	10,907,131	3,415,467	27,643,819
Corporate	22,887,387	20,946,498	16,023,955	59,857,840
Mortgage	25,623	426,995	33,399,218	33,851,836
HPE	111,571	2,370,464	2,819,646	5,301,681
QRRE	8,383,056	-	-	8,383,056
Other Retail	1,703,346	3,284,276	17,715,696	22,703,317
Other Exposures	206,233	372,714	5,662,731	6,241,679
Total Gross Credit Exposure	**60,676,707**	**45,909,925**	**86,653,354**	**193,239,987**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing

i) Past Due But Not Impaired

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

The following tables provide an analysis of the outstanding balances as at 31 December 2012 and 31 December 2011 which were past due but not impaired by sector and geographical respectively:

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

(RM'000)	CIMB Bank	
	2012	2011
Primary Agriculture	22,332	7,883
Mining and Quarrying	464	966
Manufacturing	113,536	38,158
Electricity, Gas and Water Supply	199	1,109
Construction	132,205	96,241
Wholesale and Retail Trade, and Restaurants and Hotels	155,966	123,856
Transport, Storage and Communication	62,554	14,211
Finance, Insurance, Real Estate and Business Activities	371,569	99,061
Education, Health and Others	36,211	26,105
Household	9,336,531	8,595,568
Others*	19,938	102,594
Total	**10,251,505**	**9,105,752**

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

Table 6(b): Past Due but Not Impaired Loans, Advances and Financing by Geographic Distribution

(RM'000)	CIMB Bank	
	2012	2011
Malaysia	10,205,532	9,102,119
Singapore	44,075	3,633
Thailand	-	-
Other Countries	1,898	-
Total	**10,251,505**	**9,105,752**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

i) Impaired Loans

CIMB 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 and on loans assessed collectively.

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

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

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

The following tables provide an analysis of the outstanding balances as at 31 December 2012 and 31 December 2011 which were impaired by sector and geographical respectively:

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans *(continued)*

Table 7(a): Impaired Loans, Advances and Financing by Sector

(RM'000)	CIMB Bank	
	2012	2011
Primary Agriculture	28,039	25,067
Mining and Quarrying	33,327	33,287
Manufacturing	568,357	417,177
Electricity, Gas and Water Supply	767	221,601
Construction	271,227	391,005
Wholesale and Retail Trade, and Restaurants and Hotels	313,214	421,840
Transport, Storage and Communication	969,990	807,229
Finance, Insurance, Real Estate and Business Activities	250,016	296,595
Education, Health and Others	34,021	37,746
Household	1,113,446	1,283,632
Others*	124,039	220,058
Total	**3,706,443**	**4,155,237**

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

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

(RM'000)	CIMB Bank	
	2012	2011
Malaysia	3,685,588	4,112,576
Singapore	20,855	42,661
Thailand	-	-
Other Countries	-	-
Total	**3,706,443**	**4,155,237**

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans *(continued)*

Table 8(a): Individual Impairment and Portfolio Impairment Allowances by Sector

(RM'000)	CIMB Bank			
	2012		2011	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Primary Agriculture	10,686	14,814	10,045	15,376
Mining and Quarrying	28,426	5,638	29,158	2,854
Manufacturing	399,776	77,205	401,995	91,172
Electricity, Gas and Water Supply	-	1,365	4,420	5,428
Construction	172,680	66,451	178,424	75,382
Wholesale and Retail Trade, and Restaurants and Hotels	153,045	162,016	279,732	166,627
Transport, Storage and Communication	633,354	31,115	584,729	41,433
Finance, Insurance, Real Estate and Business Activities	104,020	59,937	149,388	73,454
Education, Health and Others	20,052	18,996	18,302	22,519
Household	19,039	804,636	16,779	1,067,665
Others*	124,658	13,615	17,705	15,157
Total	**1,665,736**	**1,255,788**	**1,690,677**	**1,577,067**

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

Table 8(b): Individual Impairment and Portfolio Impairment Allowances by Geographic Distribution

(RM'000)	CIMB Bank			
	2012		2011	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Malaysia	1,649,649	1,239,373	1,673,836	1,566,617
Singapore	16,087	16,415	16,841	10,450
Thailand	-	-	-	-
Other Countries	-	-	-	-
Total	1,665,736	1,255,788	1,690,677	1,577,067

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

Impaired Loans (continued)

Table 9: Charges for Individual Impairment Provision and Write Offs During the Year

(RM'000)	CIMB Bank			
	2012		2011	
	Charges/ (Write Back)	Write-Off	Charges/ (Write Back)	Write-Off
Primary Agriculture	38	-	1,012	56
Mining and Quarrying	(129)	79	22,907	-
Manufacturing	42,824	55,941	39,042	3,280
Electricity, Gas and Water Supply	(5,313)	73	(5,111)	-
Construction	(17,735)	10,900	18,782	6,981
Wholesale and Retail Trade, and Restaurants and Hotels	(1,033)	96,526	(3,547)	2,789
Transport, Storage and Communication	12,627	1,030	24,532	-
Finance, Insurance, Real Estate and Business Activities	3,401	47,705	22,453	40
Education, Health and Others	155	-	(1,101)	-
Household	1,011	860	5,268	-
Others*	95,544	16,237	(375)	-
Total	**131,390**	**229,351**	**123,862**	**13,146**

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

CREDIT RISK *(continued)*

Credit Quality of Loans, Advances & Financing (continued)

ii) Impaired Loans/Financings *(continued)*

Table 10: Analysis of movement for Loan Impairment Allowances for the Year Ended 31 December 2012 and 31 December 2011

(RM'000)	CIMB Bank			
	2012		2011	
	Individual Impairment Allowance	Portfolio Impairment Allowance	Individual Impairment Allowance	Portfolio Impairment Allowance
Balance as at 1 January	1,690,678	1,577,067	1,599,643	1,853,963
Allowance (written back)/made during the financial period/year	138,153	131,975	123,862	289,245
Amount transferred to portfolio impairment allowance	-	-	-	-
Amount written back in respect of recoveries	(6,763)	-	-	-
Allowance made and charged to deferred assets	1,221	(1,510)	140	844
Allowance made in relation to jointly controlled entity	-	-	-	-
Amount written off	(229,351)	(502,689)	(13,146)	(378,962)
Transfer(to)/from intercompany	-	-	-	(166,234)
Disposal of subsidiary	-	-	-	-
Unwinding income	85,578	51,867	(30,765)	(18,942)
Exchange fluctuation	(13,780)	(922)	10,943	(2,847)
Total	**1,665,736**	**1,255,788**	**1,690,677**	**1,577,067**

CREDIT RISK *(continued)*

Capital Treatment for Credit Risk for Portfolios under the SA

Details on RWA and capital requirements related to Credit Risk are disclosed separately for CIMB Bank 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 RWCAF (Basel II – Risk Weighted Assets Computation) 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 11: Disclosure by Risk Weight under SA

2012											CIMB Bank	
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Securitisation *	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk Weighted Assets
0%	24,673,318	-	-	-	-	-	-	-	2,403,888	-	27,077,206	-
20%	123,382	1,289	56,484	-	140,130	965	-	-	155,952	698,695	1,176,897	235,379
35%	-	-	-	-	-	-	3,139,612	-	-	-	3,139,612	1,098,864
50%	-	-	887	-	414,245	48,098	58,318	-	-	-	521,548	260,774
75%	-	-	-	-	-	15,814,264	19,590	-	-	-	15,833,853	11,875,390
100%	-	-	-	-	2,780,304	2,107,949	36,662	-	2,451,155	-	7,376,070	7,376,070
150%	-	-	-	-	86,148	31,826	-	1,200,381	-	-	1,318,355	1,977,533
>150%	-	-	-	-	-	-	-	-	-	2,525	2,525	7,448
Total	**24,796,700**	**1,289**	**57,370**	**-**	**3,420,827**	**18,003,102**	**3,254,182**	**1,200,381**	**5,010,995**	**766,841**	**56,511,687**	**22,831,458**
Average Risk Weight	-	20%	20%	-	92%	78%	36%	150%	50%	19%	40%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	65,621	-	

**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 11: Disclosure by Risk Weight under SA *(continued)*

2011	CIMB Bank											
(RM'000) Risk Weights	Sovereign/ Central Banks	PSEs	Banks, MDBs and DFIs	Insurance Cos, Securities Firms & Fund Managers	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Securitisation *	Total Exposures after Netting and Credit Risk Mitigation*	Total Risk Weighted Assets
0%	29,027,152	-	-	-	-	-	-	-	1,844,393	-	30,871,544	-
20%	123,961	-	816,742	-	64,429	1,387	-	-	156,567	677,942	1,841,028	368,206
35%	-	-	-	-	-	-	3,043,499	-	-	-	3,043,499	1,065,225
50%	-	-	-	-	13,774	43,356	56,018	-	-	-	113,148	56,574
75%	-	-	-	-	-	13,645,524	33,729	-	-	-	13,679,253	10,259,440
100%	79,659	-	-	-	3,443,316	875,205	8,354	-	2,259,202	-	6,665,736	6,665,736
150%	25,987	-	-	-	185,332	34,414	-	1,230,937	-	-	1,476,670	2,215,006
>150%	-	-	-	-	-	-	-	-	-	2,523	2,523	14,222
Total	**29,256,760**	**-**	**816,742**	**-**	**3,706,850**	**14,599,887**	**3,141,601**	**1,230,937**	**4,260,161**	**750,581**	**57,763,519**	**20,644,408**
Average Risk Weight	-	-	20%	-	101%	77%	36%	150%	54%	20%	36%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	70,116	-	

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

2012				CIMB Bank
(RM '000) Exposure Class	Investment Grade	Non Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	1,289	1,289
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporate	526,823	64,908	4,785,850	5,377,581
Sovereign/Central Banks	3,234,723	146,570	21,415,407	24,796,700
Banks, MDBs and DFIs	56,484	-	887	57,370
Total	**3,818,029**	**211,479**	**26,203,432**	**30,232,940**

2011				CIMB Bank
(RM '000) Exposure Class	Investment Grade	Non Investment Grade	No Rating	Total
On and Off-Balance-Sheet Exposures				
Public Sector Entities	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporate	61,429	22,506	4,034,388	4,118,322
Sovereign/Central Banks	2,649,653	93,275	26,513,831	29,256,760
Banks, MDBs and DFIs	816,742	-	-	816,742
Total	**3,527,824**	**115,781**	**30,548,219**	**34,191,824**

CREDIT RISK *(continued)*

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

Table 13: Disclosures of Securitisation under SA according to Ratings by ECAIs

2012				**CIMB Bank**
(RM '000) Exposure Class	**Investment Grade**	**Non Investment Grade**	**No Rating**	**Total**
On and Off-Balance-Sheet Exposures				
Securitisation	698,695	-	68,146	**766,841**

2011				**CIMB Bank**
(RM '000) Exposure Class	**Investment Grade**	**Non Investment Grade**	**No Rating**	**Total**
On and Off-Balance-Sheet Exposures				
Securitisation	677,942	-	72,639	**750,581**

CREDIT RISK *(continued)*

Credit Risk – Disclosure for Portfolios under the IRB Approach

CIMB Bank adopts the A-IRB Approach for its retail exposures and F-IRB Approach for its non-retail exposures. The IRB Approach allows CIMB Bank 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 GRM 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 GRM 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 lending.

Retail exposures covered under the A-IRB Approach include credit cards, auto loans, personal financing and residential mortgages. 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.

CREDIT RISK *(continued)*

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

Retail Exposures (continued)

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 RWCAF (Basel II – Risk Weighted Assets Computation). 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.

PD Calibration

- PD is defined as the probability of a borrower 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 loan's EAD estimation includes the estimated net additional drawings for loans defaulting over the next 12 months.

LGD Estimation

- LGD is the estimated amount of loss expected if a loan 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 borrowers/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 2012 and 31 December 2011:

Table 14: Retail Exposures under the IRB Approach by PD Band

2012				**CIMB Bank**
(RM'000) PD Range of Retail Exposures	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**40,297,328**	**8,080,130**	**1,695,117**	**50,072,575**
Residential Mortgage	28,990,760	3,207,347	1,052,378	33,250,486
QRRE	5,119,810	3,021,654	13,402	8,154,865
Hire Purchase	3,628,405	1,326,442	141,107	5,095,953
Other Retail	2,558,354	524,688	488,231	3,571,272
Exposure Weighted Average LGD				
Residential Mortgage	23%	25%	35%	
QRRE	90%	90%	90%	
Hire Purchase	51%	54%	58%	
Other Retail	30%	35%	70%	
Exposure Weighted Average Risk Weight				
Residential Mortgage	31%	88%	51%	
QRRE	32%	128%	-	
Hire Purchase	54%	99%	247%	
Other Retail	32%	51%	293%	

CREDIT RISK *(continued)*

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

Retail Exposures (continued)

Table 14: Retail Exposures under the IRB Approach by PD Band *(continued)*

2011				CIMB Bank
(RM'000) **PD Range of Retail Exposures**	**0% ≤ PD < 2%**	**2% ≤ PD < 100%**	**100% Or Default**	**Total**
Total Retail Exposure	**37,095,737**	**9,151,994**	**1,756,772**	**48,004,503**
Residential Mortgage	26,067,279	3,403,846	1,239,110	30,710,235
QRRE	4,661,479	3,632,754	88,823	8,383,056
Hire Purchase	3,644,337	1,464,748	192,596	5,301,681
Other Retail	2,722,642	650,646	236,243	3,609,531
Exposure Weighted Average LGD				
Residential Mortgage	23%	25%	36%	
QRRE	90%	90%	90%	
Hire Purchase	52%	54%	59%	
Other Retail	28%	30%	71%	
Exposure Weighted Average Risk Weight				
Residential Mortgage	31%	88%	41%	
QRRE	33%	130%	127%	
Hire Purchase	56%	101%	187%	
Other Retail	30%	45%	378%	

CREDIT RISK *(continued)*

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

Retail Exposures (continued)

Table 15: Retail Exposures under the IRB Approach by Expected Loss Range

2012				**CIMB Bank**
(RM'000) EL Range of Retail Exposures	**EL ≤ 1%**	**1% < EL < 100%**	**EL = 100%**	**Total**
Total Retail Exposure	**40,679,917**	**9,222,771**	**169,888**	**50,072,575**
Residential Mortgage	30,425,288	2,691,753	133,444	33,250,486
QRRE	3,722,141	4,432,724	-	8,154,865
Hire Purchase	3,540,540	1,552,306	3,107	5,095,953
Other Retail	2,991,949	545,987	33,337	3,571,272
Exposure Weighted Average LGD				
Residential Mortgage	23%	29%	40%	
QRRE	90%	90%	-	
Hire Purchase	51%	55%	54%	
Other Retail	32%	60%	75%	

2011				**CIMB Bank**
(RM'000) EL Range of Retail Exposures	**EL ≤ 1%**	**1% < EL < 100%**	**EL = 100%**	**Total**
Total Retail Exposure	**37,348,781**	**10,398,731**	**256,991**	**48,004,503**
Residential Mortgage	27,543,263	2,990,671	176,301	30,710,235
QRRE	3,082,351	5,300,706	-	8,383,056
Hire Purchase	3,499,369	1,740,820	61,492	5,301,681
Other Retail	3,223,799	366,534	19,198	3,609,531
Exposure Weighted Average LGD				
Residential Mortgage	23%	29%	39%	
QRRE	90%	90%	-	
Hire Purchase	52%	55%	59%	
Other Retail	28%	54%	79%	

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 Lending 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 loan classification.

The process by which an internal rating is assigned to an obligor is governed by the Obligor Risk Rating framework. 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.

For sovereign exposures, the Group applies the shadow rating approach.

CREDIT RISK *(continued)*

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

Non-retail Exposures (continued)

The following tables summarise the non-retail credit exposures measured under F-IRB Approach as at 31 December 2012 and 31 December 2011:

Table 16: Credit Exposures Subject to Supervisory Risk Weight under IRB Approach

2012						**CIMB Bank**
(RM '000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	712,965	160,518	496,913	-	1,075,950	2,446,346
Object Finance	19,161	10,744	48,883	56,839	-	135,626
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	815,314	1,061,615	1,130,826	165	42,116	3,050,037
RWA	**999,167**	**985,836**	**1,928,115**	**142,510**	**-**	**4,055,628**

2011						**CIMB Bank**
(RM '000) Supervisory Categories	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
Project Finance	196,617	14,185	674,928	1,354	997,754	1,884,838
Object Finance	12,990	-	-	32,676	-	45,665
Commodities Finance	-	-	-	-	-	-
Income Producing Real Estate	1,004,490	954,632	758,093	79,907	9,833	2,806,955
RWA	**822,162**	**780,536**	**1,647,975**	**284,840**	**-**	**3,535,512**

CIMB Bank has no exposure to High Volatility Commercial Real Estate and Equities under the Simple Risk Weight Approach.

CREDIT RISK *(continued)*

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

Non-retail Exposures (continued)

Table 17: Non-Retail Exposures under IRB Approach by Risk Grades

2012					**CIMB Bank**
(RM'000) Internal Risk Grading	**1 - 3**	**4 - 9**	**10 - 13**	**Default**	**Total**
Total Non-Retail Exposure	**43,633,056**	**37,001,077**	**8,327,146**	**2,796,720**	**91,758,000**
Sovereign/Central Banks	729,015	146,570	-	-	875,586
Bank	26,528,189	2,681,400	52,683	93,481	29,355,754
Corporate (excluding Specialised Lending)	16,375,853	34,173,106	8,274,463	2,703,239	61,526,661
Exposure Weighted Average LGD					
Sovereign/Central Banks	45%	45%	-	-	
Bank	44%	50%	45%	45%	
Corporate (excluding Specialised Lending)	45%	38%	29%	41%	
Exposure Weighted Average Risk Weight					
Sovereign/Central Banks	14%	71%	-	-	
Bank	17%	72%	243%	-	
Corporate (excluding Specialised Lending)	18%	60%	108%	-	

CREDIT RISK *(continued)*

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

Non-retail Exposures (continued)

Table 17: Non-Retail Exposures under IRB Approach by Risk Grades *(continued)*

2011					CIMB Bank
(RM'000) Internal Risk Grading	**1 - 3**	**4 - 9**	**10 - 13**	**Default**	**Total**
Total Non-Retail Exposure	**42,172,846**	**24,631,890**	**7,210,318**	**3,814,081**	**77,829,135**
Sovereign/Central Banks	-	-	-	-	-
Bank	23,792,654	2,316,602	557,685	160,136	26,827,076
Corporate (excluding Specialised Lending)	18,380,192	22,315,288	6,652,633	3,653,945	51,002,059
Exposure Weighted Average LGD					
Sovereign/Central Banks	-	-	-	-	
Bank	46%	52%	45%	45%	
Corporate (excluding Specialised Lending)	44%	40%	30%	44%	
Exposure Weighted Average Risk Weight					
Sovereign/Central Banks	-	-	-	-	
Bank	16%	85%	224%	-	
Corporate (excluding Specialised Lending)	17%	64%	115%	-	

CREDIT RISK *(continued)*

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

Expected Losses versus Actual Losses by Portfolio Types

The following table summarises the expected losses versus actual losses by portfolio type:

Table 18: Analysis of Expected Losses versus Actual Losses by Portfolio Types

				CIMB Bank
	2012		2011	
(RM'000) Exposure Class	Regulatory Expected Losses as at 31 December 2011	Actual Losses for the year ended 31 December 2012	Regulatory Expected Losses as at 31 December 2010	Actual Losses for the year ended 31 December 2011
Sovereign	-	-	-	-
Bank	127,934	(48,318)	19,653	-
Corporate	636,991	133,615	553,897	124,151
Mortgage	146,992	30,765	154,840	66,720
HPE	153,430	106,631	220,116	136,882
QRRE	350,428	140,912	356,476	232,823
Other Retail	23,373	23,103	33,892	22,258
Total	**1,439,149**	**386,708**	**1,338,875**	**582,834**

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 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 RWCAF (Basel II – Risk Weighted Assets Computation).

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 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 GWBRC and/or RCC.

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 2012, the additional collateral to be posted is RM32,286,742. There was no requirement for additional collateral to be posted in 31 December 2011.

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 2012 and 31 December 2011:

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR

Table 19: Disclosure on Off-Balance Sheet Exposures and CCR

2012				CIMB Bank
(RM '000) Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent Amount**	**Risk Weighted Assets**
Direct Credit Substitutes	1,533,792		1,533,792	953,739
Transaction Related Contingent Items	3,129,508		1,564,754	975,581
Short Term Self Liquidating Trade Related Contingencies	2,352,880		470,576	162,903
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	-		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign Exchange Related Contracts				
One year or less	298,781	-	4,482	2,001
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	331,060,440	1,240,246	6,835,257	2,577,050
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19,498,488		14,551,032	8,532,954
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	666,223		471,008	320,100
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	19,713,492		-	-
Unutilised credit card lines	16,612,655		5,605,967	2,958,080
Off-balance sheet items for securitisation exposures	5,050		2,525	7,448
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	**394,871,309**	**1,240,246**	**31,039,393**	**16,489,856**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR

Table 19: Disclosure on Off-Balance Sheet Exposures and CCR *(continued)*

2011				CIMB Bank
(RM '000) Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Direct Credit Substitutes	1,354,180		1,354,180	1,034,273
Transaction Related Contingent Items	3,077,081		1,538,541	810,754
Short Term Self Liquidating Trade Related Contingencies	2,139,847		427,969	64,094
Assets Sold With Recourse	-		-	-
Forward Asset Purchases	-		-	-
Obligations under an On-going Underwriting Agreement	145,000		72,500	(12,548)
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign Exchange Related Contracts				
One year or less	241,568	-	315	94
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	284,696,577	1,261,161	6,120,172	1,859,999
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	15,663,593		7,388,740	3,698,995
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	87,226		17,445	11,781
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	17,038,667		-	-
Unutilised credit card lines	15,255,371		5,457,777	3,102,120
Off-balance sheet items for securitisation exposures	5,046		2,523	14,222
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	**339,704,157**	**1,261,161**	**22,380,162**	**10,583,784**

CREDIT RISK *(continued)*

Off-Balance Sheet Exposures and CCR

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

Table 20: Disclosure on Credit Derivative Transactions for CIMB Bank

(RM'000)	CIMB Bank			
	2012		2011	
	Notional of Credit Derivatives			
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Own Credit Portfolio	1,140,746	1,625,094	1,044,859	1,096,065
Client Intermediation Activities	30,880	349,005	121,220	302,550
Total	**1,171,626**	**1,974,099**	**1,166,079**	**1,398,615**
Credit Default Swaps	1,140,746	1,625,094	1,044,859	1,096,065
Total Return Swaps	30,880	349,005	121,220	302,550
Total	**1,171,626**	**1,974,099**	**1,166,079**	**1,398,615**

CREDIT RISK *(continued)*

Credit Risk Mitigation

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

i) Collaterals/Securities

All extension of credit in so far as deemed prudent, must be appropriately and adequately secured. 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. GWBRC/RCC is empowered to approve any inclusion of new acceptable collaterals/securities.

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

ii) Collateral Valuation and Management

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants.

The collateral is valued periodically ranging from daily to annually, depending on the type of collateral. Specifically for real estate properties, a framework for valuation of real estate properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of real estate properties and other related activities in relation to the interpretation, monitoring and management of valuation of real estate properties.

iii) Netting

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

iv) Concentrations within risk mitigation

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 counterparty, sectors and country.

CREDIT RISK *(continued)*

Credit Risk Mitigation (continued)

The following tables summarise the extent of which exposures are covered by eligible credit risk mitigants as at 31 December 2012 and 31 December 2011:

Table 21: Disclosure on Credit Risk Mitigation

2012				**CIMB Bank**
(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	25,672,286	-	-	-
Public Sector Entities	1,289	-	-	-
Banks, DFIs & MDBs	29,317,424	-	1,056,702	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporate	68,604,586	1,909,936	7,570,845	8,345,910
Residential Mortgages	35,447,864	-	-	-
Qualifying Revolving Retail	8,141,463	-	-	-
Hire Purchase	4,954,846	-	-	-
Other Retail	28,130,684	965	7,142,792	-
Securitisation	766,841	-	-	-
Higher Risk Assets	1,200,381	-	-	-
Other Assets	5,010,995	-	-	-
Defaulted Exposures	2,263,626	25,719	149,479	481,771
Total Exposures	**209,512,284**	**1,936,621**	**15,919,817**	**8,827,681**

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

2011				CIMB Bank
(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	29,256,760	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs & MDBs	27,483,683	-	72,279	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporate	54,975,925	1,228,072	4,573,266	5,119,442
Residential Mortgages	32,608,126	-	-	-
Qualifying Revolving Retail	8,294,233	-	-	-
Hire Purchase	5,109,085	-	-	-
Other Retail	22,263,022	1,387	4,490,402	-
Securitisation	750,581	-	-	-
Higher Risk Assets	1,230,937	-	-	-
Other Assets	4,260,161	-	-	-
Defaulted Exposures	2,780,755	9,578	32,347	412,009
Total Exposures	**189,013,267**	**1,239,037**	**9,168,294**	**5,531,451**

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 securitisations of third party assets as part of its debt capital markets services for external clients.

The Group securitises its own assets in order to manage credit risk and its capital position and to generate term funding for the Group balance sheet.

CIMB Group adopts the following roles in the securitisation activities in which it is involved:

- Originator and servicer of securitised assets
- Executor of securitisation trades including bond marketing and syndication
- Provider of liquidity facilities to self-originated and third-party transactions
- Purchaser of third-party securitisations (where CIMB is not originator or sponsor)

As at 31 December 2012, CIMB Bank has securitised 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. CIMB advises, arranges and executes securitisations for third-party clients through special purpose vehicles sponsored by each such client.

CIMB's Involvement in Securitisation in 2012

In 2012, CIMB arranged and managed a securitisation issuance via Premium Commerce Berhad, a bankruptcy-remote special purpose vehicle established in 2005 pursuant to a securitisation programme arranged for the Tan Chong Group. CIMB Bank did not raise any funds for its own account via securitisation in 2012.

Every transaction involving securitisation of CIMB Bank's assets is tabled to the Board of Directors of CIMB Bank for deliberation and approval. Todate, CIMB Bank has not used credit risk mitigation to mitigate the risk retained from any securitisation of its own assets.

In securitisations of its own assets, CIMB Bank continues to administer the assets as servicer for the relevant special purpose vehicle and monitors the credit and market risk inherent in the underlying assets using the same mechanism in place for non-securitised assets.

SECURITISATION ***(continued)***

Summary of Accounting Policies for Securitisation Activities

CIMB has sponsored special purpose vehicles (SPVs) pursuant to securitisation activities involving assets of the Group. Such SPVs are consolidated when the substance of the relationship between the Group and that entity indicates control. Potential indicators of control include, inter alia, an assessment of the Group's exposure to the risks and rewards of the assets of the SPV.

Assets that have been transferred wholly or proportionately to an unconsolidated entity will also remain on the Group balance sheet, with a liability recognised for the proceeds received, unless (a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or (b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

Other than (a) or (b) above, securitisations are treated as financing in the separate financial statements of these entities.

ECAIs Used For Securitisation Process

CIMB may employ external credit assessment institutions to provide ratings for its asset backed securities. CIMB has used RAM and MARC for securitisations of its own originated assets as well as securitisations for third-party clients.

For securitisations of CIMB-originated assets, RAM has rated a securitisation of corporate bonds, and MARC has rated a securitisation of auto-hire purchase receivables. Both RAM Ratings and MARC have rated a securitisation programme for a joint-venture of auto-hire purchase receivables.

SECURITISATION *(continued)*

The following tables show the disclosure on Securitisation for Trading and Banking Book for 31 December 2012 and 31 December 2011:

Table 22: Disclosure on Securitisation for Trading and Banking Book

2012 (RM'00)	CIMB Bank			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Impaired**	**Gains/Losses Recognised during the period**
TRADITIONAL SECURITISATION (Banking Book)				
Non-Originated by the Banking Institution				
Hire Purchase Exposure	81,310	18,414	3,264	(1,711)
Originated by the Banking Institution				
Hire Purchase Exposure	402,048	55,909	4,061	(1,495)

2011 (RM'000)	CIMB Bank			
Underlying Asset	**Total Exposures Securitised**	**Past Due**	**Impaired**	**Gains/Losses Recognised during the period**
TRADITIONAL SECURITISATION (Banking Book)				
Non-Originated by the Banking Institution				
Hire Purchase Exposure	154,339	29,642	9,841	(924)
Originated by the Banking Institution				
Hire Purchase Exposure	686,949	65,192	78	(617)

SECURITISATION *(continued)*

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

Table 23: Disclosure on Securitisation under the SA for Banking Book Exposures

2012											CIMB Bank
(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%	Weighted Average RW	Exposure Amount	
Traditional Securitisation (Banking Book)											
<u>*Non-originating Banking Institution*</u>											
On-Balance Sheet											
Most senior	691,338	-	-	-	691,338	-	-	-			138,268
Mezzanine	7,357	-	-	-	7,357	-	-	-			1,471
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)*

Table 23: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2012											CIMB Bank
(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%	Weighted Average RW	Exposure Amount	
Originating Banking Institution											
On-Balance Sheet											
Most senior	-	-	-	-	-	-	-	-			-
Mezzanine	-	-	-	-	-	-	-	-			-
First loss	65,621	65,621	-	-	-	-	-	-			-
Off-Balance Sheet											
Rated eligible liquidity facilities	-	-			-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	2,525	-			-	-	-	-	> 150%	2,525	7,448
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	**766,841**	**65,621**	**-**	**-**	**698,695**	**-**	**-**	**-**	-	**2,525**	**147,187**

SECURITISATION *(continued)*

Table 23: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2011											CIMB Bank
(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%	Weighted Average RW	Exposure Amount	
Traditional Securitisation (Banking Book)											
Non-originating Banking Institution											
On-Balance Sheet											
Most senior	633,662	-	-	-	633,662	-	-	-			126,732
Mezzanine	7,216	-	-	-	7,216	-	-	-			1,443
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)*

Table 23: Disclosure on Securitisation under the SA for Banking Book Exposures *(continued)*

2011											CIMB Bank
(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%	Weighted Average RW	Exposure Amount	
Originating Banking Institution											
On-Balance Sheet											
Most senior	16,993	-	-	-	16,993	-	-	-			3,399
Mezzanine	20,071	-	-	-	20,071	-	-	-			4,014
First loss	70,116	70,116	-	-	-	-	-	-			-
Off-Balance Sheet											
Rated eligible liquidity facilities	-	-			-	-	-	-			-
Unrated eligible liquidity facilities (with original maturity > 1 year)	2,523	-			-	-	-	-	> 150%	2,523	14,222
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	**750,581**	**70,116**	**-**	**-**	**677,942**	**-**	**-**	**-**	**-**	**2,523**	**149,810**

SECURITISATION *(continued)*

The tables below present the Securitisation under the SA for Trading Book Exposures subject to Market Risk Capital Charge:

Table 24: Disclosure on Securitisation under the SA for Trading Book Exposures subject to Market Risk Capital Charge

2012	CIMB Bank				
(RM'000) **Securitisation Exposures**	**Total Exposure Value of Positions Purchased or Retained**	**Exposures subject to deduction**	**General Risk Charge**	**Specific Risk Charge**	**Risk Weighted Assets**
TRADITIONAL SECURITISATION					
Originated by Third Party					
On Balance Sheet	16,205	-	630	324	11,923
Off –Balance Sheet	-	-	-	-	-
Sub-total	16,205	-	630	324	11,923
Originated by Banking Institution					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Sub-total	-	-	-	-	-
Securitisation subject to Early Amortisation					
Seller's interest					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Investor's interest					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Sub-total	-	-	-	-	-
TOTAL (TRADITIONAL SECURITISATION)	**16,205**	**-**	**630**	**324**	**11,923**

SECURITISATION *(continued)*

Table 24: Disclosure on Securitisation under the SA for Trading Book Exposures subject to Market Risk Capital Charge *(continued)*

2011					CIMB Bank
(RM'000) Securitisation Exposures	Total Exposure Value of Positions Purchased or Retained	Exposures subject to deduction	General Risk Charge	Specific Risk Charge	Risk Weighted Assets
TRADITIONAL SECURITISATION					
Originated by Third Party					
On Balance Sheet	63,948	-	2,369	1,444	47,663
Off –Balance Sheet	-	-	-	-	-
Sub-total	63,948	-	2,369	1,444	47,663
Originated by Banking Institution					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Sub-total	-	-	-	-	-
Securitisation subject to Early Amortisation					
Seller's interest					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Investor's interest					
On Balance Sheet	-	-	-	-	-
Off –Balance Sheet	-	-	-	-	-
Sub-total	-	-	-	-	-
TOTAL (TRADITIONAL SECURITISATION)	**63,948**	**-**	**2,369**	**1,444**	**47,663**

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 interest rates/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 ensures that the risk exposures undertaken by the Group is within the risk appetite approved by the Board. GRC, supported by the MRM function in GRM 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, interest/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 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 interest. 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 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, MRM undertakes the monitoring and oversight process at Group Treasury and Equity Derivatives Group trading 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.

MRM 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.

Treasury products approval processes will be led by MRM to ensure operational readiness before launching. All new products are assessed by components and in totality to ensure financial risks are accurately identified, monitored and effectively managed.

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 RWCAF (Basel II – Risk Weighted Assets Computation).

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

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

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The definition 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 places high importance in having operational risk management where there are processes and 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) ORM Tools implemented:

- Loss Event Management;
- RCSA; and
- KRI.

In pursuit of managing and controlling operational risk, ORMD has revised the ORM framework and its main objectives are to:

(i) Provide guidance to the management teams towards establishing a common platform and consistent approach to ORM across the Group;

(ii) Ensure readiness and compliance to BNM as the home supervisor and other regulators' requirements, including preparation towards the Basel II implementation; and

(iii) Assist in the integration of risk factors by providing a singular view of operational risk across the Group's business/support units/entities for effective and efficient ORM.

The ORMF is premised on a set of pillars of Operational Risk Standards and employs various tools including RCSA, risk event database management, KRI monitoring and process risk mapping as measures of supervision.

A key structure of the ORMF is the Corporate Governance that is founded on the 3 Levels of Defence approach which underlines the participation of members of the Board of Directors; Senior Management and supported by every employee of the Group as the first line of defence.

The philosophy of the governance structure in the ORMF recognises the following:

i) Ownership of the risk by the business/support areas (line management);

ii) Oversight by independent functions; and

iii) Independent review by Group Internal Audit Division.

OPERATIONAL RISK *(continued)*

Operational Risk Management (continued)

CIMB Group has also strengthened its infrastructure and in March 2012, the ORM System project has been completed where Loss Event Database, RCSA, KRI and Scenario Analysis are available tools in the system. These tools are techniques for the administration of operational risks together with the use of rating matrices. Moreover, in line with best practices, incidents on loss events are tracked and captured for analytical risk profiling and to further enhance controls. These tools have been rolled out to Malaysia, Singapore and Thailand.

CIMB Group has developed and implemented an e-Learning module on operational risk in order to enhance awareness of ORM amongst its staff.

In addition, CIMB Group has progressively set the various foundations to move towards Basel II Standardised Approach and building its capabilities towards the Advanced Measurement Approach.

Escalation and reporting processes are well instituted through various management committees notably the ORC 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 RWCAF (Basel II – Risk Weighted Assets Computation).

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 Bank 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 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 2012 financial statements.

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

Realised and unrealised gains or losses arising from sales and liquidations of equities for CIMB Bank for the year ended 31 December 2012 and 31 December 2011 is as follows:

Table 25: Realised Gains/Losses from Sales and Liquidations of Equities

(RM'000)	CIMB Bank	
	2012	2011
Realised gains		
Shares, private equity funds and unit trusts	5,670	25,971
Unrealised gains		
Shares, private equity funds and unit trusts	473,238	406,873

The following table shows an analysis of equity investments by appropriate equity groupings and risk weighted assets as at 31 December 2012 and 31 December 2011:

Table 26: Analysis of Equity Investments by Grouping and RWA

(RM'000)	CIMB Bank			
	2012		2011	
	Exposures subject to Risk-Weighting	RWA	Exposures subject to Risk-Weighting	RWA
Privately held	1,200,381	1,800,572	1,230,937	1,846,405
Publicly traded	-	-	-	-
Total	**1,200,381**	**1,800,572**	**1,230,937**	**1,846,405**

INTEREST RATE RISK IN THE BANKING BOOK

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

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

IRRBB Management

IRRBB 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. GRC, supported by the Asset Liability Management function in GRM is responsible to oversee the asset liability management process including an independent review and monitoring of IRRBB for the Group. The BSMC, with the support from CBSM, is responsible for the review of the balance sheet and recommends strategies, including hedging activities to manage the overall interest rate risk. CBTM is responsible for day-to-day management of exposure and gapping activities, including execution of hedging strategies.

IRRBB is measured by:

- Economic Value of Equity (EVE) sensitivity:

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

  For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate shock is applied. The treatments and assumptions applied are based on the contractual repricing maturity and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and so forth.

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

IRRBB Management (continued)

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

Table 27: IRRBB – Impact on Economic Value

(RM'000)	CIMB Bank	
	2012	2011
Currency	**+100bps Increase (Decline) in Economic Value (Value in RM Equivalent)**	
Ringgit Malaysia	(746,589)	(738,156)
US Dollar	81,611	44,287
Thai Baht	(428)	(425)
Singapore Dollar	(98,371)	(128,671)
Others	(22,410)	(35,392)
Total	**(786,187)**	**(858,357)**

- Earnings at Risk (EaR):

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

  For the purpose of this disclosure, the impact under an instantaneous 100 bps parallel interest rate shock is applied to the static balance sheet positions. The treatments and assumptions applied are based on the contractual repricing maturity and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and so forth.

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

IRRBB Management (continued)

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

Table 28: IRRBB – Impact on Earnings

(RM'000)	CIMB Bank	
	2012	2011
Currency	+100bps Increase (Decline) in Earnings (Value in RM Equivalent)	
Ringgit Malaysia	(14,439)	33,962
US Dollar	(15,612)	(10,363)
Thai Baht	2,721	2,643
Singapore Dollar	(59,201)	(82,644)
Others	(5,714)	(9,493)
Total	**(92,245)**	**(65,895)**

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[END OF SECTION]