

Company No: 671380-H

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Reports and Financial Statements  
for the financial year ended 31 December 2011**

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Reports and Financial Statements for the financial year ended 31 December 2011**

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# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011**

The Directors have pleasure in submitting their Report and the Audited Financial Statements of CIMB Islamic Bank Berhad ("CIMB Islamic" or "the Bank") for the financial year ended 31 December 2011.

### **Principal activities**

The principal activities of the Bank during the financial year are Islamic banking and finance business and the provision of related financial services. There was no significant change in the nature of these activities during the financial year.

### **Financial results**

	<b>RM'000</b>
Net profit after taxation	<u>335,732</u>

### **Dividends**

No dividends have been paid or declared by the Bank since the financial year ended 31 December 2010.

The Directors do not recommend the payment of any dividend for the current financial year.

### **Reserves, provisions and allowances**

There were no material transfers to or from reserves or provisions or allowances during the financial year other than those disclosed in the Financial Statements and notes to the Financial Statements.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Bad and doubtful financing**

Before the Financial Statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for doubtful financing.

At the date of this Report, the Directors are not aware of any circumstances which would render the amounts written off for bad financing or the amount of the allowance for doubtful financing in the Financial Statements of the Bank inadequate to any substantial extent.

### **Current assets**

Before the Financial Statements of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business, were shown in the accounting records of the Bank at the amount which they might be expected to realise.

At the date of this Report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the Financial Statements of the Bank misleading.

### **Valuation methods**

At the date of this Report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Contingent and other liabilities**

At the date of this Report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet their obligations when they fall due.

### **Change of circumstances**

At the date of this Report, the Directors are not aware of any circumstances not otherwise dealt with in this Report or the Financial Statements of the Bank that would render any amount stated in the Financial Statements misleading.

### **Items of an unusual nature**

In the opinion of the Directors:

- (a) the results of the Bank's operations for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this Report is made.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Directors**

The Directors who have held office since the date of the last Report and at the date of this Report are as follows:

#### **Directors**

Datuk Dr. Syed Muhamad bin Syed Abdul Kadir

Dato' Sri Mohamed Nazir bin Abdul Razak (resigned on 6 March 2012)

Dato' Mohd Shukri bin Hussin (resigned on 31 December 2011)

Dato' Anwar bin Haji @ Aji (resigned on 8 March 2012)

Raja Shaharul Niza bin Raja Abdul Aziz

Professor Dr. Mohammad Hashim Kamali

Badlisyah bin Abdul Ghani

Achmad Riawan Amin

Habibah binti Abdul (appointed on 19 January 2012)

In accordance with Article 83 of the Bank's Articles of Association, Datuk Dr. Syed Muhamad bin Syed Abdul Kadir and Professor Dr. Mohammad Hashim Kamali shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Article 84 of the Bank's Articles of Association, Habibah binti Abdul will retire from the Board at the forthcoming Annual General Meeting and being eligible, offer herself for re-election.

# CIMB Islamic Bank Berhad

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## Directors' Report for the financial year ended 31 December 2011 (Continued)

### Directors' interests in shares and share options

According to the Register of Directors' Shareholdings, the beneficial interests of the Directors who held office at the end of the financial year in the shares of the ultimate holding company during the financial year are as follows:

	Number of ordinary shares of RM1 each			
	As at 1 January	Granted	Disposed	As at 31 December
<b>Ultimate holding company</b>				
<b>CIMB Group Holdings Berhad</b>				
<b>Direct interest</b>				
Dato' Sri Mohamed Nazir bin Abdul Razak <sup>^</sup>	54,926,522	469,353	-	55,395,875
Badlisyah bin Abdul Ghani	-	35,810	(8,900)	26,910
	As at 1 January	Granted	Disposed	As at 31 December
<sup>^</sup> Includes shareholding of spouse, details of which are as follows:				
Dato' Azlina binti Abdul Aziz	8,000,000	-	-	8,000,000

Other than as disclosed above, according to the Register of Directors' Shareholdings, the Directors in office at the end of the financial year did not hold any interests in shares and share options of the ultimate holding company and related companies during the financial year.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Directors' benefits**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in Note 30 to the Financial Statements or the fixed salary as a full time employees of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate other than Management Equity Scheme and Equity Ownership Plan of the ultimate holding company (see Note 29 (d) and (e) of the Financial Statements).

### **2011 Business Plan And Strategy**

In 2011, the Bank maintained its leadership position in the global and local Islamic financial market as it continues to embark on its regional growth to expand its market share across its footprint in ASEAN. The Bank recorded an increase in market share for both deposit and financing in the retail business segment while continues to develop strongly in the wholesale banking business.

In the financial year the Bank gained momentum in its performance having leveraged on its transformation program and focussing on delivering sustainable business growth through all the business segments. The Bank is guided in its actions by the ASEAN Vision 2015 as outlined by the Group. In 2011, the Bank was able to improve its consumer banking business through significant investments in information technology systems and processes, training and development of its manpower and the efficiency of its services.

The Bank continues to win many awards and accolades from local and international publications which is a testimony of the success of its strategies and actions and the contributions of all its employees.



# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Performance overview**

The Bank recorded a profit before taxation of RM447.1 million in 2011, an increase of 10.9% from RM403.2 million profits recorded in the previous financial year. Earnings per share were at 37.39 sen compared to 48.51 sen for 2010 due to new issuance of ordinary shares on 30 May 2011. Shareholder's funds rose from RM1,338.7 million to RM1,928.5 million. Return on equity was 20.55% compared to 27.25% in the prior financial year. The Bank has achieved a satisfactory performance for the year under review due to aggressive marketing efforts and distinct product offerings.

Total overhead expenditures for the financial year ended 31 December 2011 were RM322.6 million (2010: RM229.9 million), of which 62.6% relates to personnel costs (2010: 50.9%).

Total assets rose by RM7.1 billion to RM43.1 billion (19.6%) from RM36.0 billion in 2010, mainly from corporate financing, hire purchase, personal financing and short term treasury placements.

Total impaired financing increased to RM345.8 million at end of 2011 from RM335.9 million at end of 2010. The Bank's portfolio impairment allowance during the financial year stood at RM417.7 million compared to RM240.5 million in 2010 due to the increase in total financing assets. Individual impairment allowance was at RM103.3 million against RM92.7 million as of 31 December 2010.

As at 31 December 2011, the Bank's Risk-Weighted Capital ratio was 14.42% (2010: 17.19%).

# CIMB Islamic Bank Berhad

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## Directors' Report for the financial year ended 31 December 2011 (Continued)

### Outlook for 2012

The Bank will continue to face challenges and intense competition in the year amid the expected slower growth in the region and a renewed consolidation and regulatory changes against a background of further liberalisation of the industry in ASEAN. However, there will also be continued opportunities for the Bank to increase its market share in selected business segments while maintaining margins and ensuring Shariah compliance and governance standards across the entity.

The Bank intends to seek out more opportunities in the region to assert and grow the Islamic banking business through a strategic plan of actions of reasserting profitability from its core business, product innovation and development, deepening of customer and client relationships, development of new fee income segments and, increasing the deposit franchise.

To achieve the strategic aims outlined, the Bank will rely on its investments in technology, processes and people to ensure effective and efficient delivery of its services in the region.

### Rating by External Rating Agencies

Details of the ratings of the Bank and its debt securities are as follows:

Rating Agency	Rating Classification	Definition
Malaysian Rating Corporation Berhad ('MARC') Date accorded: October 2011	Long Term Rating: AAA Outlook: Stable	Indicates a superior capacity to meet its financial obligations
RAM Rating Services Berhad ('RAM') Date accorded: July 2011	Short Term Rating: P1 Long Term Rating: AAA Outlook: Stable	Indicates a strong and superior capacity to meet its financial obligations

MARC has reaffirmed the rating for the Bank's Tier-2 Junior Sukuk Programme at AA+ *IS*.

## **CIMB Islamic Bank Berhad**

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### **Directors' Report for the financial year ended 31 December 2011 (Continued)**

#### **Shariah Committee**

Effective 1 January 2007, with the integration of CIMB Investment Bank's Shariah Committee and the Bank's Shariah Committee, all the Islamic banking businesses of the CIMB Group came under the purview of the CIMB Islamic Shariah Committee, which resides at the Bank.

As per the Shariah Governance Framework For Islamic Financial Institutions, the Shariah Committee advises the Bank on the operations of its Islamic banking business to ensure that the Bank is not involved in any elements/activities which are not permissible under Shariah. In advising on such matters, the Shariah Committee also considers the views of the Shariah Advisory Council/Committees of relevant authorities like Bank Negara Malaysia and the Securities Commission on issues relating to the activities and operations of Islamic banking and finance.

Composition of the Shariah Committee:

1. Sheikh Professor Dr. Mohammad Hashim Kamali (Chairman)
2. Sheikh Nedham Muhammad Seleh Yaqooby
3. Sheikh Dr. Haji Mohd Nai'm bin Haji Mokhtar
4. Sheikh Associate Professor Dr. Shafaai bin Musa
5. Sheikh Dr. Yousef Abdullah Al Shubaily
6. Professor Dr. Noor Inayah Yaakub (appointed on 1 April 2011)

#### **Zakat**

The obligation and responsibility for payment of Zakat lies with the Muslim shareholders of the Bank (if any), the Muslim shareholders of the Ultimate Holding Company as well as the Muslim depositors of the Bank. No accrual of Zakat expenses is provided in the financial statements of the Bank. The aforesaid is subject to the jurisdictional requirements on Zakat payment as may be applicable from time to time arising from local legislation, regulation, law or market convention as the case may be.

#### **Significant events during the financial year**

Significant events during the financial year are disclosed in Note 40 to the Financial Statements.

#### **Subsequent events after the financial year**

There were no significant events after the financial year.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Statement of Directors' Responsibility**

In preparing the Financial Statements, the Directors have ensured that the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines, and the provisions of the Companies Act, 1965, have been complied with and reasonable and prudent judgements and estimates have been made.

It is the responsibility of the Directors to ensure that the financial statements of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank for the financial year ended on that date.

The financial statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Bank and for the implementation and continued operation of adequate accounting and internal control systems for the prevention and detection of fraud and other irregularities. The system of internal controls is designed to provide reasonable and not absolute assurance for achieving certain internal control standards and helps the Bank manage the risk of failure to achieve business.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 12 of the financial statements.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2011 (Continued)**

### **Ultimate holding company**

The Directors regard CIMB Group Holdings Berhad, a quoted company incorporated in Malaysia, as the ultimate holding company.

### **Auditors**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution.

**Datuk Dr. Syed Muhamad bin Syed Abdul Kadir**  
Director

**Badlisyah bin Abdul Ghani**  
Director

Kuala Lumpur  
Date :

## **CIMB Islamic Bank Berhad**

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### **Statement by Directors**

### **Pursuant to Section 169(15) of the Companies Act, 1965**

We, Datuk Dr. Syed Muhamad bin Syed Abdul Kadir and Badlisyah bin Abdul Ghani, being two of the Directors of CIMB Islamic Bank Berhad, state that, in the opinion of the Directors, the Financial Statements set out on pages 16 to 160 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965, MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

Signed on behalf of the Board of Directors in accordance with their resolution.

**Datuk Dr. Syed Muhamad bin Syed Abdul Kadir**

Director

**Badlisyah bin Abdul Ghani**

Director

Kuala Lumpur

### **Statutory Declaration**

### **Pursuant to Section 169(16) of the Companies Act, 1965**

I, Kim Kenny, being the person primarily responsible for the financial management of CIMB Islamic Bank Berhad, do solemnly and sincerely declare the Financial Statements set out on pages 16 to 160 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

**Kim Kenny**

Subscribed and solemnly declared by the above named Kim Kenny at Kuala Lumpur before me,  
on

Commissioner for Oaths

# **CIMB Islamic Bank Berhad**

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## **Shariah Committee's Report**

We, Sheikh Professor Dr. Mohammad Hashim Kamali and Sheikh Associate Professor Dr. Shafaai bin Musa, being two of the members of the Shariah Committee of CIMB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Shariah Committee, that in our opinion, the operations of the Bank for the financial year ended 31 December 2011 have been conducted in conformity with the Shariah.

On behalf of the Shariah Committee.

**Sheikh Professor Dr. Mohammad Hashim Kamali**

**Sheikh Associate Professor Dr. Shafaai bin Musa**

Kuala Lumpur

Date :

# **Independent Auditors' Report to the member of CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

(Company No: 671380-H)

## **Report on the Financial Statements**

We have audited the Financial Statements of CIMB Islamic Bank Berhad on pages 16 to 160, which comprise the statement of financial position as at 31 December 2011 of the Bank, and the statements of income, comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 41.

### **Directors' Responsibility for the Financial Statements**

The Directors of the Bank are responsible for the preparation of these Financial Statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the Financial Statements that give true and fair view to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# **Independent Auditors' Report to the member of CIMB Islamic Bank Berhad (Continued)**

(Incorporated in Malaysia)  
(Company No: 671380-H)

## **Report on the Financial Statements (Continued)**

### **Opinion**

In our opinion, the Financial Statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PricewaterhouseCoopers**  
(No. AF: 1146)  
Chartered Accountants

**Mohammad Faiz Bin Mohammad Azmi**  
(No. 2025/03/12(J))  
Chartered Accountant

Kuala Lumpur  
Date :

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Statement of Financial Position as at 31 December 2011

	Note	2011 RM'000	2010 RM'000
<b>Assets</b>			
Cash and short-term funds	2	7,554,885	7,744,407
Deposits and placements with banks and other financial institutions	3	1,090,383	950,000
Financial assets held for trading	4	2,753,069	2,347,894
Financial investments available-for-sale	5	749,674	455,959
Financial investments held-to-maturity	6	1,177,357	1,093,635
Islamic derivative financial instruments	7	147,608	150,688
Financing, advances and other financing/loans	8	28,074,104	22,424,577
Other assets	9	299,017	334,227
Deferred taxation	10	8,035	5,589
Amount due from holding company	11	-	245,034
Amount due from related companies	11	1,760	828
Statutory deposits with Bank Negara Malaysia	12	1,097,797	143,406
Property, plant and equipment	13	3,899	1,862
Intangible assets	14	4,170	4,287
Goodwill	15	136,000	136,000
<b>Total assets</b>		<b>43,097,758</b>	<b>36,038,393</b>
<b>Liabilities</b>			
Deposits from customers	16	29,238,470	22,677,955
Deposits and placements of banks and other financial institutions	17	10,250,833	11,125,028
Subordinated Sukuk	18	564,679	300,000
Other liabilities	19	308,946	384,555
Islamic derivative financial instruments	7	395,854	199,199
Provision for tax and Zakat		16,614	12,989
Amount due to holding company	11	393,673	-
Amount due to related companies	11	139	-
<b>Total liabilities</b>		<b>41,169,208</b>	<b>34,699,726</b>
<b>Capital and reserves attributable to equity holder of the Bank</b>			
Perpetual preference shares	20	70,000	70,000
Ordinary share capital	21	1,000,000	750,000
Reserves	22	858,550	518,667
<b>Total equity</b>		<b>1,928,550</b>	<b>1,338,667</b>
<b>Total equity and liabilities</b>		<b>43,097,758</b>	<b>36,038,393</b>
<b>Commitments and contingencies</b>	7	<b>16,924,373</b>	<b>17,877,382</b>
<b>Capital adequacy</b>			
Core capital ratio	35	10.44%	13.22%
Risk-weighted capital ratio	35	14.42%	17.19%

**CIMB Islamic Bank Berhad**

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**Statement of Income  
for the financial year ended 31 December 2011**

	Note	2011 RM'000	2010 RM'000
Income derived from investment of depositors' funds and others	23	1,621,433	1,391,815
Income derived from investment of shareholder's funds	24	203,493	124,276
Allowances for losses on financing, advances and other financing/loans	25	(113,831)	(141,716)
Allowances for impairment losses on other receivables		(21)	-
Total distributable income		1,711,074	1,374,375
Income attributable to depositors	26	(941,315)	(741,286)
Total net income		769,759	633,089
Personnel expenses	27	(202,031)	(117,018)
Other overheads and expenditures	28	(120,612)	(112,902)
Profit before taxation		447,116	403,169
Taxation	31	(111,384)	(102,047)
Profit after taxation		335,732	301,122
Earnings per share (sen)			
- basic	32	37.39	48.51

**Statement of Comprehensive Income  
for the financial year ended 31 December 2011**

	2011 RM'000	2010 RM'000
Profit for the financial year	335,732	301,122
Other comprehensive income :		
Revaluation reserve of financial investments available-for-sale		
- Net gain from change in fair value	10,929	7,047
- Realised gain transferred to profit and loss on disposal	(6,681)	(530)
- Income tax effects	(1,062)	(1,629)
Total other comprehensive income	3,186	4,888
Total comprehensive income for the financial year	338,918	306,010

**CIMB Islamic Bank Berhad**

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**Statement of Changes in Equity  
for the financial year ended 31 December 2011**

Note	Non-distributable							Distributable		Total RM'000
	Share capital RM'000	Perpetual preference shares RM'000	Statutory reserve RM'000	Revaluation reserve- available- for-sale securities RM'000	Merger reserve RM'000	Capital reserve RM'000	Regulatory reserve RM'000	Share-based payment reserve RM'000	Retained profits RM'000	
At 1 January 2011										
- as previously reported	750,000	70,000	286,521	5,082	(2,457)	458	7,405	-	221,658	1,338,667
- effect of amendment to FRS 2	-	-	-	-	-	-	-	15,534	(15,534)	-
As restated	750,000	70,000	286,521	5,082	(2,457)	458	7,405	15,534	206,124	1,338,667
Net profit for the financial year	-	-	-	-	-	-	-	-	335,732	335,732
Other comprehensive income (net of tax)										
- Financial investments available-for-sale	-	-	-	3,186	-	-	-	-	-	3,186
Total comprehensive income for the period	-	-	-	3,186	-	-	-	-	335,732	338,918
Share-based payment expense	-	-	-	-	-	-	-	1,100	-	1,100
Transfer to statutory reserve	-	-	167,866	-	-	-	-	-	(167,866)	-
Transfer to regulatory reserve	-	-	-	-	-	-	51,708	-	(51,708)	-
Issuance of shares	250,000	-	-	-	-	-	-	-	-	250,000
Shares released under Equity Ownership Plan	-	-	-	-	-	-	-	(135)	-	(135)
As at 31 December 2011	1,000,000	70,000	454,387	8,268	(2,457)	458	59,113	16,499	322,282	1,928,550

**CIMB Islamic Bank Berhad**

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**Statement of Changes in Equity  
for the financial year ended 31 December 2011 (Continued)**

	Non-distributable						Distributable		Total RM'000	
	Share capital RM'000	Perpetual preference shares RM'000	Statutory reserve RM'000	Revaluation reserve- available- for-sale securities RM'000	Merger reserve RM'000	Capital reserve RM'000	Regulatory reserve RM'000	Share-based payment RM'000		Retained profits RM'000
At 1 January 2010										
- as previously reported	550,000	70,000	135,635	194	(2,457)	458	-	-	78,178	832,008
- effect of amendment to FRS 2	-	-	-	-	-	-	-	14,885	(14,885)	-
As restated	550,000	70,000	135,635	194	(2,457)	458	-	14,885	63,293	832,008
Net profit for the financial year	-	-	-	-	-	-	-	-	301,122	301,122
Other comprehensive income (net of tax)										
- Financial investments available-for-sale	-	-	-	4,888	-	-	-	-	-	4,888
Total comprehensive income for the financial year	-	-	-	4,888	-	-	-	-	301,122	306,010
Share-based payment expense	-	-	-	-	-	-	-	649	-	649
Transfer to statutory reserve	-	-	150,886	-	-	-	-	-	(150,886)	-
Transfer to regulatory reserve	-	-	-	-	-	-	7,405	-	(7,405)	-
Issue of share capital during the financial year	200,000	-	-	-	-	-	-	-	-	200,000
As at 31 December 2011	750,000	70,000	286,521	5,082	(2,457)	458	7,405	15,534	206,124	1,338,667

**CIMB Islamic Bank Berhad**

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**Statement of Cash Flows  
for the financial year ended 31 December 2011**

	2011 RM'000	2010 RM'000
Profit before taxation	447,116	403,169
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	1,039	1,139
Amortisation of intangible assets	1,280	3,030
Profit income from financial investments available-for-sale	(24,831)	(20,372)
Profit income from financial investments held-to-maturity	(51,995)	(55,264)
Profit expense on subordinated Sukuk	23,307	17,505
Gain from disposal of financial investments available-for-sale	(6,681)	(530)
Net loss from hedging derivatives	7,959	-
Unrealised loss/(gain) on foreign exchange	31,935	(93,735)
Unrealised loss from revaluation of financial assets held for trading	472	994
Accretion of discount less amortisation of premium	(25,294)	(28,839)
Unrealised loss from revaluation of Islamic profit rate swap	10,599	147,031
Allowances for losses on financing, advances and other financing/loans	151,605	162,611
Provision for other receivables	21	-
Share-based payment expense	1,100	649
	<u>567,632</u>	<u>537,388</u>
<b>(Increase)/decrease in operating assets</b>		
Financing, advances and other financing/loans	(5,801,132)	(6,547,534)
Other assets	35,054	(226,195)
Statutory deposits with Bank Negara Malaysia	(954,391)	29,400
Deposits and placements with banks and other financial institutions	(140,383)	42,275
Financial assets held for trading	(379,859)	935,406
Amount due from holding company	245,034	-
Amount due from related company	(932)	-
<b>Increase/(decrease) in operating liabilities</b>		
Deposits from customers	6,560,515	5,181,458
Deposits and placements from banks and other financial institutions	(874,195)	2,902,596
Islamic derivative financial instruments	189,136	1,132
Amount due to holding company	393,673	(272,765)
Amount due to related companies	139	(7,106)
Other liabilities	(102,837)	248,707
	<u>(262,546)</u>	<u>2,824,762</u>
Taxation and Zakat paid	(111,268)	(55,331)
Net cash flows (used in)/generated from operating activities	<u>(373,814)</u>	<u>2,769,431</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Statement of Cash Flows  
for the financial year ended 31 December 2011 (Continued)**

	Note	2011 RM'000	2010 RM'000
<b>Cash flows from investing activities</b>			
Net proceeds from (purchase) of financial investments held-to-maturity		(82,369)	(79,147)
Net proceeds from (purchase)/sale of financial investments available-for-sale		(280,622)	121,379
Profit income received from financial investments available-for-sale		23,488	20,998
Profit income received from financial investments held-to-maturity		49,327	52,154
Purchase of property, plant and equipment		(3,550)	(1,208)
Purchase of intangible assets		(689)	(2,809)
Net cash flows (used in)/generated from investing activities		<u>(294,415)</u>	<u>111,367</u>
<b>Cash flow from financing activities</b>			
Issuance of ordinary shares		250,000	200,000
Profit expense on subordinated Sukuk		(21,293)	(17,309)
Proceeds from issuance of subordinated Sukuk		250,000	-
Net cash flows generated from financing activities		<u>478,707</u>	<u>182,691</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(189,522)</b>	<b>3,063,489</b>
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>7,744,407</b>	<b>4,680,918</b>
<b>Cash and cash equivalents at end of the financial year</b>	<b>2</b>	<b><u>7,554,885</u></b>	<b><u>7,744,407</u></b>

# **CIMB Islamic Bank Berhad**

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## **Summary of Significant Accounting Policies for the financial year ended 31 December 2011**

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the Financial Statements.

### **A Basis of preparation**

The Financial Statements of the Bank have been prepared in accordance with the Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia (“BNM”) Guidelines, Shariah requirements and the provisions of the Companies Act, 1965.

The Financial Statements have been prepared under historical cost convention, as modified by the revaluation financial investments available-for-sale, financial assets and financial liabilities (including Islamic derivatives financial instruments) at fair value through profit or loss.

The preparation of Financial Statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of income and expenses during the reported period. It also requires the Directors to exercise their judgement in the process of applying the Bank’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 37.



## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **A Basis of preparation (Continued)**

##### **(a) Standards, amendments to published standards and interpretations that are effective and applicable to the Bank**

The new accounting standards, amendments to published standards and interpretations that are effective for the Bank for the financial year beginning 1 January 2011 are as follows:

- Revised FRS 1 “First-time Adoption of Financial Reporting Standards”
- Amendment to FRS 2 “Share-based Payment - Group Cash-Settled Share-based Payment Transactions”
- Amendment to FRS 7 “Financial instruments: Disclosures - Improving Disclosures about Financial Instruments”
- Amendment to FRS 1 “First-time Adoption of Financial Reporting Standards”
- Amendment to FRS 132 “ Financial instruments: Presentation - Classification of Right Issue”
- IC Interpretation 4 “Determining Whether an Arrangement contains a Lease”
- IC Interpretation 12 “Service Concession Arrangements”
- IC Interpretation 16 “Hedges of a Net Investment in a Foreign Operation”
- IC Interpretation 17 “Distributions of Non-cash Assets to Owners”
- IC Interpretation 18 “Transfer of Assets from Customers”
- TR i-4 “Shariah Compliant Sale Contract”
- Improvements to FRSs (2010)

A summary of the impact of new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Bank is set out in Note 39.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

### **A Basis of preparation (Continued)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective**

In November 2011, the Malaysian Accounting Standards Board formally announced that Malaysian reporting entities would be required to comply with the new IFRS-compliant framework, Malaysian Financial Reporting Standards (“MFRS”) for financial years commencing on or after 1 January 2012. MFRS 1 “First-time adoption of MFRS” provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

The Bank will be required to adopt the new standards, amendments to standards and interpretations in the following period and comparative financial information prepared in compliance with MFRS will be required for the year commencing 1 January 2010:

#### **(i) Financial year beginning on/after 1 January 2012**

- MFRS 139 “Financial Instruments: Recognition and Measurement” - Bank Negara Malaysia has removed the transitional provision for banking institutions on financing impairment assessment and provisioning to comply with the MFRS 139 requirements.
- The revised MFRS 124 “Related party disclosures” (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

### **A Basis of preparation (Continued)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (Continued)**

- Amendment to MFRS 112 “Income taxes” (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 “Investment property”. As a result of the amendments, IC Interpretation 121 “Income taxes - recovery of revalued non-depreciable assets” will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.
- IC Interpretation 19 “Extinguishing financial liabilities with equity instruments” (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in statement of income. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in statement of income.
- Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.
- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

### **A Basis of preparation (Continued)**

#### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (Continued)**

- Amendment to MFRS 101 “Presentation of items of other comprehensive income” (effective from 1 January 2012) requires entities to separate items presented in ‘other comprehensive income’ (“OCI”) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to statement of income in the future. The amendments do not address which items are presented in OCI.

#### **(ii) Financial year beginning on/after 1 January 2013**

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s financing/credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to statement of income, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **A Basis of preparation (Continued)**

##### **(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (Continued)**

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.
- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

The Bank has not finalised the financial impact of the change to MFRSs and is expected to complete the process by the 2012 first quarter announcement.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **B Income recognition**

Profit income and expense for all profit-bearing financial instruments are recognised within “profit income” and “profit expense” in the statement of income using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the profit income or profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed 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.

Where an account is classified as non-performing, income is suspended until it is realised on a cash basis. Profit accrued and recognised as income prior to the date the financing are classified as non-performing are not clawed-back to the first day of default in conformity with Bank Negara Malaysia guidelines. Customers' accounts are classified as non-performing where payments are in arrears for 3 months or more from the first day of default for financing and cashline, and after 3 months from maturity date for trade bills, bankers' acceptances and trust receipts.

The Bank's policy on recognition of finance income on financing, advances and other financing/loans is in conformity with BNM/GP3 and the revised BNM/GP8-i.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **C Recognition of fees and other income**

Financing arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees for financing, advances and other financing/loans that are likely to be disbursed are deferred (together with direct cost) and income which forms an integral part of the effective profit rate of a financial instrument is recognised as an adjustment to the effective profit on the financial instrument.

Guarantee fees, portfolio management fees and income from asset management and securities services are recognised as income based on a time apportionment method.

Dividends are recognised when the right to receive payment is established.

#### **D Financial assets**

##### **(a) Classification**

The Bank allocates its financial assets into the following categories: financial assets at fair value through profit or loss, financing and receivables, financial investments held-to-maturity and financial investments available-for-sale. Management determines the classification of its financial instruments at initial recognition.

##### **(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise of financial assets held for trading and other financial assets designated by the Bank as fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **D Financial assets (Continued)**

##### **(a) Classification (Continued)**

##### **(ii) Financing and receivables**

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

##### **(iii) Financial investments held-to-maturity**

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities that the Bank's management has the positive intent and ability to hold to maturity. If the Bank sell other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale.

##### **(iv) Financial investments available-for-sale**

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, financing and receivables and financial investments held-to-maturity.

##### **(b) Recognition and initial measurement**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs for securities carried at fair value through profit or loss are taken directly to the statement of income.

##### **(c) Subsequent measurement**

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in other comprehensive income, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised in the statement of income. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the statement of income in the period it arises.



## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **D Financial assets (Continued)**

##### **(c) Subsequent measurement (Continued)**

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective profit method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the statement of income.

Profit from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective profit method and is recognised in the statement of income. Dividends from available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

Financing and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the financing including the transaction costs, and measured subsequently at amortised cost using the effective profit rate method. Profit on financing is included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the financing and recognised in the statement of income.

##### **(d) Reclassification of financial assets**

The Bank may choose to reclassify a non-derivative financial assets held for trading out of the held for trading category if the financial asset is no longer held for the purposes of selling in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of financing and receivables out of the held for trading or available-for-sale categories if the Bank have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective profit rates for the securities reclassified to held-to-maturity category are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective profit rates.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **E Financial liabilities**

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statement of income. Financial liabilities are derecognised when extinguished.

##### **(a) Financial liabilities at fair value through profit or loss**

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. The specific Bank accounting policy on derivatives is detailed in Note H.

The financial liabilities measured at fair value through profit or loss upon initial recognition are trading derivatives.

##### **(b) Financial liabilities at amortised cost**

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, subordinated sukuk, bills and acceptances payable, sundry creditors, other borrowings, amount due to ultimate holding company, amount due to related companies and redeemable preference shares.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **F Derecognition of financial assets and financial liabilities**

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Bank under standard repurchase agreements transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

#### **G Impairment of financial assets**

##### **a) Assets carried at amortised cost**

A financial asset or a group of financial assets is deemed 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.

The criteria the Bank use to determine that there is objective evidence of impairment loss include indications that the customer or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in outstanding payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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 discounted at the financial assets' original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a financing or financial investments held-to-maturity has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **G Impairment of financial assets (Continued)**

##### **a) Assets carried at amortised cost (Continued)**

Financial assets that have not been individually assessed are grouped together for portfolio impairment assessment. These financing are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. 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 methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment. Such financial assets are written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

If in a subsequent period, the amount of impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

The Bank is currently reporting under BNM's transitional arrangement as prescribed in the guideline on "Classification and Impairment Provisions for Loans or Financing" issued on 8 June 2011. However, the Bank's financial statements are prepared in full compliance under FRS 139 principles.

##### **(b) Assets classified as available-for-sale**

The Bank assess at each date of the statement of financial position whether there is objective evidence that the financial asset is impaired.

For securities, the Bank uses criteria and measurement of impairment loss applicable for "assets carried at amortised cost" above. If in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of income, the impairment loss is reversed through statement of income.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **G Impairment of financial assets (Continued)**

##### **(b) Assets classified as available-for-sale (Continued)**

In the case of equity instruments classified as financial investments available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is an objective evidence that an impairment loss on financial investments available-for-sale has been incurred, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the statement of income. The amount of cumulative loss that is reclassified to statement of income is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of income. Impairment losses recognised in statement of income on equity instruments are not reversed through the statement of income.

#### **H Derivative financial instruments and hedge accounting**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of income.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognise profit or loss immediately.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **H Derivative financial instruments and hedge accounting (Continued)**

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designate certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) hedges of future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge) or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Bank document the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Bank also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

##### **(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective profit method is used is amortised to the statement of income over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained profits until the disposal of the equity security.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **H Derivative financial instruments and hedge accounting (Continued)**

##### **(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the statement of income. Amounts accumulated in equity are recycled to the statement of income in the periods in which the hedged item will affect the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

##### **(c) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income.

Gains and losses accumulated in the equity are recycled to the statement of income when the foreign operation is partially disposed or sold.

##### **(d) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of income.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **I Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of income during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Renovations	5 years or over the period of the tenancy, whichever is shorter
Office equipment	3 - 5 years
Furniture and fixtures	10 years
Motor vehicles	5 years
Computer equipment	
- servers	3 - 5 years
- other hardware	3 - 5 years

Depreciation on assets under construction commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment are reviewed for impairment at the end of each reporting period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in non-profit income.



## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **J Intangible assets**

##### **(a) Goodwill**

Goodwill arises on business combinations when the cost of acquisition exceeds the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment. The Bank allocates goodwill to each business unit (Note 15 to these Financial Statements).

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Impairment testing is performed annually by comparing the present value of the CGU's projected cash flows against the carrying amount of its net assets which include the allocated goodwill.

##### **(b) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software products controlled by the Bank. These costs are amortised over their estimated useful lives of 3 to 15 years.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **K Assets purchased under lease**

##### **(a) Finance lease**

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property, plant and equipment.

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the statement of income as incurred.

##### **(b) Operating lease**

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of compensation (ta'widh) is recognised as an expense in the period in which termination takes place.

#### **L Assets sold under lease**

##### **(a) Finance lease**

When assets are sold under a finance lease, the present value of the lease payments is recognised as a debtor. The difference between the gross debtor and the present value of the debtor is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

##### **(b) Operating lease**

Assets leased out under operating leases are treated as the Bank's assets and included in investment property in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight line basis over the lease term.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **M Currency translations**

##### **(a) Functional and presentation currency**

The Financial Statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

##### **(b) Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in statement of income, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the revaluation reserves-financial investments available-for-sale in equity.

#### **N Income and deferred taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is determined according to the tax laws of Malaysia and includes all taxes based upon the taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting for taxable statement of income.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **N Income and deferred taxes (Continued)**

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted at the end of each reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **O Employee benefits**

##### **(a) Short term employee benefits**

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

##### **(b) Post employment benefits**

###### *Defined contribution plan*

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Bank's contributions to a defined contribution plan are charged to the statement of income in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **O Employee benefits (Continued)**

##### **(c) Other long term employee benefits**

The cost of long term employee benefits (for example, long term service leave) is accrued to match the rendering of services by the employees concerned using an accounting methodology similar to that for defined benefit plans.

##### **(d) Termination benefits**

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when they are demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

##### **(e) Share-based compensation benefits**

###### *Management Equity Scheme ("MES" or the "Scheme")*

The Bank has an equity-settled, share-based compensation plan of the equities in the ultimate holding company, CIMB Group Holdings Berhad ("CIMB Group") which is settled by a substantial shareholder of CIMB Group. The Bank receiving the employees services should account for the plan as equity settled when it has no obligation to settle the share-based payment transaction. The value of the employee services received in exchange for the grant of options of CIMB Group is recognised as an expense with a corresponding increase in the share option reserves over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date.

At the end of each reporting period, the Bank revise its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimate to the statement of income, with a corresponding adjustment to the share option reserve over the remaining vesting period.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **O Employee benefits (Continued)**

##### **(e) Share-based compensation benefits (Continued)**

###### **Change in accounting policy**

Prior to the adoption of the Amendment to FRS 2, the Bank did not account for the transaction in its financial statements. The Bank had changed its accounting policy upon adoption of Amendment to FRS 2 on 1 January 2011 retrospectively. As the Bank does not have an obligation to settle the transactions with its employees, the Bank has accounted for the transaction as equity settled in accordance with the Amendment to FRS 2. The impact of the change in accounting policy to the prior period presented is disclosed in Note 39.

###### *Employee Ownership Plan*

Effective 1 April 2011, CIMB Group operates an equity-settled, share-based compensation plan, where ordinary shares of CIMB Group are purchased from the market at market value and awarded to the eligible executive employees.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the award is fully released to relevant employees ('the final release date'). The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in statement of income over the period of release, based on the best available estimate of the number of shares expected to be released at each of the relevant release date. On the final release date, the estimate will be revised to equal the actual number of shares that are ultimately released to the employees.

#### **P Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the statement of income unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the statement of income unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **Q Provisions**

Provisions are recognised by the Bank when all of the following conditions have been met:

- (i) the Bank has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources to settle the obligation will be required; and
- (iii) a reliable estimate of the amount of obligation can be made.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present values of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

#### **R Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due, in accordance with the terms of an instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure financing and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The financial guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount determined in accordance with FRS 137 – "Provision, Contingent Liabilities and Contingent Assets", and the amount initially recognised less, when appropriate, accumulative amortisation recognised in accordance with FRS 118 – "Revenue". These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the statement of income within overhead expenses.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

#### **S Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances and deposit placements maturing less than one month.

#### **T Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Group Management Committee as its chief operating decision-maker.

Intra-segment revenue and costs are eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

#### **U Contingent assets and contingent liabilities**

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. As this may result in the recognition of income that may never be realised, contingent assets are not recognised in the Bank's financial statements.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

#### **V Restricted Profit Sharing Investment Accounts (“RPSIA”)**

These deposits are used to fund specific financing. The RPSIA is a contract based on the Shariah concept of Mudharabah between two parties, i.e. investor and entrepreneur to finance a business venture where the investor provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudharib (manager or manager of funds), and losses shall be borne solely by depositors.



# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2011 (Continued)**

### **W Share capital**

#### **(a) Classification**

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

#### **(b) Share issue costs**

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **(c) Dividends to shareholder's of the Bank**

Dividends on cumulative redeemable preference shares are recognised as a liability and expressed on an accrual basis. Dividends on ordinary shares are recognised as a liability when the shareholder's right to receive the dividend is established.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2011

### 1 General information

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related financial services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing and all other activities allowed under the Islamic Banking Act, 1983 done in accordance with Shariah.

The holding company of the Bank is CIMB Bank Berhad, a licensed bank incorporated in Malaysia and the Directors regard CIMB Group Holdings Berhad, a quoted company incorporated in Malaysia, as the Bank's ultimate holding company.

The Bank is a licensed Islamic Bank under the Islamic Banking Act, 1983, incorporated and domiciled in Malaysia.

The address of the Bank's registered office is 5<sup>th</sup> Floor, Bangunan CIMB, Jalan Semantan, Damansara Heights, 50490 Kuala Lumpur.

The address of the Bank's principal place of business is 34<sup>th</sup> Floor, Menara Bumiputra- Commerce, 11 Jalan Raja Laut, 50350 Kuala Lumpur.

### 2 Cash and short-term funds

	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	142,823	73,353
Money at call and deposit placements maturing within one month	<u>7,412,062</u>	<u>7,671,054</u>
	<u>7,554,885</u>	<u>7,744,407</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****3 Deposits and placements with banks and other financial institutions**

	2011 RM'000	2010 RM'000
Licensed banks	861,019	400,000
Licensed investment banks	229,364	-
Other financial institutions	-	550,000
	<u>1,090,383</u>	<u>950,000</u>

**4 Financial assets held for trading**

	2011 RM'000	2010 RM'000
<b>Money market instruments</b>		
<b>Unquoted:</b>		
<u>In Malaysia</u>		
Malaysian Government treasury bills	9,734	-
Bank Negara negotiable notes	1,806,188	1,283,823
Islamic accepted bills	146,891	98,364
Islamic negotiable instruments of deposits	504,157	638,001
Malaysian Government Securities	20,163	-
Government Investment Issues	95,456	194,227
	<u>2,582,589</u>	<u>2,214,415</u>
<b>Unquoted securities</b>		
<u>In Malaysia</u>		
Private debt securities	170,480	133,479
	<u>2,753,069</u>	<u>2,347,894</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****5 Financial investments available-for-sale**

	2011 RM'000	2010 RM'000
<b>Money market instruments</b>		
<b>Unquoted</b>		
<u>In Malaysia</u>		
Government Investment Issues	97,537	65,526
Islamic Cagamas bonds	35,857	35,423
Malaysian Government Securities	<u>33,697</u>	<u>-</u>
	<b>167,091</b>	100,949
<b>Unquoted securities</b>		
<u>In Malaysia</u>		
Private debt securities	582,008	354,435
Placement with Islamic Banking and Finance Institute Malaysia	<u>575</u>	<u>575</u>
	<b>749,674</b>	<b>455,959</b>

**6 Financial investments held-to-maturity**

	2011 RM'000	2010 RM'000
<b>Money market instruments</b>		
<b>Unquoted</b>		
<u>In Malaysia</u>		
Government Investment Issue	354,429	100,056
<b>Unquoted securities</b>		
<u>In Malaysia</u>		
Private debt securities	<u>831,991</u>	<u>1,001,081</u>
	<b>1,186,420</b>	1,101,137
Amortisation of premium less accretion of discount	<u>(9,063)</u>	<u>(7,502)</u>
	<b>1,177,357</b>	<b>1,093,635</b>

Private debt securities amounting to Nil (2010 : RM865 million) are funded by a Restricted Profit Sharing Investment Account (“RPSIA”) depositor, as part of an arrangement with CIMB Bank.

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****7 Islamic derivative financial instruments, commitments and contingencies****(i) Islamic derivative financial instruments**

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss and hedging purposes. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at the date of statement of financial position, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position basis and the unrealised gains or losses are reflected in "Islamic Derivative Financial Instruments" Assets and Liabilities respectively.

	2011			2010		
	Principal amount RM'000	Fair values		Principal amount RM'000	Fair values	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<u>Foreign exchange derivatives</u>						
Currency forwards	463,003	8,586	(1,641)	33,825	42	(460)
Currency swaps	1,266,140	10,986	(8,785)	1,621,195	8,235	(20,753)
Currency spot	1,425	2	-	245	1	-
Currency option	67,409	714	(714)	-	-	-
Cross currency profit rate swaps	330,114	15,938	(15,939)	88,549	2,653	(2,653)
	<u>2,128,091</u>	<u>36,226</u>	<u>(27,079)</u>	<u>1,743,814</u>	<u>10,931</u>	<u>(23,866)</u>
<u>Profit rate derivatives</u>						
Islamic profit rate swaps	5,290,799	92,632	(95,791)	5,799,537	122,279	(108,850)
<u>Equity related derivatives</u>						
Equity options	1,896,611	10,555	(10,555)	2,219,544	6,342	(6,342)
<u>Held for hedging purpose</u>						
Islamic profit rate swaps	4,629,498	8,195	(262,429)	4,400,000	11,136	(60,141)
Total derivative assets/(liabilities)	<u><u>13,944,999</u></u>	<u><u>147,608</u></u>	<u><u>(395,854)</u></u>	<u><u>14,162,895</u></u>	<u><u>150,688</u></u>	<u><u>(199,199)</u></u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****7 Islamic derivative financial instruments, commitments and contingencies (Continued)****(i) Islamic derivative financial instruments (Continued)****Fair value hedge**

Fair value hedges are used by the Bank to protect it against the changes in fair value of financial assets and financial liabilities due to movements in market rates. The Bank uses Islamic profit rate swaps to hedge against profit rate risk of financing. For designated and qualifying fair value hedges, the changes in fair value of derivative and item in relation to the hedged risk are recognised in the statement of income.

Included in the net income (Note 24) is the net gains and losses arising from fair value hedges during the year as follows:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Loss on hedging instruments	<b>(217,591)</b>	(6,643)
Gain on the hedged items attributable to the hedge risk	<b>216,290</b>	8,522

**(ii) Commitments and contingencies**

In the normal course of business, the Bank enters into various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions and hence, they are not provided for in the financial statements.

The commitments and contingencies constitute the following:

	<b>2011</b>	2010
	<b>Principal amount</b>	Principal amount
	<b>RM'000</b>	RM'000
<b><u>Credit related</u></b>		
Direct credit substitutes	<b>28,627</b>	37,197
Certain transaction-related contingent items	<b>345,460</b>	374,102
Short-term self-liquidating trade-related contingencies	<b>249,517</b>	17,949
Irrevocable commitments to extend credit:		
- maturity not exceeding one year	<b>1,469,541</b>	1,782,407
- maturity exceeding one year	<b>857,762</b>	1,411,601
Miscellaneous commitments and contingencies	<b>28,467</b>	91,231
Total credit-related commitments and contingencies	<b>2,979,374</b>	3,714,487

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****7 Islamic derivative financial instruments, commitments and contingencies (Continued)****(ii) Commitments and contingencies (Continued)**

	2011	2010
	Principal amount RM'000	Principal amount RM'000
<b><u>Treasury related</u></b>		
Foreign exchange related contracts:		
- less than one year	1,797,977	1,655,265
- one year to less than five years	89,714	88,549
- over five years	240,400	-
Profit rate related contracts:		
- less than one year	1,391,478	377,279
- one year to less than five years	2,712,481	4,315,158
- over five years	5,816,338	5,507,100
Equity related contracts:		
- less than one year	208,568	637,740
- one year to less than five years	962,110	1,075,479
- above 5 years	725,933	506,325
Total treasury-related commitments and contingencies	<u>13,944,999</u>	<u>14,162,895</u>
	<u>16,924,373</u>	<u>17,877,382</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****8 Financing, advances and other financing/loans**

(i) By type:

	2011 RM'000	2010 RM'000
Cash line	373,056	322,529
Term financing		
- House financing	7,134,214	5,532,014
- Syndicated term financing	192,065	380,986
- Hire purchase receivables	5,410,652	5,234,598
- Other term financing	14,444,297	10,518,830
Credit card receivables	104,078	90,472
Bills receivable	2,581	2,235
Islamic trust receipts	35,391	59,091
Claims on customer under Islamic accepted bills	233,479	191,657
Revolving credits	423,325	407,330
Other loans	-	11
Gross financing, advances and other financing/loans	<u>28,353,138</u>	<u>22,739,753</u>
Fair value changes arising from fair value hedges	<u>241,966</u>	<u>17,997</u>
	<u>28,595,104</u>	<u>22,757,750</u>
Less: Allowance for impairment loss		
- Individual impairment allowance	(103,256)	(92,683)
- Portfolio impairment allowance	(417,744)	(240,490)
	<u>28,074,104</u>	<u>22,424,577</u>

The Bank has undertaken fair value hedge on the profit rate risk of RM4,350 million (2010 : RM4,400 million) financing using Islamic profit rate swaps.

	2011 RM'000	2010 RM'000
Gross financing hedged	4,350,000	4,400,000
Fair value changes arising from fair value hedges	<u>241,966</u>	<u>17,997</u>
	<u>4,591,966</u>	<u>4,417,997</u>

The fair value loss on Islamic profit rate swaps in this hedge transaction as at 31 December 2011 is RM262 million (2010 : RM49 million).



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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(ii) By contract:

	2011 RM'000	2010 RM'000
Bai' Bithaman Ajil ( <i>deferred payment sale</i> )	11,569,606	10,320,341
Ijarah Muntahiyah Bittamlik/AITAB ( <i>Lease Ending with Ownership</i> )	6,299,331	5,979,854
Murabahah ( <i>Cost Plus Sale</i> )	226,767	303,903
Bai' al-'inah ( <i>Sale and repurchase</i> )	9,913,017	5,827,671
Others	344,417	307,984
	<u>28,353,138</u>	<u>22,739,753</u>

(iii) By type of customer:

	2011 RM'000	2010 RM'000
Domestic non-bank financial institutions	357,211	213,028
Domestic business enterprises		
- Small medium enterprises	1,332,710	1,267,220
- Others	3,146,765	3,131,681
Government and statutory bodies	6,545,671	4,539,837
Individuals	16,714,078	13,353,200
Other domestic entities	12,445	5,467
Foreign entities	244,258	229,320
	<u>28,353,138</u>	<u>22,739,753</u>

(iv) By profit rate sensitivity:

	2011 RM'000	2010 RM'000
Fixed rate		
- house financing	402,488	417,942
- hire purchase receivables	5,410,652	5,234,598
- others	11,924,643	8,024,882
Variable rate		
- house financing	6,731,726	5,114,072
- others	3,883,629	3,948,259
	<u>28,353,138</u>	<u>22,739,753</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(v) By residual contractual maturity:

	2011 RM'000	2010 RM'000
Within one year	651,916	1,754,853
One year to less than three years	638,507	860,224
Three years to less than five years	1,514,944	1,770,618
Five years and more	25,547,771	18,354,058
Gross financing, advances and other financing/loans	<u>28,353,138</u>	<u>22,739,753</u>

(vi) By economic purpose:

	2011 RM'000	2010 RM'000
Personal use	3,179,054	1,710,557
Credit card	104,078	90,472
Construction	1,014,686	759,803
Residential property	7,163,093	5,579,762
Non-residential property	1,926,886	1,651,458
Purchase of fixed assets other than land and building	428,357	391,915
Purchase of securities	10	20,606
Purchase of transport vehicles	5,410,377	5,234,598
Working capital	6,641,897	7,039,034
Merger and acquisition	34,787	-
Other purpose	2,449,913	261,548
	<u>28,353,138</u>	<u>22,739,753</u>

(vii) Impaired financing by economic purpose:

	2011 RM'000	2010 RM'000
Personal use	19,240	17,165
Credit cards	4,506	2,616
Construction	3,319	1,584
Residential property	85,570	85,002
Non-residential property	27,302	16,131
Purchase of fixed assets other than land and building	1,154	1,738
Purchase of securities	3	19,364
Purchase of transport vehicles	99,353	86,560
Working capital	96,005	101,590
Other purpose	9,326	4,129
	<u>345,778</u>	<u>335,879</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(viii) Movements in impaired financing, advances and other financing/loans are as follows:

	2011 RM'000	2010 RM'000
At 1 January	335,879	278,259
Classified as impaired during the financial year	349,997	337,853
Reclassified as non-impaired during the financial year	(122,608)	(74,091)
Amount written back in respect of recoveries	(90,543)	(121,592)
Amount written off	<u>(126,947)</u>	<u>(84,550)</u>
Net impaired financing, advances and other financing/loans	<u><u>345,778</u></u>	<u><u>335,879</u></u>
Ratio of gross impaired financing, advances and other financing/loans to gross financing, advances and other financing/loans	<u><u>1.22%</u></u>	<u><u>1.48%</u></u>

(ix) Movements in impairment allowance:

	2011 RM'000	2010 RM'000
<b>Individual impairment allowance</b>		
At 1 January	92,683	105,851
Allowance made/(written back) during the financial year	16,491	(273)
Unwinding income	(1,477)	(2,613)
Amount written off	<u>(4,441)</u>	<u>(10,282)</u>
At 31 December	<u><u>103,256</u></u>	<u><u>92,683</u></u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(ix) Movements in impairment allowance (Continued):

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
<b>Portfolio impairment allowance</b>		
At 1 January	<b>240,490</b>	260,926
Allowance made during the financial year	<b>135,113</b>	162,884
Transfer from/(to) CIMB Bank*	<b>166,234</b>	(119,980)
Unwinding income	<b>(4,181)</b>	(1,838)
Amount written off	<b>(119,912)</b>	(61,502)
At 31 December	<b><u>417,744</u></b>	<u>240,490</u>
As % of gross financing, advances and other financing/loans (inclusive of regulatory reserve), excluding RPSIA financing) less individual impairment allowance	<b><u>2.31%</u></b>	<u>2.30%</u>

^Included in financing, advances and other financing/loans are exposures to Restricted Profit Sharing Investment Accounts ("RPSIA"), as part of an arrangement between CIMB Islamic and CIMB Bank. CIMB Bank is exposed to risks and rewards on RPSIA financing and will account for all the portfolio and individual impairment for bad and doubtful financing arising thereon.

\*As at 31 December 2011, the gross exposures to RPSIA financing is RM1,065 million (2010 : RM7,331 million) and the portfolio impairment allowance relating to this RPSIA amounting to RM3.7 million (2010 RM154.8 million) is recognised in the Financial Statements of CIMB Bank. There was no individual impairment provided on this RPSIA financing.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****9 Other assets**

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Deposits and prepayments	<b>150</b>	308
Sundry debtors	<b>29,303</b>	53,235
Credit Support Annex for derivative transactions	<b>52,090</b>	68,470
Clearing accounts	<b>217,474</b>	212,214
	<b><u>299,017</u></b>	<b><u>334,227</u></b>

**10 Deferred taxation**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Portfolio impairment allowance for bad and doubtful financing	<b>27</b>	-
Accelerated tax depreciation	<b>(839)</b>	(809)
Financial investments available-for-sale	<b>(2,756)</b>	(1,694)
Provision for expenses	<b>11,603</b>	8,092
Deferred tax assets	<b><u>8,035</u></b>	<b><u>5,589</u></b>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Directors are of the opinion that the Bank will be able to generate future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****10 Deferred taxation (Continued)**

The movements in deferred tax assets and liabilities during the financial year comprise the following:

<u>Deferred tax assets/(liabilities)</u>	Portfolio impairment allowance for bad and doubtful financing	Accelerated tax depreciation	Financial investments available- for-sale	Other temporary differences	Provision for expenses	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2011	-	(809)	(1,694)	-	8,092	5,589
Credited to profit or loss (Note 31)	27	(8)	-	-	2,689	2,708
Under/(over) provision in prior year	-	(22)	-	-	822	800
Transferred to equity	-	-	(1,062)	-	-	(1,062)
At 31 December 2011	27	(839)	(2,756)	-	11,603	8,035
At 1 January 2010	46,541	(912)	(65)	6,501	7,674	59,739
Credited to profit or loss (Note 31)	(46,541)	39	-	(6,501)	1,124	(51,879)
Under/(over) provision in prior year	-	64	-	-	(706)	(642)
Transferred to equity	-	-	(1,629)	-	-	(1,629)
At 31 December 2010	-	(809)	(1,694)	-	8,092	5,589

**11 Amount due from/(to) related companies and holding company**

The amount due from/(to) related companies and holding company are unsecured and repayable on demand.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****12 Statutory deposits with Bank Negara Malaysia**

The non-profit bearing statutory deposits maintained with Bank Negara Malaysia are in compliance with Section 26 (2)(c) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined at set percentages of total eligible liabilities.

**13 Property, plant and equipment**

	Note	Renovations, office equipment, furniture and fixtures RM'000	Motor vehicles RM'000	Computer equipment RM'000	Total RM'000
<b>2011</b>					
<b>Cost</b>					
At 1 January		6,833	853	13	7,699
Additions		1,953	1,597	-	3,550
Written-off		(19)	-	-	(19)
Reclassified to intangible assets	14	(474)	-	-	(474)
At 31 December		<u>8,293</u>	<u>2,450</u>	<u>13</u>	<u>10,756</u>
<b>Accumulated depreciation</b>					
At 1 January		5,498	326	13	5,837
Charge for the financial year		859	180	-	1,039
Written-off		(19)	-	-	(19)
At 31 December		<u>6,338</u>	<u>506</u>	<u>13</u>	<u>6,857</u>
<b>Net book value at 31 December</b>		<u>1,955</u>	<u>1,944</u>	<u>-</u>	<u>3,899</u>

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****13 Property, plant and equipment (Continued)**

	Note	Renovations, office equipment, furniture and fixtures RM'000	Motor vehicles RM'000	Computer equipment RM'000	Total RM'000
<b>2010</b>					
<b>Cost</b>					
At 1 January		7,000	302	21	7,323
Additions		657	551	-	1,208
Reclassification		8	-	(8)	-
Reclassified to intangible assets	14	(832)	-	-	(832)
At 31 December		<u>6,833</u>	<u>853</u>	<u>13</u>	<u>7,699</u>
<b>Accumulated depreciation</b>					
At 1 January		4,507	178	13	4,698
Charge for the financial year		987	148	4	1,139
Reclassified to intangible assets	14	4	-	(4)	-
At 31 December		<u>5,498</u>	<u>326</u>	<u>13</u>	<u>5,837</u>
<b>Net book value at 31 December</b>		<u>1,335</u>	<u>527</u>	<u>-</u>	<u>1,862</u>

**14 Intangible assets**

	Note	2011 RM'000	2010 RM'000
<b>Computer software</b>			
<b>Cost</b>			
At 1 January		15,979	12,338
Additions		689	2,809
Reclassified from property, plant and equipment	13	474	832
At 31 December		<u>17,142</u>	<u>15,979</u>
<b>Amortisation</b>			
At 1 January		11,692	8,662
Amortisation for the financial year		1,280	3,030
At 31 December		<u>12,972</u>	<u>11,692</u>
<b>Net book value at 31 December</b>		<u>4,170</u>	<u>4,287</u>

The above intangible assets include computer software under construction at cost of RM77,000 (2010: RM 479,000).



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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****15 Goodwill**

	2011 RM'000	2010 RM'000
<b>Cost</b>		
At 1 January/At 31 December	<u>136,000</u>	<u>136,000</u>

Goodwill is wholly allocated to the retail banking cash-generating unit ("CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2012 financial budgets approved by management, projected for 5 years based on the average to year historical Gross Domestic Product ("GDP") growth of the country covering a five year period, revised for current economic conditions. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 5.00% (2010: 5.00%). The discount rate is 8.72% (2010: 8.89%) which reflects the specific risks relating to the CGU.

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

**16 Deposits from customers****(i) By type of deposits**

	2011 RM'000	2010 RM'000
<u>Non-Mudharabah</u>		
Demand deposits	3,028,707	2,941,557
Savings deposits	932,787	701,147
Fixed return investment accounts	5,564,248	5,126,454
Islamic negotiable instruments of deposits	2,510,276	1,033,019
Commodity Murabahah	440,600	69,379
Short term money market deposit-i	3,994,930	-
Others	36,595	25,191
	<u>16,508,143</u>	<u>9,896,747</u>
<u>Mudharabah</u>		
Demand deposits	2,550,795	1,497,390
Savings deposits	397,201	289,034
General investment deposits (inclusive of Special General investment deposits of RM6,987,965,000 (2010:RM7,561,472,000))	8,026,370	8,642,020
Specific investment deposits	1,755,961	2,352,764
	<u>12,730,327</u>	<u>12,781,208</u>
	<u>29,238,470</u>	<u>22,677,955</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****16 Deposits from customers (Continued)**

The maturity structure of investment deposits and negotiable instruments of deposit is as follows:

	2011 RM'000	2010 RM'000
One year or less (short term)	21,120,979	15,049,260
More than one year (medium/long term)	1,171,406	2,104,997
	<u>22,292,385</u>	<u>17,154,257</u>

**(ii) By type of customers**

	2011 RM'000	2010 RM'000
Government and statutory bodies	5,322,304	5,685,744
Business enterprises	15,853,178	12,465,878
Individuals	4,122,166	3,573,972
Others	3,940,822	952,361
	<u>29,238,470</u>	<u>22,677,955</u>

**17 Deposits and placements of banks and other financial institutions**

	2011 RM'000	2010 RM'000
Licensed Islamic banks	317,074	394,625
Licensed investment banks	853,083	571,200
Licensed banks	9,072,329	10,108,954
Other financial institutions	8,347	50,249
	<u>10,250,833</u>	<u>11,125,028</u>

Included in the deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by CIMB Bank amounting to RM1,063 million (2010: RM8,460 million) for tenures between 1 month to 5 years at indicative profit rates from 3.39% to 3.76% per annum (2010 : 2.81% to 4.18%). These deposits are used to fund certain specific financing. The RPSIA is a contract based on the Shariah concept of Mudharabah between two parties, i.e. investor and entrepreneur to finance a business venture where the investor provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture is shared between both parties based on pre-agreed ratios. Losses shall be borne solely by the investors.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****18 Subordinated Sukuk**

The RM550 million subordinated Sukuk (“the Sukuk”) is part of the Tier-2 Junior Sukuk programme which was approved by the Securities Commission on 22 May 2009. Under the programme, the Bank is allowed to raise Tier-2 capital of up to RM2.0 billion in nominal value outstanding at any one time.

The Sukuk of RM300 million under the first issuance was issued at par on 25 September 2009 and is due on 25 September 2024, with optional redemption on 25 September 2019 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.85% per annum payable semi-annually in arrears.

The second tranche of the Sukuk of RM250 million was issued at par on 21 April 2011 and is due on 21 April 2021. The Sukuk bears a profit rate of 4.20% per annum payable semi-annually in arrears.

The RM550 million Sukuk qualify as Tier-2 capital for the purpose of the RWCR computation.

**19 Other liabilities**

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Accruals and other payables	<b>34,296</b>	25,099
Clearing accounts	<b>215,259</b>	327,463
Others	<b>59,391</b>	31,993
	<b><u>308,946</u></b>	<u>384,555</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****20 Perpetual preference shares**

	2011 RM'000	2010 RM'000
<b>Authorised</b>		
<b>Perpetual preference shares of RM1.00 each</b>		
At 1 January/31 December	<u>100,000</u>	<u>100,000</u>
<b>Issued and fully paid</b>		
<b>Perpetual preference shares of RM1.00 each</b>		
At 1 January/31 December	<u>70,000</u>	<u>70,000</u>

The preference shares shall rank pari passu among themselves, and in priority to the ordinary shares.

Each preference share shall on a winding-up or other return of capital confer on its holder the right to receive, in priority to the holders of ordinary shares, the cash repayment in full the nominal amount and premium payable of that preference share after the payment and discharge of all debts and liabilities of the Bank and the costs of winding up or such capital reduction exercise.

A preference share shall not entitle its holder to participate in the surplus assets and profits of the Bank beyond such redemption rights as are expressly set out in these Articles.

The Bank may declare dividends on any of the preference shares.

The preference shares are not convertible to ordinary shares or any other class of share of the Bank.

**21 Ordinary share capital**

	2011 RM'000	2010 RM'000
<b>Authorised</b>		
<b>Ordinary shares of RM1.00 each:</b>		
At 1 January	900,000	900,000
Issued during the financial year	<u>600,000</u>	-
At 31 December	<u>1,500,000</u>	<u>900,000</u>
<b>Issued and fully paid</b>		
<b>Ordinary shares of RM1.00 each:</b>		
At 1 January	750,000	550,000
Issued during the financial year	<u>250,000</u>	<u>200,000</u>
At 31 December	<u>1,000,000</u>	<u>750,000</u>

On 30 May 2011, the Bank had issued additional RM250 million ordinary shares of RM1 par value for the purpose of strengthening Bank's capital base.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****22 Reserves**

- (a) The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividend.
- (b) Merger reserves, which are non-distributable, relate to the difference between the cost of the merger between the Bank and the Islamic banking operation of CIMB Bank Berhad, and the value of the net assets and reserves transferred to the Bank.
- (c) Capital reserves, which are non-distributable, relate to the retained earnings of the Islamic banking business of CIMB Bank Berhad which were transferred to the Bank, arising from the business combination under common control using the 'pooling-of-interest'/merger accounting method in the financial year 2007.
- (d) Regulatory reserves are maintained as an additional credit risk absorbent to ensure robustness on the financing impairment assessment methodology with the adoption of FRS 139 beginning 1 January 2010.
- (e) Movement of the revaluation reserve of financial investments available-for-sale is as follows :

	2011 RM'000	2010 RM'000
At 1 January	5,082	194
Net gain from change in fair value	10,929	7,047
Realised gain transferred to profit and loss on disposal	(6,681)	(530)
Deferred taxation	(1,062)	(1,629)
Net change in available-for-sale securities	3,186	4,888
At 31 December	8,268	5,082

- (f) Share-based payment reserve represents the Bank's commitments for Management Equity Scheme and Employee Ownership Plan under share-based compensation benefits.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****23 Income derived from investment of depositors' funds and others**

	2011 RM'000	2010 RM'000
Income derived from investment of		
- General investment deposits	602,357	567,865
- Specific investment deposits	325,387	436,896
- Other deposits	693,689	387,054
	<u>1,621,433</u>	<u>1,391,815</u>

**(i) Income derived from investment of general investment deposits**

	2011 RM'000	2010 RM'000
Financing, advances and other financing/loans		
- Income other than recoveries	497,877	442,369
- Unwinding income*	2,198	2,763
Financial assets held for trading	7,616	10,945
Financial investments available-for-sale	10,958	11,526
Financial investments held-to-maturity	10,176	6,202
Money at call and deposit with financial institutions	69,786	74,876
	<u>598,611</u>	<u>548,681</u>
Accretion of discount less amortisation of premium	12,326	16,374
Total finance income and hibah	610,937	565,055
Other operating income		
Net gain/(loss) from financial assets held for trading		
- realised	678	(715)
- unrealised	(291)	(536)
Net gain from sale of financial investments available-for-sale	2,542	287
Net loss on maturity of financial investments held-to-maturity	(104)	(100)
Net (loss)/gain from foreign exchange transactions	(14,862)	982
	(12,037)	(82)
Fee and commission income	3,457	2,892
	<u>602,357</u>	<u>567,865</u>

\*Unwinding income is income earned on impaired financial assets

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****23 Income derived from investment of depositors' fund and others  
(Continued)****(ii) Income derived from specific investment deposits**

	2011 RM'000	2010 RM'000
Financing, advances and other financing/loans		
- Income other than recoveries	233,922	349,922
Money at call and deposit with financial institutions	64,135	42,657
Financial investments held-to-maturity	27,330	44,317
	<u>325,387</u>	<u>436,896</u>

**(iii) Income derived from investment of other deposits**

	2011 RM'000	2010 RM'000
Financing, advances and other financing/loans		
- Income other than recoveries	573,767	303,848
- Unwinding income*	2,568	1,781
Financial assets held for trading	8,325	7,678
Financial investments available-for-sale	12,580	7,967
Financial investments held-to-maturity	13,269	4,274
Money at call and deposit with financial institutions	79,641	50,263
	<u>690,150</u>	<u>375,811</u>
Accretion of discount less amortisation of premium	11,555	11,226
Total finance income and hibah	<u>701,705</u>	<u>387,037</u>
Other operating income		
Net gain/(loss) from financial assets held for trading		
- realised	812	(487)
- unrealised	(152)	(409)
Net gain from sale of financial investments available-for-sale	3,827	218
Net loss on maturity of financial investments held-to-maturity	(136)	(70)
Net loss from foreign exchange transactions	(16,530)	(1,130)
	<u>(12,179)</u>	<u>(1,878)</u>
Fees and commission income	4,163	1,895
	<u>693,689</u>	<u>387,054</u>

\*Unwinding income is income earned on impaired financial assets

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****24 Income derived from investment of shareholder's fund**

	2011 RM'000	2010 RM'000
Financing, advances and other financing/loans		
- Income other than recoveries	58,994	33,450
- Unwinding income*	261	192
Financial assets held for trading	890	850
Financial investments available-for-sale	1,293	879
Financial investments held-to-maturity	1,220	471
Money at call and deposits with financial institutions	8,216	5,461
	<u>70,874</u>	<u>41,303</u>
Accretion of discount less amortisation of premium	1,413	1,239
Total finance income and hibah	<u>72,287</u>	<u>42,542</u>
Other operating income		
Net gain/(loss) from financial assets held for trading		
- realised	82	(53)
- unrealised	(310)	(49)
Net gain from sale of financial investments available-for-sale	312	25
Net loss on maturity of financial investments held-to-maturity	(10)	(7)
Net loss from foreign exchange transactions	(1,757)	(138)
Net loss from hedging derivatives	(1,301)	(1,923)
Net gain/(loss) from derivative financial instruments		
- realised	57,130	165,770
- unrealised	(10,599)	(147,031)
	<u>43,547</u>	<u>16,594</u>
Fees and commission income	83,829	57,710
Less : Fees and commission expense	(1,961)	(1,430)
Net fees and commission income	81,868	56,280
Other income:		
- Sundry income	5,791	8,860
	<u>203,493</u>	<u>124,276</u>

\*Unwinding income is income earned on impaired financial assets



## CIMB Islamic Bank Berhad

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### Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

#### 25 Allowances for losses on financing, advances and other financing/loans

	2011 RM'000	2010 RM'000
Individual impairment allowance		
- provided/(written back) during the financial year	16,491	(273)
Portfolio impairment allowance		
- net allowance made during the financial year	135,114	162,884
Bad debts on financing:		
- recovered	(37,776)	(20,900)
- written off	2	5
	<u>113,831</u>	<u>141,716</u>

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****26 Income attributable to depositors**

	2011 RM'000	2010 RM'000
Deposits from customers		
- Mudharabah	285,278	285,613
- Non-Mudharabah	259,011	118,899
Deposits and placements of banks and other financial institutions		
- Mudharabah	200,155	280,724
- Non-Mudharabah	173,564	38,545
Others	23,307	17,505
	<u>941,315</u>	<u>741,286</u>

**27 Personnel expenses**

	2011 RM'000	2010 RM'000
Wages and salaries	13,859	10,109
Allowances and bonuses	38,474	14,690
Personnel expenses charged by CIMB Bank / CIMB Investment Bank	133,949	79,194
Staff incentive	8,528	4,645
Other staff related costs	7,221	8,380
	<u>202,031</u>	<u>117,018</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****28 Other overheads and expenditures**

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
<b>Establishment</b>		
Rental	1,189	1,122
Depreciation of property, plant equipment	1,039	1,139
EDP expenses	2,721	1,204
Repairs and maintenance	(2,658)	2,661
Overheads charged by CIMB Bank / CIMB Investment Bank	60,044	37,920
Others	1,067	940
<b>Promotion</b>		
Advertisement and publicity	960	4,819
Promotion costs charged by CIMB Bank / CIMB Investment Bank	8,496	16,544
Others	2,605	4,112
<b>General expenses</b>		
Professional fees	2,041	2,133
Amortisation of intangible assets	1,280	3,030
General expenses charged by CIMB Bank / CIMB Investment Bank	29,523	21,577
Communication	791	170
Incidental expenses on banking operations	1,203	2,712
Others	10,311	12,819
	<u>120,612</u>	<u>112,902</u>

The personnel expenses and other overhead and expenditures include the following statutory disclosures:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Directors remuneration (excluding benefits-in-kind) (Note 30)	1,818	2,064
Auditors' remuneration :		
PwC Malaysia (audit)		
- statutory audit	105	105
- limited review	40	40
- other audit related	60	130
PwC Malaysia (non-audit)		
- tax and taxation services	13	12
- others	-	60
	<u>-</u>	<u>60</u>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 29 Significant related party transactions and balances

#### (a) Related parties and relationship

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The related parties of, and their relationship with the Bank, are as follows:

<b>Related parties</b>	<b>Relationship</b>
CIMB Group Holdings Berhad	Ultimate holding company
CIMB Group Sdn Bhd	Penultimate holding company
CIMB Bank Berhad	Immediate holding company
Subsidiaries of CIMB Group Holdings Berhad as disclosed in its financial statements	Subsidiaries of ultimate holding company
Subsidiaries of CIMB Group Sdn Bhd as disclosed in its financial statements	Subsidiaries of penultimate holding company
Subsidiaries of CIMB Bank Berhad as disclosed in its financial statements	Subsidiaries of immediate holding company
Key management personnel	See below

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank include all the Directors of the Bank and its employees who make certain critical decisions in relation to the strategic direction of the Bank.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(b) Related party transactions**

In addition to related party disclosures mentioned elsewhere in the Financial Statements, set out below are other significant related party transactions.

	Immediate and ultimate holding company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>2011</b>			
<b>Income</b>			
Profit income on deposits and placement with banks and other financial institutions	715	4,920	-
Profit income on financial investments held-to-maturity	1,010	-	-
Profit income on financing, advances and other financing/loans	-	-	3
<b>Expenditure</b>			
Profit expense on deposits and placements of banks and other financial institutions	338,001	23,062	-
Profit expense on deposits from customers	11	2,276	2,471
Profit expense on subordinated sukuk	23,249	59	-
Outsourced back office processing	205,540	26,472	-
Security services	-	33	-
	<u>          </u>	<u>          </u>	<u>          </u>
	Immediate and ultimate holding company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>2010</b>			
<b>Income</b>			
Profit income on deposits and placement with banks and other financial institutions	168	1,993	-
Profit income on financial investments held-to-maturity	1,010	-	-
Profit income on financing, advances and other financing/loans	-	-	2
<b>Expenditure</b>			
Profit expense on deposits and placements of banks and other financial institutions	290,521	26,431	-
Profit expense on deposits from customers	-	141	-
Profit expense on subordinated sukuk	17,447	58	-
Outsourced back office processing	113,721	41,513	-
Security services	-	47	-
	<u>          </u>	<u>          </u>	<u>          </u>

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(b) Related party transactions (Continued)**Key management compensation

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Salaries and other short-term employee benefits	<u><b>12,441</b></u>	<u>14,483</u>
	<b>Unit</b>	Unit
Share options of the ultimate holding company	<b>4,760,000</b>	7,880,840
Shares of the ultimate holding company	<u><b>505,163</b></u>	<u>-</u>

Included in the above is the Executive Directors' compensation which is disclosed in Note 30. The share options are granted on the same terms and condition as those offered to other employees of the Bank.

There were no financing, advances and other financing/loans granted to the Directors of the Bank. Financing made to other key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank. No individual impairment allowances/specific allowances were required in 2011 and 2010 for financing, advances and other financing/loans made to the key management personnel.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(c) Related party balances**

	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>2011</b>			
<b>Amounts due from</b>			
Current accounts, deposits and placements with banks and other financial institutions	285,930	311,600	-
Profit income on deposits and placements with banks and other financial institutions	350	876	-
Financial investments held-to-maturity	20,132	-	-
Profit income on financial investments held-to-maturity	89	-	-
Financing, advances and other financing/loans	-	-	1
<b>Amounts due to</b>			
Deposit from customers	12,145	125,548	14,133
Deposits and placements of banks and other financial institutions	8,934,915	848,270	-
Profit expense on deposits from customers	8	51	-
Profit expense on deposits and placements of banks and other financial institutions	137,413	4,813	-
Subordinated sukuk	549,000	1,000	-
Profit expense on subordinated sukuk	6,704	16	-
Outsourced back office processing	15,501	1,441	-

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(c) Related party balances (Continued)**

	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
2010			
Amounts due from			
Current accounts, deposits and placements with banks and other financial institutions	77,088	33,500	-
Profit income on deposits and placements with banks and other financial institutions	32	326	-
Financial investments held-to-maturity	20,075		
Profit income on financial investments held-to-maturity	89	-	-
Financing, advances and other financing/loans	-	-	4
Amounts due to			
Deposit from customers	-	213,626	1,773
Deposits and placements of banks and other financial institutions	10,108,954	621,449	-
Profit expense on deposits from customers	-	75	-
Profit expense on deposits and placements of banks other financial institutions	126,696	1,408	-
Others	-	-	2
Subordinated sukuk	299,000	1,000	-
Profit expense on subordinated sukuk	4,690	16	-
Outsourced back office processing	7,349	282	-

**(d) Management Equity Scheme (“MES” or the “Scheme”)**

The MES was launched on 1 March 2004 as a performance linked compensation whereby a substantial shareholder of CIMB Group grants entitlements to employees of the Bank. The eligibility for participation in the MES shall be at the discretion of the Nomination and Remuneration Committee of CIMB Group. Entitlements of eligible members of the MES are non-assignable and non-transferable whereby the Nomination and Remuneration Committee of CIMB Group administers the MES on behalf of the substantial shareholder. The entitlements granted vest in proportions over the various exercise periods and will expire on 28 February 2012.

Previously, the MES was not accounted for in the financial statements of the Bank as it does not fall within the scope of FRS 2 “Share-based Payment”. The amendment to FRS 2 effective 1 January 2011 clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. Subsequent to the amendment, the MES is now within the scope of the standard.



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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(d) Management Equity Scheme (“MES” or the “Scheme”) (Continued)**

The Bank has changed its accounting policy upon adoption of Amendments to FRS 2 on 1 January 2011 retrospectively. As the Bank does not have an obligation to settle the transaction with its employees, the Bank has accounted for the transaction as equity settled in accordance with the Amendments to FRS 2. The impact of the change in accounting policy to the prior period presented is disclosed in Note 39.

The weighted average fair value of the entitlements granted, determined using the Binomial Valuation Model was RM7.06 each. The significant inputs into the model were as follows:

<b>Valuation assumptions</b>	
- Expected volatility	30.6%
- Expected dividend yield	1.5%
- Expected option life	0.16 year
- Weighted average share price at grant date	RM10.46
- Weighted average risk-free profit rate	3.6%

The volatility measured at the standard deviation of on daily share price returns was based on statistical analysis of daily prices over the last two years.

The total share-based payment expenses recognised in relation to the Scheme for the Bank during the current financial year amounted RM745,379 (2010: RM649,000). The shares are exercisable 2 years from the grant date.

Details of the movement in the number of entitlements outstanding are as follows:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Number of options:		
At 1 January	<b>1,679</b>	1,011
- Granted during the financial year (units)	-	360
- Bonus issue	-	1,119
- Exercised	<b>(877)</b>	(772)
- Forfeited	<b>(2)</b>	(39)
- As at 31 December (units)	<b><u>800</u></b>	<u>1,679</u>

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(d) Management Equity Scheme (“MES” or the “Scheme”) (Continued)**

Grant date	Exercise price per share (RM)	Options (unit)	Expiry date
22.3.2007	3.48	916,433	28.2.2012
31.5.2007	3.48	275,200	28.2.2012
27.3.2008	3.48	360,780	28.2.2012
31.3.2009	3.48	302,812	28.2.2012
6.8.2009	3.48	9,164	28.2.2012
1.10.2009	3.48	36,657	28.2.2012
8.3.2010	3.48	363,531	28.2.2012
30.3.2010	3.48	1,833	28.2.2012

The weighted average share price at the time of exercise was RM8.23 (2010:RM9.77). The weighted average remaining contractual life is 0.16 year (2010: 1.2 years).

The total entitlement granted during the financial year was nil (2010: 360,048 units) and the number of entitlements that are exercisable at the financial year end is 799,990 units (2010: 1,072,110 units).

**(e) Equity Ownership Plan (“EOP”)**

The EOP was introduced in 1 April 2011 by CIMB Group where CIMB Group will grant ordinary shares of CIMB Group to selected employees of the Bank with a re-charge to the Bank. Under the EOP, earmarked portions of variable remuneration of selected employees of the Bank will be utilised to purchase ordinary shares of CIMB Group from the market. The purchased shares will be released progressively to the eligible employees at various dates after the purchase date, subject to continued employment. A related company will act on behalf of CIMB Group to administer the EOP and to hold the shares up to the pre-determined transfer dates. The eligibility of participation in the EOP shall be at the discretion of the Group Compensation Review Committee of CIMB Group.

Upon termination of employment other than retirement, disability or death, any unreleased shares will be disposed at market price and proceeds received will be donated to CIMB Foundation on behalf of the employees. In the event of retirement, disability or death of the eligible employee, the release of shares will be accelerated to the date of termination of employment and the shares will be assigned to the designated beneficiary.

The total share-based payment expense recognised in statement of income for the Bank during the financial year amounted to RM354,755.

The weighted average fair value of shares awarded under EOP which were purchased over a period of 10 trading days was RM8.27 per ordinary share, based on observable market price.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****29 Significant related party transactions and balances (Continued)****(e) Equity Ownership Plan (“EOP”) (Continued)**

Movements in the number of the Company’s ordinary shares awarded are as follows:

	<b>2011</b>
	<b>RM'000</b>
Number of options:	
At 1 January	-
- Awarded	<b>330</b>
- Released	<b>(92)</b>
- As at 31 December (units)	<b>238</b>

**(f) Credit transactions and exposures with connected parties**

Credit exposures with connected parties as per BNM’s revised the ‘Guidelines on Credit Transactions and Exposures with Connected Parties’ which became effective on 1 January 2008 are as follows:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Outstanding credit exposures with connected parties	<b>624,736</b>	681,773
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	<b>1.5%</b>	1.9%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<b>0.0%</b>	0.0%

**30 CEO, Directors and Shariah Committee Members remuneration**

The Directors of the Bank in office during the financial year were as follows:

Non-Executive Directors

Datuk Dr. Syed Muhamad bin Syed Abdul Kadir  
Dato’ Sri Mohamed Nazir bin Abdul Razak (resigned on 6 March 2012)  
Dato’ Mohd Shukri bin Hussin (resigned on 31 December 2011)  
Dato’ Anwar bin Haji @ Aji (resigned on 8 March 2012)  
Raja Shaharul Niza bin Raja Abdul Aziz  
Professor Dr. Mohammad Hashim Kamali  
Achmad Riawan Amin

Executive Director

Badlisyah bin Abdul Ghani

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****30 CEO, Directors and Shariah Committee Members remuneration  
(Continued)**

	2011 RM'000	2010 RM'000
CEO and Executive Director		
- Salary and other remuneration, including meeting allowance	905	766
- Bonus	1,095	1,334
- Benefits-in-kind	23	13
	<u>2,023</u>	<u>2,113</u>
Non-Executive Directors		
- Fees	475	364
- Benefits-in-kind	16	6
	<u>491</u>	<u>370</u>
Shariah Committee members	<u>383</u>	<u>307</u>
	<u>2,897</u>	<u>2,790</u>

\* The CEO's salary, other remuneration, including meeting allowances and bonus were paid by a related company and has been charged back to the Bank.

The Director's bonus for the financial year 2011 will be paid in tranches, spread over financial year 2012, while for financial year 2010, it will be paid in tranches, spread over financial year 2011 and 2012 with the final tranche paid in the first quarter of financial year 2012, after certain key financial performance indicators for the Bank in respect of the financial year 2011 has been met. A similar condition is also imposed on the bonus for financial year 2011 of certain key personnel.

The number of Directors of the Bank whose total remuneration during the financial year falls within the following bands is analysed below:

	2011	2010
<u>Executive Director</u>		
RM2,000,001 – RM2,150,000	<u>1</u>	<u>1</u>
<u>Non-Executive Directors</u>		
RM50,000 and below	2	3
RM50,001 to RM100,000	4	3
RM100,001 to RM150,000	-	-
RM150,001 to RM250,000	<u>1</u>	<u>1</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****31 Taxation**

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Taxation based on profit for the financial year:		
- Malaysian income tax	<b>114,805</b>	47,386
Deferred taxation (Note 10)	<b>(2,708)</b>	51,879
(Over)/under accrual in prior year	<b>(713)</b>	2,782
	<b><u>111,384</u></b>	<u>102,047</u>
<b>Reconciliation between tax expense and the Malaysian tax rate</b>		
Profit before tax and zakat	<b>447,116</b>	403,169
Tax calculated at a rate of 25%	<b>111,779</b>	100,792
Tax effects:		
- income not subject to tax	<b>(381)</b>	(2,186)
- expenses not deductible for tax purposes	<b>699</b>	659
(Over)/under accrual in prior year	<b>(713)</b>	2,782
Tax expense	<b><u>111,384</u></b>	<u>102,047</u>

**32 Earnings per share**

## a) Basic earnings per share

The basic earnings per ordinary share is calculated based on the net profit for the financial year of RM335,732 (2010: RM301,122) divided by the weighted average number of ordinary shares of 897,945 (2010: 620,685) in issue during the financial year (figures are in RM thousand).

## b) Diluted earnings per share

The Bank has no dilution in its earnings per ordinary share in the current and previous financial year as there are no dilutive potential ordinary shares.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****33 Lease commitments**

The Bank has lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Within one year	<b>560</b>	560
One year to five years	<b>2,238</b>	2,238
Five years and more	<b>793</b>	1,912
	<u><b>793</b></u>	<u>1,912</u>

**34 Capital commitments**

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Capital expenditure:		
- authorised and contracted for	<b>1,261</b>	1,184
- authorised but not contracted for	<b>4,606</b>	3,553
	<u><b>4,606</b></u>	<u>3,553</u>

These capital commitments are for acquisition of property, plant and equipment.

**35 Capital adequacy**

The key driving principles of the Bank's capital management policies are to diversify its sources of capital to allocate capital efficiently, and achieve and maintain an optimal and efficient capital structure of the Bank, with the objective of balancing the need to meet the requirements of all key constituencies, including regulators, shareholders and rating agencies.

The capital management process is centrally supervised by the Group Executive Committee ("EXCO"), Group Risk Committee ("GRC") and Board Risk Committee ("BRC") who periodically assess and review of the capital requirements and source of capital across the Group, taking into account all on-going and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Available capital is allocated across competing demands, guided by the predetermined policies, and to ensure regulatory compliance. Monthly updates on capital position of the Bank are also provided to the Board of Directors.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****35 Capital adequacy (Continued)**

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Guidelines on Risk Weighted Capital Adequacy Framework: Internal Rating-Based approach (IRB approach) for Credit Risk, where Advanced Internal Rating-Based (“AIRB”) is used for retail exposure and Foundation IRB for Non-Retail exposure while Operational risk is based on Basic Indicator Approach. Market Risk remained unchanged under Standardised Approach.

*Capital Structure and Adequacy*

The table below sets out the summary of the sources of capital and the capital adequacy ratios of the Bank as at 31 December 2011. The Bank issue various capital instruments pursuant to the respective regulatory guidelines, including tier 2 subordinated sukuk that qualify as capital pursuant to the Capital Adequacy Framework for Islamic Banks (“CAFIB”) issued by BNM.

(a) The capital adequacy ratios of the Bank are as follows:

	<b>2011</b>	2010
	<b>RM'000</b>	RM'000
Tier I capital	<b>1,714,378</b>	1,182,897
Eligible Tier II capital	<b>654,979</b>	355,874
Capital base	<b><u>2,369,357</u></b>	<u>1,538,771</u>
Core capital ratio	<b>10.44%</b>	13.22%
Risk-weighted capital ratio	<b><u>14.42%</u></b>	<u>17.19%</u>

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****35 Capital adequacy (Continued)**

(b) Components of Tier I and Tier II capitals are as follows:

	2011 RM'000	2010 RM'000
<b>Tier I capital</b>		
Paid-up share capital	1,000,000	750,000
Perpetual preference shares	70,000	70,000
Other reserves	<u>791,169</u>	<u>506,180</u>
	<u>1,861,169</u>	1,326,180
Less: Deferred tax	(10,791)	(7,283)
Less: Goodwill	<u>(136,000)</u>	<u>(136,000)</u>
	<u>1,714,378</u>	<u>1,182,897</u>
<b>Tier II capital</b>		
Subordinated Sukuk	550,000	300,000
Regulatory reserve	59,113	7,405
Portfolio impairment allowance <sup>^</sup>	64,585	30,892
Surplus of total eligible provision over expected loss	-	17,577
Excess of total expected loss over total eligible provision	<u>(18,719)</u>	<u>-</u>
Total Tier II capital	<u>654,979</u>	<u>355,874</u>
Total capital base	<u>2,369,357</u>	<u>1,538,771</u>

(c) Breakdown of risk-weighted assets in the various categories of risk-weights as at 31 December :

	2011 RM'000	2010 RM'000
Credit risk	14,677,578	7,623,657
Market risk	346,673	285,115
Operational risk	<u>1,402,324</u>	<u>1,041,278</u>
	<u>16,426,575</u>	<u>8,950,050</u>



## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **35 Capital adequacy (Continued)**

^ The capital base of the Bank as at 31 December 2011 has excluded portfolio impairment allowance on impaired financing restricted from Tier II capital of RM21,373,892 (2010: RM19,709,506).

In accordance with BNM's guidelines on the recognition and Measurement of Profit Sharing Investment Account ("PSIA") as Risk Absorbent, the credit and market risks on the assets funded by the PSIA are excluded from the risk weighted capital ("RWCR") calculation.

As at 31 December 2011, RPSIA assets excluded from the RWCR calculation amounted to RM1,065 million (2010 : RM6,217 million).

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management

#### (a) Financial risk management objectives and policies

Risk management is 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, Group Risk Division (GRD) is involved at the early stage of the risk taking process by providing independent inputs such as the relevant valuations, credit evaluations, new product assessments and Capital-at-Risk (CaR) quantifications. These inputs enable business units to align their business strategies with the Group's risk appetite.

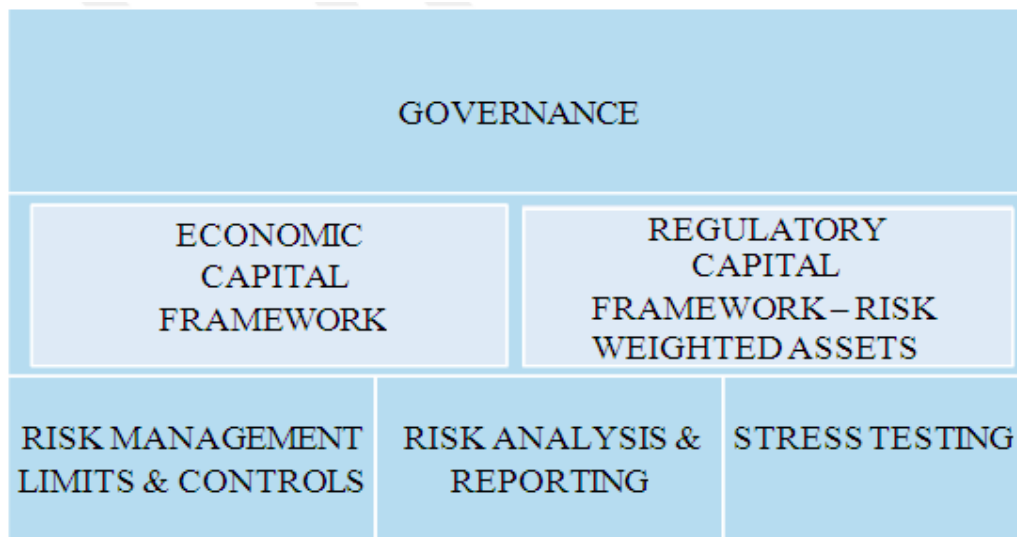
The objectives of CIMB Group's risk management activities are to:

- Identify the various risk exposures and risk 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 risk capital and facilitate development of new business and products.

#### (b) Enterprise Wide Risk Management Framework

CIMB Group employs the EWRM framework to manage its risk and opportunity effectively. It is an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the Group implemented through various Board appointed committees.

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



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **(b) Enterprise Wide Risk Management Framework (Continued)**

The framework is centred on resilient risk and capital management which requires the Group to identify, evaluate, measure, mitigate and monitor/report its material risks, and relate these to its capital requirements and at all times ensure capital adequacy. CIMB Group employs CaR as the common and consistent measurement of risk across CIMB Group. The CaR framework provides the basis of allocating economic capital within the Group. It provides a benchmark to facilitate the comparison of risk 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.

Strong risk governance holds the EWRM together. The Board of Directors through the BRC is ultimately responsible for the implementation of EWRM. GRD has been principally tasked to assist the various committees and undertakes the performance of the day-to-day risk management functions of the EWRM. The implementation of the EWRM is subjected to the independent assurance and assessment by the Group Internal Audit.

The foundation of the EWRM is made up of three major building blocks, which are Limits and Controls, Analysis and Reports, and Stress Testing. Limits constitute the key mechanism to control allowable risk taking activities and are regularly reviewed in the face of changing business needs, market conditions, and regulatory changes. 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 while stress tests on selected portfolios are performed on an ad hoc basis.

## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **(c) Risk Governance**

The Board Risk Committee (BRC) assumes the ultimate responsibility on behalf of the Boards of Directors for the supervision of risk management within CIMB Group. In line with best practices, the BRC determines the risk policy objectives and also decides on the yearly allocation of risk capital to support all risks taken by the Group.

Group Risk Committee (GRC) is the primary delegated authority for managing risk on a group-wide basis and reports directly to BRC. Sub-committees, namely 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) and Operational Risk Committee (ORC), delegated from the GRC are set up to manage and control specific risk areas. In relation to Rate of return Risk in the Banking Book (RORBB), GRC is further assisted by Balance Sheet Management Committee (BSMC) that is responsible for recommending and executing strategies and hedging proposals for the banking book as well as ensuring the Group's profit 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 the Group.

Each committee is chaired by a director respectively. 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 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.

# CIMB Islamic Bank Berhad

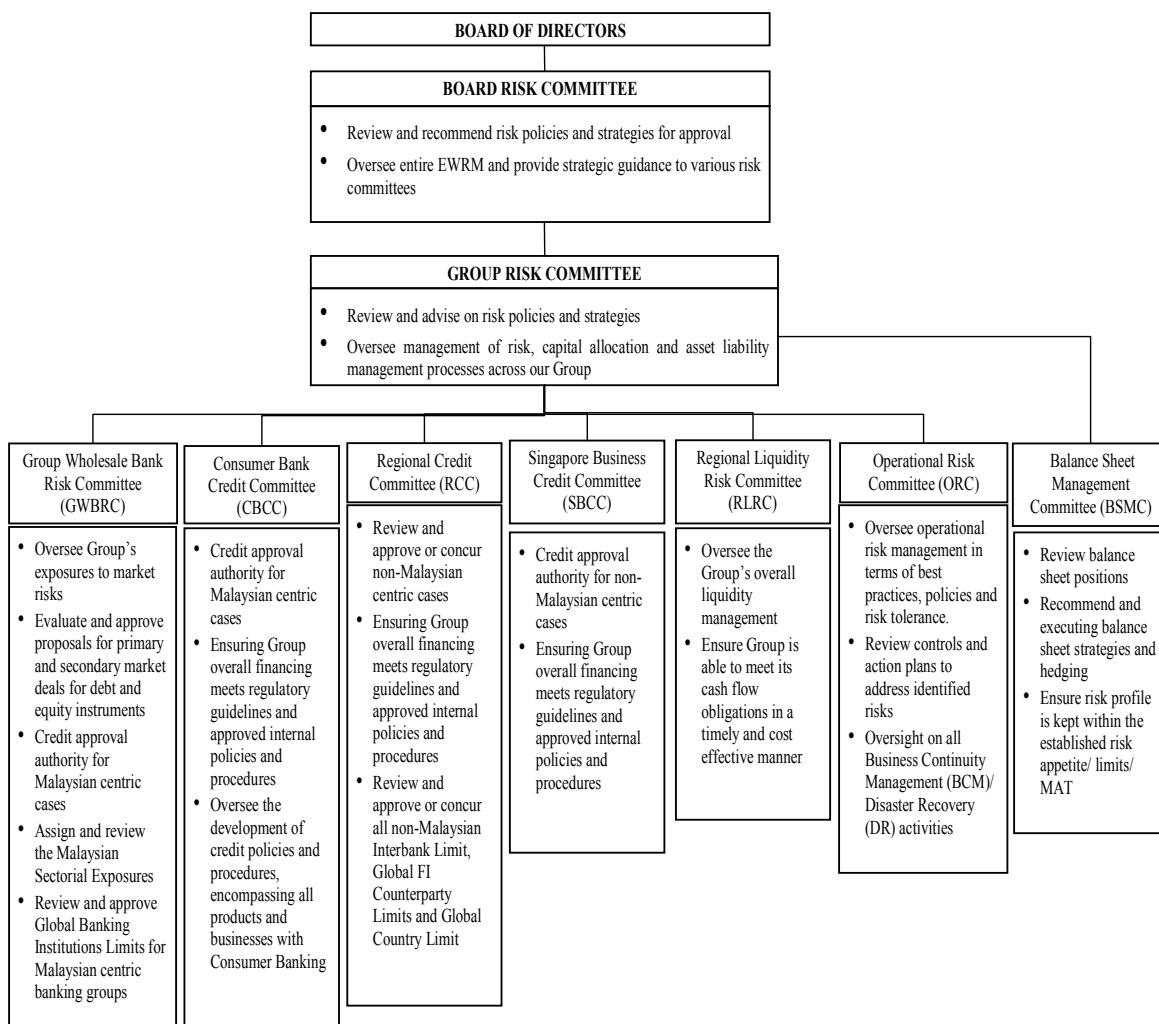
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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### (c) Risk Governance (Continued)

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



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **(c) 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.

#### **(d) Group Risk Division**

The primary oversight body for risk management activities is GRD, comprising Group Risk Management (GRM), GC and RCM, which are independent of business units and assist the Group's management and the various risk committees in monitoring and controlling the Group's risk exposures.

The key responsibilities of GRD are to identify, evaluate, analyse, monitor and review the principal risks to which the Group is exposed. It also helps to create shareholder value through proper allocation of risk capital, development of risk-based pricing framework and facilitate development of new businesses and products. The Head of GRD also maintains an oversight functions performed by the risk management units in the asset management and takaful subsidiaries.

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 GRD. Otherwise, the risk management activities will be performed by the local risk management team with matrix reporting line to GRD.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **(e) Group Risk Management**

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

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

GRM is also tasked with the co-ordination of the Group's effort towards implementation of the Basel II framework in compliance with the International Convergence of Capital Measurement and Capital Standards prescribed by the Bank of International Settlements and as adopted by BNM. In this regard, GRM develops, implements and validates 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, CaR quantifications 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.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **(f) Group Credit**

GC carries out independent assessments and evaluations of all credit risk related proposals originating from the various business units such as financings 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 Bank's holdings of all fixed income assets issued by Malaysian companies and recommends the internal ratings for GWBRC's approval.

#### **(g) 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 at the CIMB Group level. The platform includes 2 credit committees, SBCC for smaller-sized exposures and 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.

#### **Strategies and Processes for Various Risk Management**

These information are available in later sections for each Credit Risk, Market Risk, and Liquidity Risk.

#### **36.1 Credit Risk**

Credit risk, is defined as arising from 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 financing activities through financing assets 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 fulfill their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able to or willing to fulfill 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.



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.1 Credit Risk (Continued)**

##### **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 risk.

The credit approving authority is established and documented in the Group's financing/credit policy. The Group adopts a multi-tiered credit approving authority spanning various delegated authorities and various credit committees. The credit 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 Group's business units. The Committees also ensures the overall financing portfolio meets the guidelines of the regulatory authorities and adherence to the approved credit policies and procedures.

All financing/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 financing/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 financing/credit worthiness and the likelihood of the obligors to pay their obligations or the outstanding amount, 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 financing/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 financing/credit underwriting and decision-making process for the Group's retail and non-retail exposures.

Financing/credit reviews and rating are conducted on the financing/credit exposures on an annual basis and more frequent when material information on the obligor or other external factors come to light.

## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.1 Credit Risk (Continued)**

###### **Credit Risk Management (Continued)**

The exposures are actively monitored, reviewed on a regular basis and reported monthly 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 CaR to measure and manage financing/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 CaR. This approach takes into account the financing/credit concentration risk and the correlation between obligors/counterparties and industries. In estimating the portfolio CaR, the Group uses 25,000 simulation numbers at 99% confidence level. The generated portfolio CaR and any shortfall in the provision for defaulted accounts make up to the total Credit CaR utilisation to be compared against the allocated capital. The CaR usage versus pre-determined limit is monitored by RMA within GRM. Any exception will be highlighted to Management in accordance with the Group's exception management procedure. These are summarized and reported to GRC and BRC on a monthly basis.

###### **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.

###### *Collaterals/Securities*

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

## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.1 Credit Risk (Continued)**

###### **Credit Risk Mitigation (Continued)**

###### *Collaterals/Securities (Continued)*

Recognised collaterals include both financial and physical assets. Financial collaterals consist of mainly cash deposits, shares, unit trusts and debt securities, while physical collateral include land and buildings and vehicles. Guarantors accepted are in line with BNM's Risk Weight Capital Adequacy Framework ("RWCAF") and Capital Adequacy Framework for Islamic Banks ("CAFIB") guidelines. Eligible financing/credit protection is also used to mitigate financing/credit losses in the event that the obligor/counterparty defaults.

###### *Collateral Valuation and Management*

The Group has in place policies which govern the determination of eligibility of various collaterals including financing/credit protection, to be considered for financing/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.

###### *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.

###### *Concentrations within risk mitigation*

CIMB Group avoids unwanted financing/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.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.1 Credit Risk (Continued)**

##### **Off Balance Sheet Exposures and Counterparty Credit Risk (CCR)**

CCR limits are established at the individual counterparty level and approved by GWBRC and/or RCC. These limits are monitored and reported at both business and at the Group level.

##### *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 Credit Support Annexe (CSA) with counterparties. The net credit exposure with each counterparty is monitored and our 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.

##### *Treatment of Rating Downgrade*

In the event of a one-notch downgrade of rating, based on the terms of the existing CSA and our exposure as at 31 December 2011, there will be no requirement for additional collateral to be posted.

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

##### **36.1.1 Maximum exposure to credit risk before collateral held or other credit enhancements**

The following table represents credit risk exposure to the Bank as at 31 December 2011, before taking account of any collateral held or other credit enhancements and after allowance for impairment where appropriate.

For financial assets recognised in the statements of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For credit related commitments and contingencies that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

This analysis and all subsequent analyses of credit risk include only financial assets subject to credit risk. They exclude other financial assets, mainly cash on hand, prepayment, equity securities in financial assets held for trading and financial investments available-for-sale as well as non-financial assets.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.1 Maximum exposure to credit risk before collateral held or other credit enhancements  
(Continued)**

For financial assets recognised in the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees and similar contract granted, it is maximum amount that Bank would have to pay if the guarantees were called upon. For credit related commitments and contingents that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

	2011 RM'000	2010 RM'000
<b><u>Items not recognised in the statement of financial position</u></b>		
Financial guarantees	28,489	36,420
Credit related commitments and contingencies	<u>2,605,425</u>	<u>3,303,964</u>
	<u>2,633,914</u>	<u>3,340,384</u>

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for net financing, advances and other financing/loans for the Bank is 84.7% (2010: 86.8%) while the financial effect of collateral for derivatives for the Bank is 67.3% (2010: 99.4%). The financial effects of collateral held for the remaining on balance sheet financial assets are insignificant.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.1 Credit risk (Continued)**

##### **36.1.2 Concentration of risks of financial assets with credit risk exposure**

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

##### **(a) Geographical sectors**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) based on the location of the counterparty as at 31 December 2011 and 31 December 2010 are as follows:

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(a) Geographical sectors (Continued)**

2011

	Malaysia RM'000	Indonesia RM'000	United States RM'000	Hong Kong RM'000	Others RM'000	Total RM'000
<b><u>Items recognised in the statement of financial position</u></b>						
Cash and short-term funds	7,474,241	149	16,900	63,559	36	7,554,885
Deposits and placements with banks and other financial institutions	1,090,383	-	-	-	-	1,090,383
Financial assets held for trading						
- Money market instruments	2,582,589	-	-	-	-	2,582,589
- Unquoted securities	170,480	-	-	-	-	170,480
Financial investments available-for-sale						
- Money market instruments	167,091	-	-	-	-	167,091
- Unquoted securities	582,008	-	-	-	-	582,008
Financial investments held-to-maturity						
- Money market instruments	354,279	-	-	-	-	354,279
- Unquoted securities	823,078	-	-	-	-	823,078
Islamic derivative financial instruments						
- Trading derivatives	139,295	-	-	-	118	139,413
- Hedging derivatives	8,195	-	-	-	-	8,195
Financing, advances and other financing/loans						
- Cashline	358,854	-	-	-	-	358,854
- Term financing	26,945,758	-	-	-	-	26,945,758
- Bills receivable	2,581	-	-	-	-	2,581
- Islamic trust receipts	33,772	-	-	-	-	33,772
- Claim on customers under Islamic accepted bills	218,370	-	-	-	-	218,370
- Credit card receivables	96,626	-	-	-	-	96,626
- Revolving credits	418,143	-	-	-	-	418,143
Other assets	202,495	-	-	-	-	202,495
Amount due from related companies	1,671	-	-	-	89	1,760
	<b>41,669,909</b>	<b>149</b>	<b>16,900</b>	<b>63,559</b>	<b>243</b>	<b>41,750,760</b>
<b><u>Items not recognised in the statement of financial position</u></b>						
Financial guarantees	28,489	-	-	-	-	28,489
Credit related commitments and contingencies	2,605,425	-	-	-	-	2,605,425
<b>Total credit exposures</b>	<b>44,303,823</b>	<b>149</b>	<b>16,900</b>	<b>63,559</b>	<b>243</b>	<b>44,384,674</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(a) Geographical sectors (Continued)**

2010	Malaysia RM'000	Singapore RM'000	United States RM'000	United Kingdom RM'000	Hong Kong RM'000	Total RM'000
<b><u>Items recognised in the statement of financial position</u></b>						
Cash and short-term funds	7,473,635	77,088	17,924	61,670	114,090	7,744,407
Deposits and placements with banks and other financial institutions	950,000	-	-	-	-	950,000
Financial assets held for trading						
- Money market instruments	2,214,415	-	-	-	-	2,214,415
- Unquoted securities	133,479	-	-	-	-	133,479
Financial investments available-for-sale						
- Money market instruments	100,949	-	-	-	-	100,949
- Unquoted securities	354,435	-	-	-	-	354,435
Financial investments held-to-maturity						
- Money market instruments	100,040	-	-	-	-	100,040
- Unquoted securities	993,595	-	-	-	-	993,595
Islamic derivative financial instruments						
- Trading derivatives	139,552	-	-	-	-	139,552
- Hedging derivatives	11,136	-	-	-	-	11,136
Financing, advances and other financing/loans						
- Cashline	310,925	-	-	-	-	310,925
- Term financing	21,395,426	-	-	-	-	21,395,426
- Bills receivable	2,235	-	-	-	-	2,235
- Islamic trust receipts	54,886	-	-	-	-	54,886
- Claim on customers under Islamic accepted bills	176,123	-	-	-	-	176,123
- Credit card receivables	86,591	-	-	-	-	86,591
- Revolving credits	398,391	-	-	-	-	398,391
Other assets	121,182	-	-	-	-	121,182
Amount due from holding company	245,034	-	-	-	-	245,034
Amount due from related companies	828	-	-	-	-	828
	<b>35,262,857</b>	<b>77,088</b>	<b>17,924</b>	<b>61,670</b>	<b>114,090</b>	<b>35,533,629</b>
<b><u>Items not recognised in the statement of financial position</u></b>						
Financial guarantees	36,420	-	-	-	-	36,420
Credit related commitments and contingencies	3,303,964	-	-	-	-	3,303,964
<b>Total credit exposures</b>	<b>38,603,241</b>	<b>77,088</b>	<b>17,924</b>	<b>61,670</b>	<b>114,090</b>	<b>38,874,013</b>



# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.1 Credit risk (Continued)

#### 36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)

##### (b) Industry sectors

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancements) for items recognised in the statements of financial positions as at 31 December 2011 and 31 December 2010, based on the industry sectors of the counterparty are as follows:

2011

	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held for trading (i) RM'000	Financial investments available-for- sale (i) RM'000	Financial investments held-to- maturity (i) RM'000	Islamic derivative financial instruments			Financing, advances and other financing/loans (ii) RM'000	Total credit exposures RM'000
						Trading derivatives RM'000	Hedging derivatives RM'000	Other financial assets * RM'000		
Agriculture	-	-	-	15,116	-	-	-	-	735,164	750,280
Mining and quarrying	-	-	-	-	-	-	-	-	15,023	15,023
Manufacturing	-	-	-	-	-	3,368	-	-	431,573	434,941
Electricity, gas and water	-	-	-	95,967	18,726	-	-	-	155,228	269,921
Construction	-	-	81,700	155,192	9,284	-	-	-	229,408	475,584
Transport, storage and communications	-	-	-	45,446	492,617	-	-	-	818,907	1,356,970
<u>Finance, takaful, real estate and business services</u>										
Finance, takaful and business services	7,554,885	1,090,383	651,048	89,272	277,013	131,137	8,195	204,255	2,044,909	12,051,097
Real estate	-	-	-	10,134	25,439	-	-	-	-	35,573
<u>Others</u>										
Purchase of landed property	-	-	-	-	-	-	-	-	6,986,835	6,986,835
- Residential	-	-	-	-	-	-	-	-	6,544,997	9,231,783
Government and government agencies	-	-	2,010,181	317,586	354,278	4,741	-	-	5,250,195	5,250,195
Purchase of transport vehicles	-	-	-	-	-	-	-	-	3,215,772	3,215,772
Consumption credit	-	-	-	-	-	-	-	-	1,218,882	1,218,882
Education and health	-	-	-	-	-	-	-	-	427,211	457,904
Others	-	-	10,140	20,386	-	167	-	-	-	-
	<b>7,554,885</b>	<b>1,090,383</b>	<b>2,753,069</b>	<b>749,099</b>	<b>1,177,357</b>	<b>139,413</b>	<b>8,195</b>	<b>204,255</b>	<b>28,074,104</b>	<b>41,750,760</b>

\* Other financial assets include amount due from holding company, amount due from related companies and other financial assets

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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.1 Credit risk (Continued)

#### 36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)

#### (b) Industry sectors (Continued)

2010	Deposits and placements with banks and other financial institutions		Financial assets held for trading (i)	Financial investments available-for-sale (i)	Financial investments held-to-maturity (i)	Islamic derivative financial instruments		Other financial assets *	Financing, advances and other financing/loans (ii)	Total credit exposures
	Cash and short term funds					Trading derivatives	Hedging derivatives			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	15,107	-	-	-	86	814,791	829,984
Mining and quarrying	-	-	-	-	-	-	-	-	4,823	4,823
Manufacturing	-	-	-	-	-	-	-	-	563,825	563,825
Electricity, gas and water	-	-	5,145	33,108	-	-	-	726	236,480	275,459
Construction	-	-	10,143	67,498	8,826	-	-	576	251,485	338,528
Transport, storage and communications	-	-	-	19,602	490,192	-	-	4,257	740,303	1,254,354
<u>Finance, takaful, real estate and business services</u>										
Finance, takaful and business services	879,297	950,000	736,365	90,787	494,577	139,552	11,136	352,931	1,454,075	5,108,720
Real estate	-	-	-	10,129	-	-	-	52	-	10,181
<u>Others</u>										
Purchase of landed property										
- Residential	-	-	-	-	-	-	-	-	5,410,723	5,410,723
General commerce	-	-	-	31,142	-	-	-	400	380,715	412,257
Government and government agencies	6,865,110	-	1,596,241	177,225	100,040	-	-	7,145	4,538,302	13,284,063
Purchase of transport vehicles	-	-	-	-	-	-	-	-	5,234,598	5,234,598
Consumption credit	-	-	-	-	-	-	-	-	1,776,563	1,776,563
Education and health	-	-	-	-	-	-	-	-	644,240	644,240
Others	-	-	-	10,786	-	-	-	871	373,654	385,311
	7,744,407	950,000	2,347,894	455,384	1,093,635	139,552	11,136	367,044	22,424,577	35,533,629

\* Other financial assets include amount due from holding company, amount due from related companies and other financial assets

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(b) Industry sectors (Continued)**

- (i) Financial assets held for trading, financial investments available-for-sale and financial investments held-to-maturity are further analysed by types of securities as follows:

2011	Financial assets held for trading		Financial investments available-for-sale		Financial investments held-to-maturity		Total credit exposures
	Money market instruments	Unquoted securities	Money market instruments	Unquoted securities	Money market instruments	Unquoted securities	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Agriculture	-	-	-	15,116	-	-	15,116
Electricity, gas and water	-	-	-	95,967	-	18,726	114,693
Construction	-	81,700	-	155,191	-	9,284	246,175
Transport, storage and communications	-	-	-	45,446	-	492,617	538,063
<i>Finance, takaful, real estate and business services</i>							
Finance, takaful and business services	651,048	-	35,857	53,415	-	277,012	1,017,332
Real estate	-	-	-	10,135	-	25,439	35,574
<i>Others</i>							
General commerce	-	-	-	-	-	-	-
Government and government agencies	1,931,541	78,640	131,234	186,352	354,279	-	2,682,046
Others	-	10,140	-	20,386	-	-	30,526
	<b>2,582,589</b>	<b>170,480</b>	<b>167,091</b>	<b>582,008</b>	<b>354,279</b>	<b>823,078</b>	<b>4,679,525</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(b) Industry sectors (Continued)**

2010	Financial assets held for trading		Financial investments available-for-sale		Financial investments held-to-maturity		Total credit exposures
	Money market instruments	Unquoted securities	Money market instruments	Unquoted securities	Money market instruments	Unquoted securities	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	15,107	-	-	15,107
Electricity, gas and water	-	5,145	-	33,108	-	-	38,253
Construction	-	10,143	-	67,498	-	8,826	86,467
Transport, storage and communications	-	-	-	19,602	-	490,192	509,794
<u>Finance, takaful, real estate and business services</u>							
Finance, takaful and business services	736,365	-	35,423	55,364	-	494,577	1,321,729
Real estate	-	-	-	10,129	-	-	10,129
<u>Others</u>							
General commerce	-	-	-	31,142	-	-	31,142
Government and government agencies	1,478,050	118,191	65,526	111,699	100,040	-	1,873,506
Others	-	-	-	10,786	-	-	10,786
	<u>2,214,415</u>	<u>133,479</u>	<u>100,949</u>	<u>354,435</u>	<u>100,040</u>	<u>993,595</u>	<u>3,896,913</u>

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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.1 Credit risk (Continued)

##### 36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)

#### (b) Industry sectors (Continued)

(ii) Financing, advances and other financing/loans are further analysed by product types as follows:

2011	Cashline RM'000	Term financing RM'000	Bills receivable RM'000	Islamic trust receipts RM'000	Claim on	Credit card receivables RM'000	Revolving credits RM'000	Total credit exposures RM'000
					customers under Islamic accepted bills RM'000			
Agriculture	37,828	649,545	-	-	5,560	-	42,232	735,165
Mining and quarrying	9,122	5,902	-	-	-	-	-	15,024
Manufacturing	36,509	214,919	2,581	19,890	117,556	-	40,119	431,574
Electricity, gas and water	-	155,228	-	-	-	-	-	155,228
Construction	60,317	153,677	-	3,131	3,156	-	9,127	229,408
Transport, storage and communications	10,963	802,168	-	111	1,487	-	4,178	818,907
<i>Finance, takaful, real estate and business services</i>								
Finance, takaful and business services	67,965	1,798,256	-	-	1,117	-	177,570	2,044,908
<i>Others</i>								
Purchase of landed property								
- Residential	-	6,986,835	-	-	-	-	-	6,986,835
Government and government agencies	-	6,544,997	-	-	-	-	-	6,544,997
Purchase of transport vehicles	-	5,250,195	-	-	-	-	-	5,250,195
Consumption credit	-	3,119,147	-	-	-	96,626	-	3,215,773
Education and health	43,210	1,131,596	-	-	883	-	43,193	1,218,882
Trade and hospitality	92,940	124,712	-	10,640	88,611	-	101,724	418,627
Others	-	8,581	-	-	-	-	-	8,581
	358,854	26,945,758	2,581	33,772	218,370	96,626	418,143	28,074,104

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(b) Industry sectors (Continued)**

2010	Cashline RM'000	Term financing RM'000	Bills receivable RM'000	Claim on customers		Credit card receivables RM'000	Revolving credits RM'000	Total credit exposures RM'000
				Islamic trust receipts RM'000	under Islamic accepted bills RM'000			
Agriculture	15,209	737,100	-	-	4,599	-	57,883	814,791
Mining and quarrying	2,782	2,041	-	-	-	-	-	4,823
Manufacturing	22,817	385,323	-	15,156	102,905	-	37,624	563,825
Electricity, gas and water	-	236,480	-	-	-	-	-	236,480
Construction	56,453	180,680	-	5,068	4,220	-	5,064	251,485
Transport, storage and communications	14,431	717,947	-	724	1,356	-	5,845	740,303
<i>Finance, takaful, real estate and business services</i>								
Finance, takaful and business services	82,021	1,195,286	-	-	914	-	175,854	1,454,075
<i>Others</i>								
Purchase of landed property								
- Residential	-	5,410,723	-	-	-	-	-	5,410,723
Government and government agencies	-	4,538,302	-	-	-	-	-	4,538,302
General commerce	70,576	108,917	2,235	33,938	62,113	-	102,935	380,714
Purchase of transport vehicles	-	5,234,598	-	-	-	-	-	5,234,598
Consumption credit	-	1,689,972	-	-	-	86,591	-	1,776,563
Others	46,636	958,057	-	-	16	-	13,186	1,017,895
	310,925	21,395,426	2,235	54,886	176,123	86,591	398,391	22,424,577

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.2 Concentration of risks of financial assets with credit risk exposure (Continued)****(b) Industry sectors (Continued)**

The analysis of credit risk concentrations (without taking into account any collateral held or other credit enhancement) for items recognised in the statements of financial position as at 31 December 2011 and 31 December 2010, based on the industry sectors of the counterparty are as follows:

	<b>Financial guarantees</b>	<b>Credit related commitments and contingencies</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>2011</b>		
Agriculture	-	82,500
Mining and quarrying	-	3,579
Manufacturing	12,997	620,074
Electricity, gas and water	90	22,053
Construction	250	101,296
Transport, storage and communications	5,549	290,001
<i>Finance, takaful, real estate and business services</i>		
Finance, takaful and business services	1,516	534,310
General commerce	395	145,786
Others	7,692	805,826
	<b>28,489</b>	<b>2,605,425</b>
	<b>28,489</b>	<b>2,605,425</b>
		<b>Credit related commitments and contingencies</b>
	<b>Financial guarantees</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>2010</b>		
Agriculture	-	247,387
Mining and quarrying	-	602
Manufacturing	11,004	156,645
Electricity, gas and water	-	655,274
Construction	17,922	208,417
Transport, storage and communications	2,144	243,987
<i>Finance, takaful, real estate and business services</i>		
Finance, takaful and business services	2,252	929,943
General commerce	2,938	242,012
Others	160	619,697
	<b>36,420</b>	<b>3,303,964</b>
	<b>36,420</b>	<b>3,303,964</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets**

Financial assets are required under FRS 7, to be categorised into “neither past due nor impaired”, “past due but not impaired” or “impaired”.

**(i) Financing, advances and other financing/loans**

Financing, advances and other financing/loans as at 31 December 2011 and 31 December 2010 are summarised as follows:

2011	Neither past due nor impaired (a) RM'000	Past due but not impaired (b) RM'000	Impaired (c) RM'000	Total RM'000
Cashline	322,556	38,850	11,650	373,056
Term financing	25,762,140	1,352,749	308,305	27,423,194
Bills receivable	2,581	-	-	2,581
Islamic trust receipts	33,693	154	1,544	35,391
Claim on customers under Islamic accepted bills	215,791	1,689	15,999	233,479
Credit card receivables	93,703	5,828	4,547	104,078
Revolving credits	419,592	-	3,733	423,325
Total	<u>26,850,056</u>	<u>1,399,270</u>	<u>345,778</u>	<u>28,595,104</u>
Less: Impairment allowances				<u>(521,000)</u>
Total net amount				<u>28,074,104</u>

2010	Neither past due nor impaired (a) RM'000	Past due but not impaired (b) RM'000	Impaired (c) RM'000	Total RM'000
Cashline	260,934	50,485	11,110	322,529
Term financing	20,236,089	1,162,759	285,588	21,684,436
Bills receivable	2,235	-	-	2,235
Islamic trust receipts	53,578	2,028	3,485	59,091
Claim on customers under Islamic accepted bills	168,882	8,835	13,940	191,657
Credit card receivables	83,975	4,073	2,424	90,472
Revolving credits	383,900	4,098	19,332	407,330
Total	<u>21,189,593</u>	<u>1,232,278</u>	<u>335,879</u>	<u>22,757,750</u>
Less: Impairment allowances				<u>(333,173)</u>
Total net amount				<u>22,424,577</u>

\* Impairment allowances include allowances against financial assets that have been impaired and those subject to portfolio impairment.



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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets (Continued)****(i) Financing, advances and other financing/loans (Continued)****(a) Financing, advances and other financing/loans that are “neither past due nor impaired”**

The credit quality of financing, advances and other financing/loans that are “neither past due nor impaired” as at 31 December 2011 and 31 December 2010 can be assessed by reference to the internal rating system adopted by the Bank.

	Good RM'000	Satisfactory RM'000	No rating RM'000	Total RM'000
<b>2011</b>				
Cashline	238,398	40,668	43,490	322,556
Term financing	3,447,290	237,426	22,077,424	25,762,140
Bills receivable	2,581	-	-	2,581
Islamic trust receipts	27,006	4,650	2,037	33,693
Claim on customers under Islamic accepted bills	208,867	1,041	5,883	215,791
Credit card receivables	-	-	93,703	93,703
Revolving credits	381,138	-	38,454	419,592
<b>Total</b>	<b>4,305,280</b>	<b>283,785</b>	<b>22,260,991</b>	<b>26,850,056</b>

	Good RM'000	Satisfactory RM'000	No rating RM'000	Total RM'000
<b>2010</b>				
Cashline	189,770	20,184	50,980	260,934
Term financing	3,379,135	168,539	16,688,415	20,236,089
Bills receivable	2,235	-	-	2,235
Islamic trust receipts	53,578	-	-	53,578
Claim on customers under Islamic accepted bills	168,882	-	-	168,882
Credit card receivables	-	-	83,975	83,975
Revolving credits	282,985	710	100,205	383,900
<b>Total</b>	<b>4,076,585</b>	<b>189,433</b>	<b>16,923,575</b>	<b>21,189,593</b>

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.1 Credit risk (Continued)**

##### **36.1.3 Credit quality of financial assets (Continued)**

###### **(i) Financing, advances and other financing/loans (Continued)**

###### **(a) Financing, advances and other financing/loans that are “neither past due nor impaired” (Continued)**

Financial statement descriptions can be summarised as follows:

**Good** - There is a high likelihood of the asset being recovered in full and therefore, of no cause for concern to the Bank.

**Satisfactory** - There is concern over the counterparty’s ability to make payments when due. However, these have not yet converted to actual delinquency and the counterparty is continuing to make payments when due and is expected to settle all outstanding amounts.

**No rating** - Refers to counterparties that do not satisfy the criteria to be rated internally. These include sovereigns, individuals, schools, non-government organisations, cooperatives and others.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets (Continued)****(i) Financing, advances and other financing/loans (Continued)****(b) Financing, advances and other financing/loans that are “past due but not impaired”**

The Bank considers an asset is past due when any payment due under strict contractual terms is received late or missed. However, financing, advances and other financing/loans which are less than 90 days past due, are not yet considered to be impaired unless there are impairment triggers available to indicate otherwise.

An age analysis of financing, advances and other financing/loans that are “past due but not impaired” as at 31 December 2011 and 31 December 2010 are set out below:

	Up to 1 month RM'000	>1 to 3 months RM'000	Total RM'000
<b>2011</b>			
Cashline	27,185	11,665	38,850
Term financing	956,716	396,033	1,352,749
Islamic trust receipts	154	-	154
Claim on customers under Islamic accepted bills	572	1,117	1,689
Credit card receivables	3,033	2,795	5,828
<b>Total</b>	<b>987,660</b>	<b>411,610</b>	<b>1,399,270</b>

	Up to 1 month RM'000	>1 to 3 months RM'000	Total RM'000
<b>2010</b>			
Cashline	48,092	2,393	50,485
Term financing	808,905	353,854	1,162,759
Islamic trust receipts	764	1,264	2,028
Claim on customers under Islamic accepted bills	6,019	2,816	8,835
Credit card receivables	2,375	1,698	4,073
Revolving credits	-	4,098	4,098
<b>Total</b>	<b>866,155</b>	<b>366,123</b>	<b>1,232,278</b>

## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.1 Credit risk (Continued)**

##### **36.1.3 Credit quality of financial assets (Continued)**

##### **(i) Financing, advances and other financing/loans (Continued)**

##### **(c) Impaired financing, advances and other financing/loans**

	<b>2011 RM'000</b>	<b>2011 RM'000</b>
Total gross impaired financing, advances and other financing/loans	345,778	335,879
Less: Impairment allowances	<u>(261,936)</u>	<u>(190,168)</u>
Total net impaired financing, advances and other financing/loans	<u><b>83,842</b></u>	<u><b>145,711</b></u>

Refer to Note 8(vi) for analysis of “impaired” financing, advances and other financing/loans by economic purpose.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets (Continued)****(ii) Financial assets held for trading and financial investments**

Financial assets held for trading, financial investments available-for-sale and financial investments held-to-maturity as at 31 December 2011 and 31 December 2010 are summarised as follows:

	2011 RM'000	2010 RM'000
Financial assets held for trading		
- Money market instruments	2,582,589	2,214,415
- Unquoted securities	170,480	133,479
Financial investments available-for-sale		
- Money market instruments	167,091	100,949
- Unquoted securities	582,008	354,435
Financial investments held-to-maturity		
- Money market instruments	354,279	100,040
- Unquoted securities	823,078	993,595
<b>Total</b>	<b>4,679,525</b>	<b>3,896,913</b>

There were no financial assets held for trading, financial investments available-for-sale and financial investments held-to-maturity that are “past due but not impaired or impaired” as at 31 December 2011 and 31 December 2010 for the Bank.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets (Continued)****(ii) Financial assets held for trading and financial investments (Continued)****(a) Financial assets held for trading and financial investments that are “neither past due nor impaired”**

The table below presents an analysis of financial assets held for trading and financial investments that are “neither past due nor impaired” based on ratings by major credit rating agencies as at 31 December 2011 and 31 December 2010:

	Sovereign (no rating)	Investment grade (AAA to BBB-)	Others (no rating)	Total
<b>2011</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Financial assets held for trading				
- Money market instruments	1,931,541	651,048	-	2,582,589
- Unquoted securities	78,640	91,840	-	170,480
Financial investments available-for-sale				
- Money market instruments	97,538	69,553	-	167,091
- Unquoted securities	186,352	360,149	35,507	582,008
Financial investments held-to-maturity				
- Money market instruments	354,279	-	-	354,279
- Unquoted securities	-	174,297	648,781	823,078
<b>Total</b>	<b>2,648,350</b>	<b>1,346,887</b>	<b>684,288</b>	<b>4,679,525</b>

	Sovereign (no rating)	Investment grade (AAA to BBB-)	Others (no rating)	Total
<b>2010</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Financial assets held for trading				
- Money market instruments	1,916,630	297,785	-	2,214,415
- Unquoted securities	-	59,809	73,670	133,479
Financial investments available-for-sale				
- Money market instruments	100,949	-	-	100,949
- Unquoted securities	21,351	333,084	-	354,435
Financial investments held-to-maturity				
- Money market instruments	100,040	-	-	100,040
- Unquoted securities	464,906	38,496	490,193	993,595
<b>Total</b>	<b>2,603,876</b>	<b>729,174</b>	<b>563,863</b>	<b>3,896,913</b>

Securities of the Bank with no rating mainly consist of Islamic private debt securities.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.1 Credit risk (Continued)****36.1.3 Credit quality of financial assets (Continued)****(iii) Other credit risk financial assets**

An analysis of the credit quality of the Bank's other credit risk financial assets as at 31 December 2011 and 31 December 2010 that are "neither past due nor impaired" are set out below:

	Sovereign (no rating)	Investment Grade (AAA to BBB-)	Non Investment Grade (BB+ and below)	Others (no rating)	Total
2011	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	6,907,693	631,221	-	15,971	7,554,885
Deposits and placements with banks and other financial institutions	-	1,090,383	-	-	1,090,383
Other assets	-	-	-	202,483	202,483
Islamic derivative financial instruments	4,867	84,617	5,291	52,833	147,608
Amount due from related companies	-	-	-	1,760	1,760
<b>Total</b>	<b>6,912,560</b>	<b>1,806,221</b>	<b>5,291</b>	<b>273,047</b>	<b>8,997,119</b>

There were no other financial assets that are "past due but not impaired" or "impaired" as at 31 December 2011 for the Bank.

	Sovereign (no rating)	Investment Grade (AAA to BBB-)	Non Investment Grade (BB+ and below)	Others (no rating)	Total
2010	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	6,965,110	779,297	-	-	7,744,407
Deposits and placements with banks and other financial institutions	550,000	400,000	-	-	950,000
Other assets	11,462	10,370	-	99,350	121,182
Islamic derivative financial instruments	-	53,938	816	95,934	150,688
Amount due from holding company	-	245,034	-	-	245,034
Amount due from related companies	-	-	-	828	828
<b>Total</b>	<b>7,526,572</b>	<b>1,488,639</b>	<b>816</b>	<b>196,112</b>	<b>9,212,139</b>

There were no other financial assets that are "past due but not impaired" or "impaired" as at 31 December 2010 for the Bank.

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.1 Credit risk (Continued)**

##### **36.1.4 Renegotiated financial instruments**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. During the financial year, total carrying amount of financing, advances and other financing/loans of the Bank that would otherwise be past due or impaired whose terms have been renegotiated amounted to RM52,777,000 (2010: RM27,343,000).

##### **36.1.5 Repossessed collateral**

The Bank has not taken possession of any collateral held as security.



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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.2 Market risk**

Market risk is defined as the potential change in market value of trading and investment securities held by the Bank arising from adverse changes to market parameters such as profit rates, credit spreads, foreign exchange rates, equity prices, commodity prices and volatility.

#### **Market Risk Management**

The function of RMA Team in CIMB is to measure and control market risk of the Bank through robust measurement and the setting of limits while facilitating business growth within a controlled and transparent risk management framework. Here, the CaR framework is employed to measure market risk where CaR represents the worst expected loss in portfolio value under normal market conditions over a specific time interval at a given confidence level. The Bank has adopted a historical simulation approach to compute CaR. 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 Bank is exposed to four major types of market risk namely equity risk, profit/benchmark rate risk, foreign exchange risk and commodity risk. Each business unit is allocated CaR 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, Group Treasury's Market Risk Team and RMO within GRM. The head of each business unit is accountable for all market risk under his/her purview. Any excession will be escalated to management in accordance to the Group's exception management procedures.

In addition to daily monitoring of CaR usage, on a monthly basis, all market exposures and CaR of the Bank will be summarised and submitted to GRC and BRC for its perusal. The usage of market CaR by risk type based on 1-day holding period of the Bank's trading exposures as at 31 December 2011 is shown in Note 36.2.1.

Although historical simulation provides a reasonable estimate of market risk, this approach relies heavily on historical daily price movements of the market parameter of profit. Hence, the resulting market CaR 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 CaR computed would understate the risk of the portfolio and vice versa.

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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.2 Market risk (Continued)**

In order to ensure historical simulation gives an adequate estimation of market CaR, backtesting of the historical simulation approach is performed annually. Backtesting involves comparing the derived 1-day CaR 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 CaR.

The Bank also complements CaR with stress testing exercises to capture event risk that are not observed in the historical time period selected to compute CaR. Stress testing exercise at the group-wide level involves assessing potential losses to the Bank'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 highly plausible stress scenarios. Stress test results are presented to the GRC to provide senior management with an overview of the impact to the Bank if such stress scenarios were to materialise.

In addition to the above, RMO under GRM undertakes the monitoring and oversight process at Group Treasury and Equity Market & Derivatives 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.

RMO also provides accurate and timely valuation of the Bank'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 RMO to ensure the bank is operational ready 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 validated by the Quantitative Analysts to assess its applicability to market conditions. The process includes verification of the rate sources, parameters, assumptions modeling approach and its implementation. Existing valuation models are reviewed at least on a yearly basis to ensure that they remain relevant to changing market conditions. Backtest of newly approved or revised models may be conducted to assess the appropriateness of the model and input data used.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.1 CaR**

The usage of market CaR by risk type based on 1-day holding period of the Bank's trading exposures at 31 December 2011 and 31 December 2010 are set out below:

	2011 RM'000	2010 RM'000
<b>CaR</b>		
Foreign exchange risk	485	319
Profit rate risk	964	1,216
Total	<u>1,449</u>	<u>1,535</u>
Total shareholders' funds	1,928,550	1,338,667
Percentage over shareholders' funds	0.08%	0.11%

**36.2.2 Profit rate risk**

Profit rate risk relates to the potential adverse impact on the net profit income arising from the changes in market rates. One of the primary sources of profit rate risk is the repricing mismatches between profit earning assets and profit bearing liabilities. Profit rate risk is measured and reported at various levels through various techniques including Earnings-at-Risk (EaR).

**(a) Profit rate risk**

The tables below summarise the Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates as at 31 December 2011 and 31 December 2010.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

2011	Non-trading book						Non-profit sensitive	Trading book	Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Financial assets</b>									
Cash and short-term funds	7,423,075	-	-	-	-	-	131,810	-	7,554,885
Deposits and placements with banks and other financial institutions	-	892,930	192,000	-	-	-	5,453	-	1,090,383
Financial assets held for trading	-	-	-	-	-	-	-	2,753,069	2,753,069
Financial investments available-for-sale	-	-	30,044	15,122	274,196	423,463	6,274	-	749,099
Financial investments held-to-maturity	-	-	100,040	-	845,190	223,395	8,732	-	1,177,357
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	139,413	139,413
- Hedging derivatives	-	-	-	-	8,195	-	-	-	8,195
Financing, advances and other financing/loans	11,860,972	1,920,010	5,232,835	62,300	1,602,834	7,395,153	-	-	28,074,104
Other assets	-	-	-	-	-	-	202,495	-	202,495
Amount due from related companies	-	-	-	-	-	-	1,760	-	1,760
<b>Total financial assets</b>	<b>19,284,047</b>	<b>2,812,940</b>	<b>5,554,919</b>	<b>77,422</b>	<b>2,730,415</b>	<b>8,042,011</b>	<b>356,524</b>	<b>2,892,482</b>	<b>41,750,760</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

2011	Non-trading book						Non-profit sensitive	Trading book	Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial liabilities</b>									
Deposits from customers	19,921,925	5,973,812	1,414,405	669,216	577,151	590,743	91,218	-	29,238,470
Deposits and placements of banks and other financial institutions	2,195,610	2,576,861	47,708	-	5,287,238	-	143,416	-	10,250,833
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	133,425	133,425
- Hedging derivatives	-	-	-	-	159	262,270	-	-	262,429
Other liabilities	-	-	-	-	-	-	48,609	-	48,609
Amount due to ultimate holding company	-	-	-	-	-	-	393,673	-	393,673
Amount due to related company	-	-	-	-	-	-	139	-	139
Subordinated sukuk	-	-	-	-	250,000	300,000	14,679	-	564,679
<b>Total financial liabilities</b>	<b>22,117,535</b>	<b>8,550,673</b>	<b>1,462,113</b>	<b>669,216</b>	<b>6,114,548</b>	<b>1,153,013</b>	<b>691,734</b>	<b>133,425</b>	<b>40,892,257</b>
<b>Net profit sensitivity gap for items recognised in the statement of financial position</b>	<b>(2,833,488)</b>	<b>(5,737,733)</b>	<b>4,092,806</b>	<b>(591,794)</b>	<b>(3,384,133)</b>	<b>6,888,998</b>		<b>2,759,057</b>	
<b>Net profit sensitivity gap for items not recognised in the statement of financial position</b>									
Financial guarantees	28,489	-	-	-	-	-	-	-	28,489
Credit related commitments and contingencies	1,494,493	30,699	1,144	36,349	189,002	853,738	-	-	2,605,425
Treasury related commitments and contingencies	-	-	-	-	264,837	4,364,662	-	-	4,629,499
	<b>1,522,982</b>	<b>30,699</b>	<b>1,144</b>	<b>36,349</b>	<b>453,839</b>	<b>5,218,400</b>	<b>-</b>	<b>-</b>	<b>7,263,413</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

2010	Non-trading book						Non-profit sensitive	Trading book	Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Financial assets</b>									
Cash and short-term funds	7,689,306	-	-	-	-	-	55,101	-	7,744,407
Deposits and placements with banks and other financial institutions	-	800,000	150,000	-	-	-	-	-	950,000
Financial assets held for trading	-	-	-	-	-	-	-	2,347,894	2,347,894
Financial investments available-for-sale	-	5,034	9,858	10,069	176,246	254,177	-	-	455,384
Financial investments held-to-maturity	-	-	-	464,908	333,847	294,880	-	-	1,093,635
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	139,552	139,552
- Hedging derivatives	-	-	-	-	-	11,136	-	-	11,136
Financing, advances and other financing/loans:	8,953,173	1,781,804	3,462,540	279,115	1,568,979	6,378,955	11	-	22,424,577
Other assets	-	-	-	-	-	-	121,182	-	121,182
Amount due from holding company	-	-	-	-	-	-	245,034	-	245,034
Amount due from related companies	-	-	-	-	-	-	828	-	828
<b>Total financial assets</b>	<b>16,642,479</b>	<b>2,586,838</b>	<b>3,622,398</b>	<b>754,092</b>	<b>2,079,072</b>	<b>6,939,148</b>	<b>422,156</b>	<b>2,487,446</b>	<b>35,533,629</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

2010	Non-trading book						Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000			
<b>Financial liabilities</b>									
Deposits from customers	15,065,443	4,637,984	312,880	377,081	1,576,731	528,266	179,570	-	22,677,955
Deposits and placements of banks and other financial institutions	2,470,971	2,927,735	480,108	-	5,246,214	-	-	-	11,125,028
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	139,058	139,058
- Hedging derivatives	-	-	-	-	-	60,141	-	-	60,141
Other liabilities	-	-	-	-	-	-	23,055	-	23,055
Subordinated sukuk	-	-	-	-	-	300,000	-	-	300,000
<b>Total financial liabilities</b>	<b>17,536,414</b>	<b>7,565,719</b>	<b>792,988</b>	<b>377,081</b>	<b>6,822,945</b>	<b>888,407</b>	<b>202,625</b>	<b>139,058</b>	<b>34,325,237</b>
<b>Net profit sensitivity gap for items recognised in the statement of financial position</b>	<b>(893,935)</b>	<b>(4,978,881)</b>	<b>2,829,410</b>	<b>377,011</b>	<b>(4,743,873)</b>	<b>6,050,741</b>		<b>2,348,388</b>	
<b>Net profit sensitivity gap for items not recognised in the statement of financial position</b>									
Financial guarantees	-	-	-	-	-	-	36,420	-	36,420
Credit related commitments and contingencies	-	-	-	-	-	-	3,303,964	-	3,303,964
Treasury related commitments and contingencies	-	-	-	-	-	4,400,000	-	-	4,400,000
	-	-	-	-	-	4,400,000	3,340,384	-	7,740,384

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

The profit rate risk for financial investments available-for-sale, financial investments held-to-maturity and financing, advances and other financing/loans of the Bank are further analysed by classes of financial assets as follows:

2011	Non-trading book						Non-profit sensitive	Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial investments available-for-sale:								
- Money market instruments	-	-	15,014	-	76,966	73,282	1,829	167,091
- Unquoted securities	-	-	15,030	15,122	197,231	350,180	4,445	582,008
Financial investments held-to-maturity:								
- Money market instruments	-	-	100,040	-	250,430	-	3,809	354,279
- Unquoted securities	-	-	-	-	594,760	223,395	4,923	823,078
Financing, advances and other financing/loans:								
- Cashline	358,854	-	-	-	-	-	-	358,854
- Term financing	11,130,836	1,598,786	5,190,747	27,401	1,602,834	7,395,154	-	26,945,758
- Bills receivable	801	1,780	-	-	-	-	-	2,581
- Trust receipts	4,392	22,523	6,857	-	-	-	-	33,772
- Claim on customers under Islamic accepted bills	75,915	121,711	20,744	-	-	-	-	218,370
- Credit card receivables	96,626	-	-	-	-	-	-	96,626
- Revolving credits	193,547	175,211	14,487	34,898	-	-	-	418,143
<b>Total</b>	<b>11,860,971</b>	<b>1,920,011</b>	<b>5,362,919</b>	<b>77,421</b>	<b>2,722,221</b>	<b>8,042,011</b>	<b>15,006</b>	<b>30,000,560</b>



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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(a) Profit rate risk (Continued)**

2010	Non-trading book						Non-profit sensitive	Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Financial investments available-for-sale								
- Money market instruments	-	-	-	5,044	45,725	50,180	-	100,949
- Unquoted securities	-	5,034	9,858	5,024	130,521	203,998	-	354,435
Financial investments held-to-maturity								
- Money market instruments	-	-	-	-	100,040	-	-	100,040
- Unquoted securities	-	-	-	464,907	233,807	294,881	-	993,595
Financing, advances and other financing/loans:								
- Cashline	310,925	-	-	-	-	-	-	310,925
- Term financing	8,301,615	1,509,240	3,359,175	277,450	1,568,979	6,378,956	11	21,395,426
- Bills receivable	2,235	-	-	-	-	-	-	2,235
- Trust receipts	29,865	15,412	9,609	-	-	-	-	54,886
- Claim on customers under Islamic accepted bills	54,388	103,232	18,503	-	-	-	-	176,123
- Credit card receivables	86,591	-	-	-	-	-	-	86,591
- Revolving credits	167,554	153,920	75,253	1,664	-	-	-	398,391
<b>Total</b>	<b>8,953,173</b>	<b>1,786,838</b>	<b>3,472,398</b>	<b>754,089</b>	<b>2,079,072</b>	<b>6,928,015</b>	<b>11</b>	<b>23,973,596</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(b) Sensitivity of profit and reserves****(i) Sensitivity of profit**

The table below shows the sensitivity of the Bank's banking book to movement in profit rates:

	Year	+ 100 basis points RM'000	- 100 basis points RM'000
Impact to profit (after tax)	2011	(38,297)	38,297
Impact to profit (after tax)	2010	(24,063)	24,063

Sensitivity is measured using the EaR methodology. The treatments and assumptions applied are based on the contractual repricing 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 others.

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on profit in the next 12 months from policy rate change.

The projection assumes that profit rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.2 Profit rate risk (Continued)****(b) Sensitivity of profit and reserves (Continued)****(ii) Sensitivity of reserves**

The table below shows the sensitivity of the Bank's banking book to movement in profit rates:

	Year	+ 100 basis points RM'000	- 100 basis points RM'000
Impact to reserves	2011	(42,005)	42,005
Impact to reserves	2010	(22,071)	22,071

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on profit in the next 12 months from changes in risk free rates. The impact on reserves arises from changes in valuation of financial investments available-for-sale following movements in risk free rates.

The projection assumes that all other variables are held constant. It also assumes a constant reporting date position and that all positions run to maturity.

The above sensitivities do not take into account the effects of hedging and do not incorporate actions that the Bank would take to mitigate the impact of this profit rate risk. In practice, the Bank proactively seeks to mitigate the effect of prospective profit movements.

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## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.2 Market risk (Continued)

##### 36.2.3 Foreign exchange risk

The Bank is exposed to transactional foreign exchange exposures which are exposures on assets and liabilities denominated in currencies other than the functional currency of the transacting entity.

The Bank takes minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

#### (a) Foreign exchange risk

The table below summarises the financial assets, financial liabilities, items not recognised in the statements of financial position and net open position by currency of the Bank as at 31 December 2011 and 31 December 2010 which are mainly in Ringgit Malaysia, US Dollars, and others.

#### 2011

##### Items recognised in the statement of financial position

##### Financial assets

	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
Cash and short-term funds	7,457,961	96,394	530	96,924	7,554,885
Deposits and placements with banks and other financial institutions	804,103	286,280	-	286,280	1,090,383
Financial assets held for trading:					
- Money market instruments	2,582,589	-	-	-	2,582,589
- Unquoted securities	170,480	-	-	-	170,480
Financial investments available-for-sale:					
- Money market instruments	133,394	33,697	-	33,697	167,091
- Unquoted securities	577,090	4,918	-	4,918	582,008
Financial investments held-to-maturity:					
- Money market instruments	354,279	-	-	-	354,279
- Unquoted securities	823,078	-	-	-	823,078
Islamic derivative financial instruments:					
- Trading derivatives	115,249	20,910	3,254	24,164	139,413
- Hedging derivatives	8,195	-	-	-	8,195
Financing, advances and other financing/loans:					
- Cashline	358,854	-	-	-	358,854
- Term financing	26,945,758	-	-	-	26,945,758
- Bills receivable	2,581	-	-	-	2,581
- Islamic trust receipts	33,772	-	-	-	33,772
- Claim on customers under Islamic accepted bills	218,370	-	-	-	218,370
- Credit card receivables	96,626	-	-	-	96,626
- Revolving credit	418,143	-	-	-	418,143
Other assets	202,495	-	-	-	202,495
Amount due from related companies	1,760	-	-	-	1,760
	41,304,777	442,199	3,784	445,983	41,750,760

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**2011Financial liabilities

Deposits from customers  
 Deposits and placements of banks and other  
 financial institutions  
 Islamic derivative financial instruments:  
 - Trading derivatives  
 - Hedging derivatives  
 Amount owing to holding company  
 Amount due to related companies  
 Other liabilities  
 Subordinated sukuk

MYR RM'000	SGD RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
28,798,187	-	440,283	-	440,283	29,238,470
9,541,245	-	709,588	-	709,588	10,250,833
131,148	-	421	1,856	2,277	133,425
262,009	-	420	-	420	262,429
393,673	-	-	-	-	393,673
139	-	-	-	-	139
48,609	-	-	-	-	48,609
564,679	-	-	-	-	564,679
<b>39,739,689</b>	<b>-</b>	<b>1,150,712</b>	<b>1,856</b>	<b>1,152,568</b>	<b>40,892,257</b>

Items not recognised in the statement of  
financial position

Financial guarantees  
 Credit related commitments and contingencies

28,489	-	-	-	-	28,489
2,335,912	11	221,115	48,387	269,513	2,605,425
<b>2,364,401</b>	<b>11</b>	<b>221,115</b>	<b>48,387</b>	<b>269,513</b>	<b>2,633,914</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)****2010****Items recognised in the statement of financial position****Financial assets**

	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
Cash and short-term funds	7,276,964	467,443	-	467,443	7,744,407
Deposits and placements with banks and other financial institutions	950,000	-	-	-	950,000
Financial assets held for trading:					
- Money market instruments	2,214,415	-	-	-	2,214,415
- Unquoted securities	133,479	-	-	-	133,479
Financial investments available-for-sale:					
- Money market instruments	100,949	-	-	-	100,949
- Unquoted securities	354,435	-	-	-	354,435
Financial investments held-to-maturity:					
- Money market instruments	100,040	-	-	-	100,040
- Unquoted securities	993,595	-	-	-	993,595
Islamic derivative financial instruments:					
- Trading derivatives	127,366	8,796	3,390	12,186	139,552
- Hedging derivatives	11,136	-	-	-	11,136
Financing, advances and other financing/loans:					
- Cashline	310,925	-	-	-	310,925
- Term financing	21,395,426	-	-	-	21,395,426
- Bills receivable	2,235	-	-	-	2,235
- Islamic trust receipts	54,886	-	-	-	54,886
- Claim on customers under Islamic accepted bills	176,123	-	-	-	176,123
- Credit card receivables	86,591	-	-	-	86,591
- Revolving credit	398,391	-	-	-	398,391
Other assets	120,808	374	-	374	121,182
Amount due from holding company	245,034	-	-	-	245,034
Amount due from related companies	828	-	-	-	828
	35,053,626	476,613	3,390	480,003	35,533,629

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.2 Market risk (Continued)****36.2.4 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)****2010****Financial liabilities**

	MYR RM'000	SGD RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
Deposits from customers	22,551,470	-	126,485	-	126,485	22,677,955
Deposits and placements of banks and other financial institutions	10,071,078	-	1,053,950	-	1,053,950	11,125,028
Islamic derivative financial instruments						
- Trading derivatives	126,886	-	8,782	3,390	12,172	139,058
- Hedging derivatives	60,141	-	-	-	-	60,141
Other liabilities	22,187	-	868	-	868	23,055
Subordinated sukuk	300,000	-	-	-	-	300,000
	33,131,762	-	1,190,085	3,390	1,193,475	34,325,237

**Items not recognised in the statement of  
financial position**

Financial guarantees	36,372	-	48	-	48	36,420
Credit related commitments and contingencies	3,200,750	299	96,378	6,537	103,214	3,303,964
	3,237,122	299	96,426	6,537	103,262	3,340,384

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### Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

#### 36 Financial Risk Management (Continued)

##### 36.2 Market risk (Continued)

##### 36.2.3 Foreign exchange risk (Continued)

##### (b) Sensitivity of profit

The table below shows the sensitivity of the Bank's profit to movement in foreign exchange rates:

	Year	1% appreciation RM'000	1% depreciation RM'000
Impact to profit (after tax)	2011	1	(1)
Impact to profit (after tax)	2010	224	(224)

The impact on profit arises from transactional exposures from parallel shifts in foreign exchange rates.

The projection assumes that foreign exchange rates move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position and that all positions run to maturity.



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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.3 Liquidity risk**

Liquidity risk is defined as the current and prospective risk to earnings, shareholders fund or the reputation arising from the Bank's inability to efficiently meet its present and future (both anticipated and unanticipated) funding needs or regulatory obligations when they come due, which may adversely affect its daily operations and incur unacceptable losses. Liquidity risk arises from mismatches in the timing of cash flows.

The objective of the Bank's liquidity risk management is to ensure that the Bank can meet its cash obligations in a timely and cost-effective manner. To this end, the Bank's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Due to its large delivery network and marketing focus, the Bank is able to maintain a diversified core deposit base comprising savings, demand, and investment deposits. This provides the Bank with a stable large funding base.

Risk management at CIMB is managed on Group basis. The day-to-day responsibility for liquidity risk management and control is delegated to the Regional Liquidity Risk Committee (RLRC). RLRC meets at least once a month to discuss the liquidity risk and funding profile of the Group and each individual entity under the Group. The Asset-Liability Management function, which is responsible for the independent monitoring of the Group liquidity risk profile, works closely with Group Treasury and Investments in its surveillance on market conditions. Business units are responsible for establishing and maintaining strong business relations with their respective depositors and key providers of funds. For overseas branches and subsidiaries, they should seek to be self-sufficient in funding at all times. Group Treasury only acts as a global provider of funds on a need-to or contingency basis. Each entity has to prudently manage its liquidity position to meet its daily operating needs. To take account of the differences in market and regulatory environments, each entity measures and forecasts its respective cash flows arising from the maturity profiles of assets, liabilities, off balance sheet commitments and derivatives over a variety of time horizons under normal business and stress conditions on a regular basis.

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.3 Liquidity risk (Continued)**

Liquidity risk undertaken by the Group is governed by a set of established risk tolerance levels. Management action triggers have been established to alert management to potential and emerging liquidity pressures. The Group Liquidity Risk Management Policy is subjected to annual review while the assumptions and the thresholds levels are regularly reviewed in response to regulatory changes and changing business needs and market conditions. Liquidity positions are monitored on a daily basis and complied with internal risk thresholds and regulatory requirements for liquidity risk. The Group's contingency funding plan is in place to alert and to enable the management to act effectively and efficiently during a liquidity crisis and under adverse market conditions. The plan consists of two key components: an early warning system and a funding crisis management team. The early warning system is designed to alert the Group's management whenever the Group's liquidity position may be at risk. It provides the Group with the analytical framework to detect a likely liquidity problem and to evaluate the Group's funding needs and strategies in advance of a liquidity crisis. The early warning system is made up of a set of indicators (monitored against pre-determined thresholds) that can reliably signal the financial strength and stability of the Group. Consolidated stress test, including liquidity stress test, is performed on a semi-annual basis to identify vulnerable areas in its portfolio, gauge the financial impact and enable management to take pre-emptive actions. Two scenarios, namely bank specific crisis and systemic crisis, are modelled. The assumptions used, including run-off rates on deposits, draw down rates on undisbursed commitments, and hair cuts for marketable securities, are documented and the test results are submitted to the RLRC, the Group Risk Committee, the Board of Directors of the Bank. The test results to date have indicated that the Bank does possess sufficient liquidity capacity to meet the liquidity requirements under various stress test conditions.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.1 Contractual maturity of financial assets and liabilities**

The table below analyses the assets and liabilities of the Bank as at 31 December 2011 and 31 December 2010 based on the remaining period at the end of the reporting period to the contractual maturity dates in accordance with the requirements of BNM GP8i:

2011	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
<b>Assets</b>								
Cash and short-term funds	7,554,885	-	-	-	-	-	-	7,554,885
Deposits and placements with banks and other financial institutions	-	898,287	192,096	-	-	-	-	1,090,383
Financial assets held for trading	855,608	813,862	807,929	88,374	171,837	15,459	-	2,753,069
Financial investments available-for-sale	-	-	30,179	15,237	276,520	427,738	-	749,674
Financial investments held-to-maturity	-	-	100,713	-	852,310	224,334	-	1,177,357
Islamic derivative financial instruments	4,272	17,443	3,264	3,800	51,190	67,639	-	147,608
Financing, advances and other financing/loans	470,008	363,959	60,372	248,829	2,794,796	24,136,140	-	28,074,104
Other assets	299,017	-	-	-	-	-	-	299,017
Deferred taxation	-	-	-	-	-	-	8,035	8,035
Statutory deposits with BNM	-	-	-	-	-	-	1,097,797	1,097,797
Amount due from related companies	1,760	-	-	-	-	-	-	1,760
Goodwill	-	-	-	-	-	-	136,000	136,000
Intangible assets	-	-	-	-	-	-	3,899	3,899
Property, plant and equipment	-	-	-	-	-	-	4,170	4,170
<b>Total assets</b>	<b>9,185,550</b>	<b>2,093,551</b>	<b>1,194,553</b>	<b>356,240</b>	<b>4,146,653</b>	<b>24,871,310</b>	<b>1,249,901</b>	<b>43,097,758</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.1 Contractual maturity of financial assets and liabilities (Continued)**

2011	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Liabilities</b>								
Deposits from customers	19,982,138	5,990,035	1,420,559	674,332	578,433	592,973	-	29,238,470
Deposits and placements of banks and other financial institutions	2,204,176	2,581,421	47,816	-	5,417,420	-	-	10,250,833
Islamic derivative financial instruments	1,769	9,600	479	856	17,917	365,233	-	395,854
Amount due to holding company	393,673	-	-	-	-	-	-	393,673
Amount due to related companies	139	-	-	-	-	-	-	139
Other liabilities	308,946	-	-	-	-	-	-	308,946
Provision for taxation and zakat	16,614	-	-	-	-	-	-	16,614
Subordinated sukuk	-	-	-	-	260,002	304,677	-	564,679
<b>Total liabilities</b>	<b>22,907,455</b>	<b>8,581,056</b>	<b>1,468,854</b>	<b>675,188</b>	<b>6,273,772</b>	<b>1,262,883</b>	<b>-</b>	<b>41,169,208</b>
<b>Total liquidity gap</b>	<b>(13,721,905)</b>	<b>(6,487,505)</b>	<b>(274,301)</b>	<b>(318,948)</b>	<b>(2,127,119)</b>	<b>23,608,427</b>	<b>1,249,901</b>	

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.1 Contractual maturity of financial assets and liabilities (Continued)**

2010	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
<b>Assets</b>								
Cash and short-term funds	7,744,407	-	-	-	-	-	-	7,744,407
Deposits and placements with banks and other financial institutions	-	800,000	150,000	-	-	-	-	950,000
Financial assets held for trading	719,040	1,139,500	216,357	50,370	222,627	-	-	2,347,894
Financial investments available-for-sale	-	5,034	9,858	10,068	176,247	254,177	575	455,959
Financial investments held-to-maturity	-	-	-	464,907	333,847	294,881	-	1,093,635
Islamic derivative financial instruments	311	1,851	3,468	6,975	96,268	41,815	-	150,688
Financing, advances and other financing/loans	660,568	283,502	507,131	430,971	2,386,124	18,156,281	-	22,424,577
Other assets	334,227	-	-	-	-	-	-	334,227
Deferred taxation	-	-	-	-	-	-	5,589	5,589
Statutory deposits with BNM	-	-	-	-	-	-	143,406	143,406
Amount due from holding company	245,034	-	-	-	-	-	-	245,034
Amount due from related companies	828	-	-	-	-	-	-	828
Goodwill	-	-	-	-	-	-	136,000	136,000
Intangible assets	-	-	-	-	-	-	4,287	4,287
Property, plant and equipment	-	-	-	-	-	-	1,862	1,862
<b>Total assets</b>	<b>9,704,415</b>	<b>2,229,887</b>	<b>886,814</b>	<b>963,291</b>	<b>3,215,113</b>	<b>18,747,154</b>	<b>291,719</b>	<b>36,038,393</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.1 Contractual maturity of financial assets and liabilities (Continued)**

2010	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No-specific maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Liabilities</b>								
Deposits from customers	15,245,012	4,637,984	312,880	377,082	1,576,731	528,266	-	22,677,955
Deposits and placements of banks and other financial institutions	2,470,970	2,927,735	480,108	-	5,246,215	-	-	11,125,028
Islamic derivative financial instruments	6,212	7,794	3,105	6,039	20,625	155,424	-	199,199
Other liabilities	384,555	-	-	-	-	-	-	384,555
Provision for taxation and zakat	12,989	-	-	-	-	-	-	12,989
Subordinated sukuk	-	-	-	-	-	300,000	-	300,000
<b>Total liabilities</b>	<b>18,119,738</b>	<b>7,573,513</b>	<b>796,093</b>	<b>383,121</b>	<b>6,843,571</b>	<b>983,690</b>	<b>-</b>	<b>34,699,726</b>
<b>Total liquidity gap</b>	<b>(8,415,323)</b>	<b>(5,343,626)</b>	<b>90,721</b>	<b>580,170</b>	<b>(3,628,458)</b>	<b>17,763,464</b>	<b>291,719</b>	

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.2 Contractual maturity of financial liabilities on an undiscounted basis****Non-derivative financial liabilities**

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

2011	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Non-derivative financial liabilities</b>							
Deposits from customers	19,996,847	6,020,293	1,437,696	689,446	608,788	686,077	29,439,147
Deposits and placements of banks and other financial institutions	2,207,477	2,594,052	48,032	-	6,394,087	-	11,243,648
Amount due to holding company	393,673	-	-	-	-	-	393,673
Amount due to related companies	139	-	-	-	-	-	139
Other liabilities	48,609	-	-	-	-	-	48,609
Subordinated sukuk	-	8,775	5,250	14,025	362,200	487,650	877,900
	<b>22,646,745</b>	<b>8,623,120</b>	<b>1,490,978</b>	<b>703,471</b>	<b>7,365,075</b>	<b>1,173,727</b>	<b>42,003,116</b>
<b><u>Items not recognised in the statements of financial position</u></b>							
Financial guarantees	28,489	-	-	-	-	-	28,489
Credit related commitments and contingencies	1,494,493	30,699	1,144	36,349	189,002	853,738	2,605,425
	<b>1,522,982</b>	<b>30,699</b>	<b>1,144</b>	<b>36,349</b>	<b>189,002</b>	<b>853,738</b>	<b>2,633,914</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)****Non-derivative financial liabilities (Continued)**

2010	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Non-derivative financial liabilities</b>							
Deposits from customers	15,273,845	4,671,354	320,329	387,603	1,807,865	581,939	23,042,935
Deposits and placements of banks and other financial institutions	2,473,997	2,941,467	484,035	-	6,229,122	-	12,128,621
Other liabilities	23,055	-	-	-	-	-	23,055
Subordinated sukuk	-	8,775	-	8,775	70,200	457,950	545,700
	<b>17,770,897</b>	<b>7,621,596</b>	<b>804,364</b>	<b>396,378</b>	<b>8,107,187</b>	<b>1,039,889</b>	<b>35,740,311</b>
<b><u>Items not recognised in the statements of financial position</u></b>							
Financial guarantees	3,407	3,215	20,296	4,604	4,898	-	36,420
Credit related commitments and contingencies	1,698,569	5,894	1,182	186,718	564,674	846,927	3,303,964
	<b>1,701,976</b>	<b>9,109</b>	<b>21,478</b>	<b>191,322</b>	<b>569,572</b>	<b>846,927</b>	<b>3,340,384</b>



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### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **36 Financial Risk Management (Continued)**

##### **36.3 Liquidity risk (Continued)**

##### **36.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)**

###### **Derivative liabilities**

The table below analyses Bank's trading derivative financial liabilities and hedging derivative financial liabilities that will be settled on a net basis.

All trading derivatives, whether net or gross settled are analysed based on the expected maturity as the contractual maturity is not considered to be essential to the understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the fair values. The comparatives were not restated as allowed by the transitional provision arising from the adoption of Amendment to FRS 7 "Financial instruments: Disclosures – Improving Disclosures about Financial Instruments. As such, the prior year disclosure analyses the trading derivatives based on the remaining contractual maturities and whether it was net or gross settled.

Hedging derivatives are disclosed based on remaining contractual maturities as the contractual maturities of such contracts are essential for an understanding of the timing of the cash flows. The amounts disclosed in respect of such contracts are the contractual undiscounted cash flows.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)****Derivative liabilities (Continued)**

2011	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Derivative financial liabilities</b>							
<b>Derivatives held for trading:</b>							
- Foreign exchange derivatives	27,079	-	-	-	-	-	27,079
- Profit rate derivatives	95,791	-	-	-	-	-	95,791
- Equity related derivatives	10,555	-	-	-	-	-	10,555
<b>Hedging derivatives:</b>							
- Profit rate derivatives	5,531	(22,654)	47,066	31,341	239,613	199,741	500,638
	<b>138,956</b>	<b>(22,654)</b>	<b>47,066</b>	<b>31,341</b>	<b>239,613</b>	<b>199,741</b>	<b>634,063</b>
<b>2010</b>	<b>Up to 1 month RM'000</b>	<b>&gt; 1 – 3 months RM'000</b>	<b>&gt; 3 – 6 months RM'000</b>	<b>&gt; 6 – 12 months RM'000</b>	<b>&gt; 1 – 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>Derivative financial liabilities</b>							
<b>Derivatives held for trading:</b>							
- Profit rate derivatives	(2,028)	(1,581)	(2,747)	(3,948)	23,510	83,387	96,593
- Equity related derivatives	6,342	-	-	-	-	-	6,342
<b>Hedging derivatives:</b>							
- Profit rate derivatives	11,894	(11,517)	22,479	22,623	207,855	171,623	424,957
	<b>16,208</b>	<b>(13,098)</b>	<b>19,732</b>	<b>18,675</b>	<b>231,365</b>	<b>255,010</b>	<b>527,892</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.3 Liquidity risk (Continued)****36.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)****Derivative liabilities (Continued)**

The Bank's derivatives that will be settled on a gross basis include:

Foreign exchange derivatives: currency forward, currency swap, currency options and cross currency profit rate swaps

The table below analyses the cash flows payable by the Bank in relation to the Bank's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows.

2011	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Derivative financial liabilities</b>							
<b>Derivatives held for trading</b>							
Foreign exchange derivatives:							
- Outflows	(26,867)	(242,470)	(9,615)	(216,325)	(71,903)	(156,601)	(723,781)
- Inflows	25,919	233,904	9,119	214,955	67,701	147,741	699,339
	(948)	(8,566)	(496)	(1,370)	(4,202)	(8,860)	(24,442)

## CIMB Islamic Bank Berhad

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### Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

#### 36 Financial Risk Management (Continued)

##### 36.3 Liquidity risk (Continued)

##### 36.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)

###### Derivative liabilities (Continued)

2010	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Derivative financial liabilities</b>							
<b>Derivatives held for trading</b>							
Foreign exchange derivatives:							
- Outflows	(360,780)	(477,452)	(159,493)	(206,024)	(49,027)	-	(1,252,776)
- Inflows	354,342	467,477	154,825	201,695	46,589	-	1,224,928
	6,438	9,975	4,668	4,329	2,438	-	27,848

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.4 Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and items not recognised in the statements of financial position. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

##### 36.4.1 Determination of fair value and fair value hierarchy

With effective from 1 January 2011, the Bank adopted the Amendments to FRS 7 which requires disclosures of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Other techniques for which all inputs which have a significant effect on the recorded fair value are observable for the asset or liability, either directly or indirectly
- Level 3 - Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs)

Comparative figures are not presented for 31 December 2011 as allowed by the transitional provision arising from the adoption of Amendment to FRS 7 "Financial instruments: Disclosures – Improving Disclosures about Financial Instruments".

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value measurement hierarchy:

	Carrying amount RM'000	Fair Value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>2011</b>					
<b><u>Financial assets</u></b>					
Financial assets held for trading:					
-Money market instruments	2,582,589	-	2,582,589	-	2,582,589
-Unquoted securities	170,480	-	91,840	78,640	170,480
Financial investments available-for-sale:					
-Money market instruments	167,091	-	167,091	-	167,091
-Unquoted securities	582,008	-	582,008	-	582,008
Derivative financial instruments:					
-Trading derivatives	139,413	-	139,413	-	139,413
-Hedging derivatives	8,195	-	8,195	-	8,195
<b>Total</b>	<b>3,649,776</b>	<b>-</b>	<b>3,571,136</b>	<b>78,640</b>	<b>3,649,776</b>
<b><u>Financial liabilities</u></b>					
Derivative financial instruments:					
Trading derivatives	133,425	-	133,425	-	133,425
Hedging derivatives	262,429	-	262,429	-	262,429
<b>Total</b>	<b>395,854</b>	<b>-</b>	<b>395,854</b>	<b>-</b>	<b>395,854</b>

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.4 Fair value of financial instruments**

##### **36.4.1 Determination of fair value and fair value hierarchy (Continued)**

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, financing/loans, credit derivatives, certain issued notes and the Bank's over the counter ("OTC") derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes private equity investments, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities) and certain bonds.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011 (Continued)****36 Financial Risk Management (Continued)****36.4 Fair value of financial instruments****36.4.1 Determination of fair value and fair value hierarchy (Continued)**

The following represents the changes in Level 3 instruments for the financial year ended 31 December 2011 for the Bank.

	<b>Financial assets held- for-trading</b>
	<b>Unquoted securities</b>
	<b>RM'000</b>
<b>2011</b>	
At 1 January	73,670
Total gains recognised in statement of income	<u>4,970</u>
At 31 December	<u><u>78,640</u></u>

The fair values are based on the following methodologies and assumptions:

**Short term funds and placements with financial institutions**

For short term funds and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, the estimated fair value is based on discounted cash flows using prevailing Islamic money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.4 Fair value of financial instruments**

##### **36.4.1 Determination of fair value and fair value hierarchy (Continued)**

###### **Financial investments held-to-maturity**

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

###### **Financing, advances and other financing/loans**

For variable rate financing, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing with maturities of six months or more, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

The fair values of impaired variable and fixed rate financing are represented by their carrying value, net of individual impairment allowance, being the expected recoverable amount.

###### **Amount due (to)/from subsidiaries and related companies**

The estimated fair values of the amount due from subsidiaries and related companies approximate the carrying values as the balances are either recallable on demand or are based on the current rates for such similar financing.

###### **Amount due (to)/from holding company and ultimate holding company**

The estimated fair value of the amount due from holding company approximates the carrying value as the balances are payable on demand.

###### **Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are a reasonable estimate of their fair value. For deposit with maturities of six months or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **36 Financial Risk Management (Continued)**

#### **36.4 Fair value of financial instruments (Continued)**

##### **36.4.1 Determination of fair value and fair value hierarchy (Continued)**

###### **Deposits and placements of banks and other financial institutions**

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for deposits and placements with similar remaining period to maturities.

###### **Bills and acceptances payable**

The estimated fair values of bills and acceptances payable with maturities of less than six months approximate the carrying values. For bills and acceptances payable with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for bills and acceptance payable with similar remaining period to maturity

###### **Sukuk, subordinated obligations and others**

The fair values for the quoted Sukuk and subordinated obligations are obtained from quoted market prices while the fair values for unquoted Sukuk and subordinated obligations are estimated based on discounted cash flow models.

The estimated fair values of other financings with maturities of less than six months or with variable rates approximate the carrying values. For other borrowings with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

###### **Redeemable preference shares**

The estimated fair value of redeemable cumulative preference shares ("RCPS") approximates the carrying value based on Directors' estimate as the effective profit rate of the RCPS is a fair reflection of the current rate for such similar instrument.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 36 Financial Risk Management (Continued)

#### 36.4 Fair value of financial instruments (Continued)

##### 36.4.1 Determination of fair value and fair value hierarchy (Continued)

###### Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

##### 36.4.2 Financial instruments not measured at fair value

The total fair value of each financial assets and liabilities presented on the statements of financial position as at 31 December 2011 and 31 December 2010 of the Bank approximates the total carrying value as at the reporting date, except for the following:

	Carrying amount RM'000	Fair value RM'000
<b>2011</b>		
<b>Financial assets</b>		
Financial investments held-to-maturity	1,177,357	1,205,059
Financing, advances and other financing/loans	28,074,104	30,028,814
<b>Financial liabilities</b>		
Deposits from customers	29,238,470	29,203,915
Subordinated sukuk	564,679	621,525
Deposits and placements of banks and other financial institutions	10,250,833	10,467,699
<b>2010</b>		
<b>Financial assets</b>		
Financial investments held-to-maturity	1,093,635	1,128,835
Financing, advances and other financing/loans	22,424,577	23,412,463
<b>Financial liabilities</b>		
Deposits from customers	22,677,955	22,536,032
Subordinated sukuk	300,000	324,326

The carrying amount of the financial assets at the statement of financial position data were not reduced to their estimated fair value as the Directors are of the opinion that the amounts will be recoverable in full on maturity.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **37 Critical accounting estimates and judgements in applying accounting policies**

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

*(a) Impairment of available-for-sale equity investments*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant and prolonged decline in the fair value below its costs. This determination of what is significant and prolonged required judgement. The Bank evaluate, among other factors, the duration and extent to which the fair value of the investment is less than cost; and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

*(b) Impairment losses on financing, advances and other financing/loans*

The Bank makes allowance for losses on financing, advances and other financing/loans based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines and accounting standards, management makes judgement on the future and other key factors in respect of the estimation of the amount and timing of the cash flows in assessing allowance for impairment of financing, advances and other financing/loans. Among the factors considered are the Bank's aggregate exposure to the customers, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

## **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

### **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

#### **37 Critical accounting estimates and judgements in applying accounting policies (Continued)**

##### *(c) Goodwill impairment*

The Bank tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note J(a) of the Summary of Significant Accounting Policies.

The first step of the impairment review process requires the identification of independent operating units, dividing the Group's business into the various business segments. The goodwill is then allocated to these various business segments. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the business segment, including the allocated goodwill, is compared to fair value less cost to sell and value in use to determine whether any impairment exists. Detailed calculations may need to be carried out taking into consideration changes in market in which a business operates. In the absence of readily available market data, this calculation is usually based upon discounting expected pre-tax cash flows at the Group's and the Bank's cost of capital, which requires exercise of judgement.

Changes to the assumptions used by management, particularly the discount rate and the terminal growth rate, may significantly affect the results of the impairment.

#### **38 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Group Management Committee as its chief operating decision-maker.

Segment information is presented in respect of the Bank's business segment and geographical segment.

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management reporting structure.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)**

### **38 Segment reporting (Continued)**

#### **Business segment reporting**

##### Definition of segments

For management purposes, the Bank is organised into six major operating divisions. The divisions form the basis on which the Bank reports its primary segment information.

##### *Treasury*

Treasury focuses on treasury activities and services which include foreign exchange, money market, derivatives and capital market instruments trading. It also invests the Bank's proprietary capital.

##### *Corporate and Investment Banking*

Corporate and Investment Banking comprise Investment Banking, Corporate Banking, Regional Banking, Equity Derivatives, Equity Investment and Trading and Retail Equity Services.

Investment Banking advises on issuance of equity and equity-linked products management services. Corporate Banking provides a broad spectrum of financial and Ringgit lending services for domestic and multinational corporations as well as institutional and public sector clients.

##### *Retail Financial Services*

Retail Financial Services focuses on innovative products and services to individual customers. It offers financing products such as (residential mortgages, personal financing, credit card and hire purchase), remittance services, deposit collection and wealth management

##### *Commercial and Enterprise Banking*

Commercial and Enterprise Banking is responsible for offering products and services for customer segments comprising micro-enterprises, small and medium-scale enterprises ("SMEs") and mid-sized corporations. Their products include (financing, banker's acceptances, revolving credit, hire purchase), remittance services and deposit collection.

##### *Support and others*

Support services comprises unallocated middle and back-office processes and cost centres and other subsidiaries whose results are not material to the Bank.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2011 (Continued)

### 38 Segment reporting (Continued)

#### Business segment reporting (Continued)

2011	Corporate and Investment		Retail	Commercial and Enterprise		Support and others	Total
	Treasury	Banking	Financial Services	Banking			
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net income							
- external	(458,274)	325,014	928,057	50,368	(76,162)		769,003
- inter-segment	598,535	(257,128)	(416,959)	6,874	68,678		-
	140,261	67,886	511,098	57,242	(7,484)		769,003
Other income	29,034	12,594	66,261	5,273	1,446		114,608
Operating income	169,295	80,480	577,359	62,515	(6,038)		883,611
Overhead expenses	(21,469)	(19,633)	(241,596)	(16,962)	(22,983)		(322,643)
Consist of :							
Depreciation of property, plant and equipment	-	-	-	-	(1,039)		(1,039)
Amortisation of intangible assets	-	-	-	-	(1,280)		(1,280)
Profit/(loss) before allowances	147,826	60,847	335,763	45,553	(29,021)		560,968
Impairment allowance on financing, advances and other financing/loans/receivables	(1)	8,398	(135,562)	13,341	(28)		(113,852)
Segment results	147,825	69,245	200,201	58,894	(29,049)		447,116
Taxation							(111,384)
<b>Net profit for the financial year</b>							<b>335,732</b>
Segment assets	13,472,976	9,240,646	16,535,454	2,298,003	299,017		41,846,096
Unallocated assets							1,251,662
<b>Total assets</b>							<b>43,097,758</b>
Segment liabilities	29,718,017	3,083,351	3,459,816	4,188,653	396,692		40,846,529
Unallocated liabilities							322,679
<b>Total liabilities</b>							<b>41,169,208</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****38 Segment reporting (Continued)****Business segment reporting (Continued)**

<b>2010</b>	Treasury	Corporate and Investment Banking	Retail Financial Services	Commercial and Enterprise Banking	Support and others	Total
<b>Bank</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net income						
- external	(282,027)	345,341	754,886	19,648	(147,608)	690,240
- inter-segment	417,194	(252,317)	(321,734)	37,112	119,744	(1)
	135,167	93,024	433,152	56,760	(27,864)	690,239
Other income	31,331	12,190	55,652	6,639	(21,246)	84,566
Operating income	166,498	105,214	488,804	63,399	(49,110)	774,805
Overhead expenses	(18,920)	(19,378)	(175,975)	(24,555)	8,908	(229,920)
Consist of :						
Depreciation of property, plant and equipment	-	-	-	-	(1,139)	(1,139)
Amortisation of intangible assets	-	-	-	-	(3,030)	(3,030)
Profit/(loss) before allowances	147,578	85,836	312,829	38,844	(40,202)	544,885
Impairment allowance on financing, advances and other financing/loans	-	11,474	(126,029)	(27,161)	-	(141,716)
Segment results	147,578	97,310	186,800	11,683	(40,202)	403,169
Taxation						(102,047)
<b>Net profit for the financial year</b>						<u>301,122</u>
Segment assets	11,758,416	8,360,190	13,373,481	1,743,537	265,758	35,501,382
Unallocated assets						537,011
<b>Total assets</b>						<u>36,038,393</u>
Segment liabilities	24,947,669	2,216,076	2,459,035	4,224,971	538,987	34,386,738
Unallocated liabilities						312,988
<b>Total liabilities</b>						<u>34,699,726</u>

*Basis of pricing for inter-segment transfers:*

Intersegmental charges are computed on the profit-bearing assets and liabilities of each business segment with rates applied based on the profit yield curve according to the term structure of maturity.

**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****39 Changes in accounting policies and comparatives****(i) Change in accounting policies**

During the financial year, the Bank changed the following accounting policies upon adoption of new accounting standards, amendments and improvements to published standards and interpretations:

- Employee Benefits - Management Equity Scheme, to comply with Amendment to FRS 2 “Share-based payment: Group Cash-settled Share-based Payment Transactions”.
- Enhanced fair value disclosure of financial instruments, to comply with Amendment to FRS 7 “Financial instruments: Disclosures - Improving Disclosures about Financial Instruments”.

Refer to the summary of significant accounting policies for the details of the changes in accounting policies.

**(a) The following are effects arising from the adoption of Amendment to FRS 2:****Statement of changes in equity**

	<b>Balances as at 1 January 2010</b>		
	<b>As previously reported</b>	<b>Effects of adopting Amendment to FRS 2</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accumulated profits	78,178	(14,885)	63,293
Share-based payment reserve	-	14,885	14,885

	<b>Balances as at 1 January 2011</b>		
	<b>As previously reported</b>	<b>Effects of adopting Amendments to FRS 2</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accumulated profits	221,658	(15,534)	206,124
Share-based payment reserve	-	15,534	15,534

**Increase/(decrease) to balances as at 31 December 2011**

	<b>Effects of adopting Amendments to FRS 2</b>
	<b>RM'000</b>
Accumulated profits	(745)
Share-based payment reserve	745



**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2011(Continued)****39 Changes in accounting policies and comparatives (Continued)****(i) Change in accounting policies (Continued)**Statement of income

	For the financial year ended 31 December 2010		
	As previously reported	Effects of adopting Amendment to FRS 2	As restated
	RM'000	RM'000	RM'000
Overheads	(229,271)	(649)	(229,920)
Profit before taxation	403,818	(649)	403,169
Profit after taxation	301,771	(649)	301,122
Earnings per share (sen)	48.62	(0.11)	48.51

**(b) Adoption of Amendment to FRS 7**

The impact arising from adoption of Amendment to FRS 7 is the enhanced disclosure of fair value measurements by level of fair value measurement hierarchy and the liquidity risk disclosure on trading derivatives by expected maturity as shown in Note 36.4.1.

**(ii) Change in comparatives**

The revised FRS 101 requires all non-owner changes in equity to be shown in a performance statement, but entities can choose whether to present one performance statement (the Statement of Comprehensive Income) or two statements (the Statement of Income and Statement of Comprehensive Income). With effective from financial year ended 2011, the Bank has elected to present the Statement of Comprehensive Income in two statements, to give a better presentation of the Bank's performance. Therefore, the Statement of Income and the Statement of Comprehensive Income of the Bank for the financial year ended 31 December 2010 has been re-presented to conform to the current financial year presentation.

## **CIMB Islamic Bank Berhad**

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### **Notes to the Financial Statements for the financial year ended 31 December 2011(Continued)**

#### **40 Significant events during the financial year**

##### **a) Issuance of RM250 million Subordinated Sukuk**

On 21 April 2011, the Bank had issued RM250 million subordinated Sukuk (“the Sukuk”) as part of the Tier-2 Junior Sukuk programme which was approved by the Securities Commission on 22 May 2009. Under the programme, CIMB Islamic is allowed to raise Tier-2 capital of up to RM2.0 billion in nominal value outstanding at any one time.

##### **b) Issuance of additional new ordinary shares by CIMB Islamic**

The Bank had on 30 May 2011 issued 250 million additional new ordinary shares of RM1 each (at par value) amounting to RM250 million, which were fully subscribed by CIMB Bank.

##### **c) Collapsing of Restricted Profit Sharing Investment Accounts (“RPSIA”)**

On 24 June 2010, the Bank had entered an agreement with CIMB Bank Berhad to fully invest in the Bank’s auto finance portfolio via Restricted Profit Sharing Investment Accounts (RPSIA) amounted RM4.7 billion. The Bank had on 30 May 2011 unwound the RPSIA arrangement on auto finance portfolio of RM5.3 billion.

#### **41 Authorisation for issue of Financial Statements**

The Financial Statements have been authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 6 March 2012.