

Company No: 671380-H

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Reports and Financial Statements  
for the financial year ended 31 December 2013**

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Reports and Financial Statements for the financial year ended 31 December 2013**

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# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Directors' Report for the financial year ended 31 December 2013**

The Directors have pleasure in submitting their Report and the Audited Financial Statements of the Group and CIMB Islamic Bank Berhad ("CIMB Islamic" or "the Bank") for the financial year ended 31 December 2013.

### **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. The principal activities of the subsidiaries as set out in Note 15 to the Financial Statements, consist of Islamic nominees and Islamic custody services. There was no significant change in the nature of these activities during the financial year.

### **Financial results**

	<b>The Group RM'000</b>	<b>The Bank RM'000</b>
Net profit after taxation	<u>365,586</u>	<u>365,560</u>

### **Dividends**

No dividends have been paid or declared by the Group and the Bank since the financial year ended 31 December 2012.

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 2013 (Continued)**

### **Bad and doubtful financing**

Before the Financial Statements of the Group and 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 Group and of the Bank, inadequate to any substantial extent.

### **Current assets**

Before the Financial Statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to realise in the ordinary course of business, their value as shown in the accounting records of the Group and of the Bank had been written down to an 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 Group and 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 Group and of the Bank misleading or inappropriate.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **Contingent and other liabilities**

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

- (a) any charge on the assets of the Group or 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 Group or 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 in the Group or the Bank 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 and its subsidiaries 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 Group and 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 Group's and 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 other than those disclosed in Note 40 to the Financial Statements; 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 Group or 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 2013 (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

Raja Shaharul Niza bin Raja Abdul Aziz

Professor Dr. Mohammad Hashim Kamali (resigned on 25 April 2013)

Badlisyah bin Abdul Ghani

Habibah binti Abdul

Dato' Sulaiman bin Mohd Tahir (resigned on 24 January 2014)

In accordance with Article 82 and 83 of the Bank's Articles of Association, Datuk Dr. Syed Muhamad bin Syed Abdul Kadir and Habibah binti Abdul shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

### 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 31 December 2013
	As at 1 January 2013/Date of appointment	Acquired/ Granted	Disposed	
<b>Ultimate holding company</b>				
<b>CIMB Group Holdings Berhad</b>				
<b>Direct interest</b>				
Badlisyah bin Abdul Ghani	90,034	55,858 **	(61,100)	84,792
Dato' Sulaiman bin Mohd Tahir	116,225	58,145 **	(70,000)	104,370

\*\* Shares granted under Equity Ownership Plan ("EOP") and acquired by way of the exercise of Dividend Reinvestment Scheme ("DRS")

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 options over shares of the Bank, the immediate holding company, the ultimate holding company and the Bank's related companies during the financial year.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2013 (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 32 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 ("MES") and Equity Ownership Plan ("EOP") of the ultimate holding company (see Note 35 (d) and (e) of the Financial Statements).

### **2013 Business Plan and Strategy**

2013 marked a decade of growth for the Bank which started its humble operation on 2 January 2003 as a small Islamic investment banking boutique house licensed as an Islamic window pursuant to Section 124 of the Banking and Financial Institutions Act (Malaysia) 1989. The Bank has continuously strengthened its position through targeted strategic and blue ocean initiatives over the years focused on capacity building and capability enhancement to generate business growth in the markets that we serve.

The Bank is progressing well into the 3rd phase of the 2015 CIMB Islamic Management Roadmap, under which the Bank aspires to build a robust and sustainable regional platform under a dual banking leverage model using the full infrastructure and resources of CIMB Group, to prepare itself for the broader Islamic finance market globally.

2013 proved to be another challenging year for the Bank with business influenced by continuous international economic and financial market uncertainty, the euphoria of the Malaysian general election, the many legislative and regulatory changes within the industry and the ever increasing heightened competitive landscape. The Islamic Financial Services Act ("IFSA") 2013, which came into force on 30 June 2013 as well as the various new and enhanced Shariah Standards issued by Bank Negara Malaysia generated the biggest impact to the Bank's operations, which saw large scale replacement and rejuvenation of its products and services to ensure compliance.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **2013 Business Plan and Strategy (Continued)**

Customer experience and satisfaction was a key focus in 2013. The Bank continued to enhance the understanding of our customer base so that we can focus on delivering the right Islamic financial value propositions to all stakeholders across all segments. This effort has been made possible through smooth leveraging on the Group's strengths and reach especially across the ASEAN regions. Business and revenue contribution from Malaysia operations is still the largest and the Bank is experiencing positive momentum on ex-Malaysia contributions mainly in advisory and fee based activities. Greater cross fertilization of business have been made with the Islamic window operations of CIMB Bank (Singapore) and CIMB Niaga Syariah under PT CIMB Niaga Bank in the year resulting in CIMB Islamic franchise being recognized as the Best Islamic Bank in Singapore and the 1st Runner Up in the Best Islamic Bank in Indonesia award category.

In pursuit of seamless business and operational interaction between different jurisdictions where CIMB Group operates, the Bank is playing an important role in the development of the IPlatform initiative, the new regional core banking system project embarked by CIMB Group. The Bank has put aside significant resources to ensure smooth development and implementation of the system. Future business and operations of the Bank would benefit from the extensive functionality of the IPlatform once the full integration process completed in the 1st Quarter of 2014.

The Islamic investment banking segment in particular the Islamic bond or sukuk, has again done very well in 2013. The CIMB Islamic franchise concluded the year as the number one sukuk arranger in Malaysia and continued to be in the top two of the global sukuk lead arranger league table. To date, CIMB Islamic remains to be the number 1 sukuk arranger globally on a cumulative basis since 2003. Other components of the wholesale business have been a significant revenue contributor for the Bank. There were 12 new wholesale products successfully launched in 2013, which is expected to generate sustainable income contribution for the future.

The Bank also moved a step further from its competitor when it was being assigned an international debt and deposit ratings by Moody's with a stable outlook, making it the first Islamic bank based in the Malaysian International Financial Center being rated by the international rating body. The rating is a step taken by the Bank to reach its long term aspiration of being the most valued Global Islamic Universal Bank.



# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **Outlook for 2014**

The Bank anticipates that 2014 will continue to provide challenging operating environment. New threats and opportunities are expected from the further implementation of the Economic Transformation Plan embarked by the Malaysian government, the continuous introduction of new and enhanced Shariah Standards by Bank Negara Malaysia, the uncertainty posed by external happenstance such as the tapering of the US Quantitative Easing, the Presidential election in Indonesia and the general election in Thailand. The Bank sees competitions will continue to intensify further with many licensed Islamic banks putting in extra effort in producing new products and services under new regulatory frameworks.

Leveraging on CIMB Group's robust infrastructure and significant resources, the Bank will continue to optimize its attendant economies of scale and wide geographical reach to pursue business growth and improve the bottom line. With the 1Platform fully implemented in 2014, the Bank's ability to serve customers across the different segments is expected to greatly improve and this will facilitate and open up new opportunities.

The consumer banking business will continue to be the Bank's core and significant revenue contributors. Margin compression seen in 2013 has not affected the run rate from fund based income and this is expected to continue in 2014. We are excited with the prospect of coming to market with more innovative products and services following the conclusion of the implementation of a new core banking system. The Bank's wholesale banking business will also remain a significant revenue contributor with 2014 expected to see prolific sukuk issuances, a respectable increase in Islamic equity capital market activities as well as a greater push and demand for Islamic treasury products and services across ASEAN and the broader Asia Pacific region, contributed significantly by our new status as an internationally rated bank.

In 2014, the Bank will be embarking on its next cycle of growth through strategic human capital development and a more robust balance sheet management. The Bank is focus to protect its biggest assets – the staff that has made it into the top 10 largest Islamic bank in the world. The Bank will embrace fully CIMB Group's "Differentiating CIMB" approach in 2014 to ensure that customers will choose it over the other when it comes to their financial needs. The Bank will continue to strengthen its CIMB Islamic brand in Malaysia and abroad to strengthen the overall CIMB Group's brand value.

2014 will see CIMB Islamic fully comes into its full potential.

# CIMB Islamic Bank Berhad

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## Directors' Report for the financial year ended 31 December 2013 (Continued)

### Rating by External Rating Agencies

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

Rating Agency	Rating Date	Rating Classification	Rating Accorded	Outlook
Malaysian Rating Corporation Berhad (MARC)	January 2014	<ol style="list-style-type: none"> <li>1. Long-term Financial Institution Rating</li> <li>2. Short-term Financial Institution Rating</li> <li>3. RM2.0 bil Tier 2 Junior Sukuk Programme</li> </ol>	<p style="text-align: center;">AAA</p> <p style="text-align: center;">MARC-1</p> <p style="text-align: center;">AA+IS</p>	Stable
RAM Rating Services Berhad	October 2013	<ol style="list-style-type: none"> <li>1. Long-term Financial Institution Rating</li> <li>2. Short-term Financial Institution Rating</li> </ol>	<p style="text-align: center;">AAA</p> <p style="text-align: center;">P1</p>	Stable
Moody's Investors Services, Inc (Moody's)	November 2013	<ol style="list-style-type: none"> <li>1. Long-term Rating: Bank Deposits – Foreign Currency</li> <li>2. Short-term Rating: Bank Deposits – Foreign Currency</li> <li>3. Long-term Rating: Bank Deposits – Domestic Currency</li> <li>4. Short-term Rating: Bank Deposits – Domestic Currency</li> <li>5. Bank Financial Strength</li> <li>6. Baseline Credit Assessment</li> <li>7. Adjusted Baseline Credit Assessment</li> </ol>	<p style="text-align: center;">A3</p> <p style="text-align: center;">P-2</p> <p style="text-align: center;">A1</p> <p style="text-align: center;">P-1</p> <p style="text-align: center;">D+</p> <p style="text-align: center;">(ba1)</p> <p style="text-align: center;">(baa1)</p>	<p style="text-align: center;">Positive</p> <p style="text-align: center;">Positive</p> <p style="text-align: center;">Stable</p> <p style="text-align: center;">Stable</p>

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **Board Shariah Committee**

Pursuant to the enterprise wide Shariah Governance Framework as provided by Bank Negara Malaysia in its Guideline on Shariah Governance for Islamic Financial Institutions and now as enshrined in the recently effective Islamic Financial Services Act 2013, the Board of Directors (the "Board") is ultimately responsible and accountable for the oversight and management of Shariah matters in the Bank's operation as well as the operations of its subsidiaries that it has management control. In undertaking its duties and responsibilities relating to Shariah, the Board relies on the advice of the Board Shariah Committee of CIMB Group as established under the Bank.

The main responsibility of the Board Shariah Committee is to assist the Board in the oversight and management of all Shariah matters relating to the Islamic banking and finance business of the Bank and its subsidiaries that it has management control. The Board Shariah Committee operates on the authority as delegated and empowered to it by the Board and as attributed to it under relevant financial regulations and legislations.

All decisions by the Board on Shariah matters relating to its business shall be made based on the decisions, views and opinions of the Board Shariah Committee. If the Board disagrees with any decisions, views, and opinions of the Board Shariah Committee on any Shariah matter, the former shall refer back the matter to the latter for a second or third review before final decision is made. All and any final decision of the Board on Shariah matter shall be made based on the final decisions, views and opinions of the Board Shariah Committee. All decisions of the Board and the Board Shariah Committee on Shariah matters shall at all times be subordinated to the decision of the Shariah Advisory Council of the relevant Malaysian financial regulators and shall take into consideration the relevant authority on Shariah matters in the relevant jurisdiction it is doing business.

The Board Shariah Committee shall at all times assist the Board to ensure that the Group's Islamic banking and finance business does not have elements/activities which are not permissible under Shariah.

The members of the Board Shariah Committee are as follows:

1. Sheikh Professor Dr. Mohammad Hashim Kamali
2. Sheikh Nedham Mohamed Saleh Yaqoobi
3. Sheikh Dr. Haji Mohd Na'im bin Haji Mokhtar
4. Sheikh Associate Professor Dr. Shafaai bin Musa
5. Sheikh Dr. Yousef Abdullah Al Shubaily
6. Professor Dr. Noor Inayah Yaakub

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **Board Shariah Committee (Continued)**

The Board hereby affirms based on advice of the Board Shariah Committee that the operation of the Bank and its subsidiaries that it has management control has been done in a manner that does not contradict with Shariah save and except for those that have been specifically disclosed in this financial report (if any). This affirmation by the Board is independently verified and confirmed by the Board Shariah Committee in a separate Board Shariah Committee Report made herein.

### **Zakat obligations**

The obligation and responsibility for payment of Zakat lies with the Muslim shareholders (if any) of the Bank, the Bank's Immediate Holding Company and the Bank's Ultimate Holding Company. The obligation and responsibility for specific payment of Zakat on deposits and investments received by the Bank from its customers lies with its Muslim customers only. It is the same with any of the Bank's banking and asset management subsidiaries. The aforesaid is subject to the jurisdictional requirements on Zakat payment as may be applicable from time to time on the Bank and its subsidiaries arising from changes to local legislation, regulation, law or market convention as the case may be. Accrual of Zakat expenses (if any) in the financial statement of the Bank is reflective of this.

### **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 are no significant events subsequent to the financial year ended 31 December 2013.

# **CIMB Islamic Bank Berhad**

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## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

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

In preparing the Financial Statements, the Directors have ensured that the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, and the requirements 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 Group and the Bank present a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2013 and of the results and cash flows of the Group and 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 Group and 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 Group and 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 14 of the Financial Statements.

### **Ultimate holding company**

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

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Directors' Report for the financial year ended 31 December 2013 (Continued)**

### **Statement of Directors' Responsibility (Continued)**

#### **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

7 March 2014

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **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 21 to 205 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2013 and of the results and cash flows of the Group and of the Bank for the financial year ended on that date, in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia.

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  
7 March 2014

## **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 21 to 205 are, to the best of my knowledge and belief, 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  
7 March 2014

Commissioner for Oaths

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Board Shariah Committee's Report**

In the name of Allah, the Most Beneficent, the Most Merciful.

We, the members of the CIMB Group Board Shariah Committee as established under the Bank, is responsible to assist the Board in the oversight and management of Shariah matters in the operation of the Bank. Although the Board is ultimately responsible and accountable for all Shariah matters under the Bank, the Board relies on our independent advice on the same.

Our main responsibility and accountability is to assist the Board in ensuring that the Bank's business does not have elements/activities which are not permissible under Shariah. In undertaking our duties we shall follow and adhere to the decisions, views and opinions of the Shariah Advisory Council of the relevant Malaysian financial regulators for businesses undertaken in Malaysia and for businesses outside Malaysia we shall take into consideration the decisions, views and opinions of the relevant authority on Shariah matters (if any, sanctioned by law/regulation to be followed by the Bank) in the relevant jurisdiction that the Bank is doing business.

As members of the Board Shariah Committee, we are responsible to provide an independent assessment and confirmation in this financial report that the operations of the Bank has been done in conformity with Shariah as has been decided and opined by us and with those Notices, Rules, Standards, Guidelines and Frameworks on Shariah matters as announced and implemented by Malaysian regulators and where relevant by the financial regulators in the relevant jurisdictions that the Bank's businesses were undertaken during the period being reported.

Our independent assessment and confirmation has been used as the basis for the Board's affirmation of the same in the Director's Report herein before.

In making our independent assessment and confirmation, we have always recognised the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements presenting fairly the Shariah compliant status of its businesses. In this regard we have developed and maintained a system of monitoring and reporting which provides the necessary internal controls to ensure that any new Islamic financial transactions are properly authorised and transacted in accordance to the requirements of Shariah; the Bank's assets and liabilities under its statements of financial position are safeguarded against possible Shariah non-compliance; and, that the day to day conduct of its operations does not contradict Shariah principles.



# CIMB Islamic Bank Berhad

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## Board Shariah Committee's Report (Continued)

The system is augmented by written policies and procedures, the careful selection and training of Shariah qualified staff, the establishment of an organisational structure that provides an appropriate and well-defined division of responsibility by Management and the communication of Shariah policies and guidelines of business conduct to all staff of the Bank.

Firstly, the system of internal control for effective Shariah governance is supported by a professional staff of Shariah researchers that supports us in our decision and deliberations, providing check and balance for all Shariah matters as presented to us by the Management. Secondly, the Management has instituted the Shariah review framework that operates on a front to back basis comprising of self-assessment/self-reporting mechanism and periodic independent review undertaken by Group Compliance Department under the General Counsel Division. Thirdly, the system is also augmented by the Management putting in place a Shariah risk management framework covering the first; second and; third line of defenses. Lastly, there is also a strong team of internal auditors who conduct periodic Shariah audits of all the Bank's operations on a scheduled and periodic basis.

We continue to acknowledge that in 2013 the emplaced system of internal control in the Bank established in 2012 to meet the newly instituted enterprise wide Shariah Governance Framework by Bank Negara Malaysia is still relatively new with a lot of rooms for further improvement although significant progress has been made in the year. On balance, we are satisfied that the Management has put in place the appropriate level of control as required by us.

All in all, the Management of the Bank is responsible and accountable to the Board to ensure that the businesses of the Bank are done in accordance with the requirement of Shariah. It is our responsibility to form an independent opinion of the state of Shariah compliancy of the business and its operations and advise the Board accordingly. Based on the internal and external controls that have been put in place by the Management, in our opinion, to the best of our knowledge, the Bank has complied with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia and by all other financial regulators (where relevant), as well as Shariah decisions made by us except for 4 incidences of Shariah non-compliance activities comprising:

Nature of non-compliance	Number
Failure to comply with Shariah requirement as set by Bank Negara Malaysia	2
Failure to comply with Shariah requirement set by the Board Shariah Committee	2

Arising from the identified incidences, the Management had, following direction from us, provided an amount totalling RM366,144.90 over the course of the year, representing all the relevant income realised from the non-shariah compliant activities.

# **CIMB Islamic Bank Berhad**

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## **Board Shariah Committee's Report (Continued)**

Various rectification and control measures were instituted to ensure the non-recurrence of such Shariah non-compliance activities including but not limited to the following:

1. Updating the Bank's procedures and processes in the affected activities to reflect the Shariah requirements.
2. Enhance the Bank's technology used in the affected activities to ensure specific facilitation of Shariah requirements.
3. Removed any elements that do not comply with Shariah requirements in the Bank's business communication immediately.

Over and above these specific measures, we have also directed the Management to undertake more training sessions, courses and briefings aimed at building stronger and deeper understanding amongst the Bank's employee on Shariah application in the financial activities undertaken by the Bank as well as to infuse the right culture for Shariah compliance amongst them.

In our opinion:

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 December 2013 that were presented to us were done in compliance with Shariah;
2. The allocation of profit and charging of losses relating to investment accounts conformed to the basis that were approved by us in accordance with Shariah; and
3. All earnings that were realised from sources or by means prohibited by Shariah have been considered for disposal to charitable causes.

# **CIMB Islamic Bank Berhad**

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## **Board Shariah Committee's Report (Continued)**

We have assessed the independent work carried out for Shariah review and Shariah audit functions by the relevant functionaries under the established system of internal control, which included the examination, on a test basis, of each type of transaction, of relevant documentation and procedures adopted by the Bank. We are satisfied that the Management has planned and performed the necessary review and audit so as to obtain all the information and explanations which are considered necessary to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariah.

We, the members of the Board Shariah Committee, are of the opinion that the operations of the Bank for the financial year ended 31 December 2013 were conducted in conformity with Shariah.

On behalf of the Board Shariah Committee.

**Sheikh Professor Dr. Mohammad Hashim Kamali**  
Member

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

Kuala Lumpur  
7 March 2014

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

Company No: 671380-H  
(Incorporated in Malaysia)

## **Report on the Financial Statements**

We have audited the Financial Statements of CIMB Islamic Bank Berhad on pages 21 to 205, which comprise the statement of financial position as at 31 December 2013 of the Group and of the Bank, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and 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 45.

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

The Directors of the Bank are responsible for the preparation of Financial Statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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)**

Company No: 671380-H  
(Incorporated in Malaysia)

## **Opinion**

In our opinion, the Financial Statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

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

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following :

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the Financial Statements of the subsidiaries that have been consolidated with the Bank's Financial Statements are in form and content appropriate and proper for the purposes of the preparation of the Financial Statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our audit reports on the Financial Statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) 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

**Dato' Mohammad Faiz Bin Mohammad Azmi**  
(No. 2025/03/14(J))  
Chartered Accountant

Kuala Lumpur  
7 March 2014

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Statements of Financial Position as at 31 December 2013

	Note	The Group	The Bank	
		31 December 2013 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
<b>Assets</b>				
Cash and short-term funds	2	6,983,561	6,983,515	6,296,329
Deposits and placements with banks and other financial institutions	3	163,318	163,318	601,335
Financial assets held for trading	4	3,168,537	3,168,537	6,117,048
Financial investments available-for-sale	5	1,288,106	1,288,106	2,797,337
Financial investments held-to-maturity	6	602,177	602,177	652,390
Islamic derivative financial instruments	7	246,800	246,800	168,360
Financing, advances and other financing/loans	8	35,072,564	35,072,564	33,073,282
Other assets	9	283,094	283,094	254,882
Deferred taxation	10	22,449	22,449	10,731
Amount due from related companies	12	418	418	431
Statutory deposits with Bank Negara Malaysia	14	1,436,747	1,436,747	1,104,097
Investment in subsidiaries	15	-	20	-
Property, plant and equipment	16	5,236	5,236	5,490
Intangible assets	17	14,197	14,197	7,328
Goodwill	18	136,000	136,000	136,000
<b>Total assets</b>		<b>49,423,204</b>	<b>49,423,178</b>	<b>51,225,040</b>
<b>Liabilities</b>				
Deposits from customers	19	38,466,874	38,466,874	35,267,899
Deposits and placements of banks and other financial institutions	20	6,571,911	6,571,911	11,660,728
Subordinated Sukuk	21	856,722	856,722	863,557
Other liabilities	22	287,768	287,768	397,107
Financial liabilities designated at fair value	11	146,216	146,216	-
Islamic derivative financial instruments	7	285,377	285,377	380,529
Provision for tax and zakat		15,437	15,437	9,870
Amount due to holding company	13	115,538	115,538	298,352
Amount due to related companies	12	6,433	6,433	3,554
<b>Total liabilities</b>		<b>46,752,276</b>	<b>46,752,276</b>	<b>48,881,596</b>
<b>Capital and reserves attributable to equity holder of the Bank</b>				
Perpetual preference shares	23	70,000	70,000	70,000
Ordinary share capital	24	1,000,000	1,000,000	1,000,000
Reserves	25	1,600,928	1,600,902	1,273,444
<b>Total equity</b>		<b>2,670,928</b>	<b>2,670,902</b>	<b>2,343,444</b>
<b>Total equity and liabilities</b>		<b>49,423,204</b>	<b>49,423,178</b>	<b>51,225,040</b>
<b>Commitments and contingencies</b>	38	<b>27,126,133</b>	<b>27,126,133</b>	<b>26,964,137</b>
<b>Net assets per ordinary share (RM)</b>		<b>2.67</b>	<b>2.67</b>	<b>2.34</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Statements of Income  
for the financial year ended 31 December 2013**

		The Group 2013 RM'000	The Bank 2013 RM'000	2012 RM'000
	Note			
Income derived from investment of depositors' funds and others	26	1,990,460	1,990,460	1,913,804
Income derived from investment of shareholder's funds	27	257,785	257,761	239,934
Allowances for losses on financing, advances and other financing/loans	28	(97,302)	(97,302)	(32,045)
Allowances for impairment losses on other receivables		(477)	(477)	(93)
Total distributable income		<u>2,150,466</u>	<u>2,150,442</u>	2,121,600
Income attributable to depositors	29	<u>(1,152,920)</u>	<u>(1,152,920)</u>	(1,113,512)
Total net income		997,546	997,522	1,008,088
Personnel expenses	30	(84,398)	(84,398)	(83,024)
Other overheads and expenditures	31	(421,911)	(421,913)	(389,572)
Profit before taxation		491,237	491,211	535,492
Taxation	33	(125,651)	(125,651)	(134,422)
Profit after taxation		<u>365,586</u>	<u>365,560</u>	401,070
Earnings per share (sen)				
- basic	34	<u>36.56</u>	<u>36.56</u>	40.11

**Statements of Comprehensive Income  
for the financial year ended 31 December 2013**

	The Group 2013 RM'000	The Bank 2013 RM'000	2012 RM'000
Profit for the financial year	365,586	365,560	401,070
Other comprehensive (expense)/income :			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Revaluation reserve of financial investments available-for-sale			
- Net (loss)/gain from change in fair value	(32,137)	(32,137)	17,178
- Realised gain transferred to statement of income on disposal	(19,027)	(19,027)	(5,602)
- Income tax effects	12,791	12,791	(2,894)
Total other comprehensive (expense)/income	(38,373)	(38,373)	8,682
Total comprehensive income for the financial year	<u>327,213</u>	<u>327,187</u>	409,752

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Statements of Changes in Equity for the financial year ended 31 December 2013

The Group

	←		Non-distributable	→				Retained profits	Total	
	Share capital	Perpetual preference shares	Statutory reserve	Revaluation reserve- financial investments available-for-sale	Merger reserve	Capital reserve	Regulatory reserve			Share-based payment reserve
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2013	1,000,000	70,000	654,922	21,977	(2,457)	458	242,624	335	355,585	2,343,444
Net profit for the financial year	-	-	-	-	-	-	-	-	365,586	365,586
- Financial investments available-for-sale	-	-	-	(38,373)	-	-	-	-	-	(38,373)
Total comprehensive expense for the financial year	-	-	-	(38,373)	-	-	-	-	365,586	327,213
Expiry of Management Equity Scheme	-	-	-	-	-	-	-	-	-	-
Share-based payment expense	-	-	-	-	-	-	-	591	-	591
Transfer to statutory reserve	-	-	91,390	-	-	-	-	-	(91,390)	-
Transfer from regulatory reserve	-	-	-	-	-	-	(12,536)	-	12,536	-
Shares released under Equity Ownership Plan	-	-	-	-	-	-	-	(320)	-	(320)
As at 31 December 2013	1,000,000	70,000	746,312	(16,396)	(2,457)	458	230,088	606	642,317	2,670,928







# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Statements of Cash Flows for the financial year ended 31 December 2013

	The Group 2013 RM'000	The Bank 2013 RM'000	2012 RM'000
<b>Cash flows from operating activities</b>			
Profit before taxation	491,237	491,211	535,492
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	1,771	1,771	1,660
Amortisation of intangible assets	3,140	3,140	2,811
Profit income from financial investments available-for-sale	(93,966)	(93,966)	(73,042)
Profit income from financial investments held-to-maturity	(31,050)	(31,050)	(44,085)
Profit expense on subordinated Sukuk	38,039	38,039	29,617
Gain from disposal of financial investments available-for-sale	(19,028)	(19,028)	(5,602)
Property, plant and equipment written off	36	36	117
Net loss from hedging derivatives	322	322	662
Unrealised loss/(gain) on foreign exchange	118,856	118,856	(61,557)
Unrealised loss from revaluation of financial assets held for trading	3,461	3,461	260
Unrealised gain on redemption of financial investments held-to-maturity	(285)	(285)	(1,245)
Unrealised gain arising from financial liabilities designated at fair value	(8,464)	(8,464)	-
Unrealised loss/(gain) from revaluation of Islamic derivative financial instruments	848	848	(22,437)
Accretion of discount less amortisation of premium	(18,210)	(18,210)	(42,947)
Allowances for losses on financing, advances and other financing/loans	144,797	144,797	88,129
Provision for other receivables	477	477	93
Share-based payment expense	591	591	572
	<b>632,572</b>	<b>632,546</b>	<b>408,498</b>
<b>(Increase)/decrease in operating assets</b>			
Financing, advances and other financing/loans	(2,326,440)	(2,326,440)	(5,031,697)
Other assets	(29,010)	(29,010)	43,587
Statutory deposits with Bank Negara Malaysia	(332,650)	(332,650)	(6,300)
Deposits and placements with banks and other financial institutions	438,017	438,017	489,048
Financial assets held for trading	2,967,265	2,967,265	(3,321,260)
Amount due from related company	13	13	1,330
<b>Increase/(decrease) in operating liabilities</b>			
Deposits from customers	3,198,975	3,198,975	6,029,429
Deposits and placements from banks and other financial institutions	(5,088,817)	(5,088,817)	1,409,895
Financial liabilities designated at fair value	154,680	154,680	-
Islamic derivative financial instruments	2,108	2,108	(75,409)
Amount due to holding company	(182,814)	(182,814)	(95,321)
Amount due to related companies	2,879	2,879	3,415
Other liabilities	(228,810)	(228,810)	147,644
	<b>(792,032)</b>	<b>(792,058)</b>	<b>2,859</b>
Taxation paid	(118,395)	(118,395)	(146,361)
Net cash flows used in operating activities	<b>(910,427)</b>	<b>(910,453)</b>	<b>(143,502)</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Statements of Cash Flows  
for the financial year ended 31 December 2013 (Continued)**

	Note	The Group 2013 RM'000	The Bank 2013 RM'000	2012 RM'000
<b>Cash flows from investing activities</b>				
Net proceeds from sale of financial investments held-to-maturity		50,156	50,156	39,243
Acquisition of subsidiaries, net of cash acquired		-	(20)	-
Net proceeds from sale/(purchase) of financial investments available-for-sale		1,454,513	1,454,513	(1,511,757)
Profit income received from financial investments available-for-sale		111,261	111,261	49,082
Profit income received from financial investments held-to-maturity		31,301	31,301	43,772
Purchase of property, plant and equipment		(1,586)	(1,586)	(3,513)
Purchase of intangible assets		(9,976)	(9,976)	(5,824)
Net cash flows generated from/(used in) investing activities		<u>1,635,669</u>	<u>1,635,649</u>	<u>(1,388,997)</u>
<b>Cash flows from financing activities</b>				
Profit expense on subordinated Sukuk		(38,010)	(38,010)	(26,057)
Proceeds from issuance of subordinated Sukuk		-	-	300,000
Net cash flows (used in)/generated from financing activities		<u>(38,010)</u>	<u>(38,010)</u>	<u>273,943</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>687,232</b>	<b>687,186</b>	<b>(1,258,556)</b>
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>6,296,329</b>	<b>6,296,329</b>	<b>7,554,885</b>
<b>Cash and cash equivalents at end of the financial year</b>	2	<b><u>6,983,561</u></b>	<b><u>6,983,515</u></b>	<b><u>6,296,329</u></b>

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013**

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 Group for the financial year ended 31 December 2013 are the first set of Financial Statements prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 10 “Consolidated Financial Statements”, following the acquisition of CIMB Islamic Nominees (Asing) Sdn. Bhd. and CIMB Islamic Nominees (Tempatan) Sdn. Bhd. on 8 April 2013.

The Financial Statements of the Group and the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The Financial Statements have been prepared under historical cost convention, as modified by the revaluation of 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 MFRS 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 Group’s and 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 42.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

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

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

The new accounting standards and amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning 1 January 2013 are as follows:

- MFRS 10 “Consolidated financial statements”
- MFRS 12 “Disclosures of interests in other entities”
- MFRS 13 “Fair Value Measurement”
- Revised MFRS 127 “Separate financial statements”
- MFRS 3 “Business Combinations” (IFRS 3 Business Combinations issued by IASB in March 2004)
- Amendment to MFRS 7 “Financial Instruments: Disclosures– offsetting financial assets and financial liabilities”
- Amendment to MFRS 101 “Presentation of Items of Other Comprehensive Income
- Amendment to MFRS 134 “Interim financial reporting”
- Amendment to MFRS 10, MFRS 11 and MFRS 12 “Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition Guidance”
- Annual improvements 2009-2011 Cycle
  - MFRS 1 “First-time Adoption of Malaysian Financial Reporting Standards” - Repeated application of MFRS 1 and borrowing costs
  - MFRS 101 “Presentation of Financial Statements” - Clarification of the requirements for comparative information
  - MFRS 116 “Property, Plant and Equipment” - Classification of servicing equipment
  - MFRS 132 “Financial Instruments: Presentation” - Tax effect of distribution to holders of equity instruments
  - MFRS 134 “Interim Financial Reporting” - Interim financial reporting and segment information for total assets and liabilities

The adoption of the new accounting standards, amendments and improvements to published standards did not have material impact on the financial statements of the Group and the Bank.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

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

#### **(b) Amendment to published standard that is early adopted by the Group and the Bank**

The Group and the Bank have early adopted the following amendments to published standard for the financial year beginning 1 January 2013:

Amendment to MFRS 136 “Recoverable amount disclosures for non-financial assets” (effective from 1 January 2014) clarifies that disclosure of recoverable amount is required for an asset or cash generating unit when an impairment loss has been recognised or reversed during the period. When the recoverable amount of impaired assets is based on fair value less costs of disposal, additional information about fair value measurement is required. This amendment removes the unintended requirement to disclose the recoverable amount for a cash-generating unit (containing goodwill or indefinite lived intangible assets) when no impairment loss has been recognised or reversed during the period. The amendment is not mandatory for the Group and the Bank until 1 January 2014, however, the Group and the Bank has decided to early adopt the amendments as of 1 January 2013.

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

##### **(i) Financial year beginning on/after 1 January 2014**

- Amendment to MFRS 132 “Financial Instruments: Presentation” (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of ‘currently has a legally enforceable right of set-off’ that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.
- Amendments to MFRS 10, MFRS 12 and MFRS 127 “Investment entities” (effective from 1 January 2014) introduce an exception to consolidation of investment entities. Investment entities are entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both and evaluate the performance of its investments on fair value basis. The amendments require investment entities to measure particular subsidiaries at fair value instead of consolidating them.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

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

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

##### **(i) Financial year beginning on/after 1 January 2014 (Continued)**

- Amendment to MFRS 139 ‘Financial Instruments: Recognition and Measurement’ - Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014) provides relief from discontinuing hedge accounting in a situation where a derivative (which has been designated as a hedging instrument) is novated to effect clearing with a central counterparty as a result of laws or regulation, subject to meeting the following criteria - the parties to the hedging instrument agree that the central counterparty replaces the original counterparty, other changes to the hedging instrument are limited to those that are necessary to effect replacement of the counterparty.

##### **(ii) Financial year beginning on/after 1 January 2017**

- MFRS 9 ‘Financial instruments - classification and measurement of financial assets and financial liabilities’ (effective no earlier than annual periods beginning on or after 1 January 2017) replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch

The adoption of the above new accounting standards will not have any significant impact on the financial results of the Group and the Bank except for MFRS 9. The Group has initiated the assessment of the potential effect of adopting MFRS 9 but is awaiting finalisation of the outstanding phases of MFRS 9 before the assessment can be completed. This standard is expected to have pervasive impact on the Group’s and the Bank’s financial statements.



# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **B Economic entities in the Group**

#### **(a) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The consolidated Financial Statements include the Financial Statements of the Bank and all its subsidiaries made up to the end of the financial year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations.

Under the acquisition method of accounting, the consideration transferred for an acquisition is measured as the acquisition date fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair value on the date of acquisition.

The Group applies predecessor accounting to account for business combinations under common control. Under the predecessor basis of accounting, the results of subsidiaries are presented as if the business combination had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the business combination is cancelled with the values of the shares received. Any resulting credit difference is classified as equity. Any resulting debit difference is adjusted against merger reserves. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the combined entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

In business combination achieved in stages, previously held equity interest in acquire are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in statement of income.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **B Economic entities in the Group (Continued)**

#### **(a) Subsidiaries (Continued)**

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in acquiree (if any), and the fair value of the Group's previously held equity interest in acquiree (if any), over the fair value of the acquiree's identifiable net assets acquired is recorded as goodwill. The accounting policy for goodwill is set out in Note K. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in statement of income on the acquisition date.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. On an acquisition-by-acquisition basis, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. At the end of reporting period, non-controlling interest consists of amount calculated on the date of combinations and its share of changes in the subsidiary's equity since the date of combination.

All earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

All material transactions and balances between group companies are eliminated and the consolidated Financial Statements reflect external transactions only. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **B Economic entities in the Group (Continued)**

#### **(b) Changes in ownership interest**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in statement of income. This fair value is its fair value on initial recognition as a financial asset in accordance with MFRS 139. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

#### **(c) Interests in subsidiaries**

In the Bank's separate financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, joint arrangements and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in statement of income.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **C Recognition of profit income and profit expense**

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 throughout 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.

#### Murabahah

Contract of sale of goods/assets at a mark-up price, which includes a profit margin as agreed by the contracting parties. The price, costs and profit margin in Murabahah shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on the principal amounts outstanding.

#### Ijarah Muntahia Bittamleek

Contract of lease ending with transfer of ownership from the lessor to the lessee either in the form of gift or sale transaction based on agreed terms and conditions. There are two contracts in this arrangement. The first contract is ijarah where the lessee enjoys the usufruct of the assets at an agreed rental during an agreed period while the ownership remains with the lessor. The second contract is to transfer the ownership of the assets which may takes place at the end of the ijarah tenure or at any point of time during the tenure subject to the agreed terms and conditions between the contracting parties. Income is recognised on effective profit rate basis over the lease term.

#### Bai’ Bithaman Ajil

A contract of sale and purchase of an asset in which the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on principal amount outstanding.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **C Recognition of profit income and profit expense (Continued)**

#### Bai' al-'inah

Contract of sale and purchase of an asset whereby the seller sells to buyer in cash and subsequently buys back the asset at a marked up deferred price. Income is recognised on effective profit rate basis over the expected life of the contract based on principal amount outstanding.

#### Tawarruq

Arrangement that involves a purchase of an asset/commodity based on musawamah or murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. Income is recognised on effective profit rate basis over the expected life of the contract based on the principal amounts outstanding.

#### Wadiah (Yad Dhammanah)

A safe keeping contract whereby the custodian guarantees payment of the whole amount of deposits, or any part thereof, outstanding in the account of the depositors, when demanded. The depositors are not entitled to any share of the profits (generated from usage of the deposits by the custodian) but the custodian may provide returns to the depositors as a token of appreciation.

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

#### **(a) Income from financing and receivables based on mutual accounting policy on Shariah contracts according to the nature of the transactions**

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.

#### **(b) Fee and other income recognition**

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

Brokerage fees are recognised as income based on inception of such transactions.

Fees from advisory and corporate finance activities are recognised as income on completion of each stage of the engagement.

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

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **E Financial assets**

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

The Group and the Bank allocate 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 Group and 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.

#### **(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.

Financing and receivables consist of Murabahah, Ijarah, Bai' Bithaman Ajil and Bai' -al'Inah contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **E Financial assets (Continued)**

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

##### **(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 Group's and the Bank's management have the positive intent and ability to hold to maturity. If the Group and 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**

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Interbank placements are recognised on settlement date. 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 de-recognised 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 2013 (Continued)**

### **E 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 Group and 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 Group and 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 Group and 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 2013 (Continued)**

### **F 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 less 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 Group and Bank accounting policy on derivatives is detailed in Note N.

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

Financial instruments, other than those held for trading, are classified as financial liabilities designated at fair value if they meet one or more of the criteria set out below, and are so designated by management. The Group and the Bank may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Certain structured investments with embedded callable range accrual swaps are designated by the Group under this criterion. The profit payable on these structured investments has been hedged with trading derivatives. An accounting mismatch would arise if the structured investments were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the statements of income. By designating the structured investments at fair value, the movement in the fair value of the structured investments will also be recognised in the statement of income.
- applies to groups of financial assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy; and

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **F Financial liabilities (Continued)**

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

- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made is irrevocable. Designated financial liabilities are recognised when the Group and the Bank enter into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the statements of income. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the statements of income.

#### **(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, sundry creditors, amount due to related companies and amount due to holding company.

### **G 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 Group and the Bank test 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 Group and the Bank under standard repurchase agreements transactions is not derecognised because the Group and the Bank retain substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

### **H Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **I 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 Group and the Bank use to determine whether 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 of 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 Group and the Bank first assess 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 Group and the Bank determine 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 have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

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.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group and the Bank to reduce any differences between loss estimates and actual loss experience.

When a financing is uncollectible, it is written off against the related allowance for impairment. Such financings 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.

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

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

For debt securities, the Group and the Bank use 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.

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 incurred, the cumulative loss that has been recognised directly in equity is removed from other comprehensive income 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.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)

### J 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 Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. 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 and plant equipment, furniture and fittings:	
- Office equipment	3 - 5 years
- Plant equipment	5 years
- Furniture and fittings	5 – 10 years
Motor vehicles	5 years
Computer equipment:	
- servers and hardware	3 - 5 years
- ATM machine	5 – 10 years

Depreciation on capital work-in-progress 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 other operating income.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **K Intangible assets**

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

Goodwill arising from business combination represents the excess of the cost of acquisition and the fair value of the Group's share of the net identifiable assets of the acquired subsidiary. 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 cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which goodwill arose, identified according to operating segment.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### **(b) Other intangible assets**

Other intangible assets include computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software are stated at cost less accumulated amortisation and accumulated impairment losses, and are amortised over their estimated useful lives as follows:

Computer software	3 – 15 years
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# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **L 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 Group and 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.

#### **(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.

### **M 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 included in property, plant and equipment in the statements of financial position. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. 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 2013 (Continued)**

### **N 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 Group and the Bank recognise the fair value of derivatives in the statement of income immediately.

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 Group and 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 Group and 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 Group and 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 qualified 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 is amortised to the statement of income based on recalculated effective profit rate method over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains as part of the carrying amount 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 2013 (Continued)**

### **N 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 qualified 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 2013 (Continued)**

### **O Currency translations**

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

The Financial Statements are presented in Ringgit Malaysia, which is the Group's and 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.

### **P 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 recognised 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 nor taxable profit or loss.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **P 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 is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

### **Q Share capital**

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

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

#### **(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**

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)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **R Employee benefits**

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

The Group and the Bank recognise a liability and an expense for bonuses. The Group and the Bank recognise 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 Group and the Bank.

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

##### *Defined contribution plans*

A defined contribution plan is a pension plan under which the Group and the Bank pay 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 Group's and 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 Group and the Bank have 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.

#### **(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 for the liability which is not expected to be settled within 12 months, except that remeasurements are recognised immediately in profit or loss.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **R Employee benefits (Continued)**

#### **(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 Group and the Bank recognise termination benefits at the earlier of the following dates: (a) when the Group and the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for restructuring that is within the scope of MFRS 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

#### **(e) Bonus plans**

The Group and the Bank recognise a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Group and the Bank's shareholder after certain adjustments. The Group and the Bank recognise a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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

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

The Group and the Bank have 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 Group and 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 each balance sheet date, the Group and 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 2013 (Continued)**

#### **R Employee benefits (Continued)**

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

###### *Employee Ownership Plan (“EOP”)*

The 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.

#### **S 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 2013 (Continued)**

### **T Provisions**

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

- (i) the Group and the Bank have 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.

### **U 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 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 MFRS 137 – "Provision, Contingent Liabilities and Contingent Assets", and the amount initially recognised less, when appropriate, accumulative amortisation recognised in accordance with MFRS 118 – "Revenue". These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment 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 overheads.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Summary of Significant Accounting Policies for the financial year ended 31 December 2013 (Continued)**

### **V Cash and cash equivalents**

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

### **W 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 Group 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.

### **X 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 Group's and 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.

### **Y 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)

## Notes to the Financial Statements for the financial year ended 31 December 2013

### 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. The principal activities of the significant subsidiaries as set out in Note 15 in the Financial Statements are providing Islamic nominee and custody 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 Financial Services Act, 2013 done in accordance with Shariah.

The immediate 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 Financial Services Act, 2013, incorporated and domiciled in Malaysia.

The address of the Bank's registered office is Level 13, Menara CIMB, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia.

The address of the Bank's principal place of business is at Menara Bumiputra- Commerce, 11, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

### 2 Cash and short-term funds

	The Group	The Bank	
	31 December 2013 RM'000	31 December 2013 RM'000	31 December 2012 RM'000
Cash and balances with banks and other financial institutions	276,793	276,747	128,732
Money at call and deposit placements maturing within one month	<u>6,706,768</u>	<u>6,706,768</u>	<u>6,167,597</u>
	<u><u>6,983,561</u></u>	<u><u>6,983,515</u></u>	<u><u>6,296,329</u></u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****3 Deposits and placements with banks and other financial institutions**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Licensed banks	163,318	444,936
Licensed investment banks	-	146,362
Other financial institutions	-	10,037
	<u>163,318</u>	<u>601,335</u>

**4 Financial assets held for trading**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
<b>Money market instruments</b>		
<b>Unquoted:</b>		
<u>In Malaysia</u>		
Malaysian Government treasury bills	-	68,456
Bank Negara monetary notes	2,184,340	3,540,897
Islamic accepted bills	-	150,202
Islamic negotiable instruments of deposits	748,368	1,656,985
Government Investment Issues	<u>27,647</u>	<u>251,804</u>
	<u>2,960,355</u>	<u>5,668,344</u>
<b>Unquoted securities:</b>		
<u>In Malaysia</u>		
Private debt securities	<u>208,182</u>	<u>448,704</u>
	<u>3,168,537</u>	<u>6,117,048</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****5 Financial investments available-for-sale**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
<b>Money market instruments</b>		
<b>Unquoted:</b>		
<u>In Malaysia</u>		
Government Investment Issues	377,791	1,140,378
Islamic Cagamas bonds	25,491	20,764
Malaysian Government Securities	34,793	34,262
Khazanah bonds	-	54,240
	<u>438,075</u>	<u>1,249,644</u>
<b>Unquoted securities:</b>		
<u>In Malaysia</u>		
Private debt securities	849,456	1,547,118
Placement with Islamic Banking and Finance Institute Malaysia	575	575
	<u>1,288,106</u>	<u>2,797,337</u>

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

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
<b>Unquoted securities:</b>		
<u>In Malaysia</u>		
Private debt securities	602,177	652,430
Amortisation of premium less accretion of discount	-	(40)
	<u>602,177</u>	<u>652,390</u>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 7 Islamic derivative financial instruments

#### Islamic derivative financial instruments

The following tables summarise for contractual underlying principal amounts of trading derivative and financial instruments held for 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.

	The Group and the Bank			The Bank		
	31 December 2013			31 December 2012		
	Principal amount RM'000	Fair values Assets RM'000	Liabilities RM'000	Principal amount RM'000	Fair values Assets RM'000	Liabilities RM'000
<u>Foreign exchange derivatives</u>						
Currency forwards	1,311,116	30,226	(5,215)	1,579,364	33,775	(31,664)
Currency swaps	2,891,197	30,675	(29,390)	2,628,568	15,854	(8,780)
Currency spot	8,625	10	(5)	1,604	1	(1)
Currency option	27,230	93	(93)	92,114	297	(297)
Cross currency profit rate swaps	834,259	37,104	(36,600)	331,784	17,994	(17,994)
	<b>5,072,427</b>	<b>98,108</b>	<b>(71,303)</b>	<b>4,633,434</b>	<b>67,921</b>	<b>(58,736)</b>
<u>Profit rate derivatives</u>						
Islamic profit rate swaps	8,360,308	89,938	(85,548)	8,143,911	73,575	(50,720)
<u>Equity related derivatives</u>						
Equity options	641,323	13,513	(13,513)	1,471,506	15,856	(15,856)
<u>Credit related contracts</u>						
Total return swaps	115,960	586	(586)	121,760	1,634	(1,634)
<u>Held for hedging purpose</u>						
Islamic profit rate swaps	6,930,427	44,655	(114,427)	7,078,403	9,374	(253,583)
Total derivative assets/(liabilities)	<b>21,120,445</b>	<b>246,800</b>	<b>(285,377)</b>	<b>21,449,014</b>	<b>168,360</b>	<b>(380,529)</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****7 Islamic derivative financial instruments (Continued)****Islamic derivative financial instruments (Continued)****Fair value hedge**

Fair value hedges are used by the Group and the Bank to protect it against the changes in fair value of financial assets and financial liabilities due to movements in market rates. The Group and the Bank use Islamic profit rate swaps to hedge against profit rate risk of financing, subordinated Sukuk and financial investments available-for-sale. 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. If the hedge relationship is terminated, the cumulative adjustment to the carrying amount of the hedged item is amortised in the statement of income based on recalculated effective profit rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the statement of income immediately.

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

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Gain on hedging instruments	<b>176,547</b>	<b>12,901</b>
Loss on the hedged items attributable to the hedged risk	<b><u>(176,869)</u></b>	<b><u>(13,562)</u></b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans**

(i) By type:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Cash line	478,132	471,590
Term financing		
- House financing	9,165,933	8,231,990
- Syndicated term financing	502,996	330,015
- Hire purchase receivables	6,288,975	6,495,487
- Other term financing	16,325,134	15,766,461
Credit card receivables	104,449	97,882
Bills receivable	2,885	3,766
Islamic trust receipts	25,934	35,707
Claims on customer under Islamic accepted bills	370,754	340,687
Revolving credits	2,157,033	1,450,191
Share purchase financing	16,441	35,226
Other loans	-	-
Gross financing, advances and other financing/loans <sup>^</sup>	<u>35,438,666</u>	<u>33,259,002</u>
Fair value changes arising from fair value hedges	<u>40,548</u>	<u>222,909</u>
	<u>35,479,214</u>	<u>33,481,911</u>
Less: Individual impairment allowance	(29,801)	(60,925)
Less: Portfolio impairment allowance	<u>(376,849)</u>	<u>(347,704)</u>
Total net financing, advances and other financing/loan	<u><u>35,072,564</u></u>	<u><u>33,073,282</u></u>

<sup>^</sup>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 Bank Berhad and CIMB Bank Berhad. CIMB Bank Berhad 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 2013, the gross exposures to RPSIA financing is RM2,476 million (31 December 2012: RM988 million) and the portfolio impairment allowance relating to this RPSIA amounting to RM11.3 million (31 December 2012: RM3.5 million) is recognised in the Financial Statements of CIMB Bank Berhad. There was no individual impairment provided on this RPSIA financing.

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

## (i) By type: (Continued)

The Bank has undertaken fair value hedge on the profit rate risk of RM6,350 million (31 December 2012: RM6,500 million) financing using Islamic profit rate swaps.

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Gross financing hedged	6,350,000	6,500,000
Fair value changes arising from fair value hedges	40,548	222,909
	<u><b>6,390,548</b></u>	<u><b>6,722,909</b></u>

The fair value loss on Islamic profit rate swaps in this hedge transaction as at 31 December 2013 is RM67 million (31 December 2012 : RM247 million).

## (ii) By contract:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Bai' Bithaman Ajil ( <i>deferred payment sale</i> )	13,754,515	12,957,557
Ijarah Muntahiyah Bittamlik/AITAB ( <i>Lease Ending with Ownership</i> )	7,560,947	7,330,211
Murabahah ( <i>Cost Plus Sale</i> )	347,458	325,682
Bai' al-'inah ( <i>Sale and reprurchase</i> )	11,721,609	12,455,612
Others	2,054,137	189,940
	<u><b>35,438,666</b></u>	<u><b>33,259,002</b></u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(iii) By type of customer:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Domestic non-bank financial institutions	1,505,087	574,212
Domestic business enterprises		
- Small medium enterprises	1,906,985	1,360,257
- Others	5,095,000	5,191,432
Government and statutory bodies	6,746,098	6,747,294
Individuals	19,920,730	19,122,879
Other domestic entities	31,022	16,981
Foreign entities	233,744	245,947
	<u><u>35,438,666</u></u>	<u><u>33,259,002</u></u>

(iv) By geographical distribution:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Malaysia	<u><u>35,438,666</u></u>	<u><u>33,259,002</u></u>



**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(v) By profit rate sensitivity:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Fixed rate		
- house financing	225,098	316,820
- hire purchase receivables	6,288,975	6,495,487
- others	12,016,056	12,112,954
Variable rate		
- house financing	8,940,835	7,915,170
- others	7,967,702	6,418,571
	<u>35,438,666</u>	<u>33,259,002</u>

(vi) By residual contractual maturity:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Within one year	3,308,386	2,674,004
One year to less than three years	1,162,098	914,279
Three years to less than five years	5,259,909	3,051,647
Five years and more	25,708,273	26,619,072
	<u>35,438,666</u>	<u>33,259,002</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(vii) By economic purpose:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Personal use	3,171,403	3,233,098
Credit card	104,449	97,882
Construction	1,929,558	1,970,429
Residential property	9,214,629	8,273,772
Non-residential property	3,206,670	2,573,888
Purchase of fixed assets other than land and building	270,074	360,709
Purchase of securities	21,839	35,648
Purchase of transport vehicles	6,346,225	6,512,442
Working capital	8,225,496	7,289,268
Merger and acquisition	1,243	20,290
Other purpose	2,947,080	2,891,576
	<u><u>35,438,666</u></u>	<u><u>33,259,002</u></u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(viii) Impaired financing by economic purpose:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Personal use	25,081	15,570
Credit cards	2,285	419
Construction	1,312	894
Residential property	76,714	91,240
Non-residential property	29,202	35,148
Purchase of fixed assets other than land and building	1,682	1,966
Purchase of securities	223	10
Purchase of transport vehicles	100,454	87,912
Working capital	64,953	63,532
Other purpose	8,245	7,437
	<b><u>310,151</u></b>	<b><u>304,128</u></b>

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

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
At 1 January	304,128	345,778
Classified as impaired during the financial year	414,409	383,095
Reclassification from unwinding income	-	10,109
Reclassified as non-impaired during the financial year	(175,388)	(152,618)
Amount written back in respect of recoveries	(85,628)	(73,013)
Amount written off	(147,370)	(209,223)
At 31 December	<b><u>310,151</u></b>	<b><u>304,128</u></b>
Ratio of gross impaired financing, advances and other financing/loans to gross financing, advances and other financing/loans	<b><u>0.88%</u></b>	<b><u>0.91%</u></b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(x) Movements in impairment allowance:

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
<b>Individual impairment allowance</b>		
At 1 January	60,925	103,256
Net allowance (written back)/made during the financial year	(20,744)	1,586
Unwinding income	-	4,090
Amount written off	(10,380)	(48,007)
At 31 December	<u>29,801</u>	<u>60,925</u>
	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
<b>Portfolio impairment allowance</b>		
At 1 January	347,704	417,744
Net allowance made during the financial year	163,420	86,543
Transfer from intercompany	2,715	-
Unwinding income	-	6,019
Amount written off	(136,990)	(162,602)
At 31 December	<u>376,849</u>	<u>347,704</u>
Portfolio impairment allowance (inclusive of regulatory reserve) as % of gross financing, advances and other financing/loans (excluding RPSIA financing) less individual impairment allowance	<u>2.30%</u>	<u>2.30%</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****8 Financing, advances and other financing/loans (Continued)**

(xi) Impaired financings by geographical distribution:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Malaysia	<u><u>310,151</u></u>	<u><u>304,128</u></u>

**9 Other assets**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Deposits and prepayments	3,983	100
Sundry debtors	36,789	36,369
Credit Support Annex for derivative transactions	58,230	61,430
Clearing accounts	184,092	156,983
	<u><u>283,094</u></u>	<u><u>254,882</u></u>

**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>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Portfolio impairment allowance for impaired financing	45	78
Excess of capital allowance over depreciation	(3,482)	(2,234)
Financial investments available-for-sale	5,465	(7,326)
Provision for expenses	20,421	20,213
Deferred tax assets	<u><u>22,449</u></u>	<u><u>10,731</u></u>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (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 impaired financing RM'000	Excess of capital allowance over depreciation RM'000	Revaluation reserve - financial investments available-for-sale RM'000	Provision for expenses RM'000	Total RM'000
<b>The Group and the Bank</b>					
At 1 January 2013	78	(2,234)	(7,326)	20,213	10,731
Credited/(charged) to statement of income (Note 33)	(33)	(1,247)	-	208	(1,072)
Over provision in prior year	-	(1)	-	-	(1)
Transferred to equity	-	-	12,791	-	12,791
<b>At 31 December 2013</b>	<b>45</b>	<b>(3,482)</b>	<b>5,465</b>	<b>20,421</b>	<b>22,449</b>
<b>The Bank</b>					
At 1 January 2012	27	(839)	(4,432)	11,603	6,359
Credited/(charged) to statement of income (Note 33)	51	(1,336)	-	8,893	7,608
Over provision in prior year	-	(59)	-	(283)	(342)
Transferred to equity	-	-	(2,894)	-	(2,894)
<b>At 31 December 2012</b>	<b>78</b>	<b>(2,234)</b>	<b>(7,326)</b>	<b>20,213</b>	<b>10,731</b>

### 11 Financial liabilities designated at fair value

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Deposits from customers - structured investments	<b>146,216</b>	-

The Group and the Bank have issued structured investments, and have designated them at fair value in accordance with MFRS139. The Group and the Bank have the ability to do this when designating these instruments at fair value reduces an accounting mismatch, is managed by the Group and the Bank on the basis of its fair value, or includes terms that have substantive derivative characteristics.

Included in the above are individual and domestic other non-bank financial institution customers deposits with contractual amount due on maturity amounting to RM3,562,000 and RM151,118,000 respectively .

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****11 Financial liabilities designated at fair value (Continued)**

The carrying amount of the Group and the Bank as at 31 December 2013 of financial liabilities designated at fair value were RM8,464,000 lower than the contractual amount at maturity. The fair value changes of the financial liabilities that are attributable to the changes in own credit risk are not significant.

**12 Amount due from/(to) related companies**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Amounts due from : - related companies	<u>418</u>	<u>431</u>
Amounts due to : - related companies	<u>(6,433)</u>	<u>(3,554)</u>

The amounts due from/(to) related companies are unsecured and payable on demand.

**13 Amount due to holding company**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Amounts due to holding company	<u>115,538</u>	<u>298,352</u>

The amounts due to holding company is unsecured and payable on demand.

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 14 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.

### 15 Investment in subsidiaries

	<b>The Bank</b>	
	<b>31 December 2013</b>	31 December 2012
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares, at cost	<b>20</b>	<b>-</b>

#### (a) Ordinary shares

On 8 April 2013, CIMB Islamic Berhad acquired 10,000 ordinary shares of CIMB Islamic Nominees (Tempatan) Sdn. Bhd. and 10,000 ordinary shares of CIMB Islamic Nominees (Asing) Sdn. Bhd., representing 100% of issued share and paid-up capital, for a cash consideration of RM10,000 respectively. As a result, CIMB Islamic Nominees (Tempatan) Sdn Bhd and CIMB Islamic Nominees (Asing) Sdn Bhd became wholly owned subsidiaries of CIMB Islamic Bank Berhad.

#### (b) The subsidiaries of the Bank are as follows:

<b>Name</b>	<b>Principal activities</b>	<b>31 December 2013</b>	31 December 2012
		<b>%</b>	<b>%</b>
CIMB Islamic Nominees (Tempatan) Sdn. Bhd.	Nominee services	<b>100</b>	-
CIMB Islamic Nominees (Asing) Sdn. Bhd.	Nominee services	<b>100</b>	-

All subsidiaries are incorporated in Malaysia and audited by PricewaterhouseCoopers Malaysia.



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****16 Property, plant and equipment**

		Renovations, office and plant equipment, furniture and fixtures RM'000	Motor vehicles RM'000	Computer equipment RM'000	Total RM'000
<b>2013</b>	<b>Note</b>				
<b>The Group and the Bank</b>					
<b>Cost</b>					
At 1 January		4,770	3,247	3	8,020
Additions		1,193	393	-	1,586
Written off		-	(69)	-	(69)
Reclassified to intangible assets	17	(33)	-	-	(33)
At 31 December		<u>5,930</u>	<u>3,571</u>	<u>3</u>	<u>9,504</u>
<b>Accumulated depreciation</b>					
At 1 January		1,713	814	3	2,530
Charge for the financial year		1,325	446	-	1,771
Written off		-	(33)	-	(33)
At 31 December		<u>3,038</u>	<u>1,227</u>	<u>3</u>	<u>4,268</u>
<b>Net book value at 31 December</b>		<u>2,892</u>	<u>2,344</u>	<u>-</u>	<u>5,236</u>

		Renovations, office and plant equipment, furniture and fixtures RM'000	Motor vehicles RM'000	Computer equipment RM'000	Total RM'000
<b>2012</b>	<b>Note</b>				
<b>The Bank</b>					
<b>Cost</b>					
At 1 January		8,293	2,450	13	10,756
Additions		2,356	1,157	-	3,513
Written off		(4,472)	(360)	(10)	(4,842)
Reclassified to intangible assets	17	(1,407)	-	-	(1,407)
At 31 December		<u>4,770</u>	<u>3,247</u>	<u>3</u>	<u>8,020</u>
<b>Accumulated depreciation</b>					
At 1 January		6,338	506	13	6,857
Charge for the financial year		1,089	571	-	1,660
Written off		(4,452)	(263)	(10)	(4,725)
Reclassified to intangible assets	17	(1,262)	-	-	(1,262)
At 31 December		<u>1,713</u>	<u>814</u>	<u>3</u>	<u>2,530</u>
<b>Net book value at 31 December</b>		<u>3,057</u>	<u>2,433</u>	<u>-</u>	<u>5,490</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****17 Intangible assets**

	Note	The Group and the Bank 2013 RM'000	The Bank 2012 RM'000
<b>Computer software</b>			
<b>Cost</b>			
At 1 January		24,373	17,142
Additions		9,976	5,824
Reclassified from property, plant and equipment	16	33	1,407
At 31 December		<u>34,382</u>	<u>24,373</u>
<b>Amortisation</b>			
At 1 January		17,045	12,972
Amortisation for the financial year		3,140	2,811
Reclassified from property, plant and equipment	16	-	1,262
At 31 December		<u>20,185</u>	<u>17,045</u>
<b>Net book value at 31 December</b>		<u><u>14,197</u></u>	<u><u>7,328</u></u>

The remaining amortisation period of the intangible assets are as follows:

Computer Software 1 – 13 years

The above intangible assets include computer software under construction at cost of the Group and the Bank of RM249,457 (31 December 2012: RM 247,332 [Bank]).

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****18 Goodwill**

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
<b>Cost</b>		
At 1 January/At 31 December	<u><u>136,000</u></u>	<u><u>136,000</u></u>

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

**Impairment test for goodwill**Value-in-use

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 2014 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% (31 December 2012: 5.00% ). The cash flow projections are derived based on a number of key factors including the past performance and management’s expectation of market developments. The discount rate is 6.55% (31 December 2012: 7.10%) 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.

**Impairment charge**

There was no impairment charge for the financial year ended 31 December 2013 and 31 December 2012.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****19 Deposits from customers**

## (i) By type of deposits

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
a) Savings deposit		
Wadiah	1,330,874	1,181,904
Mudharabah	574,528	524,422
	<b>1,905,402</b>	<b>1,706,326</b>
b) Demand deposit		
Wadiah	3,293,989	3,522,731
Qard	11,854	1,875
Mudharabah	4,780,701	4,234,083
	<b>8,086,544</b>	<b>7,758,689</b>
c) Term deposit		
Commodity Murabahah	5,397,061	6,719,922
Negotiable Islamic Debt Certificate (NIDC)	5,934,040	3,401,531
Mudharabah	414,592	1,031,344
Hybrid (Bai Bithamin Ajil (BBA) and Bai al-Dayn)	5,519,448	2,370,187
Short term money market deposit - i	14,859,290	13,409,549
Wakalah	14,838,920	13,290,085
Wadiah	20,370	119,464
General investment account	2,083,240	2,056,033
Mudharabah	2,083,240	2,056,033
Specific investment account	175,870	175,087
Mudharabah	175,455	175,087
Murabahah	415	-
	<b>28,449,501</b>	<b>25,762,122</b>
d) Others	25,427	40,762
Qard	25,427	40,762
	<b>38,466,874</b>	<b>35,267,899</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****19 Deposits from customers (Continued)****(i) By type of deposits (Continued)**

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

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Within one year	27,826,887	24,912,546
One year to less than three years	67,032	177,616
Three years to less than five years	383,128	434,327
Five years and more	172,454	237,633
	<u><u>28,449,501</u></u>	<u><u>25,762,122</u></u>

**(ii) By type of customers**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Government and statutory bodies	4,827,079	6,493,384
Business enterprises	16,344,695	13,353,094
Individuals	4,214,843	4,566,521
Others	13,080,257	10,854,900
	<u><u>38,466,874</u></u>	<u><u>35,267,899</u></u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****20 Deposits and placements of banks and other financial institutions**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Licensed Islamic banks	<b>390,292</b>	1,315,473
Licensed investment banks	<b>230</b>	998,659
Licensed banks	<b>6,145,278</b>	9,075,733
Other financial institutions	<b>36,111</b>	270,863
	<b><u>6,571,911</u></b>	<b><u>11,660,728</u></b>

Included in the deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account (“RPSIA”) placed by CIMB Bank Berhad amounting to RM 2,469 million (31 December 2012: RM984 million) for tenures between 1 month to 5 months at indicative profit rates from 3.33% to 3.64% per annum (31 December 2012 : 3.42% to 3.61% tenures between 1 month to 4 months). 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.

The maturity structure of deposits and placement from financial institutions are as follows:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
One year or less	<b>6,571,911</b>	6,175,493
More than one year	<b>-</b>	5,485,235
	<b><u>6,571,911</u></b>	<b><u>11,660,728</u></b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****21 Subordinated Sukuk**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Subordinated Sukuk-RM850 million	<u><u>856,722</u></u>	<u><u>863,557</u></u>

The RM850 million unsecured 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.

- a) The first tranche of the Sukuk of RM300 million 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.
- b) On 21 April 2011, the second tranche of the Sukuk of RM250 million was issued at par and is due on 21 April 2021, with optional redemption on 21 April 2016 or any periodic payment date thereafter. The Sukuk bears a profit rate of 4.20% per annum payable semi-annually in arrears.
- c) On 18 September 2012, the third tranche of the Sukuk of RM300 million was issued at par and is due on 15 September 2022, with the optional redemption on 18 September 2017 or any periodic payment date thereafter. The Sukuk bears a profit rate of 4.00% per annum, payable semi-annually in arrears.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****21 Subordinated Sukuk (Continued)**

The Bank has undertaken fair value hedge on the profit rate risk of the RM250 million subordinated Sukuk using Islamic profit rate swaps.

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Subordinated Sukuk, at cost	250,000	250,000
Fair value changes arising from fair value hedges	2,436	5,628
Profit payable	2,077	2,048
	<u>254,513</u>	<u>257,676</u>

The fair value gain of Islamic profit rate swaps in this hedge transaction as at 31 December 2013 was RM2,881,581 (31 December 2012: RM5,932,760).

The Bank has undertaken fair value hedge on the profit rate risk of the third tranche RM300 million subordinated Sukuk using Islamic profit rate swaps.

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Subordinated Sukuk, at cost	300,000	300,000
Fair value changes arising from fair value hedges	(6,023)	(2,351)
Profit payable	3,481	3,481
	<u>297,458</u>	<u>301,130</u>

The fair value loss of Islamic profit rate swaps in this hedge transaction as at 31 December 2013 was RM5,864,579 (31 December 2012: RM2,302,664).

The RM850 million Sukuk qualify as Tier-2 capital for the purpose of the total capital ratio computation (subject to the gradual phase-out treatment under Basel III).



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****22 Other liabilities**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Accruals and other payables	76,281	74,304
Clearing accounts	195,545	291,125
Others	15,942	31,678
	<u><u>287,768</u></u>	<u><u>397,107</u></u>

**23 Perpetual preference shares**

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
<b>Authorised</b>		
<b>Perpetual preference shares of RM1.00 each</b>		
At 1 January/31 December	<u><u>100,000</u></u>	<u><u>100,000</u></u>
<b>Issued and fully paid</b>		
<b>Perpetual preference shares of RM1.00 each</b>		
At 1 January/31 December	<u><u>70,000</u></u>	<u><u>70,000</u></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.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****24 Ordinary share capital**

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
<b>Authorised</b>		
<b>Ordinary shares of RM1.00 each:</b>		
At 1 January/31 December	<u><u>1,400,000</u></u>	<u><u>1,400,000</u></u>
<b>Issued and fully paid</b>		
<b>Ordinary shares of RM1.00 each:</b>		
At 1 January/31 December	<u><u>1,000,000</u></u>	<u><u>1,000,000</u></u>

**25 Reserves**

- (a) The statutory reserve is maintained in compliance with BNM's guidelines 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 predecessor basis of accounting 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 MFRS 139 beginning 1 January 2010.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****25 Reserves (Continued)**

- (e) Movement of the revaluation reserve of financial investments available-for-sale is as follows :

	<b>The Group and the Bank</b>	<b>The Bank</b>
	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	21,977	13,295
Net (loss)/gain from change in fair value	<b>(32,137)</b>	17,178
Realised gain transferred to statement of income on disposal	<b>(19,027)</b>	(5,602)
Income tax effects	12,791	(2,894)
Net change in available-for-sale securities	<b>(38,373)</b>	8,682
At 31 December	<b>(16,396)</b>	21,977

- (f) Share-based payment reserve represents the Bank's commitments for Management Equity Scheme and Employee Ownership Plan under share-based compensation benefits. The Management Equity Scheme lapsed in 2012.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****26 Income derived from investment of depositors' funds and others**

		<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Income derived from investment of:			
- General investment deposits	(i)	914,161	823,547
- Specific investment deposits	(ii)	89,121	97,510
- Other deposits	(iii)	987,178	992,747
		<u>1,990,460</u>	<u>1,913,804</u>

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

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Financing, advances and other financing/loans:		
- Profit income	770,438	672,697
- Unwinding income*	3,048	2,185
Financial assets held for trading	16,194	13,092
Financial investments available-for-sale	43,197	31,887
Financial investments held-to-maturity	14,228	18,976
Money at call and deposit with financial institutions	<u>84,646</u>	<u>69,516</u>
	931,751	808,353
Accretion of discount less amortisation of premium	<u>8,654</u>	<u>19,132</u>
Total finance income and hibah	940,405	827,485
Other operating income		
Net gain/(loss) from financial assets held for trading:		
- realised	18,960	8,918
- unrealised	(1,598)	(136)
Net gain from sale of financial investments available-for-sale	8,667	2,378
Net gain on redemption of financial investments held-to-maturity	135	528
Net loss from foreign exchange transactions	<u>(54,239)</u>	<u>(18,411)</u>
	(28,075)	(6,723)
Fee and commission income	<u>1,831</u>	<u>2,785</u>
	<u>914,161</u>	<u>823,547</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 2013 (Continued)****26 Income derived from investment of depositors' fund and others  
(Continued)****(ii) Income derived from specific investment deposits**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Financing, advances and other financing/loans:		
- Profit income	64,763	60,404
Money at call and deposit with financial institutions	<u>24,358</u>	<u>37,106</u>
	<u><b>89,121</b></u>	<u><b>97,510</b></u>

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

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Financing, advances and other financing/loans:		
- Profit income	832,249	809,176
- Unwinding income*	3,302	2,641
Financial assets held for trading	17,347	15,508
Financial investments available-for-sale	46,358	37,861
Financial investments held-to-maturity	15,362	23,113
Money at call and deposit with financial institutions	<u>92,213</u>	<u>83,449</u>
	<u><b>1,006,831</b></u>	<u><b>971,748</b></u>
Accretion of discount less amortisation of premium	<u>8,733</u>	<u>21,919</u>
Total finance income and hibah	<u><b>1,015,564</b></u>	<u><b>993,667</b></u>
Other operating income		
Net gain/(loss) from financial assets held for trading:		
- realised	20,579	11,397
- unrealised	(1,699)	(112)
Net gain from sale of financial investments available-for-sale	9,473	2,967
Net gain on redemption of financial investments held-to-maturity	137	661
	<u><b>(58,880)</b></u>	<u><b>(19,222)</b></u>
Net loss from foreign exchange transactions	<u><b>(30,390)</b></u>	<u><b>(4,309)</b></u>
Fees and commission income	<u>2,004</u>	<u>3,389</u>
	<u><b>987,178</b></u>	<u><b>992,747</b></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 2013 (Continued)****27 Income derived from investment of shareholder's fund**

	The Group		The Bank	
	31 December 2013 RM'000	31 December 2013 RM'000	31 December 2012 RM'000	31 December 2012 RM'000
Financing, advances and other financing/loans:				
- Profit income	79,096	79,096		70,204
- Unwinding income*	313	313		229
Financial assets held for trading	1,654	1,654		1,348
Financial investments available-for-sale	4,411	4,411		3,294
Financial investments held-to-maturity	1,460	1,460		1,996
Money at call and deposits with financial institutions	8,737	8,737		7,269
	<u>95,671</u>	<u>95,671</u>		<u>84,340</u>
Accretion of discount less amortisation of premium	823	823		1,896
Total finance income and hibah	<u>96,494</u>	<u>96,494</u>		<u>86,236</u>
Other operating income				
Net gain/(loss) from financial assets held for trading:				
- realised	2,013	2,013		970
- unrealised	(164)	(164)		(12)
Net gain from sale of financial investments available-for-sale	888	888		257
Net gain on redemption of financial investments held-to-maturity	14	14		56
Net loss from foreign exchange transactions	(5,737)	(5,737)		(1,839)
Net loss from hedging derivatives	(322)	(322)		(662)
Net gain/(loss) from derivative financial instruments:				
- realised	92,914	92,914		33,580
- unrealised	(848)	(848)		22,437
Net gain/(loss) arising from financial liabilities designated at fair value				
- realised	(1,572)	(1,572)		-
- unrealised	8,464	8,464		-
	<u>95,650</u>	<u>95,650</u>		<u>54,787</u>
Fees and commission income	63,120	63,120		94,918
Less : Fee and commission expense	(1,417)	(1,417)		(1,909)
Net fees and commission income	61,703	61,703		93,009
Other income:				
- Sundry income	3,938	3,914		5,902
	<u>257,785</u>	<u>257,761</u>		<u>239,934</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 2013 (Continued)****28 Allowances for losses on financing, advances and other financing/loans**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Individual impairment allowance:		
- (written back)/made during the financial year	(20,744)	1,586
Portfolio impairment allowance:		
- net allowance made during the financial year	163,420	86,543
Bad debts on financing:		
- recovered	(47,495)	(56,103)
- written off	2,121	19
	<u>97,302</u>	<u>32,045</u>

**29 Income attributable to depositors**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Deposits from customers:		
- Mudharabah	143,846	155,634
- Non-Mudharabah	634,802	530,931
- Financial liabilities designated at fair value	4,518	-
Deposits and placements of banks and other financial institutions:		
- Mudharabah	97,154	91,125
- Non-Mudharabah	234,561	306,205
Others	38,039	29,617
	<u>1,152,920</u>	<u>1,113,512</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****30 Personnel expenses**

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Wages and salaries	18,238	16,850
Allowances and bonuses	55,355	60,766
Staff incentive	1,239	1,045
Other staff related costs	9,566	4,363
	<u>84,398</u>	<u>83,024</u>

**31 Other overheads and expenditures**

	<b>The Group 31 December 2013 RM'000</b>	<b>The Bank 31 December 2013 RM'000</b>	<b>31 December 2012 RM'000</b>
<b>Establishment</b>			
Rental	1,509	1,509	1,573
Depreciation of property, plant equipment	1,771	1,771	1,660
Outsourcing expenses	13	13	7,167
Repairs and maintenance	2,429	2,429	2,027
Others	1,777	1,777	3,483
<b>Promotion</b>			
Advertisement and publicity	7,542	7,542	6,338
Others	1,979	1,979	2,506
<b>General expenses</b>			
Professional fees	4,861	4,861	2,398
Amortisation of intangible assets	3,140	3,140	2,811
Communication	675	675	586
Donation	7,070	7,070	-
Incidental expenses on banking operations	1,268	1,268	1,359
Others	14,359	14,361	10,723
	<u>48,393</u>	<u>48,395</u>	<u>42,631</u>
<b>Shared services costs paid/payable to CIMB Bank/CIMB Investment Bank</b>	<b>373,518</b>	<b>373,518</b>	<b>346,941</b>
	<u>421,911</u>	<u>421,913</u>	<u>389,572</u>



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****31 Other overheads and expenditures (Continued)**

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

	<b>The Group</b>	<b>The Bank</b>	
	<b>31 December</b>	<b>31 December</b>	31 December
	<b>2013</b>	<b>2013</b>	2012
	<b>RM'000</b>	<b>RM'000</b>	RM'000
Directors remuneration (excluding benefits-in-kind) (Note 32)	<b>2,000</b>	<b>2,000</b>	1,900
Auditors' remuneration :			
PwC Malaysia (audit):			
- statutory audit	<b>191</b>	<b>186</b>	108
- limited review	<b>42</b>	<b>42</b>	40
- other audit related	<b>120</b>	<b>120</b>	60
PwC Malaysia (non-audit):			
- PwC Malaysia (non-audit)	<b>118</b>	<b>118</b>	33

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****32 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  
Raja Shaharul Niza bin Raja Abdul Aziz  
Professor Dr. Mohammad Hashim Kamali (resigned on 25 April 2013)  
Habibah binti Abdul  
Dato' Sulaiman bin Mohd Tahir (resigned on 24 January 2014)

Executive Director

Badlisyah bin Abdul Ghani

The Directors and Shariah Committee members of the Group and the Bank and their total remuneration during the financial year are analysed below:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
CEO and Executive Director		
- Salary and other remuneration, including meeting allowance	1,044	974
- Bonus	956	926
- Benefits-in-kind	17	17
	<u>2,017</u>	<u>1,917</u>
Non-Executive Directors		
- Fees	551	547
- Benefits-in-kind	26	25
	<u>577</u>	<u>572</u>
Shariah Committee members	<u>299</u>	<u>404</u>
	<u>2,893</u>	<u>2,893</u>

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

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****32 Directors and Shariah Committee Members remuneration (Continued)**

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

	<b>The Group and the Bank 31 December 2013</b>	<b>The Bank 31 December 2012</b>
<u>Executive Director</u>		
RM1,900,001 – RM2,150,000	<u>1</u>	<u>1</u>
<u>Non-Executive Directors</u>		
RM50,000 and below	1	2
RM50,001 to RM100,000	-	3
RM100,001 to RM150,000	2	-
RM150,001 to RM250,000	-	1
RM250,001 to RM350,000	<u>1</u>	<u>-</u>

**33 Taxation**

	<b>The Group 31 December 2013 RM'000</b>	<b>The Bank 31 December 2013 RM'000</b>	<b>31 December 2012 RM'000</b>
Taxation based on profit for the financial year:			
- Malaysian income tax	124,403	124,403	141,688
Deferred taxation (Note 10)	1,072	1,072	(7,608)
Under accrual in prior year	176	176	342
	<u>125,651</u>	<u>125,651</u>	<u>134,422</u>
<b>Reconciliation between tax expense and the Malaysian tax rate</b>			
Profit before taxation	<u>491,237</u>	<u>491,211</u>	<u>535,492</u>
Tax calculated at a rate of 25% (2012: 25%)	122,809	122,803	133,873
Tax effects:			
- income not subject to tax	(252)	(246)	(842)
- expenses not deductible for tax purposes	2,918	2,918	1,049
Under accrual in prior year	176	176	342
Tax expense	<u>125,651</u>	<u>125,651</u>	<u>134,422</u>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 34 Earnings per share

#### a) Basic earnings per share

The basic earnings per ordinary share for Group and the Bank are calculated based on the net profit for the financial year of RM 365,586,000 (2012: Nil) and RM 365,560,000 (2012: RM401,070,000) divided by the weighted average number of ordinary shares of 1,000,000,000 (2012: Nil) and 1,000,000,000 (2012: 1,000,000,000) in issue during the financial year respectively.

#### b) Diluted earnings per share

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

### 35 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
CIMB Islamic Nominees (Tempatan) Sdn. Bhd.	Subsidiary
CIMB Islamic Nominees (Asing) Sdn. Bhd.	Subsidiary
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

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****35 Significant related party transactions and balances (Continued)****(a) Related parties and relationship (Continued)**

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.

**(b) Related party transactions of the Group and the Bank**

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

	Immediate and ultimate holding company	Other related companies	Key management personnel
The Group and the Bank 2013	RM'000	RM'000	RM'000
<b>Income</b>			
Fee income	-	702	-
Profit income on deposits and placement with banks and other financial institutions	1,405	12,397	-
Profit income on financial investments held-to-maturity	1,010	-	-
<b>Expenditure</b>			
Profit expense on deposits and placements of banks and other financial institutions	268,676	29,941	-
Profit expense on deposits from customers	-	2,339	-
Profit expense on subordinated sukuk	37,770	269	-
Shared service costs	294,921	78,597	-
Security services	-	37	-
Process cost	-	14	-
	<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 2013 (Continued)****35 Significant related party transactions and balances (Continued)****(b) Related party transactions of the Group and the Bank (Continued)**

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

	Immediate and ultimate holding company	Other related companies	Key management personnel
<b>The Bank</b>	RM'000	RM'000	RM'000
<b>2012</b>			
<b>Income</b>			
Fee income	-	270	-
Profit income on deposits and placement with banks and other financial institutions	1,556	9,942	-
Profit income on financial investments held-to-maturity	1,010	-	-
<b>Expenditure</b>			
Profit expense on deposits and placements of banks and other financial institutions	333,081	29,406	-
Profit expense on deposits from customers	1,018	2,023	1,479
Profit expense on subordinated sukuk	29,408	209	-
Shared service costs	281,520	65,421	-
Security services	-	32	-
Process cost	-	49	-
	<u>-</u>	<u>49</u>	<u>-</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****35 Significant related party transactions and balances (Continued)****(b) Related party transactions of the Group and the Bank (Continued)**Key management compensation

	<b>The Group and the Bank 2013 RM'000</b>	<b>The Bank 2012 RM'000</b>
Salaries and other employee benefits	<u>5,448</u>	<u>4,946</u>
	<b>The Group and the Bank 2013 Unit</b>	<b>The Bank 2012 Unit</b>
Share options balance of ultimate holding company		-
Shares of the ultimate holding company	<u>105,859</u>	<u>531,945</u>

Included in the above is the Executive Directors' compensation which is disclosed in Note 32. 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 2013 and 2012 for financing, advances and other financing/loans made to the key management personnel.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****35 Significant related party transactions and balances (Continued)****(c) Related party balances**

	Immediate and ultimate holding company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>The Group and the Bank 2013</b>			
<b>Amounts due from</b>			
Current accounts, deposits and placements with banks and other financial institutions	-	129,838	-
Profit income on deposits and placements with banks and other financial institutions	-	143	-
Derivatives	100,588	-	-
<b>Amounts due to</b>			
Deposit from customers	-	136,233	1,458
Deposits and placements of banks and other financial institutions	5,887,062	200,188	-
Profit expense on deposits from customers	-	466	-
Profit expense on deposits and placements of banks and other financial institutions	61,496	100	-
Subordinated sukuk	844,000	6,000	-
Profit expense on subordinated sukuk	6,828	3,481	-
Shared service costs	15,406	5,453	-
Derivatives	<u>147,104</u>	<u>-</u>	<u>-</u>
<b>Commitment and contingencies</b>			
Profit rate related contracts	<u>6,930,427</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 2013 (Continued)****35 Significant related party transactions and balances (Continued)****(c) Related party balances (Continued)**

	Immediate and ultimate holding company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>The Bank</b>			
<b>2012</b>			
<b>Amounts due from</b>			
Current accounts, deposits and placements with banks and other financial institutions	244,698	262,600	-
Profit income on deposits and placements with banks and other financial institutions	759	1,179	-
Financial investments held-to-maturity	20,105	-	-
Profit income on financial investments held-to-maturity	89	-	-
Derivatives	28,192		
<b>Amounts due to</b>			
Deposit from customers	9,635	72,332	38,733
Deposits and placements of banks and other financial institutions	8,423,985	1,392,896	-
Profit expense on deposits from customers	6	89	-
Profit expense on deposits and placements of banks and other financial institutions	208,025	4,173	-
Subordinated sukuk	844,000	6,000	-
Profit expense on subordinated sukuk	10,206	74	-
Shared service costs	28,513	5,321	-
Derivatives	290,898	-	-
	<u>7,078,403</u>	<u>-</u>	<u>-</u>
<b>Commitment and contingencies</b>			
Profit rate related contracts	<u>7,078,403</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 2013 (Continued)**

### **35 Significant related party transactions and balances (Continued)**

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

This Scheme was initiated as part of a performance linked compensation scheme by a substantial shareholder of CIMB Group, whereby share options are granted to selected employees of the Group and the Bank. The Scheme was launched on 1 March 2004, the expiry date of the Scheme was extended from 28 February 2012 to 31 May 2012. The Scheme lapsed thereafter.

The eligibility for participation in the scheme shall be at the discretion of the Nomination and Remuneration Committee of CIMB Group. Entitlements of eligible members of senior management are non-assignable and non-transferable whereby the Nomination and Remuneration Committee of CIMB Group administers the scheme on behalf of the substantial shareholder. The entitlements granted vest in proportions across various exercised periods.

As the Group and the Bank do not have an obligation to settle the transaction with its employees, the Group and the Bank have accounted for the transaction as equity settled in accordance with MFRS 2.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 35 Significant related party transactions and balances (Continued)

#### (d) Management Equity Scheme (“MES” or the “Scheme”) (Continued)

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:

Valuation assumptions	The Group and The Bank
- Expected volatility	30.6%
- Expected dividend yield	1.5%
- Expected option life	-
- 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 is RM Nil in the previous year. The shares were exercisable 2 years from the grant date.

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 35 Significant related party transactions and balances (Continued)

#### (d) Management Equity Scheme (“MES” or the “Scheme”) (Continued)

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

	<b>The Group and the Bank</b>	<b>The Bank</b>
	<b>2013</b>	2012
	<b>Unit</b>	Unit
	<b>'000</b>	'000
Share options :		
At 1 January	-	800
- Exercised	-	(800)
- As at 31 December	<u>-</u>	<u>-</u>

In the previous year, the weighted average share price at the time of exercise was RM7.44. There is no weighted average remaining contractual life as at 31 December 2012.

There was no entitlement granted during the previous financial year and number of entitlements that are exercisable at the previous financial year end was Nil.

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2012 (Continued)

### 35 Significant related party transactions and balances (Continued)

#### (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. 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 RM 591,263 (2012:RM571,914)

The weighted average fair value of shares awarded under EOP was RM7.73 per ordinary share (2012:RM7.70 per ordinary share), based on market price during the period in which they were purchased.

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

	<b>The Group and the Bank</b>	<b>The Bank</b>
	<b>2013</b>	<b>2012</b>
	<b>Unit</b>	<b>Unit</b>
	<b>'000</b>	<b>'000</b>
Shares :		
At 1 January	424	238
- Awarded	397	461
- Released	(203)	(275)
- At 31 December	<u>618</u>	<u>424</u>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 35 Significant related party transactions and balances (Continued)

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

Credit exposures with connected parties as per Bank Negara Malaysia's revised the 'Guidelines on Credit Transactions and Exposures with Connected Parties' which became effective in 2008 are as follows:

	<b>The Group and the Bank 31 December 2013</b>	<b>The Bank 31 December 2012</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding credit exposures with connected parties	<b>554,649</b>	497,862
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	<b>1.1%</b>	0.9%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<b>0.0%</b>	0.0%

#### (g) Transactions with shareholders and Government

Khazanah Nasional Berhad ("KNB"), the major shareholder of the ultimate holding company, owns 30% of the issued capital of the ultimate holding company (2012: 29%). KNB is an entity controlled by the Malaysian Government. The Group and the Bank consider that, for the purpose of MFRS 124 – "Related Party Disclosures", KNB and the Malaysian Government is in the position to exercise significant influence over it. As a result, the Malaysian Government and Malaysian Government controlled bodies (collectively referred to as "government-related entities") are related parties of the Group and the Bank.

Apart from the individually significant transactions as disclosed in Note 35(b) to the Financial Statements, the Group and the Bank have collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

- Purchase of securities issued by government-related entities
- Financing to government-related entities
- Deposit placing with and deposit taking from government-related entities

These transactions are conducted in the ordinary course of the Group's business on commercial rates and consistently applied in accordance with the Group's internal policies and processes. These rates do not depend on whether the counterparties are government-related entities or not.

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 36 Capital commitments

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Capital expenditure:		
- authorised and contracted for	2,043	480
- authorised but not contracted for	<u>3,500</u>	<u>1,000</u>

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

### 37 Lease commitments

The Group and the Bank have 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>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Within one year	653	560
One year to five years	2,547	2,238
Five years and more	<u>514</u>	<u>233</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****38 Commitments and contingencies**

In the normal course of business, the Group and the Bank enter 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 notional/principal amount of the commitments and contingencies constitute the following:

	<b>The Group and the Bank 31 December 2013 Principal amount RM'000</b>	<b>The Bank 31 December 2012 Principal amount RM'000</b>
<b><u>Credit related</u></b>		
Direct credit substitutes	<b>153,960</b>	195,449
Certain transaction-related contingent items	<b>390,323</b>	434,554
Short-term self-liquidating trade-related contingencies	<b>19,725</b>	85,180
Irrevocable commitments to extend credit:		
- maturity not exceeding one year	<b>4,383,087</b>	3,852,873
- maturity exceeding one year	<b>868,416</b>	901,637
Miscellaneous commitments and contingencies	<b>190,176</b>	45,430
Total credit-related commitments and contingencies	<b>6,005,687</b>	5,515,123



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****38 Commitments and contingencies (Continued)**

	<b>The Group and the Bank 31 December 2013 Principal amount RM'000</b>	<b>The Bank 31 December 2012 Principal amount RM'000</b>
<b><u>Treasury related</u></b>		
Foreign exchange related contracts:		
- up to one year	3,671,244	3,580,714
- more than one year to 5 years	505,478	157,015
- more than five years	895,706	895,706
Profit rate related contracts:		
- up to one year	450,000	1,093,345
- more than one year to 5 years	8,208,201	4,615,834
- more than five years	6,632,534	9,513,134
Equity related contracts:		
- up to one year	-	710,632
- more than one year to 5 years	249,221	345,162
- more than five years	392,102	415,712
Credit related contracts:		
- more than five years	115,960	121,760
Total treasury-related commitments and contingencies	<u>21,120,446</u>	<u>21,449,014</u>
	<u>27,126,133</u>	<u>26,964,137</u>

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **39 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.

#### **Business segment reporting**

##### Definition of segments

The Group has been reorganised into the following five major operating divisions. The divisions form the basis on which the Group reports its segment information.

##### *Consumer Banking*

Consumer Banking provides full-fledged financial services to individual and commercial customer. The divisions which make up the Consumer Banking are Retail Financial Services and Commercial Banking.

Retail Financial Services and Cards focuses on innovative products and services to individual customers. It offers products such as financing facilities (residential properties, personal financing, share financing, credit card and hire purchase), remittance services, deposit collection and wealth management.

Commercial 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 facilities (financing, accepted bills, revolving credit, ijarah, factoring, hire purchase), remittance services and deposit collection.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **39 Segment reporting (Continued)**

#### **Business segment reporting (Continued)**

##### *Wholesale Banking*

Wholesale Banking comprises Investment Banking and Corporate Banking, Treasury and Markets.

Corporate Banking, Treasury and Markets (CBTM) is responsible for corporate financing and deposit taking, transaction banking, treasury and markets activities. Treasury focuses on treasury activities and services which include foreign exchange, money market, derivatives and trading of capital market instruments. It includes the Group's equity derivatives which develops and issues new equity derivatives instruments such as structured warrants and over-the-counter options to provide investors with alternative investment avenues.

##### *Investments*

Investments focus on Group Strategy and Strategic Investments (GSSI) including funding operations for the Group. GSSI consists of Group Strategy, Private Equity and Strategic Investments which focuses in defining and formulating strategies at the corporate and business unit levels, oversee the Bank's strategic and private equity fund management businesses. It also invests in the Bank's proprietary capital.

##### *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**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****39 Segment reporting (Continued)****Business segment reporting (Continued)**

31 December 2013 The Group	Consumer Banking		Wholesale Banking		Investment Investment	Support and others	Total
	Commercial Banking	Retail Financial Services and Cards	Corporate Banking, Treasury and Markets	Investment Banking			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net income:							
- external	99,975	1,093,676	(217,726)	589	12,147	-	988,661
- inter-segment	66,253	(567,852)	464,604	(348)	37,343	-	-
	166,228	525,824	246,878	241	49,490	-	988,661
Other income	10,415	51,153	27,542	128	17,426	-	106,664
Operating income	176,643	576,977	274,420	369	66,916	-	1,095,325
Overhead expenses	(75,560)	(347,487)	(57,117)	(41)	(1,704)	(24,400)	(506,309)
Consist of :							
Depreciation of property, plant and equipment	(192)	(777)	(801)	(1)	-	-	(1,771)
Amortisation of intangible assets	(126)	(696)	(2,318)	-	-	-	(3,140)
Profit/(loss) before allowances	101,083	229,490	217,303	328	65,212	(24,400)	589,016
Impairment allowance on financing, advances and other financing/loans	15,804	(115,421)	2,379	(64)	-	-	(97,302)
Impairment loss on other receivables	-	-	(424)	-	-	(53)	(477)
Segment results	116,887	114,069	219,258	264	65,212	(24,453)	491,237
Taxation							(125,651)
<b>Net profit for the financial year</b>							<b>365,586</b>
Segment assets	2,839,910	20,543,310	24,130,486	11,356	-	-	47,525,062
Unallocated assets							1,898,142
<b>Total assets</b>							<b>49,423,204</b>
Segment liabilities	1,841,595	8,053,899	36,431,481	125	-	-	46,327,100
Unallocated liabilities							425,176
<b>Total liabilities</b>							<b>46,752,276</b>
Other segment items							
Capital expenditure	3,865	14,145	1,413	-	10	-	19,433

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****39 Business segment reporting (Continued)**

31 December 2012 The Bank	Consumer Banking		Wholesale Banking		Investment Investment	Support and others	Total
	Commercial Banking	Retail Financial Services and Cards	Corporate Banking, Treasury and Markets	Investment Banking			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net income:							
- external	41,044	1,050,989	(211,314)	2,027	8,639	-	891,385
- inter-segment	73,047	(523,597)	409,703	(989)	41,836	-	-
	114,091	527,392	198,389	1,038	50,475	-	891,385
Other income	9,873	62,110	72,845	507	3,506	-	148,841
Operating income	123,964	589,502	271,234	1,545	53,981	-	1,040,226
Overhead expenses	(60,356)	(329,921)	(51,742)	(34)	(1,263)	(29,280)	(472,596)
Consist of :							
Depreciation of property, plant and equipment	(231)	(796)	(631)	(1)	(1)	-	(1,660)
Amortisation of intangible assets	(231)	(1,214)	(1,365)	-	(1)	-	(2,811)
Profit/(loss) before allowances	63,608	259,581	219,492	1,511	52,718	(29,280)	567,630
Impairment allowance on financing, advances and other financing/loans	(10,046)	(19,654)	(2,203)	(166)	24	-	(32,045)
Impairment loss on other receivables	-	-	(29)	-	-	(64)	(93)
Segment results	53,562	239,927	217,260	1,345	52,742	(29,344)	535,492
Taxation							(134,422)
<b>Net profit for the financial year</b>							<b>401,070</b>
Segment assets	2,828,146	19,006,976	27,844,166	26,793	-	-	49,706,081
Unallocated assets							1,518,959
<b>Total assets</b>							<b>51,225,040</b>
Segment liabilities	4,964,819	4,290,709	38,917,092	93	-	-	48,172,713
Unallocated liabilities							708,883
<b>Total liabilities</b>							<b>48,881,596</b>
<b>Other segment items</b>							
Capital expenditure	2,051	6,683	598	-	5	-	9,337

*Basis of pricing for inter-segment transfers:*

Inter-segmental 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 2013 (Continued)**

### **40 Significant event during the financial year**

#### **Acquisition of subsidiaries**

During the year, CIMB Islamic Bank Berhad acquired 10,000 ordinary shares of CIMB Islamic Nominees (Tempatan) Sdn Bhd and 10,000 ordinary shares of CIMB Islamic Nominees (Asing) Sdn Bhd, representing 100% of issued share and paid-up capital, for a cash consideration of RM10,000 respectively. Upon completion of the acquisition, CIMB Islamic Nominees (Asing) Sdn Bhd and CIMB Islamic Nominees (Tempatan) Sdn Bhd became the wholly-owned subsidiaries of CIMB Islamic Bank. The acquisition was accounted for using predecessor basis of accounting.

The acquisition enables CIMB Islamic Bank Berhad to offer Islamic custody services business. The subsidiaries will be used to provide Islamic custody services to institutional investors such as asset management companies, unit trust companies, takaful companies and government linked investment companies with mandates to invest in Shariah-compliant assets.

There were no significant impact from the acquisition to the capital ratio of CIMB Bank Berhad and CIMB Islamic Bank Berhad as the purchase consideration is immaterial and it was funded by internal cash.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **41 Capital adequacy**

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

This is supported by the Capital Management Plan which is centrally supervised by the CIMB Group EXCO who periodically assesses and reviews the capital requirements and source of capital across the Group, taking into account all on-going and future activities that consume or create capital, and ensuring that the minimum target for capital adequacy is met. Quarterly updates on capital position of the Bank are also provided to the Board of Directors.

For 2013, Bank Negara Malaysia (BNM) issued revised guidelines on the capital adequacy framework on 28 November 2012, of which took effect beginning 1 January 2013. The revised guidelines sets out the regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance with Basel III.

The risk-weighted assets of the Group and the Bank are computed in accordance with the Capital Adequacy Framework (Basel II - Risk-Weighted Assets). The IRB Approach is applied for the major credit exposures with retail exposures on Advanced IRB approach and non-retail exposures on Foundation IRB approach. The remaining credit exposures and Market Risk are on the Standardised Approach while Operational Risk is based on Basic Indicator Approach. The comparative capital adequacy ratios as at 31 December 2012 were based on BNM's Risk-Weighted Capital Adequacy Framework (RWCAF) which has regulatory capital requirements concerning capital adequacy ratios and components of eligible regulatory capital in compliance with Basel II.

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****41 Capital adequacy (Continued)**

31 December 2013-Basel III

The table below sets out the summary of the sources of capital and the capital adequacy ratios of the Group and the Bank as at 31 December 2013. The Group and the Bank issued various capital instruments pursuant to the respective regulatory guidelines that qualify as capital pursuant to the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by BNM.

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

	The Group 31 December 2013 RM'000	The Bank 31 December 2013 RM'000
Common equity tier 1 ratio	9.905%	9.905%
Tier 1 ratio	10.201%	10.201%
Total capital ratio	<u>14.020%</u>	<u>14.020%</u>

(b) The breakdown of risk-weighted assets (“RWA”) by each major risk category is as follows:

	The Group 31 December 2013 RM'000	The Bank 31 December 2013 RM'000
Credit risk	18,769,386	18,769,614
Market risk	620,945	620,945
Operational risk	1,866,607	1,866,592
Total risk-weighted assets	<u>21,256,938</u>	<u>21,257,151</u>



**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****41 Capital adequacy (Continued)**

31 December 2013-Basel III (Continued)

(c) Components of Common Equity Tier I, Additional Tier I and Tier II capitals are as follows:

	The Group 31 December 2013 RM'000	The Bank 31 December 2013 RM'000
<b>Common Equity Tier I capital</b>		
Ordinary shares	1,000,000	1,000,000
Other reserves	1,600,928	1,600,902
Common Equity Tier I capital before regulatory adjustments	<u>2,600,928</u>	<u>2,600,902</u>
<u>Less: Regulatory adjustments</u>		
Goodwill	(136,000)	(136,000)
Intangible assets	(11,080)	(11,080)
Deferred tax assets	(25,566)	(25,566)
Others	(322,811)	(322,814)
Common Equity Tier I capital after regulatory adjustments	<u>2,105,471</u>	<u>2,105,442</u>
<b>Additional Tier I capital</b>		
Perpetual preference shares	63,000	63,000
Additional Tier I capital before regulatory adjustments	<u>63,000</u>	<u>63,000</u>
<u>Less: Regulatory adjustments</u>	-	-
Additional Tier I capital after regulatory adjustments	<u>63,000</u>	<u>63,000</u>
<b>Total Tier I capital</b>	<u>2,168,471</u>	<u>2,168,442</u>
<b>Tier II capital</b>		
Subordinated notes	765,000	765,000
Portfolio impairment allowance and regulatory reserves <sup>^</sup>	46,854	46,857
Tier II capital before regulatory adjustments	<u>811,854</u>	<u>811,857</u>
<u>Less: Regulatory adjustments</u>	-	-
<b>Total Tier II capital</b>	<u>811,854</u>	<u>811,857</u>
<b>Total capital</b>	<u>2,980,325</u>	<u>2,980,299</u>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 41 Capital adequacy (Continued)

31 December 2012 - Basel II

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

	<b>The Bank</b>
	31 December 2012
	RM'000
<b>Before deducting proposed dividends</b>	
Core capital ratio	8.691%
Risk-weighted capital ratio	<u>13.274%</u>
<b>After deducting proposed dividends</b>	
Core capital ratio	8.691%
Risk-weighted capital ratio	<u>13.274%</u>

(b) The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

	<b>The Bank</b>
	31 December 2012
	RM'000
Credit risk	19,554,311
Market risk	913,826
Operational risk	<u>1,678,915</u>
Total risk-weighted assets	<u>22,147,052</u>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****41 Capital adequacy (Continued)**

31 December 2012 - Basel II (Continued)

(c) Components of Tier I and Tier II capital are as follows:

	<b>The Bank</b>
	31 December 2012 RM'000
<b>Tier I capital</b>	
Paid-up capital	1,000,000
Perpetual preference shares	70,000
Other reserves	1,008,843
Less:	
Deferred tax assets	(18,057)
Goodwill	(136,000)
Total Tier I capital	<u>1,924,786</u>
<b>Tier II capital</b>	
Subordinated notes	850,000
Regulatory reserve	242,624
Portfolio impairment allowance ^	45,257
Excess of total expected loss over total eligible provision	(122,870)
Total Tier II capital	<u>1,015,011</u>
<b>Total capital base</b>	<u><b>2,939,797</b></u>

^ The capital base of the Group and the Bank as at 31 December 2013 have excluded portfolio impairment allowance on impaired financings restricted from Tier II capital of RM24.9 million (31 December 2012 [Bank] RM16.48 million ) respectively.

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 Total Capital Ratio calculation.

As at 31 December 2013, RPSIA assets excluded from the Total Capital Ratio calculation amounted to RM 2,476 million (31 December 2012: RM988 million).

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **42 Critical accounting estimates and judgements in applying accounting policies**

The Group and the Bank make 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 Group's and 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 Group and the Bank determine 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 Group and 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 Group and the Bank make 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 Group's and 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 their obligations and the aggregate amount and ranking of all other creditor claims.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **42 Critical accounting estimates and judgements in applying accounting policies (Continued)**

#### *(c) Goodwill impairment*

The Group and the Bank test annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note K(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 higher of 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.

#### *(d) Fair value of financial instruments*

The majority of the Group's and the Bank's financial instruments reported at fair value are based on quoted and observable market prices. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 44.4.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **43 Change in comparatives**

#### **(a) Changes in accounting policies**

##### **(i) MFRS 13 “Fair value measurement”**

MFRS 13 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 MFRS. 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.

The enhanced disclosures are shown in Note 44.4.

##### **(ii) Amendment to MFRS 7 “Financial instruments: Disclosures”**

Amendment to MFRS 7 requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

The enhanced disclosures are shown in Note 44.1.2

##### **(iii) Amendment to MFRS 101 “Presentation of items of other comprehensive income”**

Amendment to MFRS 101 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 profit or loss in the future. The amendments do not address which items are presented in OCI. The Statement of Comprehensive Income of the Bank for the financial year ended 31 December 2012 have 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 2013 (Continued)

### 44 Financial Risk Management

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

The Group embraces risk management as an integral component of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, the risk management teams are involved at the early stage of the risk taking process by providing independent inputs including relevant valuations, credit evaluations, new product assessments and quantification of capital requirements. These inputs enable the business units to assess the risk-vs-reward value of their propositions and thus enable risk to be priced appropriately in relation to the return.

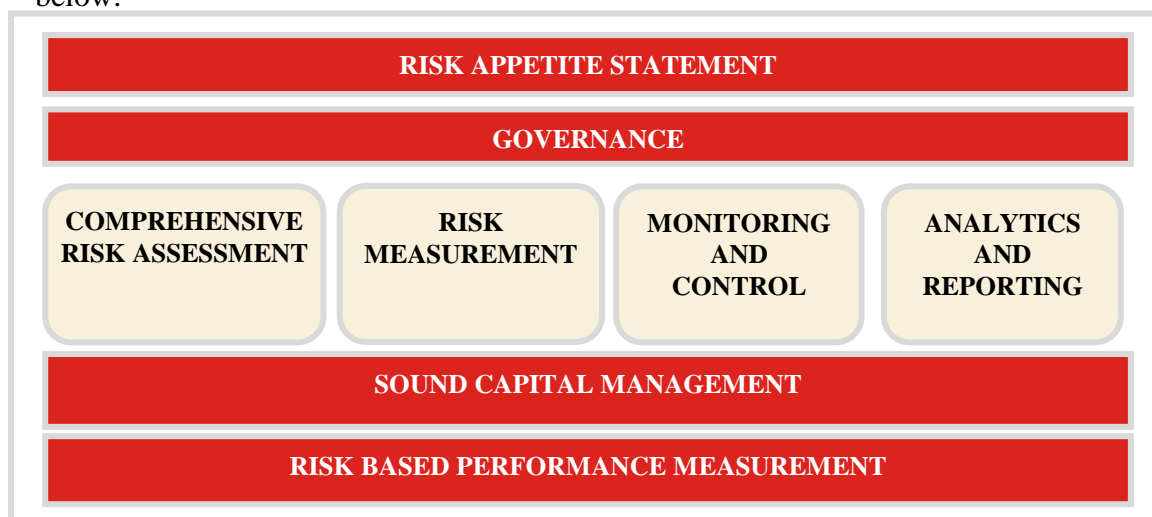
The objectives of the Group's risk management activities are to:

- 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 capital and facilitate development of new businesses.

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

The Group employs an EWRM framework as a standardised approach to manage its risk and opportunity effectively. The EWRM framework provides the Board and management with a tool to anticipate and manage both the existing and potential risks, taking into consideration changing risk profiles as dictated by changes in business strategies, operating and regulatory environment and functional activities.

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



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

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

##### **a) Risk Appetite Statement**

Risk appetite defines the amount and type of risks that the Group is able and willing to accept in pursuit of its strategic and business objectives. In Group, the risk appetite is linked to strategy development and business and capital management plans. It takes into account not only growth, revenue and commercial aspirations, but also the capital and liquidity positions and risk management capabilities and strengths, including risk systems, processes and people. Going forward, risk appetite statements will be formulated for key business units as well as incorporate stress testing.

The Group has a dedicated team that facilitates the risk appetite setting process including reviewing, monitoring and reporting. Board Risk Committee (BRC) and Group Risk Committee (GRC) receive monthly reports on compliance with the risk appetite.

##### **b) Governance**

A strong risk governance structure is what binds the EWRM framework together. The Board of Directors is ultimately responsible for the Group’s risk management activities, and provides strategic direction through the Risk Appetite Statement and relevant risk management frameworks for the Group.

The implementation and administration of the EWRM framework are effected through the three lines of defence model with oversight by the risk governance structure which consists of various risk committees, as described below. Group Risk Division (GRD) is principally tasked to assist the various risk committees and undertakes the performance of independent risk management, monitoring and reporting functions of the EWRM. The implementation of the EWRM is also subjected to the independent assurance and assessment by Group Internal Audit Division.

##### **c) Comprehensive Risk Assessment**

Comprehensive Risk Assessment provides the process for the identification of the Group’s material risks, from the perspectives of impact on the Group’s financial standing and reputation. Apart from the annual comprehensive risk assessment exercise, the Group’s material risks are identified on an on-going basis as well as part of the consideration for any strategic projects, including new product development.



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

##### **d) Risk Measurement**

Consistent and common methodologies of Risk Measurement allow for the Group to aggregate and compare risks across business units, geographies and risk types. Further, it provides a tool for the Board and Senior Management to assess the sufficiency of its liquidity surplus and reserves, and health of its capital position under various economic and financial situations.

##### **e) Monitoring and Control**

Various risk management tools are employed to Monitoring and Control the risk taking activities within the Group. These include limit monitoring, hedging strategies and clearly documented control processes. These controls are regularly monitored and reviewed in the face of changing business needs, market conditions and regulatory changes.

##### **f) Analytics and Reporting**

Timely reporting and meaningful analysis of risk positions are critical to enable the Board and Senior Management to exercise control over material exposures and make informed business decisions.

##### **g) Sound Capital Management**

The Group's capital resources are continuously assessed and managed to undertake its day-to-day business operations and risk-taking activities, including considerations for its business expansion and growth. Each year internal capital targets will be set and capital will be allocated to each business units based on the respective business plans, budgeted profit and targeted Risk Adjusted Return on Capital (RAROC).

##### **h) Risk Based Performance Measurement**

Business units' economic profitability will be measured having considered both its risks and capital consumption. The adoption of a risk-based performance measurement allows for performance and profitability of different business units to be compared on a common yardstick.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

In the year under review, the Board of Directors approved a revision to the Group's risk governance structure with the establishment of several risk committees and elevation of the existing Basel Steering Committee as a risk committee reporting to the GRC. The revised risk governance structure allows for thorough deliberations and clear accountability of each of the committees.

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

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

The responsibility of the supervision of the risk management functions is delegated to the GRC, which reports directly to the BRC. The GRC performs the oversight function on overall risks undertaken by the Group in delivering its business plan vis-à-vis the stated risk appetite of the Group. The GRC is further supported by specialised risk committees, namely Group Credit Policy & Portfolio Risk Committee, Group Market Risk Committee, Group Operational Risk Committee, Group Asset Liability Management Committee and Basel Steering Committee, with each committee providing oversight and responsibility for specific risk areas namely, credit risk, market risk, operational risk, liquidity risk and capital risk.

The revised structure of the Group's Risk Committees and an overview of the respective committee's roles and responsibilities are as follows:

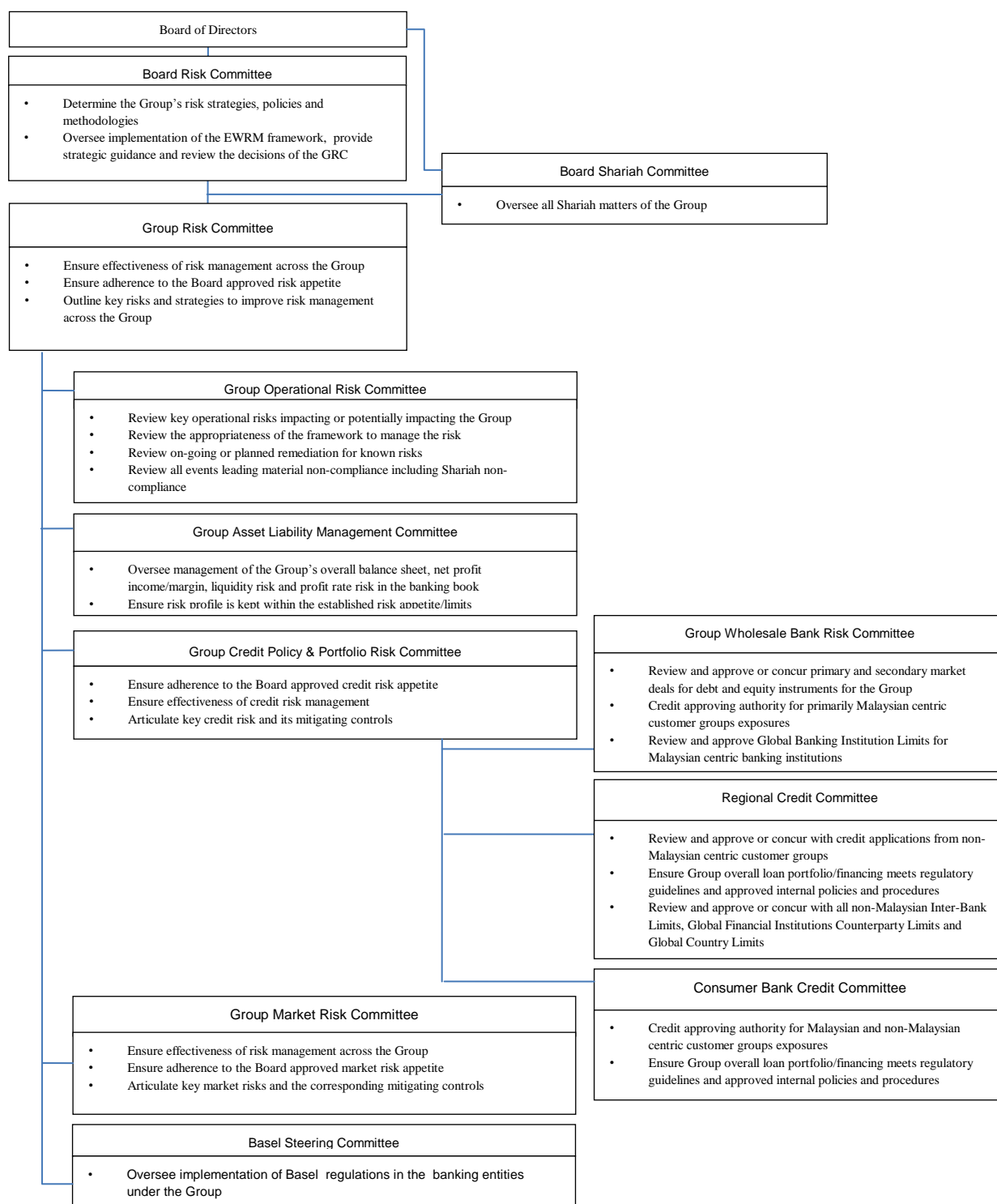
# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

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



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, the Group strives to ensure a consistent and standardised approach in its risk governance process. As such, the relevant Group and Regional committees have consultative and advisory responsibilities on regional matters across the Group. This structure increases the regional communication, sharing of technical knowledge and support towards managing and responding to risk management issues, thus allowing the Board to have a comprehensive view of the activities within the Group.

#### ***Three-Lines of Defence***

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

#### ***The Roles of Group Chief Risk Officer (CRO) and Group Risk Division (GRD)***

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

##### *The Roles of CRO and GRD (Continued)*

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

- a) Actively engages the Board and senior management on risk management issues and initiatives.
- b) Maintains an oversight on risk management functions across all entities within the Group. In each country of operations, there is a local Chief Risk Officer or a Country Risk Lead Officer, whose main function is to assess and manage the enterprise risk and regulators in the respective country.

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

#### a) Risk Analytics & Infrastructure Centre of Excellence

Risk Analytics & Infrastructure Centre of Excellence spearheads the Group's efforts towards Basel II implementation. In this regard, it develops and implements all internal rating and scoring models and closely monitors the performance of the rating and scoring models to ensure relevance to current market conditions and integrity of ratings. It also computes and aggregates the risk-weighted assets for credit risk for monthly regulatory reporting as well as projects the capital requirements for credit risk to support capital management planning and analysis. Risk Analytics & Infrastructure Centre of Excellence monitors the non-retail credit risk profile of risk-taking activities in terms of asset quality, rating distribution and credit concentrations. In addition, it initiates and/or proposes its risk policies, risk measurement methodologies and risk limits to the Board for approval.

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **(d) Risk Governance (Continued)**

##### *The Roles of CRO and GRD (Continued)*

##### b) Market Risk Centre of Excellence

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

##### c) Operational Risk Centre of Excellence

The Operational Risk Centre of Excellence provides the methodology and process for the identification, assessment, reporting, mitigation and control of operational risks by the respective risk owners across the Group.

##### d) Asset Liability Management Centre of Excellence

It is primarily responsible for the independent monitoring and assessment of the Group's asset and liability management process governing liquidity risk and profit/benchmark rate risk as well as recommending policies and methodologies to manage the said risks.

##### e) Credit Risk Centre of Excellence

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

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

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **(d) Risk Governance (Continued)**

##### *The Roles of CRO and GRD (Continued)*

##### f) Shariah Risk Centre of Excellence

The Shariah Risk Centre of Excellence formulates Shariah Risk Management Framework and provides guidance and training on the Shariah Risk Management to enable the first line of defence to identify, assess, monitor and control Shariah risk in their Islamic business operations and activities.

In addition to the above Risk Centres of Excellence, Regional Risk was established with the objective of overseeing the risk management functions of the regional offices as well as the Group's unit trust and Non-Malaysian securities businesses. Regional Risk also houses the validation team.

The regional offices and the respective teams in risk management units within the unit trust business and Non-Malaysian securities businesses identify, analyse, monitor, review and report the relevant material risk exposures of each individual country and/or businesses.

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

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

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

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

#### **44.1 Credit Risk**

Credit risk is defined as the possibility of losses due to the obligor, market counterparty or issuer of securities or other instruments held, failing to perform its contractual obligations to the Group. It arises primarily from traditional financing activities through financing facilities, trade finance as well as commitments to support clients' obligations to third parties, i.e. guarantees or kafalah contract. In sales and trading activities, credit risk arises from the possibility that the Group's counterparties will not be able or willing to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able or not 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.

#### **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.

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



# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit Risk (Continued)**

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

The Framework encompasses the introduction of Joint Delegated Authority, enhanced credit approval process and a clear set of policies and procedures that defines the limits and types of authority designated to the specific individuals. The Group adopts a multi-tiered credit approving authority spanning from the delegated authorities at business level, joint delegated authorities holders between business units and GRD, to the various credit committees. The credit approving committees are set up to enhance the efficiency and effectiveness of the credit oversight as well as the credit approval process for all credit applications originating from the business units. Credit applications are independently evaluated by the Credit Risk Centre of Excellence team prior to submission to the relevant committees for approval.

The Group Credit Policy & Portfolio Risk Committee with the support of Group Wholesale Bank Risk Committee, Regional Credit Committee, Consumer Bank Credit Committee and GRD is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. This amongst others includes the reviewing and analysing of portfolio trends, asset quality, watch-list reporting and policy review. It is also responsible for articulating key credit risks and mitigating controls.

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

Adherence to established credit limits is monitored daily by 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.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit Risk (Continued)**

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

It is a policy of the Group that all exposures must be rated or scored based on the appropriate internal rating models, where available. Retail exposures are managed on a portfolio basis and the risk rating models are designed to assess the credit worthiness and the likelihood of the obligors to pay their obligations, performed by way of statistical analysis from credit bureau and demographic information of the obligors. The risk rating models for non-retail exposures are designed to assess the credit worthiness of the corporations or entities in paying their obligations, derived from risk factors such as financial history and demographics or company profile. These rating models are developed and implemented to standardise and enhance the credit underwriting and decision-making process for the Group's retail and non-retail exposures.

Credit reviews and rating are conducted on the credit exposures on at least an annual basis and more frequently when material information on the obligor or other external factors come to light.

The exposures are actively monitored, reviewed on a regular basis and reported regularly to GRC and BRC so that deteriorating exposures are identified, analysed and discussed with the relevant business units for appropriate remedial actions including recovery actions, if required.

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

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit Risk (Continued)**

##### **Credit Risk Mitigation**

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

##### **i) Collaterals/Securities**

All extension of credit in so far as deemed prudent, must be appropriately and adequately secured. A credit proposal is considered secured only when the entire proposal is fully covered by approved collateral/securities within their approved margins as set out in the relevant credit policy guides. GWBRC/RCC is empowered to approve any inclusion of new acceptable collaterals/securities.

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

##### **ii) Collateral Valuation and Management**

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

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit Risk (Continued)**

##### iii) Netting

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

##### iv) Concentrations within risk mitigation

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

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

Off-Balance Sheet exposures are exposures such as derivatives, trade facilities and undrawn commitments. The Group adopts the Current Exposure method to compute the capital requirement for CCR under BNM’s guidelines on CAF (Basel II - Risk-Weighted Assets) and CAFIB (Risk-Weighted Assets).

##### i) Credit Risk Mitigation

For credit derivatives and swaps transactions, the Group enters into master agreement with counterparties, whenever possible. Further, the Group may also enter into Credit Support Annex (CSA) with counterparties. The net credit exposure with each counterparty is monitored and the Group may request for additional margin for any exposures above the agreed threshold, in accordance with the terms specified in the relevant CSA or the master agreement. The eligibility of collaterals and frequency of calls are negotiated with the counterparty and endorsed by GWBRC and/or RCC.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### Off-Balance Sheet Exposures and Counterparty Credit Risk (“CCR”) (Continued)

##### ii) Treatment of Rating Downgrade

In the event of a one-notch downgrade of rating, based on the terms of the existing CSA and exposure as at 31 December 2013, there was no requirement for additional collateral to be posted.

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

##### 44.1.1 Maximum exposure to credit risk (without taking into account any collateral held or other credit enhancements)

For financial assets reflected in the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees and similar contract granted, it is the maximum amount that the Group and the Company 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.

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
Financial guarantees	152,786	195,060
Credit related commitments and contingencies	5,462,578	4,885,509
	<b>5,615,364</b>	<b>5,080,569</b>

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 Group and the Bank is 76.1% (31 December 2012: 71.5%) respectively while the financial effect of collateral for derivatives for the Group and the Bank is 79.5% (31 December 2012: 66.5% (restated)) respectively. The financial effects of collateral held for the remaining financial assets are insignificant.

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.2 Offsetting financial assets and financial liabilities****Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements**

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Financial collaterals RM'000	
<b>The Group and the Bank</b>						
<b>31 December 2013</b>						
<b><u>Financial assets</u></b>						
Derivative assets	246,800	-	246,800	(196,183)	-	50,617
<b>The Bank</b>						
<b>31 December 2012</b>						
<b><u>Financial assets</u></b>						
Derivative assets	168,360	-	168,360	(111,835)	(130)	56,395
	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Financial collaterals RM'000	
<b>The Group and the Bank</b>						
<b>31 December 2013</b>						
<b><u>Financial liabilities</u></b>						
Derivative liabilities	285,377	-	285,377	(180,242)	(28,789)	76,346
<b>The Bank</b>						
<b>31 December 2012</b>						
<b><u>Financial liabilities</u></b>						
Derivative liabilities	380,529	-	380,529	(95,391)	(31,544)	253,594

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.3 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 2013 and 31 December 2012 are as follows:

	The Group					Total RM'000
	31 December 2013					
	Malaysia RM'000	Indonesia RM'000	Singapore RM'000	United States RM'000	Others RM'000	
Cash and short-term funds	6,939,566	-	436	43,511	48	6,983,561
Deposits and placements with banks and other financial institutions	163,318	-	-	-	-	163,318
Financial assets held for trading						
- Money market instruments	2,960,355	-	-	-	-	2,960,355
- Unquoted securities	208,182	-	-	-	-	208,182
Financial investments available-for-sale						
- Money market instruments	438,075	-	-	-	-	438,075
- Unquoted securities	839,027	-	-	-	10,429	849,456
Financial investments held-to-maturity						
- Unquoted securities	602,177	-	-	-	-	602,177
Islamic derivative financial instruments						
- Trading derivatives	202,145	-	-	-	-	202,145
- Hedging derivatives	44,655	-	-	-	-	44,655
Financing, advances and other financing/loans						
- Cashline	463,939	-	-	-	-	463,939
- Term financing	31,961,400	-	-	-	-	31,961,400
- Bills receivable	2,882	-	-	-	-	2,882
- Islamic trust receipts	23,896	-	-	-	-	23,896
- Claim on customers under Islamic accepted bills	358,988	-	-	-	-	358,988
- Share purchase financing	16,193	-	-	-	-	16,193
- Credit card receivables	100,517	-	-	-	-	100,517
- Revolving credits	2,144,749	-	-	-	-	2,144,749
Other assets	96,184	-	-	-	-	96,184
Amount due from related companies	418	-	-	-	-	418
Financial guarantees	152,786	-	-	-	-	152,786
Credit related commitments and contingencies	5,462,578	-	-	-	-	5,462,578
<b>Total credit exposures</b>	<b>53,182,030</b>	<b>-</b>	<b>436</b>	<b>43,511</b>	<b>10,477</b>	<b>53,236,454</b>

**CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)****(a) Geographical sectors (Continued)**

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 2013 and 31 December 2012 are as follows (Continued):

	The Bank					
	31 December 2013					
	Malaysia	Indonesia	Singapore	United States	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	6,939,520	-	436	43,511	48	6,983,515
Deposits and placements with banks and other financial institutions	163,318	-	-	-	-	163,318
Financial assets held for trading						
- Money market instruments	2,960,355	-	-	-	-	2,960,355
- Unquoted securities	208,182	-	-	-	-	208,182
Financial investments available-for-sale						
- Money market instruments	438,075	-	-	-	-	438,075
- Unquoted securities	839,027	-	-	-	10,429	849,456
Financial investments held-to-maturity						
- Unquoted securities	602,177	-	-	-	-	602,177
Islamic derivative financial instruments						
- Trading derivatives	202,145	-	-	-	-	202,145
- Hedging derivatives	44,655	-	-	-	-	44,655
Financing, advances and other financing/loans						
- Cashline	463,939	-	-	-	-	463,939
- Term financing	31,961,400	-	-	-	-	31,961,400
- Bills receivable	2,882	-	-	-	-	2,882
- Islamic trust receipts	23,896	-	-	-	-	23,896
- Claim on customers under Islamic accepted bills	358,988	-	-	-	-	358,988
- Share purchase financing	16,193	-	-	-	-	16,193
- Credit card receivables	100,517	-	-	-	-	100,517
- Revolving credits	2,144,749	-	-	-	-	2,144,749
Other assets	96,184	-	-	-	-	96,184
Amount due from related companies	418	-	-	-	-	418
Financial guarantees	152,786	-	-	-	-	152,786
Credit related commitments and contingencies	5,462,578	-	-	-	-	5,462,578
<b>Total credit exposures</b>	<b>53,181,984</b>	<b>-</b>	<b>436</b>	<b>43,511</b>	<b>10,477</b>	<b>53,236,408</b>



**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)****(a) Geographical sectors (Continued)**

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 2013 and 31 December 2012 are as follows (Continued):

	<b>The Bank 31 December 2012</b>					
	Malaysia RM'000	Indonesia RM'000	Singapore RM'000	United States RM'000	Others RM'000	Total RM'000
Cash and short-term funds	6,274,730	509	-	19,412	1,678	6,296,329
Deposits and placements with banks and other financial institutions	601,335	-	-	-	-	601,335
Financial assets held for trading						
- Money market instruments	5,668,344	-	-	-	-	5,668,344
- Unquoted securities	448,704	-	-	-	-	448,704
Financial investments available-for-sale						
- Money market instruments	1,249,644	-	-	-	-	1,249,644
- Unquoted securities	1,531,539	-	-	-	15,579	1,547,118
Financial investments held-to-maturity						
- Unquoted securities	652,390	-	-	-	-	652,390
Islamic derivative financial instruments						
- Trading derivatives	158,933	-	-	-	53	158,986
- Hedging derivatives	9,374	-	-	-	-	9,374
Financing, advances and other financing/loans						
- Cashline	447,035	-	-	-	-	447,035
- Term financing	30,686,880	-	-	-	-	30,686,880
- Bills receivable	3,764	-	-	-	-	3,764
- Islamic trust receipts	33,021	-	-	-	-	33,021
- Claim on customers under Islamic accepted bills	326,677	-	-	-	-	326,677
- Share purchase financing	35,057	-	-	-	-	35,057
- Credit card receivables	96,311	-	-	-	-	96,311
- Revolving credits	1,444,537	-	-	-	-	1,444,537
Other assets	86,720	-	-	-	-	86,720
Amount due from related companies	431	-	-	-	-	431
Financial guarantees	195,002	-	-	-	58	195,060
Credit related commitments and contingencies	4,885,509	-	-	-	-	4,885,509
<b>Total credit exposures</b>	<b>54,835,937</b>	<b>509</b>	<b>-</b>	<b>19,412</b>	<b>17,368</b>	<b>54,873,226</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.3 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 statement of financial positions as at 31 December 2013 and 31 December 2012, based on the industry sectors of the counterparty are as follows:

	<b>The Group</b>									
	<b>31 December 2013</b>									
	Cash and short-term funds	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
RM'000	RM'000	RM'000	RM'000	RM'000	Trading derivatives	Hedging derivatives	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	19,339	-	-	-	-	-	732,731	752,070
Mining and quarrying	-	-	-	-	-	-	-	-	22,399	22,399
Manufacturing	-	-	-	-	-	701	-	-	944,448	945,149
Electricity, gas and water	-	-	-	68,635	-	590	-	-	144,546	213,771
Construction	-	-	9,851	158,424	-	-	-	-	1,340,184	1,508,459
Transport, storage and communications	-	-	128,347	35,510	508,767	234	-	-	693,385	1,366,243
<i>Finance, takaful, real estate and business services</i>										
Finance, takaful and business services	1,951,700	163,318	774,089	349,852	93,410	111,953	44,655	96,602	2,934,914	6,520,493
Real estate	-	-	15,106	25,608	-	-	-	-	-	40,714
<i>Others</i>										
Purchase of landed property	-	-	-	-	-	-	-	-	9,077,180	9,077,180
- Residential	-	-	-	-	-	-	-	-	-	20,797
General commerce	-	-	-	20,466	-	331	-	-	-	6,788,913
Government and government agencies	5,031,861	-	2,211,988	577,999	-	47,878	-	-	6,145,780	14,658,639
Purchase of transport vehicles	-	-	-	-	-	-	-	-	6,145,780	6,145,780
Consumption credit	-	-	-	-	-	-	-	-	3,160,992	3,160,992
Education and health	-	-	-	-	-	-	-	-	2,276,867	2,276,867
Others	-	-	9,817	51,037	-	40,458	-	-	810,225	911,537
	<b>6,983,561</b>	<b>163,318</b>	<b>3,168,537</b>	<b>1,287,531</b>	<b>602,177</b>	<b>202,145</b>	<b>44,655</b>	<b>96,602</b>	<b>35,072,564</b>	<b>47,621,090</b>

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.3 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 enhancements) for items recognised in the statement of financial positions as at 31 December 2013 and 31 December 2012, based on the industry sectors of the counterparty are as follows (Continued):

	<b>The Bank 31 December 2013</b>									
	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 <sup>*</sup>	Financing, advances and other financing/ loans (ii)	Total credit exposures
	Cash and short- term funds RM'000	RM'000	RM'000	RM'000	RM'000	Trading derivatives RM'000	Hedging derivatives RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	19,339	-	-	-	-	-	732,731	752,070
Mining and quarrying	-	-	-	-	-	-	-	-	22,399	22,399
Manufacturing	-	-	-	-	-	701	-	-	944,448	945,149
Electricity, gas and water	-	-	-	68,635	-	590	-	-	144,546	213,771
Construction	-	-	9,851	158,424	-	-	-	-	1,340,184	1,508,459
Transport, storage and communications	-	-	128,347	35,510	508,767	234	-	-	693,385	1,366,243
<i>Finance, takaful, real estate and business services</i>										
Finance, takaful and business services	1,951,654	163,318	774,089	349,852	93,410	111,953	44,655	96,602	2,934,914	6,520,447
Real estate	-	-	15,106	25,608	-	-	-	-	-	40,714
<i>Others</i>										
Purchase of landed property	-	-	-	-	-	-	-	-	9,077,180	9,077,180
- Residential	-	-	-	-	-	-	-	-	-	-
General commerce	-	-	-	20,466	-	331	-	-	-	20,797
Government and government agencies	5,031,861	-	2,211,988	577,999	-	47,878	-	-	6,788,913	14,658,639
Purchase of transport vehicles	-	-	-	-	-	-	-	-	6,145,780	6,145,780
Consumption credit	-	-	-	-	-	-	-	-	3,160,992	3,160,992
Education and health	-	-	-	-	-	-	-	-	2,276,867	2,276,867
Others	-	-	9,817	51,037	-	40,458	-	-	810,225	911,537
	<b>6,983,515</b>	<b>163,318</b>	<b>3,168,537</b>	<b>1,287,531</b>	<b>602,177</b>	<b>202,145</b>	<b>44,655</b>	<b>96,602</b>	<b>35,072,564</b>	<b>47,621,044</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 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

#### 44.1.3 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 enhancements) for items recognised in the statement of financial positions as at 31 December 2013 and 31 December 2012, based on the industry sectors of the counterparty are as follows (Continued):

	<b>The Bank 31 December 2012</b>										
	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		Other financial assets * RM'000	Financing, advances and other financing/ loans (ii) RM'000		Total credit exposures RM'000
						Trading derivatives RM'000	Hedging derivatives RM'000				
Agriculture	-	-	-	-	-	-	-	-	-	706,398	706,398
Mining and quarrying	-	-	-	-	-	-	-	-	-	23,262	23,262
Manufacturing	-	-	-	-	-	222	-	-	-	767,139	767,361
Electricity, gas and water	-	-	-	122,550	-	30,356	-	-	-	156,138	309,044
Construction	-	-	121,134	204,963	-	-	-	-	-	1,335,640	1,661,737
Transport, storage and communications	-	-	161,542	183,025	508,904	15	-	-	-	860,066	1,713,552
<u>Finance, takaful, real estate and business services</u>											
Finance, takaful and business services	814,955	601,335	1,872,615	683,320	143,486	82,004	9,374	87,151	2,485,906	6,780,146	
Real estate	-	-	-	25,687	-	-	-	-	-	-	25,687
<u>Others</u>											
Purchase of landed property	-	-	-	-	-	-	-	-	-	8,141,424	8,141,424
- Residential	-	-	-	-	-	-	-	-	-	6,744,478	17,722,299
Government and government agencies	5,481,374	-	3,931,541	1,551,734	-	13,172	-	-	-	6,345,776	6,345,776
Purchase of transport vehicles	-	-	-	-	-	-	-	-	-	3,250,098	3,250,098
Consumption credit	-	-	-	-	-	-	-	-	-	1,648,601	1,648,601
Education and health	-	-	-	-	-	-	-	-	-	608,356	697,272
Others	-	-	30,216	25,483	-	33,217	-	-	-	-	-
	6,296,329	601,335	6,117,048	2,796,762	652,390	158,986	9,374	87,151	33,073,282	49,792,657	

\* 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 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

#### 44.1.3 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:

	The Group and the Bank 31 December 2013					
	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	Unquoted securities	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	19,339	-	-	-	19,339
Electricity, gas and water	-	-	-	68,635	-	68,635
Construction	-	9,851	-	158,424	-	168,275
Transport, storage and communications	-	128,347	-	35,510	508,767	672,624
<i>Finance, takaful, real estate and business services</i>						
Finance, takaful and business services	748,368	25,721	5,025	344,827	93,410	1,217,351
Real estate	-	15,106	-	25,608	-	40,714
<i>Others</i>						
General commerce	-	-	20,466	-	-	20,466
Government and government agencies	2,211,987	-	412,584	165,415	-	2,789,986
Others	-	9,818	-	51,037	-	60,855
	<b>2,960,355</b>	<b>208,182</b>	<b>438,075</b>	<b>849,456</b>	<b>602,177</b>	<b>5,058,245</b>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.3 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 (Continued):

	Financial assets held for trading		The Bank 31 December 2012 Financial investments available-for-sale		Financial investments held-to-maturity	Total credit
	Money market instruments	Unquoted securities	Money market instruments	Unquoted securities	Unquoted securities	exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	122,550	-	122,550
Construction	-	121,134	-	204,963	-	326,097
Transport, storage and communications	-	161,542	-	183,025	508,904	853,471
<i>Finance, takaful, real estate and business services</i>						
Finance, takaful and business services	1,807,186	65,429	20,764	662,556	143,486	2,699,421
Real estate	-	-	-	25,687	-	25,687
<i>Others</i>						
Government and government agencies	3,861,158	70,383	1,228,880	322,854	-	5,483,275
Others	-	30,216	-	25,483	-	55,699
	<u>5,668,344</u>	<u>448,704</u>	<u>1,249,644</u>	<u>1,547,118</u>	<u>652,390</u>	<u>9,566,200</u>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

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

#### (c) Industry sectors (Continued)

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

**The Group and the Bank  
31 December 2013**

	Cashline	Term financing	Bills receivable	Islamic trust receipts	Claim on customers under Islamic accepted bills	Credit card receivables	Share purchase financing	Revolving credits	Total credit exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	71,726	596,320	-	-	4,976	-	-	59,709	732,731
Mining and quarrying	13,663	8,736	-	-	-	-	-	-	22,399
Manufacturing	43,565	710,697	1,325	11,959	122,057	-	-	54,845	944,448
Electricity, gas and water	3	144,247	-	296	-	-	-	-	144,546
Construction	61,936	582,173	-	1,364	29,987	-	-	664,724	1,340,184
Transport, storage and communications	10,541	664,621	-	98	325	-	-	17,800	693,385
<i>Finance, takaful, real estate and business services</i>									
Finance, takaful and business services	110,764	1,582,873	-	10	2,505	-	-	1,238,762	2,934,914
<i>Others</i>									
Purchase of landed property									-
- Residential	-	9,077,180	-	-	-	-	-	-	9,077,180
Government and government agencies	-	6,788,913	-	-	-	-	-	-	6,788,913
Purchase of securities	-	-	-	-	-	-	16,193	-	16,193
Purchase of transport vehicles	-	6,145,780	-	-	-	-	-	-	6,145,780
Consumption credit	-	3,060,475	-	-	-	100,517	-	-	3,160,992
Education and health	34,127	2,196,383	1,557	855	37	-	-	43,908	2,276,867
Trade and hospitality	112,566	356,838	-	9,230	199,076	-	-	65,001	742,711
Others	5,048	46,164	-	84	25	-	-	-	51,321
	<b>463,939</b>	<b>31,961,400</b>	<b>2,882</b>	<b>23,896</b>	<b>358,988</b>	<b>100,517</b>	<b>16,193</b>	<b>2,144,749</b>	<b>35,072,564</b>

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.3 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 (Continued):

	<b>The Bank</b>								
	<b>31 December 2012</b>								
	Cashline	Term financing	Bills receivable	Islamic trust receipts	Claim on customers under Islamic accepted bills	Credit card receivables	Share purchase financing	Revolving credits	Total credit exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	58,771	581,480	-	-	5,497	-	-	60,650	706,398
Mining and quarrying	15,544	7,718	-	-	-	-	-	-	23,262
Manufacturing	34,301	407,700	873	21,041	151,773	-	-	151,451	767,139
Electricity, gas and water	298	155,840	-	-	-	-	-	-	156,138
Construction	68,933	426,492	-	4,237	27,701	-	-	808,277	1,335,640
Transport, storage and communications	11,105	839,895	-	502	87	-	-	8,477	860,066
<u>Finance, takaful, real estate and business services</u>									
Finance, takaful and business services	90,874	2,132,544	-	66	283	-	-	262,139	2,485,906
<u>Others</u>									
Purchase of landed property									
- Residential	-	8,141,424	-	-	-	-	-	-	8,141,424
Government and government agencies	-	6,744,478	-	-	-	-	-	-	6,744,478
Purchase of securities	-	-	-	-	-	-	35,057	-	35,057
Purchase of transport vehicles	-	6,345,776	-	-	-	-	-	-	6,345,776
Consumption credit	-	3,153,787	-	-	-	96,311	-	-	3,250,098
Education and health	42,389	1,552,162	-	-	889	-	-	53,161	1,648,601
Trade and hospitality	118,245	193,869	2,891	7,175	140,447	-	-	100,382	563,009
Others	6,575	3,715	-	-	-	-	-	-	10,290
	447,035	30,686,880	3,764	33,021	326,677	96,311	35,057	1,444,537	33,073,282



**CIMB Islamic Bank Berhad**

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.3 Concentration of risks of financial assets with credit risk exposure (Continued)****(b) Industry sectors (Continued)**

The analysis of credit risk concentrations for financial guarantees and credit related commitments and contingencies based on the industry sectors of the counterparty are as follows:

	The Group and the Bank 31 December 2013		The Bank 31 December 2012	
	Financial guarantees RM'000	commitments and contingencies RM'000	Financial guarantees RM'000	Credit related commitments and contingencies RM'000
Agriculture	100	119,030	20	151,406
Mining and quarrying	-	3,821	-	1,061
Manufacturing	21,770	551,113	28,812	489,370
Electricity, gas and water	8,453	122,302	50,674	81,889
Construction	100,124	2,664,572	100,131	2,311,032
Transport, storage and communications	3,115	138,229	3,797	295,364
<i>Finance, takaful, real estate and business services</i>				
Finance, takaful and business services	2,880	668,265	3,557	468,252
General commerce	13,817	419,079	6,214	303,301
Others	2,527	776,167	1,855	783,834
	<b>152,786</b>	<b>5,462,578</b>	<b>195,060</b>	<b>4,885,509</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 Credit quality of financial assets**

Financial assets are required under MFRS 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 are summarised as follows:

	The Group and the Bank			Total
	31 December 2013			
	Neither past due nor impaired (a)	Past due but not impaired (b)	Impaired (c)	
	RM'000	RM'000	RM'000	RM'000
Cashline	436,131	27,402	14,599	478,132
Term financing	29,146,963	2,901,933	274,690	32,323,586
Bills receivable	2,885	-	-	2,885
Islamic trust receipts	21,974	1,036	2,924	25,934
Claim on customers under Islamic accepted bills	353,857	3,194	13,703	370,754
Share purchase financing	16,218	-	223	16,441
Credit card receivables	99,363	2,801	2,285	104,449
Revolving credits	2,155,306	-	1,727	2,157,033
<b>Total</b>	<b>32,232,697</b>	<b>2,936,366</b>	<b>310,151</b>	<b>35,479,214</b>
Less: Impairment allowances				(406,650)
<b>Total net amount</b>				<b>35,072,564</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 Credit quality of financial assets (Continued)****(i) Financing, advances and other financing/loans (Continued)**

	The Bank 31 December 2012			Total RM'000
	Neither past due nor impaired (a)	Past due but not impaired (b)	Impaired (c)	
	RM'000	RM'000	RM'000	
Cashline	415,327	32,908	23,355	471,590
Term financing	28,951,579	1,833,567	261,716	31,046,862
Bills receivable	2,972	-	794	3,766
Islamic trust receipts	32,648	-	3,059	35,707
Claim on customers under Islamic accepted bills	322,637	4,937	13,113	340,687
Share purchase financing	35,216	-	10	35,226
Credit card receivables	93,588	3,875	419	97,882
Revolving credits	1,448,529	-	1,662	1,450,191
Total	<u>31,302,496</u>	<u>1,875,287</u>	<u>304,128</u>	<u>33,481,911</u>
Less: Impairment allowances				(408,629)
Total net amount				<u>33,073,282</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 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 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” can be assessed by reference to the internal rating system adopted by the Bank.

	<b>The Group and the Bank 31 December 2013</b>			
	<b>Good RM'000</b>	<b>Satisfactory RM'000</b>	<b>No rating RM'000</b>	<b>Total RM'000</b>
Cashline	365,456	38,271	32,404	436,131
Term financing				
- House financing	-	-	8,319,880	8,319,880
- Syndicated term financing	502,996	-	-	502,996
- Other term financing	8,159,429	212,974	7,504,392	15,876,795
- Hire purchase receivables	-	-	4,447,292	4,447,292
Bills receivable	322	-	2,563	2,885
Islamic trust receipts	20,108	830	1,036	21,974
Claim on customers under Islamic accepted bills	344,848	6,231	2,778	353,857
Share purchase financing	-	-	16,218	16,218
Credit card receivables	-	-	99,363	99,363
Revolving credits	2,092,665	-	62,641	2,155,306
<b>Total</b>	<b>11,485,824</b>	<b>258,306</b>	<b>20,488,567</b>	<b>32,232,697</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 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)**

	<b>The Bank</b>			<b>Total</b>
	<b>31 December 2012</b>			
	<b>Good</b>	<b>Satisfactory</b>	<b>No rating</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cashline	316,495	32,091	66,741	415,327
Term financing				
- House financing	-	-	7,535,745	7,535,745
- Syndicated term financing	330,015	-	-	330,015
- Other term financing	8,875,820	399,239	6,156,106	15,431,165
- Hire purchase receivables	-	-	5,654,654	5,654,654
Bills receivable	-	-	2,972	2,972
Islamic trust receipts	30,198	1,578	872	32,648
Claim on customers under Islamic accepted bills	312,718	5,232	4,687	322,637
Share purchase financing	-	-	35,216	35,216
Credit card receivables	-	-	93,588	93,588
Revolving credits	1,448,029	500	-	1,448,529
<b>Total</b>	<b>11,313,275</b>	<b>438,640</b>	<b>19,550,581</b>	<b>31,302,496</b>

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit risk (Continued)**

##### **44.1.4 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)**

Credit quality 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 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 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” is set out below:

	The Group and the Bank 31 December 2013			The Bank 31 December 2012		
	Up to 1 month RM'000	>1 to 3 months RM'000	Total RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	Total RM'000
Cashline	24,265	3,137	27,402	27,584	5,324	32,908
Term financing	1,909,205	992,728	2,901,933	1,297,990	535,577	1,833,567
Islamic trust receipts	-	1,036	1,036	-	-	-
Claim on customers under Islamic accepted bills	3,194	-	3,194	2,619	2,318	4,937
Credit card receivables	1,759	1,042	2,801	2,573	1,302	3,875
<b>Total</b>	<b>1,938,423</b>	<b>997,943</b>	<b>2,936,366</b>	<b>1,330,766</b>	<b>544,521</b>	<b>1,875,287</b>

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.4 Credit quality of financial assets (Continued)

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

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

	The Group and the Bank 31 December 2013 RM'000	The Bank 31 December 2012 RM'000
Total gross impaired financing, advances and other financing/loans	310,151	304,128
Less: Impairment allowances	(176,141)	(162,524)
Total net impaired financing, advances and other financing/loans	<u>134,010</u>	<u>141,604</u>

Refer to Note 8(viii) 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 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 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 are summarised as follows:

	<b>The Group and the Bank 31 December 2013 Nether past due nor impaired RM'000</b>	<b>The Bank 31 December 2012 Nether past due nor impaired RM'000</b>
Financial assets held for trading		
- Money market instruments	2,960,355	5,668,344
- Unquoted securities	208,182	448,704
Financial investments available-for-sale		
- Money market instruments	438,075	1,249,644
- Unquoted securities	849,456	1,547,118
Financial investments held-to-maturity		
- Unquoted securities	602,177	652,390
<b>Total</b>	<b>5,058,245</b>	<b>9,566,200</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” as at 31 December 2013 and 31 December 2012 for the Group and the Bank.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.1 Credit risk (Continued)

##### 44.1.4 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:

	The Group and the Bank 31 December 2013			Total RM'000
	Sovereign	Investment grade (AAA to BBB-)	Others (no rating)	
	RM'000	RM'000	RM'000	
Financial assets held for trading				
- Money market instruments	2,211,987	748,368	-	2,960,355
- Unquoted securities	-	208,182	-	208,182
Financial investments available-for-sale				
- Money market instruments	412,584	25,491	-	438,075
- Unquoted securities	351,163	498,293	-	849,456
Financial investments held-to-maturity				
- Unquoted securities	-	-	602,177	602,177
<b>Total</b>	<b>2,975,734</b>	<b>1,480,334</b>	<b>602,177</b>	<b>5,058,245</b>

	The Bank 31 December 2012			Total RM'000
	Sovereign	Investment grade (AAA to BBB-)	Others (no rating)	
	RM'000	RM'000	RM'000	
Financial assets held for trading				
- Money market instruments	3,861,158	1,807,186	-	5,668,344
- Unquoted securities	70,383	378,321	-	448,704
Financial investments available-for-sale				
- Money market instruments	1,140,378	109,266	-	1,249,644
- Unquoted securities	454,589	1,092,529	-	1,547,118
Financial investments held-to-maturity				
- Unquoted securities	-	25,103	627,287	652,390
<b>Total</b>	<b>5,526,508</b>	<b>3,412,405</b>	<b>627,287</b>	<b>9,566,200</b>

Securities with no rating mainly consist of Islamic private debt.

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 Credit quality of financial assets (Continued)****(iii) Other credit risk financial assets**

Other financial assets that are “neither past due nor impaired” are summarised as follows:

	The Group 31 December 2013				Total
	Sovereign	Investment Grade	Non Investment Grade	Others (no rating)	
	(AAA to BBB-)		(BB+ and below)		
	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	5,031,861	1,882,727	-	68,973	6,983,561
Deposits and placements with banks and other financial institutions	-	-	-	163,318	163,318
Other assets	-	-	-	96,184	96,184
Islamic derivative financial instruments	-	199,953	2,132	44,715	246,800
Amount due from related companies	-	-	-	418	418
<b>Total</b>	<b>5,031,861</b>	<b>2,082,680</b>	<b>2,132</b>	<b>373,608</b>	<b>7,490,281</b>

	The Bank 31 December 2013				Total
	Sovereign	Investment Grade	Non Investment Grade	Others (no rating)	
	(AAA to BBB-)		(BB+ and below)		
	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	5,031,861	1,882,681	-	68,973	6,983,515
Deposits and placements with banks and other financial institutions	-	-	-	163,318	163,318
Other assets	-	-	-	96,184	96,184
Islamic derivative financial instruments	-	199,953	2,132	44,715	246,800
Amount due from related companies	-	-	-	418	418
<b>Total</b>	<b>5,031,861</b>	<b>2,082,634</b>	<b>2,132</b>	<b>373,608</b>	<b>7,490,235</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.1 Credit risk (Continued)****44.1.4 Credit quality of financial assets (Continued)****(iii) Other credit risk financial assets**

	The Bank				Total
	31 December 2012				
	Sovereign	Investment Grade (AAA to BBB-)	Non Investment Grade (BB+ and below)	Others (no rating)	
	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	5,481,374	737,857	-	77,098	6,296,329
Deposits and placements with banks and other financial institutions	-	511,022	-	90,313	601,335
Other assets	-	-	-	86,720	86,720
Islamic derivative financial instruments	532	87,378	1,237	79,213	168,360
Amount due from related companies	-	-	-	431	431
<b>Total</b>	<b>5,481,906</b>	<b>1,336,257</b>	<b>1,237</b>	<b>333,775</b>	<b>7,153,175</b>

There were no other financial assets that are “past due but not impaired” or “impaired” for the Bank.

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.1 Credit risk (Continued)**

##### **44.1.5 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 Group and the Bank that would otherwise be past due or impaired whose terms have been renegotiated amounted to RM42,149,691 (2012: RM38,211,293).

##### **44.1.6 Repossessed collateral**

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.2 Market risk**

Market risk is defined as any fluctuation in the market value of a trading or investment exposure arising from changes to market risk factors such as profit rates/benchmark rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility.

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

#### **Market Risk Management (MRM)**

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

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

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.2 Market risk (Continued)**

##### **Market Risk Management (MRM) (Continued)**

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

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

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

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

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

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.2 Market risk (Continued)**

##### **Market Risk Management (MRM) (Continued)**

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

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

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

##### *Capital Treatment for Market Risk*

At present, the Group adopts the Standardised Approach to compute market risk capital requirement under BNM's guidelines on Capital Adequacy Framework (CAF) (Basel II – Risk Weighted Assets) and Capital Adequacy Framework for Islamic Banks (CAFIB) (Risk-Weighted Assets).



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.1 VaR**

The usage of market VaR by risk type based on 1-day holding period of the Group's and the Bank's trading exposures are set out below:

	<b>The Group and the Bank 31 December 2013 RM'000</b>	<b>The Bank 31 December 2012 RM'000</b>
<b>VaR</b>		
Foreign exchange risk	2,101	759
Profit rate risk	679	1,323
Total	<u>2,780</u>	<u>2,082</u>
Total shareholder's funds	2,670,928	2,343,444
Percentage over shareholder's funds	0.10%	0.09%

**44.2.2 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).

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates:

	The Group 31 December 2013							Trading book	Total
	← Non-trading book			→					
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Non-profit sensitive	RM'000	RM'000
	RM'000	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	6,698,000	-	-	-	-	-	285,561	-	6,983,561
Deposits and placements with banks and other financial institutions	-	163,108	-	-	-	-	210	-	163,318
Financial assets held for trading	-	-	-	-	-	-	-	3,168,537	3,168,537
Financial investments available-for-sale	-	65,092	-	43,037	421,733	744,729	13,515	-	1,288,106
Financial investments held-to-maturity	-	-	-	-	93,383	500,000	8,794	-	602,177
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	202,145	202,145
- Hedging derivatives	-	-	-	-	33,619	11,036	-	-	44,655
Financing, advances and other financing/loans	24,816,871	425,713	316,135	64,318	2,246,721	7,202,806	-	-	35,072,564
Other assets	-	-	-	-	-	-	96,184	-	96,184
Amount due from related companies	-	-	-	-	-	-	418	-	418
<b>Total financial assets</b>	<b>31,514,871</b>	<b>653,913</b>	<b>316,135</b>	<b>107,355</b>	<b>2,795,456</b>	<b>8,458,571</b>	<b>404,682</b>	<b>3,370,682</b>	<b>47,621,665</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates (Continued):

	The Group 31 December 2013						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	Non-trading book		Over 5 years RM'000			
			> 6 – 12 months RM'000	> 1 – 5 years RM'000					
<b>Financial liabilities</b>									
Deposits from customers	28,731,569	5,935,055	2,544,782	549,847	448,206	172,354	85,061	-	38,466,874
Deposits and placements of banks and other financial institutions	1,770,363	2,567,072	1,672,820	500,000	-	-	61,656	-	6,571,911
Financial liabilities designated at fair value	-	-	-	-	154,680	-	-	(8,464)	146,216
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	170,950	170,950
- Hedging derivatives	-	-	-	-	6,185	108,242	-	-	114,427
Other liabilities	-	-	-	-	-	-	84,733	-	84,733
Amount due to holding company	-	-	-	-	-	-	115,538	-	115,538
Amount due to related company	-	-	-	-	-	-	6,433	-	6,433
Subordinated sukuk	-	-	-	-	252,436	593,977	10,309	-	856,722
<b>Total financial liabilities</b>	<b>30,501,932</b>	<b>8,502,127</b>	<b>4,217,602</b>	<b>1,049,847</b>	<b>861,507</b>	<b>874,573</b>	<b>363,730</b>	<b>162,486</b>	<b>46,533,804</b>
<b>Net profit sensitivity gap</b>	<b>1,012,939</b>	<b>(7,848,214)</b>	<b>(3,901,467)</b>	<b>(942,492)</b>	<b>1,933,949</b>	<b>7,583,998</b>		<b>3,208,196</b>	
Financial guarantees	-	-	-	-	-	-	152,786	-	152,786
Credit related commitments and contingencies	-	-	-	-	-	-	5,462,578	-	5,462,578
Treasury related commitments and contingencies	-	-	-	-	2,540,304	4,390,123	-	-	6,930,427
	-	-	-	-	2,540,304	4,390,123	5,615,364	-	12,545,791

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates (Continued):

	The Bank 31 December 2013							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	Non-trading book			
<b>Financial assets</b>										
Cash and short-term funds	6,698,000	-	-	-	-	-	285,515	-	6,983,515	
Deposits and placements with banks and other financial institutions	-	163,108	-	-	-	-	210	-	163,318	
Financial assets held for trading	-	-	-	-	-	-	-	3,168,537	3,168,537	
Financial investments available-for-sale	-	65,092	-	43,037	421,733	744,729	13,515	-	1,288,106	
Financial investments held-to-maturity	-	-	-	-	93,383	500,000	8,794	-	602,177	
Islamic derivative financial instruments:										
- Trading derivatives	-	-	-	-	-	-	-	202,145	202,145	
- Hedging derivatives	-	-	-	-	33,619	11,036	-	-	44,655	
Financing, advances and other financing/loans	24,816,871	425,713	316,135	64,318	2,246,721	7,202,806	-	-	35,072,564	
Other assets	-	-	-	-	-	-	96,184	-	96,184	
Amount due from related companies	-	-	-	-	-	-	418	-	418	
<b>Total financial assets</b>	<b>31,514,871</b>	<b>653,913</b>	<b>316,135</b>	<b>107,355</b>	<b>2,795,456</b>	<b>8,458,571</b>	<b>404,636</b>	<b>3,370,682</b>	<b>47,621,619</b>	

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates (Continued):

	The Bank 31 December 2013						Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	←	Non-trading book				→			
	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	28,731,569	5,935,055	2,544,782	549,847	448,206	172,354	85,061	-	38,466,874
Deposits and placements of banks and other financial institutions	1,770,363	2,567,072	1,672,820	500,000	-	-	61,656	-	6,571,911
Financial liabilities designated at fair value	-	-	-	-	154,680	-	-	(8,464)	146,216
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	170,950	170,950
- Hedging derivatives	-	-	-	-	6,185	108,242	-	-	114,427
Other liabilities	-	-	-	-	-	-	84,733	-	84,733
Amount due to holding company	-	-	-	-	-	-	115,538	-	115,538
Amount due to related company	-	-	-	-	-	-	6,433	-	6,433
Subordinated sukuk	-	-	-	-	252,436	593,977	10,309	-	856,722
<b>Total financial liabilities</b>	<b>30,501,932</b>	<b>8,502,127</b>	<b>4,217,602</b>	<b>1,049,847</b>	<b>861,507</b>	<b>874,573</b>	<b>363,730</b>	<b>162,486</b>	<b>46,533,804</b>
<b>Net profit sensitivity gap</b>	<b>1,012,939</b>	<b>(7,848,214)</b>	<b>(3,901,467)</b>	<b>(942,492)</b>	<b>1,933,949</b>	<b>7,583,997</b>		<b>3,208,196</b>	
Financial guarantees	-	-	-	-	-	-	152,786	-	152,786
Credit related commitments and contingencies	-	-	-	-	-	-	5,462,578	-	5,462,578
Treasury related commitments and contingencies	-	-	-	-	2,540,304	4,390,123	-	-	6,930,427
	-	-	-	-	2,540,304	4,390,123	5,615,364	-	12,545,791

# CIMB Islamic Bank Berhad

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates (Continued):

	The Bank 31 December 2012							Trading book RM'000	Total RM'000
	←	Non-trading book					→		
	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	Non-profit sensitive RM'000		
Financial assets									
Cash and short-term funds	6,163,666	-	-	-	-	-	132,663	-	6,296,329
Deposits and placements with banks and other financial institutions	-	353,000	93,000	152,950	-	-	2,385	-	601,335
Financial assets held for trading	-	-	-	-	-	-	-	6,117,048	6,117,048
Financial investments available-for-sale	-	-	-	113,434	881,123	1,771,969	30,811	-	2,797,337
Financial investments held-to-maturity	-	118,383	20,016	-	4,947	500,000	9,044	-	652,390
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	158,986	158,986
- Hedging derivatives	-	-	-	-	5,990	3,384	-	-	9,374
Financing, advances and other financing/loans	21,540,463	1,376,829	196,909	45,991	1,917,875	7,995,215	-	-	33,073,282
Other assets	-	-	-	-	-	-	86,720	-	86,720
Amount due from related companies	-	-	-	-	-	-	431	-	431
<b>Total financial assets</b>	<b>27,704,129</b>	<b>1,848,212</b>	<b>309,925</b>	<b>312,375</b>	<b>2,809,935</b>	<b>10,270,568</b>	<b>262,054</b>	<b>6,276,034</b>	<b>49,793,232</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 Profit rate risk (Continued)

##### (a) Profit rate risk (Continued)

The tables below summarise the Group's and Bank's financial assets and financial liabilities at their full carrying amounts, analysed by the earlier of contractual repricing or maturity dates (Continued):

	<b>The Bank 31 December 2012</b>							Trading book RM'000	Total RM'000
	←	Non-trading book					→		
	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	Non-profit sensitive RM'000		
<b>Financial liabilities</b>									
Deposits from customers	28,280,731	4,099,140	1,135,821	815,545	609,354	237,161	90,147	-	35,267,899
Deposits and placements of banks and other financial institutions	2,638,319	3,167,274	181,929	171,482	5,287,238	-	214,486	-	11,660,728
Islamic derivative financial instruments:									
- Trading derivatives	-	-	-	-	-	-	-	126,946	126,946
- Hedging derivatives	-	-	-	-	2,714	250,869	-	-	253,583
Other liabilities	-	-	-	-	-	-	95,927	-	95,927
Amount due to holding company	-	-	-	-	-	-	298,352	-	298,352
Amount due to related company	-	-	-	-	-	-	3,554	-	3,554
Subordinated sukuk	-	-	-	-	250,000	600,000	13,557	-	863,557
<b>Total financial liabilities</b>	<b>30,919,050</b>	<b>7,266,414</b>	<b>1,317,750</b>	<b>987,027</b>	<b>6,149,306</b>	<b>1,088,030</b>	<b>716,023</b>	<b>126,946</b>	<b>48,570,546</b>
<b>Net profit sensitivity gap</b>	<b>(3,214,921)</b>	<b>(5,418,202)</b>	<b>(1,007,825)</b>	<b>(674,652)</b>	<b>(3,339,371)</b>	<b>9,182,538</b>		<b>6,149,088</b>	
<b>Financial guarantees</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,060</b>	<b>-</b>	<b>195,060</b>
<b>Credit related commitments and contingencies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,885,509</b>	<b>-</b>	<b>4,885,509</b>
<b>Treasury related commitments and contingencies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564,286</b>	<b>6,514,117</b>	<b>-</b>	<b>-</b>	<b>7,078,403</b>
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564,286</b>	<b>6,514,117</b>	<b>5,080,569</b>	<b>-</b>	<b>12,158,972</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 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 Group and the Bank are further analysed by classes of financial assets as follows:

	The Group and the Bank 31 December 2013						Non-profit sensitive RM'000	Total RM'000
	← Up to 1 month RM'000	> 1 – 3 months RM'000	Non-trading book > 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000		
Financial investments available-for-sale:								
- Money market instruments	-	65,092	-	20,065	72,305	276,354	4,259	438,075
- Unquoted securities	-	-	-	22,971	349,427	468,377	9,256	850,031
Financial investments held-to-maturity:								
- Unquoted securities	-	-	-	-	93,383	500,000	8,794	602,177
Financing, advances and other financing/loans:								
- Cashline	463,939	-	-	-	-	-	-	463,939
- Term financing	22,431,989	3,469	12,097	64,318	2,246,721	7,202,806	-	31,961,400
- Bills receivable	2,882	-	-	-	-	-	-	2,882
- Trust receipts	10,028	5,545	8,323	-	-	-	-	23,896
- Claim on customers under Islamic accepted bills	142,913	158,561	57,514	-	-	-	-	358,988
- Share purchase financing	16,193	-	-	-	-	-	-	16,193
- Credit card receivables	100,517	-	-	-	-	-	-	100,517
- Revolving credits	1,648,410	258,138	238,201	-	-	-	-	2,144,749
<b>Total</b>	<b>24,816,871</b>	<b>490,805</b>	<b>316,135</b>	<b>107,354</b>	<b>2,761,836</b>	<b>8,447,537</b>	<b>22,309</b>	<b>36,962,847</b>



# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.2 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 Group and the Bank are further analysed by classes of financial assets as follows (Continued):

31 December 2012	The Bank 31 December 2012						Non-profit sensitive RM'000	Total RM'000
	← Up to 1 month RM'000	> 1 – 3 months RM'000	Non-trading book > 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000		
Financial investments available-for-sale								
- Money market instruments	-	-	-	100,114	569,717	568,280	11,533	1,249,644
- Unquoted securities	-	-	-	13,321	311,406	1,203,689	19,277	1,547,693
Financial investments held-to-maturity								
- Unquoted securities	-	118,383	20,016	-	4,947	500,000	9,044	652,390
Financing, advances and other financing/loans								
- Cashline	447,035	-	-	-	-	-	-	447,035
- Term financing	20,370,105	276,062	11,633	45,991	1,947,875	8,035,214	-	30,686,880
- Bills receivable	3,764	-	-	-	-	-	-	3,764
- Trust receipts	10,162	11,789	11,070	-	-	-	-	33,021
- Claim on customers under Islamic accepted bills	113,583	173,938	39,156	-	-	-	-	326,677
- Share purchase financing	35,057	-	-	-	-	-	-	35,057
- Credit card receivables	96,311	-	-	-	-	-	-	96,311
- Revolving credits	344,447	965,039	135,051	-	-	-	-	1,444,537
<b>Total</b>	<b>21,420,464</b>	<b>1,545,211</b>	<b>216,926</b>	<b>159,426</b>	<b>2,833,945</b>	<b>10,307,183</b>	<b>39,854</b>	<b>36,523,009</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.2 Profit rate risk (Continued)****(b) Sensitivity of profit and reserves****(i) Sensitivity of profit**

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

	The Group and the Bank 31 December 2013		The Bank 31 December 2012	
	+ 100 basis points RM'000	- 100 basis points RM'000	+ 100 basis points RM'000	- 100 basis points RM'000
Impact to profit (after tax)	(61,349)	61,349	(62,874)	62,874

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 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.2 Profit rate risk (Continued)****(b) Sensitivity of profit and reserves (Continued)****(ii) Sensitivity of reserves**

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

	The Group and the Bank		The Bank	
	31 December 2013		31 December 2012	
	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
	RM'000	RM'000	RM'000	RM'000
Impact to reserves	(69,318)	69,318	(177,575)	177,575

A 100 bps parallel rate movement is applied to the yield curve to model the potential impact on reserves 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 Group would take to mitigate the impact of this profit rate risk. In practice, the Group proactively seeks to mitigate the effect of prospective profit movements.

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(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.2 Market risk (Continued)

##### 44.2.3 Foreign exchange risk

The Group and the Bank are 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 Group and the Bank take minimal exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group manages its exposure to foreign exchange currencies at each entity level.

#### (a) Foreign exchange risk

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others.

The Group 31 December 2013					
MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000	
<b>Financial assets</b>					
Cash and short-term funds	6,826,506	41,988	115,067	157,055	6,983,561
Deposits and placements with banks and other financial institutions	150,203	13,115	-	13,115	163,318
Financial assets held for trading:					
- Money market instruments	2,960,355	-	-	-	2,960,355
- Unquoted securities	208,182	-	-	-	208,182
Financial investments available-for-sale:					
- Money market instruments	403,282	34,793	-	34,793	438,075
- Unquoted securities	834,668	15,363	-	15,363	850,031
Financial investments held-to-maturity:					
- Unquoted securities	602,177	-	-	-	602,177
Islamic derivative financial instruments:					
- Trading derivatives	187,402	8,415	6,328	14,743	202,145
- Hedging derivatives	44,333	322	-	322	44,655
Financing, advances and other financing/loans:					
- Cashline	463,939	-	-	-	463,939
- Term financing	31,961,400	-	-	-	31,961,400
- Bills receivable	2,882	-	-	-	2,882
- Islamic trust receipts	23,896	-	-	-	23,896
- Claim on customers under Islamic accepted bills	358,988	-	-	-	358,988
- Share purchase financing	16,193	-	-	-	16,193
- Credit card receivables	100,517	-	-	-	100,517
- Revolving credit	2,144,749	-	-	-	2,144,749
Other assets	96,184	-	-	-	96,184
Amount due from related companies	418	-	-	-	418
	<b>47,386,274</b>	<b>113,996</b>	<b>121,395</b>	<b>235,391</b>	<b>47,621,665</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others (Continued).

**The Group  
31 December 2013**

	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
<b><u>Financial liabilities</u></b>					
Deposits from customers	37,735,351	683,487	48,036	731,523	38,466,874
Deposits and placements of banks and other financial institutions	6,084,347	487,564	-	487,564	6,571,911
Financial Liabilities Designated at Fair Value	146,216			-	146,216
Islamic derivative financial instruments:					
- Trading derivatives	156,206	8,415	6,329	14,744	170,950
- Hedging derivatives	114,107	320	-	320	114,427
Amount due to holding company	115,538	-	-	-	115,538
Amount due to related companies	6,433	-	-	-	6,433
Other liabilities	84,733	-	-	-	84,733
Subordinated sukuk	856,722	-	-	-	856,722
	<b>45,299,653</b>	<b>1,179,786</b>	<b>54,365</b>	<b>1,234,151</b>	<b>46,533,804</b>
Financial guarantees	152,786	-	-	-	152,786
Credit related commitments and contingencies	5,261,250	195,103	6,225	201,328	5,462,578
	<b>5,414,036</b>	<b>195,103</b>	<b>6,225</b>	<b>201,328</b>	<b>5,615,364</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others (Continued).

	The Bank 31 December 2013				
	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
<b><u>Financial assets</u></b>					
Cash and short-term funds	6,826,461	41,988	115,066	157,054	6,983,515
Deposits and placements with banks and other financial institutions	150,203	13,115	-	13,115	163,318
Financial assets held for trading:					
- Money market instruments	2,960,355	-	-	-	2,960,355
- Unquoted securities	208,182	-	-	-	208,182
Financial investments available-for-sale:					
- Money market instruments	403,282	34,793	-	34,793	438,075
- Unquoted securities	834,668	15,363	-	15,363	850,031
Financial investments held-to-maturity:					
- Unquoted securities	602,177	-	-	-	602,177
Islamic derivative financial instruments:					
- Trading derivatives	187,402	8,415	6,328	14,743	202,145
- Hedging derivatives	44,333	322	-	322	44,655
Financing, advances and other financing/loans:					
- Cashline	463,939	-	-	-	463,939
- Term financing	31,961,400	-	-	-	31,961,400
- Bills receivable	2,882	-	-	-	2,882
- Islamic trust receipts	23,896	-	-	-	23,896
- Claim on customers under Islamic accepted bills	358,988	-	-	-	358,988
- Share purchase financing	16,193	-	-	-	16,193
- Credit card receivables	100,517	-	-	-	100,517
- Revolving credit	2,144,749	-	-	-	2,144,749
Other assets	96,184	-	-	-	96,184
Amount due from related companies	418	-	-	-	418
	<b>47,386,229</b>	<b>113,996</b>	<b>121,394</b>	<b>235,390</b>	<b>47,621,619</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others (Continued).

	The Bank 31 December 2013				
	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
<b><u>Financial liabilities</u></b>					
Deposits from customers	37,735,351	683,487	48,036	731,523	38,466,874
Deposits and placements of banks and other financial institutions	6,084,347	487,564	-	487,564	6,571,911
Financial Liabilities Designated at Fair Value	146,216	-	-	-	146,216
Islamic derivative financial instruments:					
- Trading derivatives	156,206	8,415	6,329	14,744	170,950
- Hedging derivatives	114,107	320	-	320	114,427
Amount due to holding company	115,538	-	-	-	115,538
Amount due to related companies	6,433	-	-	-	6,433
Other liabilities	84,733	-	-	-	84,733
Subordinated sukuk	856,722	-	-	-	856,722
	<b>45,299,653</b>	<b>1,179,786</b>	<b>54,365</b>	<b>1,234,151</b>	<b>46,533,804</b>
Financial guarantees	152,786	-	-	-	152,786
Credit related commitments and contingencies	5,261,250	195,103	6,225	201,328	5,462,578
	<b>5,414,036</b>	<b>195,103</b>	<b>6,225</b>	<b>201,328</b>	<b>5,615,364</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others (Continued).

	<b>The Bank 31 December 2012</b>				
	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000
<b><u>Financial assets</u></b>					
Cash and short-term funds	6,150,265	127,683	18,381	146,064	6,296,329
Deposits and placements with banks and other financial institutions	447,628	153,707	-	153,707	601,335
Financial assets held for trading:					
- Money market instruments	5,668,344	-	-	-	5,668,344
- Unquoted securities	448,704	-	-	-	448,704
Financial investments available-for-sale:					
- Money market instruments	1,215,382	34,262	-	34,262	1,249,644
- Unquoted securities	1,527,379	20,314	-	20,314	1,547,693
Financial investments held-to-maturity:					
- Unquoted securities	652,390	-	-	-	652,390
Islamic derivative financial instruments:					
- Trading derivatives	139,922	10,196	8,868	19,064	158,986
- Hedging derivatives	9,374	-	-	-	9,374
Financing, advances and other financing/loans:					
- Cashline	447,035	-	-	-	447,035
- Term financing	30,686,880	-	-	-	30,686,880
- Bills receivable	3,764	-	-	-	3,764
- Islamic trust receipts	33,021	-	-	-	33,021
- Claim on customers under Islamic accepted bills	326,677	-	-	-	326,677
- Share purchase financing	35,057	-	-	-	35,057
- Credit card receivables	96,311	-	-	-	96,311
- Revolving credit	1,444,537	-	-	-	1,444,537
Other assets	86,720	-	-	-	86,720
Amount due from related companies	431	-	-	-	431
	49,419,821	346,162	27,249	373,411	49,793,232



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(a) Foreign exchange risk (Continued)**

The table below summarises the financial assets, financial liabilities and net open position by currency of the Group and the Bank which are mainly in Ringgit Malaysia, United States Dollars, and others (Continued).

		<b>The Bank 31 December 2012</b>				
	MYR RM'000	USD RM'000	Others RM'000	Total non- MYR RM'000	Grand total RM'000	
<b><u>Financial liabilities</u></b>						
Deposits from customers	34,651,870	615,400	629	616,029	35,267,899	
Deposits and placements of banks and other financial institutions	10,417,642	1,243,086	-	1,243,086	11,660,728	
Islamic derivative financial instruments:						
- Trading derivatives	107,965	10,113	8,868	18,981	126,946	
- Hedging derivatives	252,307	1,276	-	1,276	253,583	
Amount due to holding company	298,352	-	-	-	298,352	
Amount due to related companies	3,554	-	-	-	3,554	
Other liabilities	95,927	-	-	-	95,927	
Subordinated sukuk	863,557	-	-	-	863,557	
	<b>46,691,174</b>	<b>1,869,875</b>	<b>9,497</b>	<b>1,879,372</b>	<b>48,570,546</b>	
Financial guarantees	195,060	-	-	-	195,060	
Credit related commitments and contingencies	4,762,991	104,129	18,389	122,518	4,885,509	
	<b>4,958,051</b>	<b>104,129</b>	<b>18,389</b>	<b>122,518</b>	<b>5,080,569</b>	

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.2 Market risk (Continued)****44.2.3 Foreign exchange risk (Continued)****(b) Sensitivity of profit**

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

	The Group and the Bank 31 December 2013		The Bank 31 December 2012	
	1% appreciation RM'000	1% depreciation RM'000	1% appreciation RM'000	1% depreciation RM'000
Impact to profit (after tax)	1,316	(1,316)	629	(629)

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.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.3 Liquidity risk**

Liquidity risk is defined as the current and prospective risk to earnings, shareholders fund or the reputation arising from the Group'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 Group's liquidity risk management is to ensure that the Group can meet its cash obligations in a timely and cost-effective manner. To this end, the Group'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 Group is able to maintain a diversified core deposit base comprising savings, demand, and term deposits. This provides the Group a stable large funding base.

The day-to-day responsibility for liquidity risk management and control in each individual entity is delegated to the respective Country Asset Liability Management Committee (Country ALCO) which subsequently report to Group ALCO (GALCO). GALCO 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. 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.

Liquidity risk undertaken by the Group is governed by a set of established risk appetite and tolerance levels. Management action triggers (MATs) 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.

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.3 Liquidity risk (Continued)**

Liquidity positions are monitored on a daily basis and complied with internal risk thresholds. 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.

The Group performs liquidity risk stress testing on a monthly basis to identify vulnerable areas in its portfolio, gauges the financial impact and enable management to take pre-emptive actions. The stress tests are modeled based on three scenarios namely bank specific crisis, market wide crisis and combined crisis. The assumptions used includes run-off rates on deposits, draw down rates on undrawn commitments, and hair cuts for marketable securities are documented and the test results are submitted to the Country and Group ALCOs, the GRC and BRC/Board of Directors of the Group. The test results to date have indicated that the Group does possess sufficient liquidity capacity to meet the liquidity requirements under various stress test conditions. In addition, the Group computes Basel III liquidity ratios namely liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) at least on quarterly basis, in line with BNM observation period for Basel III liquidity ratios which started in June 2012.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines:

	The Group 31 December 2013							Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No-specific maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short-term funds	6,983,561	-	-	-	-	-	-	6,983,561
Deposits and placements with banks and other financial institutions	210	163,108	-	-	-	-	-	163,318
Financial assets held for trading	1,126,544	1,308,909	502,368	3,457	104,790	122,469	-	3,168,537
Financial investments available-for-sale	12,940	65,092	-	43,037	421,733	744,729	575	1,288,106
Financial investments held-to-maturity	8,794	-	-	-	93,383	500,000	-	602,177
Islamic derivative financial instruments	17,942	14,789	17,844	6,938	97,125	92,162	-	246,800
Financing , advances and other financing/loans	2,418,440	444,129	322,739	143,522	6,311,545	25,432,189	-	35,072,564
Other assets	283,094	-	-	-	-	-	-	283,094
Deferred taxation	-	-	-	-	-	-	22,449	22,449
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	1,436,747	1,436,747
Amount due from related companies	418	-	-	-	-	-	-	418
Goodwill	-	-	-	-	-	-	136,000	136,000
Intangible assets	-	-	-	-	-	-	14,197	14,197
Property, plant and equipment	-	-	-	-	-	-	5,236	5,236
<b>Total assets</b>	<b>10,851,943</b>	<b>1,996,027</b>	<b>842,951</b>	<b>196,954</b>	<b>7,028,576</b>	<b>26,891,549</b>	<b>1,615,204</b>	<b>49,423,204</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities (Continued)

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines (Continued):

	The Group 31 December 2013							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	No-specific maturity RM'000	
<b>Liabilities</b>								
Deposits from customers	28,816,630	5,935,055	2,544,782	549,847	448,206	172,354	-	38,466,874
Deposits and placements of banks and other financial institutions	1,832,019	2,567,072	1,672,820	500,000	-	-	-	6,571,911
Financial liabilities designated at fair value	-	-	-	-	146,216	-	-	146,216
Islamic derivative financial instruments	17,606	8,581	6,065	6,492	76,895	169,738	-	285,377
Amount due to holding company	115,538	-	-	-	-	-	-	115,538
Amount due to related companies	6,433	-	-	-	-	-	-	6,433
Other liabilities	287,768	-	-	-	-	-	-	287,768
Provision for taxation and zakat	15,437	-	-	-	-	-	-	15,437
Subordinated sukuk	10,309	-	-	-	252,436	593,977	-	856,722
<b>Total liabilities</b>	<b>31,101,740</b>	<b>8,510,708</b>	<b>4,223,667</b>	<b>1,056,339</b>	<b>923,753</b>	<b>936,069</b>	<b>-</b>	<b>46,752,276</b>
<b>Total liquidity gap</b>	<b>(20,249,797)</b>	<b>(6,514,681)</b>	<b>(3,380,716)</b>	<b>(859,385)</b>	<b>6,104,823</b>	<b>25,955,480</b>	<b>1,615,204</b>	

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities (Continued)

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines (Continued):

	The Bank 31 December 2013							Total
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No-specific maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>								
Cash and short-term funds	6,983,515	-	-	-	-	-	-	6,983,515
Deposits and placements with banks and other financial institutions	210	163,108	-	-	-	-	-	163,318
Financial assets held for trading	1,126,544	1,308,909	502,368	3,457	104,790	122,469	-	3,168,537
Financial investments available-for-sale	12,940	65,092	-	43,037	421,733	744,729	575	1,288,106
Financial investments held-to-maturity	8,794	-	-	-	93,383	500,000	-	602,177
Islamic derivative financial instruments	17,942	14,789	17,844	6,938	97,125	92,162	-	246,800
Financing, advances and other financing/loans	2,418,440	444,129	322,739	143,522	6,311,545	25,432,189	-	35,072,564
Other assets	283,094	-	-	-	-	-	-	283,094
Deferred taxation	-	-	-	-	-	-	22,449	22,449
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	1,436,747	1,436,747
Investment in subsidiaries	-	-	-	-	-	-	20	20
Amount due from related companies	418	-	-	-	-	-	-	418
Goodwill	-	-	-	-	-	-	136,000	136,000
Intangible assets	-	-	-	-	-	-	14,197	14,197
Property, plant and equipment	-	-	-	-	-	-	5,236	5,236
<b>Total assets</b>	<b>10,851,897</b>	<b>1,996,027</b>	<b>842,951</b>	<b>196,954</b>	<b>7,028,576</b>	<b>26,891,549</b>	<b>1,615,224</b>	<b>49,423,178</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities (Continued)

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines (Continued):

	The Bank 31 December 2013							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	No-specific maturity RM'000	
<b>Liabilities</b>								
Deposits from customers	28,816,630	5,935,055	2,544,782	549,847	448,206	172,354	-	38,466,874
Deposits and placements of banks and other financial institutions	1,832,019	2,567,072	1,672,820	500,000	-	-	-	6,571,911
Financial liabilities designated at fair value	-	-	-	-	146,216	-	-	146,216
Islamic derivative financial instruments	17,606	8,581	6,065	6,492	76,895	169,738	-	285,377
Amount due to holding company	115,538	-	-	-	-	-	-	115,538
Amount due to related companies	6,433	-	-	-	-	-	-	6,433
Other liabilities	287,768	-	-	-	-	-	-	287,768
Provision for taxation and zakat	15,437	-	-	-	-	-	-	15,437
Subordinated sukuk	10,309	-	-	-	252,436	593,977	-	856,722
<b>Total liabilities</b>	<b>31,101,740</b>	<b>8,510,708</b>	<b>4,223,667</b>	<b>1,056,339</b>	<b>923,753</b>	<b>936,069</b>	<b>-</b>	<b>46,752,276</b>
<b>Total liquidity gap</b>	<b>(20,249,843)</b>	<b>(6,514,681)</b>	<b>(3,380,716)</b>	<b>(859,385)</b>	<b>6,104,823</b>	<b>25,955,480</b>	<b>1,615,224</b>	



# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities (Continued)

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines (Continued):

	<b>The Bank</b>							Total RM'000
	<b>31 December 2012</b>							
	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	
<b>Assets</b>								
Cash and short-term funds	6,296,329	-	-	-	-	-	-	6,296,329
Deposits and placements with banks and other financial institutions	2,385	353,000	93,000	152,950	-	-	-	601,335
Financial assets held for trading	1,820,615	1,946,861	1,301,768	440,000	357,657	250,147	-	6,117,048
Financial investments available-for-sale	30,236	-	-	113,434	881,123	1,771,969	575	2,797,337
Financial investments held-to-maturity	9,045	118,382	20,016	-	4,947	500,000	-	652,390
Islamic derivative financial instruments	8,262	19,578	2,928	3,514	54,247	79,831	-	168,360
Financing , advances and other financing/loans	924,741	1,113,411	247,020	275,667	4,104,316	26,408,127	-	33,073,282
Other assets	254,882	-	-	-	-	-	-	254,882
Deferred taxation	-	-	-	-	-	-	10,731	10,731
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	1,104,097	1,104,097
Amount due from related companies	431	-	-	-	-	-	-	431
Goodwill	-	-	-	-	-	-	136,000	136,000
Intangible assets	-	-	-	-	-	-	7,328	7,328
Property, plant and equipment	-	-	-	-	-	-	5,490	5,490
<b>Total assets</b>	<b>9,346,926</b>	<b>3,551,232</b>	<b>1,664,732</b>	<b>985,565</b>	<b>5,402,290</b>	<b>29,010,074</b>	<b>1,264,221</b>	<b>51,225,040</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.1 Contractual maturity of assets and liabilities (Continued)

The table below analyses the assets and liabilities of the Group and the Bank based on the remaining period to the contractual maturity dates in accordance with the BNM Guidelines (Continued):

	The Bank							Total
	31 December 2012							
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No-specific maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Liabilities</b>								
Deposits from customers	28,370,878	4,099,140	1,135,821	815,545	609,354	237,161	-	35,267,899
Deposits and placements of banks and other financial institutions	2,852,805	3,167,274	181,929	171,482	5,287,238	-	-	11,660,728
Islamic derivative financial instruments	9,163	17,470	1,861	1,166	47,849	303,020	-	380,529
Amount due to holding company	298,352	-	-	-	-	-	-	298,352
Amount due to related companies	3,554	-	-	-	-	-	-	3,554
Other liabilities	397,107	-	-	-	-	-	-	397,107
Provision for taxation and zakat	9,870	-	-	-	-	-	-	9,870
Subordinated sukuk	10,280	-	-	-	255,628	597,649	-	863,557
<b>Total liabilities</b>	<b>31,952,009</b>	<b>7,283,884</b>	<b>1,319,611</b>	<b>988,193</b>	<b>6,200,069</b>	<b>1,137,830</b>	<b>-</b>	<b>48,881,596</b>
<b>Total liquidity gap</b>	<b>(22,605,083)</b>	<b>(3,732,652)</b>	<b>345,121</b>	<b>(2,628)</b>	<b>(797,779)</b>	<b>27,872,244</b>	<b>1,264,221</b>	

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

##### 44.3.2 Contractual maturity of financial liabilities on an undiscounted basis

#### Non-derivative financial liabilities

The tables below present the cash flows payable by the Group and 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.

	The Group and the Bank 31 December 2013							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	No specific maturity RM'000	
<b>Non-derivative financial liabilities</b>								
Deposits from customers	28,810,042	5,977,115	2,575,538	567,283	491,880	178,804	-	38,600,662
Deposits and placements of banks and other financial institutions	1,832,920	2,580,508	1,693,572	510,103	-	-	-	6,617,103
Financial liabilities designated at fair value	1,821	41	1,870	3,447	164,939	-	-	172,118
Amount due to holding company	115,538	-	-	-	-	-	-	115,538
Amount due to related companies	6,433	-	-	-	-	-	-	6,433
Other liabilities	84,733	-	-	-	-	-	-	84,733
Subordinated sukuk	10,309	14,775	5,250	20,025	386,386	659,527	-	1,096,272
	<b>30,861,796</b>	<b>8,572,439</b>	<b>4,276,230</b>	<b>1,100,858</b>	<b>1,043,205</b>	<b>838,331</b>	<b>-</b>	<b>46,692,859</b>
Financial guarantees	152,786	-	-	-	-	-	-	152,786
Credit related commitments and contingencies	4,407,922	17,334	167,636	4,510	55,388	809,788	-	5,462,578
	<b>4,560,708</b>	<b>17,334</b>	<b>167,636</b>	<b>4,510</b>	<b>55,388</b>	<b>809,788</b>	<b>-</b>	<b>5,615,364</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

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

##### Non-derivative financial liabilities (Continued)

The tables below present the cash flows payable by the Group and 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 (Continued).

	<b>The Bank</b>							Total
	<b>31 December 2012</b>							
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No specific maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Non-derivative financial liabilities</b>								
Deposits from customers	28,355,060	4,119,255	1,149,842	837,689	621,120	240,153	-	35,323,119
Deposits and placements of banks and other financial institutions	2,647,779	3,188,098	182,679	173,551	6,240,290	-	-	12,432,397
Amount due to holding company	298,352	-	-	-	-	-	-	298,352
Amount due to related companies	3,554	-	-	-	-	-	-	3,554
Other liabilities	95,927	-	-	-	-	-	-	95,927
Subordinated sukuk	10,280	14,775	5,250	20,025	389,578	663,199	-	1,103,107
	<b>31,410,952</b>	<b>7,322,128</b>	<b>1,337,771</b>	<b>1,031,265</b>	<b>7,250,988</b>	<b>903,352</b>	<b>-</b>	<b>49,256,456</b>
Financial guarantees	195,060	-	-	-	-	-	-	195,060
Credit related commitments and contingencies	3,894,665	59,227	23,019	932	59,049	848,617	-	4,885,509
	<b>4,089,725</b>	<b>59,227</b>	<b>23,019</b>	<b>932</b>	<b>59,049</b>	<b>848,617</b>	<b>-</b>	<b>5,080,569</b>

# **CIMB Islamic Bank Berhad**

(Incorporated in Malaysia)

## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.3 Liquidity risk (Continued)**

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

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

The table below analyses the Group's and the Bank's trading derivative financial liabilities and hedging derivative financial liabilities.

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.

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.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

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

#### Derivative liabilities (Continued)

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

	The Group and the Bank							Total
	31 December 2013							
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No specific maturity	
	RM'000	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>								
- Profit rate derivatives	85,548	-	-	-	-	-	-	85,548
- Equity related derivatives	13,513	-	-	-	-	-	-	13,513
- Credit related contracts	586							586
<b>Hedging derivatives:</b>								
- Profit rate derivatives	6,683	(20,316)	37,745	22,048	72,450	5,185	-	123,795
	<b>106,330</b>	<b>(20,316)</b>	<b>37,745</b>	<b>22,048</b>	<b>72,450</b>	<b>5,185</b>	<b>-</b>	<b>223,442</b>

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

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

#### Derivative liabilities (Continued)

The table below analyses the Group's and the Bank's trading derivative financial liabilities and hedging derivative financial liabilities that will be settled on a net basis (Continued):

	The Bank							Total
	31 December 2012							
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No specific maturity	
	RM'000	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>								
- Profit rate derivatives	50,720	-	-	-	-	-	-	50,720
- Equity related derivatives	15,856	-	-	-	-	-	-	15,856
- Credit related contractss	1,634							1,634
<b>Hedging derivatives:</b>								
- Profit rate derivatives	714	(28,982)	60,977	34,753	270,779	154,590	-	492,831
	68,924	(28,982)	60,977	34,753	270,779	154,590	-	561,041

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.3 Liquidity risk (Continued)

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

##### Derivative liabilities (Continued)

The Group's and the Bank's derivatives that will be settled on a gross basis include foreign exchange derivatives, such as currency forward, currency swap, currency options, cross currency profit rate swaps.

The table below analyses the Group's and the Bank's derivative financial liabilities that will be settled on a gross basis.

	The Group and the Bank 31 December 2013							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	No specific maturity RM'000	
<b>Derivative financial liabilities</b>								
<b>Derivatives held for trading</b>								
Foreign exchange derivatives:	71,303	-	-	-	-	-	-	71,303
	<b>71,303</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,303</b>



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.3 Liquidity risk (Continued)****44.3.2 Contractual maturity of financial liabilities on an undiscounted basis (Continued)****Derivative liabilities (Continued)**

The table below analyses the Group's and the Bank's derivative financial liabilities that will be settled on a gross basis (Continued).

	<b>The Bank</b>							Total
	<b>31 December 2012</b>							
	Up to 1 month	> 1 – 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	No specific maturity	
	RM'000	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:	58,736	-	-	-	-	-	-	58,736
	<b>58,736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,736</b>

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.4 Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

##### **44.4.1 Determination of fair value and fair value hierarchy**

The fair value hierarchy has the following levels:

- |         |  |
|---------|--|
| Level 1 | Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.  |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets and liabilities in active markets; or</li><li>• Quoted prices for identical or similar assets and liabilities in non-active markets; or</li><li>• Inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.</li></ul> |
| Level 3 | One or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.  |

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## Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)

### 44 Financial Risk Management (Continued)

#### 44.4 Fair value estimation (Continued)

##### 44.4.1 Determination of fair value and fair value hierarchy (Continued)

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value hierarchy:

	The Group and the Bank			Total
	Fair Value			
	Carrying value RM'000	Observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000	RM'000
<b>31 December 2013</b>				
<i>Recurring fair value measurements</i>				
<u>Financial assets</u>				
Financial assets held for trading:				
-Money market instruments	2,960,355	2,960,355	-	2,960,355
-Unquoted securities	208,182	208,182	-	208,182
Financial investments available-for-sale:				
-Money market instruments	438,075	438,075	-	438,075
-Unquoted securities	849,456	849,456	575	850,031
Derivative financial instruments:				
-Trading derivatives	202,145	202,145	-	202,145
-Hedging derivatives	44,655	44,655	-	44,655
<b>Total</b>	<b>4,702,868</b>	<b>4,702,868</b>	<b>575</b>	<b>4,703,443</b>
<i>Recurring fair value measurements</i>				
<u>Financial liabilities</u>				
Derivative financial instruments:				
-Trading derivatives	170,950	170,950	-	170,950
-Hedging derivatives	114,427	114,427	-	114,427
Financial liabilities designated at fair value	146,216	146,216	-	146,216
<b>Total</b>	<b>431,593</b>	<b>431,593</b>	<b>-</b>	<b>431,593</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.4 Fair value estimation (Continued)****44.4.1 Determination of fair value and fair value hierarchy (Continued)**

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value hierarchy (Continued):

	<b>The Bank</b>			<b>Total</b>
	<b>Fair Value</b>			
	<b>Carrying value RM'000</b>	<b>Observable inputs (Level 2) RM'000</b>	<b>Significant unobservable inputs (Level 3) RM'000</b>	<b>RM'000</b>
<b>31 December 2012</b>				
<i>Recurring fair value measurements</i>				
<u>Financial assets</u>				
Financial assets held for trading:				
-Money market instruments	5,668,344	5,668,344	-	5,668,344
-Unquoted securities	448,704	448,704	-	448,704
Financial investments available-for-sale:				
-Money market instruments	1,249,644	1,249,644	-	1,249,644
-Unquoted securities	1,547,118	1,547,118	575	1,547,693
Derivative financial instruments:				
-Trading derivatives	158,986	158,986	-	158,986
-Hedging derivatives	9,374	9,374	-	9,374
<b>Total</b>	<b>9,082,170</b>	<b>9,082,170</b>	<b>575</b>	<b>9,082,745</b>
<i>Recurring fair value measurements</i>				
<u>Financial liabilities</u>				
Derivative financial instruments:				
-Trading derivatives	126,946	126,946	-	126,946
-Hedging derivatives	253,583	253,583	-	253,583
<b>Total</b>	<b>380,529</b>	<b>380,529</b>	<b>-</b>	<b>380,529</b>

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.4 Fair value estimation (Continued)**

##### **44.4.1 Determination of fair value and fair value hierarchy (Continued)**

###### **Valuation Processes**

Assets/liabilities are classified as Level 1 when the valuation is based on quoted prices for identical assets or liabilities in active markets.

Assets/liabilities is regarded as being quoted in an active market if the prices are readily available from a published and reliable source and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When fair value is determined using quoted prices of similar assets/liabilities in active markets or quoted prices of identical or similar assets and liabilities in non-active markets, such assets/liabilities are classified as Level 2. In cases where quoted prices are generally not available, the Group determines fair value based upon valuation techniques that use market parameters as inputs. Most valuation techniques employ observable market data, including but not limited to yield curves, equity prices, volatilities and foreign exchange rates.

Assets/liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. Such inputs are determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

If prices or quotes are not available for an instrument or a similar instrument, fair value will be established by using valuation techniques or Mark-to-Model. Judgement may be required to assess the need for valuation adjustments to appropriately reflect unobservable parameters. The valuation models shall also consider relevant transaction data such as maturity. The inputs are then benchmarked and extrapolated to derive the fair value.

###### **Valuation Model Review and Approval**

- Mark-to-Model process shall be carried out by Market Risk Management within Group Risk. Group Risk Management Quantitative Analysts are responsible for independent evaluation and validation of the Group's financial models used for valuation. The validation includes an assessment of the stability of models in terms of performance over a variety of conditions and back-testing of the model outputs;

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.4 Fair value estimation (Continued)**

##### **44.4.1 Determination of fair value and fair value hierarchy (Continued)**

##### **Valuation Model Review and Approval (Continued)**

- Valuation methodologies for the purpose of determining Mark-to-Market prices will be verified by Group Risk Management Quantitative Analysts before submitting to Group Risk Committee and Board for approval;
- Market Risk Management is mandated to perform mark-to-market, mark-to-model and rate reasonableness verification;
- Any material uncertainty arising from the modeling and market inputs shall be disclosed to the Group Risk Committee;
- Market rate sources and model inputs for the purpose of Mark-to-Model must be verified by Group Risk Management Quantitative Analysts and approved by Chief Risk Officer or / and Group Risk Committee;
- Group Risk Management Quantitative Analysts are the guardian of the financial models and valuation methodology. Group Risk Management Quantitative Analysts shall perform model verification at least once a year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer;
- Model risk and unobservable parameter reserve must be considered to provide for the uncertainty of the model assumptions;
- Independent price verification process shall be carried out by Market Risk Management to ensure that financial assets/liabilities are recorded at fair value; and
- Back testing of valuation models to assess the accuracy of the models is to be carried out for a period of one year or where 250 data points have been collected, whichever is later.

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The following represents the changes in Level 3 instruments for the Group and the Bank.

<b>Financial assets held-for-trading</b>	<b>The Group and the Bank 2013 Unquoted securities RM'000</b>	<b>The Bank 2012 Unquoted securities RM'000</b>
At 1 January	-	78,640
Total gains recognised in statement of income	-	1,376
Settlements	-	(80,016)
At 31 December	<u>-</u>	<u>-</u>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.4 Fair value estimation (Continued)****44.4.2 Assets and Liabilities not measured at fair value but for which fair value is disclosed**

The following table analyses within the fair value hierarchy the Group's assets and liabilities not measured at fair value at 31 December 2013 but for which fair value is disclosed (Continued):

	<b>The Group</b>			<b>Total</b>
	<b>Fair Value</b>			
	<b>Carrying value</b>	<b>Quoted market prices (Level 1)</b>	<b>Observable inputs (Level 2)</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>31 December 2013</b>				
<b>Assets</b>				
Cash and short-term funds	6,983,561	6,983,561	-	6,983,561
Deposits and placements with banks and other financial institutions	163,318	-	163,318	163,318
Financial investments held-to-maturity	602,177	-	602,250	602,250
Financing, advances and other financing/loans	35,072,564	-	32,662,109	32,662,109
Other assets	283,094	-	283,094	283,094
Amount due from related companies	418	-	418	418
Statutory deposits with Bank Negara Malaysia	1,436,747	1,436,747	-	1,436,747
<b>Total</b>	<b>44,541,879</b>	<b>8,420,308</b>	<b>33,711,189</b>	<b>42,131,497</b>
<b>Liabilities</b>				
Deposits from customers	38,466,874	-	38,427,858	38,427,858
Deposits and placements of banks and other financial institutions	6,571,911	-	6,572,021	6,572,021
Subordinated Sukuk	856,722	-	865,244	865,244
Other liabilities	287,768	-	287,768	287,768
Amount due to holding company	115,538	-	115,538	115,538
Amount due to related companies	6,433	-	6,433	6,433
<b>Total</b>	<b>46,305,246</b>	<b>-</b>	<b>46,274,862</b>	<b>46,274,862</b>



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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.4 Fair value estimation (Continued)****44.4.2 Assets and Liabilities not measured at fair value but for which fair value is disclosed (Continued)**

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2013 but for which fair value is disclosed:

	<b>The Bank</b>			<b>Total</b>
	<b>Fair Value</b>			
	<b>Carrying value</b>	<b>Quoted market prices (Level 1)</b>	<b>Observable inputs (Level 2)</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>31 December 2013</b>				
<b>Assets</b>				
Cash and short-term funds	6,983,515	6,983,515	-	6,983,515
Deposits and placements with banks and other financial institutions	163,318	-	163,318	163,318
Financial investments held-to-maturity	602,177	-	602,250	602,250
Financing, advances and other financing/loans	35,072,564	-	32,662,109	32,662,109
Other assets	283,094	-	283,094	283,094
Amount due from related companies	418	-	418	418
Statutory deposits with Bank Negara Malaysia	1,436,747	1,436,747	-	1,436,747
<b>Total</b>	<b>44,541,833</b>	<b>8,420,262</b>	<b>33,711,189</b>	<b>42,131,451</b>
<b>Liabilities</b>				
Deposits from customers	38,466,874	-	38,427,858	38,427,858
Deposits and placements of banks and other financial institutions	6,571,911	-	6,572,021	6,572,021
Subordinated Sukuk	856,722	-	865,244	865,244
Other liabilities	287,768	-	287,768	287,768
Amount due to holding company	115,538	-	115,538	115,538
Amount due to related companies	6,433	-	6,433	6,433
<b>Total</b>	<b>46,305,246</b>	<b>-</b>	<b>46,274,862</b>	<b>46,274,862</b>

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**Notes to the Financial Statements  
for the financial year ended 31 December 2013 (Continued)****44 Financial Risk Management (Continued)****44.4 Fair value estimation (Continued)****44.4.2 Assets and Liabilities not measured at fair value but for which fair value is disclosed (Continued)**

The total fair value of each financial assets and liabilities presented on the statements of financial position of the Bank approximates the total carrying value as at the reporting date, except for the following:

	<b>The Bank</b>	
	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
<b><u>31 December 2012</u></b>		
<b><u>Financial assets</u></b>		
Deposits and placements with banks and other financial institutions	601,335	601,736
Financial investments held-to-maturity	652,390	652,648
Financing, advances and other financing/loans	33,073,282	35,185,908
Other assets	86,720	86,720
<b><u>Financial liabilities</u></b>		
Deposits from customers	35,267,899	35,236,046
Subordinated sukuk	863,557	924,614
Deposits and placements of banks and other financial institutions	11,660,728	11,816,569
Other liabilities	95,927	95,927

# **CIMB Islamic Bank Berhad**

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.4 Fair value estimation (Continued)**

##### **44.4.2 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)**

The fair values are based on the following methodologies and assumptions:

##### **Short-term funds and placements with financial institutions**

For short-term funds, placements with financial institutions and reverse repurchase agreements 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.

##### **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

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

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

#### **44.4 Fair value estimation (Continued)**

##### **44.4.2 Assets and liabilities not measured at fair value but for which fair value is disclosed (Continued)**

###### **Other assets**

The fair value of other assets approximates the carrying value less impairment allowance at the statement of financial position date.

###### **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 2013 (Continued)**

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

#### **44.4 Fair value estimation (Continued)**

##### **44.4.2 Assets and liabilities not measured at fair value but for which fair value is disclosed (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.

###### **Other liabilities**

The fair value of other liabilities approximates the carrying value at the statement of financial position date.

###### **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 financing with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for financing with similar risk profile.

###### **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.

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## **Notes to the Financial Statements for the financial year ended 31 December 2013 (Continued)**

### **45 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 7 March 2014.