Company No: 671380-H

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Reports and Financial Statements for the financial year ended 31 December 2010

Company No: 671380-H

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Reports and Financial Statements for the financial year ended 31 December 2010

## Contents

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Directors' Report
# for the financial year ended 31 December 2010

The Directors have pleasure in submitting their Report and the Audited Financial Statements of CIMB Islamic Bank Berhad ("CIMB Islamic" or "the Bank") for the financial year ended 31 December 2010.

## Principal activities

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

## Financial results

| | RM'000 |
|---|---|
| Net profit after taxation | 301,771 |

## Dividends

No dividends have been paid or declared by the Bank since the financial year ended 31 December 2009.

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.

## Issue of shares

On 25 August 2010, the Bank issued 200,000,000 new ordinary shares of RM1.00 each to the holding company.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Bank

## Bad and doubtful financing

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

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

## Current assets

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

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

## Valuation methods

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

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Contingent and other liabilities

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary course of banking business.

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

## Change of circumstances

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

## Items of an unusual nature

In the opinion of the Directors:

(a) the results of the Bank's operations for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature; other than those disclosed in Note 39 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 Bank for the financial year in which this Report is made.

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Directors

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

**Directors**
Datuk Dr. Syed Muhamad bin Syed Abdul Kadir
Dato' Sri Mohamed Nazir bin Abdul Razak
Dato' Mohd Shukri bin Hussin
Dato' Anwar bin Haji @ Aji
Raja Shaharul Niza bin Raja Abdul Aziz
Professor Dr. Mohammad Hashim Kamali
Badlisyah bin Abdul Ghani
Achmad Riawan Amin (appointed on 6 October 2010)

In accordance with Article 83 of the Bank's Articles of Association, Dato' Anwar bin Haji @ Aji and Raja Shaharul Niza bin Raja Abdul Aziz shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Article 84 of the Bank's Articles of Association, Achmad Riawan Amin shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Directors' interests in shares and share options

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

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | **As at 1 January** | **Bonus issue** | **Disposed** | **As at 31 December** |
| **<u>Ultimate holding company</u>** | | | | |
| **CIMB Group Holdings Berhad** | | | | |
| **Direct interest** | | | | |
| Dato' Sri Mohamed Nazir bin Abdul Razak^ | 27,463,261 | 27,463,261 | - | 54,926,522 |
| Dato' Mohd Shukri bin Hussin | 300,112 | 300,112 | - | 600,224 |

| | **As at 1 January** | **Bonus issue** | **Disposed** | **As at 31 December** |
|---|---|---|---|---|
| ^ Includes shareholding of spouse, details of which are as follows: | | | | |
| Dato' Azlina binti Abdul Aziz | 4,000,000 | 4,000,000 | - | 8,000,000 |

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

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Directors' benefits

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

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate other than shares of the ultimate holding company.

## 2010 Business Plan And Strategy

In 2010, we successfully raised our regional value proposition and received strong response from our customers in Malaysia and abroad. The Bank has won for the fifth consecutive time "the 2010 Best Islamic Bank in Malaysia" award by Euromoney magazine and for the 2nd consecutive time "the 2010 Best Overall Islamic Bank in the World" award in the Islamic Finance News 2010 Poll. Winning the coveted awards for many times since the Bank embarked on its transformation in 2005 was testament to the dedication and hard work of all employees and the strategies pursued.

Since embarking on its transformation, the Bank had made significant progress in retail deposits, home financing, credit cards, personal financing and electronic banking. In line with its regionalisation strategy, the Bank has introduced a range of cross-border products and services such as free foreign ATM withdrawals, mutual recognition for "Preferred Members" and card member privileges across its core markets of Malaysia, Indonesia, Singapore and Thailand. The Bank has also gained new market share in both consumer and wholesale markets and is well placed to capture new businesses in both Malaysia and the ASEAN region.

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## 2010 Business Plan And Strategy (Continued)

Moving into the new financial year, the Bank is confident that it will continue to gain momentum in its performance, leveraging its transformation journey of the last few years and focusing on delivering sustainable underlying growth. The Bank will continue to further elevate its consumer banking business with significant information technology investments, train, develop and motivate staff and place customer relationship and service at the forefront

## Performance overview

The Bank recorded a profit before taxation and zakat of RM403.8 million in 2010, an increase of 136.8% from RM170.5 million profits recorded in the previous financial year. Earnings per share were at 48.62 sen compared to 22.50 sen for 2009. Shareholders' funds rose from RM871.1 million to RM1,338.7 million. Return on equity was 27.31% compared to 15.31% in the prior financial year. The Bank has achieved a satisfactory performance for the year under review due to aggressive marketing efforts and distinct product offerings.

Total overhead expenditures for the financial year ended 31 December 2010 were RM229.3 million (2009: RM214.5 million), of which 50.8% relates to personnel costs (2009: 45.4%).

Total assets rose by RM8.7 billion to RM36.0 billion from RM27.3 billion in 2009, mainly from corporate financing, hire purchase, personal financing and short term treasury placements.

Total impaired/non-performing financing increased to RM335.9 million at end of 2010 from RM240.7 million at end of 2009. The Bank's portfolio impairment allowance during the financial year stood at RM240.5 million compared to general allowance of RM158.0 million in 2009 due to the increase in total financing assets and the adoption of the new accounting standard, FRS 139 - Financial Instruments - Recognition and Measurement. Individual impairment allowance was at RM92.7 million against the specific allowance of RM143.0 million as of 31 December 2009.

As at 31 December 2010, the Bank's Risk-Weighted Capital ratio was 17.21% based on Basel II (2009: 11.34% based on Basel 1).

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Outlook for 2011

As a leader in the local and global Islamic financial market, the Bank's strategic objectives are to explore regional growth and expand its market share for both deposit and financing in the retail business and develop a strong wholesale banking business across its footprint in ASEAN. In a fast liberalising banking sector, efficiency of delivery and human capital effectiveness will continue to be our main focus to distinguish us against our competitors.

The Bank will continue to face intense competition amid further industry liberalisation, consolidation and regulatory changes, but there are opportunities to assert our CIMB franchise to strongly grow for scale. We will seek to increase market share in selected business segments across ASEAN to grow our revenue while maintaining margins and enterprise-wide Shariah governance and compliance. The strategic plan moving ahead consists of leveraging our strong deposit franchise, reasserting the profitability of our core businesses with scale efficiency and diversification of earnings, deepening of customer relationships, product innovation and network reach, branch strategy, as well as developing new segments and fee income.

The Bank will ensure that its human capital programmes are effective and central to its strategies. While the Bank makes further investments in people, technology and processes to achieve its vision and strategic aims, it will carry on with efforts to reduce costs through synergies and centre of excellence.

## Rating by External Rating Agencies

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

| Rating Agency | Date accorded | Rating classification | Rating received | Definition |
|---|---|---|---|---|
| Malaysian Rating Corporation Berhad ('MARC') | May 2010 | Long term | AAA | Indicates a superior capacity to meet its financial obligations |

MARC has upgraded the rating for the Bank's Tier-2 Junior Sukuk Programme from AA *IS* to AA+ *IS.*

# Directors' Report for the financial year ended 31 December 2010 (Continued)

## Shariah Committee

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

As per BNM/GPS1 (Guideline on the Governance of Shariah Committee for Islamic Financial Institution), the Shariah Committee advises the Bank on the operations of its Islamic banking business to ensure that the Bank is not involved in any elements/activities which are not permissible under Shariah. In advising on such matters, the Shariah Committee also considers the views of the Shariah Advisory Council/Committees of relevant authorities like Bank Negara Malaysia and the Securities Commission on issues relating to the activities and operations of Islamic banking and finance.

Composition of the Shariah Committee:

1. Sheikh Professor Dr. Mohammad Hashim Kamali (Chairman)
2. Sheikh Nedham Muhammad Seleh Yaqooby
3. Sheikh Dr. Haji Mohd Nai'm bin Haji Mokhtar
4. Sheikh Associate Professor Dr. Shafaai bin Musa
5. Sheikh Dr. Yousef Abdullah AlShubaily

## Significant events during the financial year

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

## Subsequent events after the financial year

There were no significant events after the financial year.

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Statement of Directors' Responsibility

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

It is the responsibility of the Directors to ensure that the financial statements of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2010 and of the results and cash flows of the Bank for the financial year ended on that date.

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

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

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

# Directors' Report
# for the financial year ended 31 December 2010 (Continued)

## Ultimate holding company

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

## Auditors

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

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

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

**Badlisyah bin Abdul Ghani**
Director

Kuala Lumpur

# 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 16 to 141 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965, MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

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

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

**Badlisyah bin Abdul Ghani**
Director

Kuala Lumpur

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

I, Kim Kenny, being the person primarily responsible for the financial management of CIMB Islamic Bank Berhad, do solemnly and sincerely declare the Financial Statements set out on pages 16 to 141 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

**Kim Kenny**

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

Commissioner for Oaths

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Shariah Committee's Report

We, Sheikh Professor Dr. Mohammad Hashim Kamali and Sheikh Associate Professor Dr. Shafaai bin Musa, being two of the members of the Shariah Committee of CIMB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Shariah Committee, that in our opinion, the operations of the Bank for the financial year ended 31 December 2010 have been conducted in conformity with the Shariah.

On behalf of the Shariah Committee.

**Sheikh Professor Dr. Mohammad Hashim Kamali**

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

Kuala Lumpur

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

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

## Report on the Financial Statements

We have audited the Financial Statements of CIMB Islamic Bank Berhad on pages 16 to 141, which comprise the statement of financial position as at 31 December 2010 of the Bank, and the statements of comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 41.

### Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these Financial Statements in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the Bank Negara Malaysia Guidelines. This responsibility include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Statements.

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

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

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

## Report on the Financial Statements (Continued)

### Opinion

In our opinion, the Financial Statements have been properly drawn up in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

## Report on Other Legal and Regulatory Requirements

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

## Other Matters

This report is made solely to the members 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

**Soo Hoo Khoon Yean**
(No. 2682/10/11(J))
Chartered Accountant

Kuala Lumpur

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Statement of Financial Position as at 31 December 2010

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | 2 | **7,744,407** | 4,680,918 |
| Deposits and placements with banks and other financial institutions | 3 | **950,000** | 992,275 |
| Financial assets held for trading | 4 | **2,347,894** | 3,284,294 |
| Financial investments available-for-sale | 5 | **455,959** | 542,079 |
| Financial investments held-to-maturity | 6 | **1,093,635** | 1,011,378 |
| Islamic derivative financial instruments | 7 | **150,688** | 257,688 |
| Financing, advances and other loans | 8 | **22,424,577** | 16,093,818 |
| Other assets | 9 | **334,227** | 108,031 |
| Deferred taxation | 10 | **5,589** | 44,625 |
| Amount due from holding company | 11 | **245,034** | - |
| Amount due from related companies | 11 | **828** | - |
| Statutory deposits with Bank Negara Malaysia | 12 | **143,406** | 172,806 |
| Property, plant and equipment | 13 | **1,862** | 2,625 |
| Intangible assets | 14 | **4,287** | 3,676 |
| Goodwill | 15 | **136,000** | 136,000 |
| **Total assets** | | **36,038,393** | 27,330,213 |
| | | | |
| **Liabilities** | | | |
| Deposits from customers | 16 | **22,677,955** | 17,496,497 |
| Deposits and placements of banks and other financial institutions | 17 | **11,125,028** | 8,222,432 |
| Subordinated Sukuk | 18 | **300,000** | 300,000 |
| Other liabilities | 19 | **384,555** | 229,387 |
| Islamic derivative financial instruments | 7 | **199,199** | 158,036 |
| Provision for tax and zakat | | **12,989** | 18,794 |
| Amount due to holding company | 11 | - | 27,731 |
| Amount due to related companies | 11 | - | 6,278 |
| **Total liabilities** | | **34,699,726** | 26,459,155 |
| | | | |
| **Capital and reserves attributable to equity holder of the Bank** | | | |
| Perpetual preference shares | 20 | **70,000** | 70,000 |
| Ordinary share capital | 21 | **750,000** | 550,000 |
| Reserves | 22 | **518,667** | 251,058 |
| **Total equity** | | **1,338,667** | 871,058 |
| **Total equity and liabilities** | | **36,038,393** | 27,330,213 |
| | | | |
| **Commitments and contingencies** | 7 | **17,877,382** | 13,359,420 |
| | | | |
| **Capital adequacy** | | | |
| Core capital ratio | 35 | **13.24%** | 6.82% |
| Risk-weighted capital ratio | 35 | **17.21%** | 11.34% |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Statement of Comprehensive Income for the financial year ended 31 December 2010

| | Note | **2010 RM'000** | 2009 RM'000 |
|---|---|---|---|
| Income derived from investment of depositors' funds and others | 23 | **1,391,815** | 857,709 |
| Income derived from investment of shareholders' funds | 24 | **124,276** | 115,805 |
| Allowances for losses on financing, advances and other loans | 25 | **(141,716)** | (207,058) |
| Writeback of other impairment losses | | **-** | 164 |
| Total distributable income | | **1,374,375** | 766,620 |
| Income attributable to depositors | 26 | **(741,286)** | (381,582) |
| Total net income | | **633,089** | 385,038 |
| Personnel expenses | 27 | **(116,369)** | (97,600) |
| Other overheads and expenditures | 28 | **(112,902)** | (116,915) |
| Profit before zakat and taxation | | **403,818** | 170,523 |
| Zakat | | **-** | (6,421) |
| Taxation | 31 | **(102,047)** | (40,360) |
| Profit after taxation and zakat | | **301,771** | 123,742 |
| Other comprehensive income : | | | |
| Revaluation reserve of financial investments available-for-sale | | | |
| - Net gain from change in fair value | | **7,047** | 4,485 |
| - Realised gain transferred to profit and loss on disposal | | **(530)** | (1,934) |
| - Income tax effects | | **(1,629)** | (638) |
| Total other comprehensive income | | **4,888** | 1,913 |
| Total comprehensive income for the financial year | | **306,659** | 125,655 |
| Earnings per share (sen) | | | |
| - basic | 32 | **48.62** | 22.50 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Statement of Changes in Equity
# for the financial year ended 31 December 2010

| | Note | Non-distributable | | | | | | | Distributable | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital RM'000 | Perpetual preference shares RM'000 | Statutory reserve RM'000 | Revaluation reserve- available-for-sale securities RM'000 | Merger reserve RM'000 | Capital reserve RM'000 | Regulatory reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| **At 1 January 2010** | | | | | | | | | | |
| - as previously reported | | 550,000 | 70,000 | 135,635 | 194 | (2,457) | 458 | - | 117,228 | 871,058 |
| - effect of adopting FRS 139 on 1 January 2010 | 39 | - | - | - | - | - | - | - | (39,050) | (39,050) |
| **As restated** | | 550,000 | 70,000 | 135,635 | 194 | (2,457) | 458 | - | 78,178 | 832,008 |
| Net profit for the financial year | | - | - | - | - | - | - | - | 301,771 | 301,771 |
| Other comprehensive income (net of tax) | | - | - | - | 4,888 | - | - | - | - | 4,888 |
| - Financial investments available-for-sale | | - | - | - | 4,888 | - | - | - | - | 4,888 |
| Total comprehensive income for the financial year | | - | - | - | 4,888 | - | - | - | 301,771 | 306,659 |
| Transfer to statutory reserve | | - | - | 150,886 | - | - | - | - | (150,886) | - |
| Transfer to regulatory reserve | | - | - | - | - | - | - | 7,405 | (7,405) | - |
| Issue of share capital during the financial year | | 200,000 | - | - | - | - | - | - | - | 200,000 |
| **As at 31 December 2010** | | 750,000 | 70,000 | 286,521 | 5,082 | (2,457) | 458 | 7,405 | 221,658 | 1,338,667 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Statement of Changes in Equity
# for the financial year ended 31 December 2010 (Continued)

| | Non-distributable | | | | | | Distributable | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RM'000 | Perpetual preference shares RM'000 | Statutory reserve RM'000 | Revaluation reserve-available-for-sale securities RM'000 | Merger reserve RM'000 | Capital reserve RM'000 | Retained profits RM'000 | Total RM'000 |
| As at 1 January 2009 | 550,000 | 70,000 | 73,764 | (1,719) | (2,457) | 458 | 55,357 | 745,403 |
| Net profit for the financial year | - | - | - | - | - | - | 123,742 | 123,742 |
| Other comprehensive income (net of tax) | - | - | - | 1,913 | - | - | - | 1,913 |
| - Financial investments available-for-sale | - | - | - | 1,913 | - | - | - | 1,913 |
| Total comprehensive income for the financial year | - | - | - | 1,913 | - | - | 123,742 | 125,655 |
| Transfer to statutory reserve | - | - | 61,871 | - | - | - | (61,871) | - |
| As at 31 December 2009 | 550,000 | 70,000 | 135,635 | 194 | (2,457) | 458 | 117,228 | 871,058 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Statement of Cash Flows
# for the financial year ended 31 December 2010

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Profit before taxation | **403,818** | 170,523 |
| **Adjustments for:** | | |
| Depreciation of property, plant and equipment | **1,139** | 1,479 |
| Amortisation of intangible assets | **3,030** | 3,581 |
| Profit income from financial investments available-for-sale | **(20,372)** | (24,828) |
| Profit income from financial investments held-to-maturity | **(55,264)** | (53,974) |
| Gain from disposal of financial investments available-for-sale | **(530)** | (1,934) |
| Writeback of impairment of financial assets | **-** | (164) |
| Unrealised loss/(gain) from revaluation of financial assets held for trading | **994** | 416 |
| Accretion of discount less amortisation of premium | **(28,839)** | (44,058) |
| Loss from revaluation of Islamic profit rate swap | **147,031** | 77,859 |
| Allowances for losses on financing, advances and other loans | **162,611** | 221,689 |
| | **613,618** | 350,589 |
| **(Increase)/decrease in operating assets** | | |
| Financing, advances and other loans | **(6,547,534)** | (10,345,005) |
| Other assets | **(226,195)** | (11,909) |
| Statutory deposits with Bank Negara Malaysia | **29,400** | 96,418 |
| Deposits and placements with banks and other financial institutions | **42,275** | (106,018) |
| Financial assets held for trading | **935,406** | (402,654) |
| **Increase/(decrease) in operating liabilities** | | |
| Deposits from customers | **5,181,458** | 3,835,111 |
| Deposits and placements from banks and other financial institutions | **2,902,596** | 4,325,656 |
| Islamic derivative financial instruments | **1,132** | 41,057 |
| Bills and acceptances payable | **-** | (5,258) |
| Amount due to holding company | **(272,765)** | 84,338 |
| Amount due to related companies | **(7,106)** | 3,035 |
| Other liabilities | **155,168** | (61,287) |
| | **2,807,453** | (2,195,927) |
| Taxation and zakat paid | **(55,331)** | (57,025) |
| Net cash flows generated from/(used in) operating activities | **2,752,122** | (2,252,952) |

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Statement of Cash Flows
# for the financial year ended 31 December 2010 (Continued)

| | Note | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Net proceeds from (purchase)/sale of financial investmens held-to-maturity | | **(79,147)** | 186,842 |
| Net proceeds from sale of financial investments available-for-sale | | **121,379** | 118,842 |
| Profit income received from financial investments available-for-sale | | **20,998** | 25,326 |
| Profit income received from financial investments held-to-maturity | | **52,154** | 55,279 |
| Purchase of property, plant and equipment | | **(1,208)** | (1,330) |
| Purchase of intangible assets | | **(2,809)** | (214) |
| Net cash flows generated from investing activities | | **111,367** | 384,745 |
| **Cash flow from financing activities** | | | |
| Issuance of ordinary shares | | **200,000** | - |
| Proceeds from issuance of subordinated Sukuk | | **-** | 300,000 |
| Net cash flows generated from financing activities | | **200,000** | 300,000 |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,063,489** | (1,568,207) |
| **Cash and cash equivalents at beginning of the financial year** | | **4,680,918** | 6,249,125 |
| **Cash and cash equivalents at end of the financial year** | **2** | **7,744,407** | 4,680,918 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Summary of Significant Accounting Policies for the financial year ended 31 December 2010

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

## A Basis of preparation

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

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

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

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

### A Basis of preparation (Continued)

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

The new accounting standards, amendments to published standards and interpretations that are effective for the Bank for the financial year ended 31 December 2010 are as follows:

- Amendments to FRS 1 "First-time Adoption of Financial Reporting Standards" and FRS 127 "Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendments to FRS 2 "Share-based Payment Vesting Conditions and Cancellations"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 8 "Operating Segments"
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS101 (revised) “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- IC Interpretation 13 "Customers Loyalty Programmes"
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- TR i-3 "Presentation of Financial Statements of Islamic Financial Institutions"
- Improvements to FRSs (2009)

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

## A Basis of preparation (Continued)

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

The new and revised standards, amendments to published standards and interpretations that are applicable to the Bank but which the Bank has not early adopted, are as follows:

- The revised FRS 127 "Consolidated and separate financial statements" (applies prospectively from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. When this statement is effective, 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. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- IC Interpretation 16 "Hedges of a net investment in a foreign operation" (effective from 1 July 2010) clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held by any entity in the group. The requirements of FRS 121 "The effects of changes in foreign exchange rates" do apply to the hedged item. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- IC Interpretation 17 "Distribution of non-cash assets to owners" (effective from 1 July 2010) provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. FRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Bank will apply this standard from financial years beginning on or after1 January 2011.

### A Basis of preparation (Continued)

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

- The amendment to FRS 132 "Financial instruments: Presentation" on classification of rights issues (effective from 1 March 2010) addresses accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity instruments instead of as derivative liabilities, regardless of the currency in which the exercise price is denominated. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- Amendment to FRS 7 "Financial instruments: Disclosures" and FRS 1 "First-time adoption of financial reporting standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. The amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Bank has applied the transitional provision which exempts entities from disclosing the possible impact arising from the intial application of this amendment on the financial statements of the Bank. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- IC Interpretation 4 "Determining whether an arrangement contains a lease" (effective from 1 January 2011) requires the Bank to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangement are, or contain, leases. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117"Leases" should be applied to the lease element of the arrangement. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- The revised FRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
    - The name of the government and the nature of their relationship;
    - The nature and amount of each individually significant transactions; and
    - The extent of any collectively significant transactions, qualitatively or quantitatively.

  The Bank will apply this standard from financial years beginning on or after 1 January 2012.

## A Basis of preparation (Continued)

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

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss. The Bank will apply this standard from financial years beginning on or after 1 January 2012.

- The Amendments to FRS 2 "Share-based payment: Group, cash-settled share based payment transactions" (effective from 1 January 2011) clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendment also incorporate guidance previously included in IC Interpretation 8 "Scope of FRS 2" and IC Interpretation 11 "FRS 2 – Group and Treasury Share Transactions", which shall be withdrawn on application of this amendment. The Bank will apply these standards from financial years beginning on or after 1 January 2011.

- The revised FRS 3 "Business combinations" (effective prospectively from 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the 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. All acquisition-related costs should be expensed. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

# Summary of Significant Accounting Policies for the financial year ended 31 December 2010 (Continued)

## A Basis of preparation (Continued)

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

The following amendments are part of the Malaysian Accounting Standards Board's ("MASB") improvements project:

- Amendments to FRS 2 "Share-based payment" (effective from 1 July 2010) clarifies that contributions of a business on formation of a joint venture and common control transactions are outside the scope of FRS 2.

- Amendments to FRS 5 "Non-current assets held for sale and discontinued operations" (effective from 1 July 2010) clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- Amendments to FRS 138 "Intangible Assets" effective from 1 July 2010 clarifies that a group of complementary intangible assets acquired in a business combination is recognised as a single asset if the individual asset has similar useful lives. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

- Amendments to IC Interpretation 9 "Reassessment of Embedded Derivatives" (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture. The Bank will apply this standard from financial years beginning on or after 1 January 2011.

Other than the adoption of the Amendments to FRS 2 "Share-based payment: Group, cash-settled share-based payment transaction" which will result in a transfer of RM15,376,318 from the Bank's opening retained earnings to option reserve at 1 January 2011 and a charge of RM711,368 to the Bank's profit and loss for the financial year ending 31 December 2011, the adoption of the other new standards, amendments to published standards and Interpretations are not expected to have a material impact on the financial results of the Bank.

## B Business combination

The Directors note that business combinations involving entities or businesses under common control are outside the scope of FRS 3 - 'Business Combinations' and that there is no guidance elsewhere in FRS covering such transactions. FRS contain specific guidance to be followed where a transaction falls outside the scope of FRS. This guidance is included in paragraphs 10 to 12 of FRS 108 - 'Accounting Policies, Changes in Accounting Estimates and Errors'. This requires, inter alia, that where FRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United States Financial Accounting Standards Board ('FASB') has issued an accounting standard covering business combinations ('FAS 141') that is similar in a number of respects to FRS 3.

In contrast to FRS 3, FAS 141 does include, as an Appendix, limited accounting guidance for transactions under common control which, as with FRS 3, are outside the scope of that accounting standard. The guidance contained in FAS 141 indicates that a form of accounting that is similar to pooling-of-interests method, may be used when accounting for transactions under common control.

Having considered the requirements of FRS 108, and the guidance included within FAS 141, the Directors consider appropriate to use a form of accounting which is similar to pooling-of-interests when dealing with business combinations involving entities or businesses under common control.

On 1 March 2007, pursuant to the order of the High Court of Malaya obtained on 28 February 2007, CIMB Bank Berhad's entire Islamic banking business was vested to the Bank in accordance with the terms and conditions of the business transfer agreement entered between CIMB Bank and the Bank. As the merger between the two entities is under common control, the Bank has adopted the pooling-of-interests method of accounting.

Under the pooling-of-interests method of accounting, the results of entities or businesses under common control are presented as if the merger 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.

## C Income recognition

Profit income and expense for all profit-bearing financial instruments are recognised within "profit income" and "profit expense" in the profit or loss using the effective profit method.

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

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

**Change in accounting policy**

The Bank has changed its accounting policy for income recognition upon adoption of FRS 139 on 1 January 2010.

Prior to the adoption of FRS 139, profit income and profit expense on financial instruments are recognised on based on contractual profit rate. Profit earned on hire purchase, leasing and block discounting agreements is spread over the terms of the financing, using the "Sum-of-Digit" method so as to produce a constant periodic rate of profit. Accretion of discount and amortisation of premium for securities are recognised on an effective yield basis

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

## C Income recognition (Continued)

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

The Bank has applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 January 2010 and recording any adjustments to opening retained profits. Comparatives have not been restated. Refer to Note 39 for the impact of this change in accounting policy

## D Recognition of fees and other income

Financing arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees for financing, advances and other 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.

## E Financial assets

### (a) Classification

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

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

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

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

The Bank did not designate any financial assets at fair value through profit or loss upon initial recognition during the financial year ended 31 December 2010.

## E Financial assets (Continued)

### (ii) Financing and receivables

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

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

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

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

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

### (b) Recognition and initial measurement

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

### (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 profit or loss 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 equity, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised in the profit or loss. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the profit or loss in the period it arises.

## E Financial assets (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 profit or loss.

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 profit or loss. Dividends from available-for-sale equity instruments are recognised in the profit and loss 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 profit or loss. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the financing and recognised in the profit or loss.

### (d) Reclassification of financial assets

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

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

## E Financial assets (Continued)

**Change in accounting policy**

The Bank has changed its accounting policy for financial assets upon adoption of FRS 139 on 1 January 2010. All unquoted equity securities which were previously carried at cost are now measured at fair value, with changes in fair value recognised in revaluation reserve-financial investments available-for-sale.

Upon adoption of FRS 139, income receivable previously classified under other assets are now reclassified into the respective category of financial assets.

The Bank has applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another cagtegory of equity, of current financial year. Comparatives have not been restated. Refer to Note 39 for the impact of this change in accounting policy.

## 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 plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

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

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

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

The Bank did not have any financial liabilities at fair value through profit or loss upon initial recognition during the financial year ended 31 December 2010, other than trading derivatives.

## F Financial liabilities (Continued)

### (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 and subordinated sukuk.

**Change in accounting policy**

Upon adoption of FRS 139, income payable previously classified under other liabilities are now reclassified into the respective category of financial liabilities.

The Bank has applied the new policy according to the transitional provisions by re-measuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of current financial year. Comparatives have not been restated. Refer to Note 39 for the impact of this change in accounting policy

## 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 Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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

# Summary of Significant Accounting Policies for the financial year ended 31 December 2010 (Continued)

## H Impairment of financial assets

### a) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Bank use to determine that there is objective evidence of impairment loss include indications that the customer or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. 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.

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

## H Impairment of financial assets

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

When a financing is uncollectible, it is written off against the related allowance for financing 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 profit or loss.

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

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

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

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

## H Impairment of financial assets (Continued)

**Change in accounting policy**

The Bank has changed its accounting policy for impairment of financing, advances and other loans upon adoption of FRS 139.

Prior to the adoption of FRS 139, the Bank's allowance on impairment losses is in conformity with the minimum requirements of BNM/GP3 Guidelines on 'Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts' ("BNM/GP3"). The basis of classification of non-performing financing, and the corresponding specific allowance follows the period of default for non-performing financing of 3 months.

The Bank is currently reporting under the BNM's transitional arrangement as prescribed in the guidelines on 'Classification and Impairment Provision for Loans/Financing' issued on 8 January 2010. However, the Bank's financial statements are prepared in full compliance with FRS 139 principles

The Bank has applied the new accounting policy to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or if appropriate, another category of equity, of the current financial year. Comparatives have not been restated. Refer to Note 39 for the impact of this change in accounting policy.

## I Property, plant and equipment

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

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

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

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

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

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

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Summary of Significant Accounting Policies for the financial year ended 31 December 2010 (Continued)

## J Intangible assets

### (a) Goodwill

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

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed**.** Impairment testing is performed annually and is performed by comparing the present value of the CGU's projected cash flows against the carrying amount of its net assets which include the allocated goodwill. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose. The Bank allocates goodwill to each business unit (Note 15 to these Financial Statements).

Under the current applicable approved accounting standards for business combinations, FRS 3 – Business Combinations which applies to the accounting for business combinations for which the agreement date is on or after 1 January 2006, the provisions of the standard are applied prospectively and no retrospective changes in respect of accounting for business combinations prior to 1 January 2006 have been made.

### (b) Computer software

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

## K Assets purchased under lease

### (a) Finance lease

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

Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the profit or loss as incurred.

### (b) Operating lease

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

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

## L Assets sold under lease

### (a) Finance lease

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

## L Assets sold under lease (Continued)

### (b) Operating lease

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

## M 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 profit or loss.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognise profit/loss 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 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 highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge) or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

## M Derivative financial instruments and hedge accounting (Continued)

### (a) Fair value hedge

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

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

### (b) Cash flow hedge

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

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 profit or loss. 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 profit or loss.

### (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 profit or loss.

Gains and losses accumulated in the equity are included in the profit or loss 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 profit or loss.

## N Currency translations

### (a) Functional and presentation currency

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

### (b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, 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 profit or loss, 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.

## O Income and deferred taxes

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

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

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

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

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

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially 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.

## P Employee benefits

### (a) Short term employee benefits

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

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

### (b) Post employment benefits

*Defined contribution plan*

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

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

### (c) Other long term employee benefits

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

### (d) Equity compensation benefits

FRS 2 only applies to transactions involving a transfer of equity instruments between shareholders and option holders, hence entitlements based on ordinary shares of the ultimate holding company under the MES are out of the scope of FRS 2.

## Q 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 profit or loss 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 profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

## R Provisions

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

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

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.

## S 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 fair value of a financial guarantee at the time of signature is zero because all 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 initial amount, less amortisation of fees recognised in accordance with FRS 137 "Provision, Contingent Liabilities and Contingent Assets", and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the profit or loss.

## T Contingent assets and contingent liabilities

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

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

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

## U Restricted Profit Sharing Investment Accounts ('RPSIA')

These deposits are used to fund specific financing and follow the principle of Mudharabah which state that profits will be shared with the Bank as Mudharib and losses shall be borne solely by depositors.

## V Share capital

### (a) Classification

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

### (b) Share issue costs

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

### (c) Dividends to shareholders of the Bank

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

## W Cash and cash equivalents

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

## X 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.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

**Change in accounting policy**

The Bank has adopted FRS 8 "Operating Segment" from 1 January 2010. FRS 8 replaces FRS114 'Segmental Reporting' and applied retrospectively. The adoption of FRS 8 did not result in any significant change to segments reporting disclosures. Comparatives have been restated.

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010

## 1 General information

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

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

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

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

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

## 2 Cash and short-term funds

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Cash and balances with banks and other financial institutions | **73,353** | 55,817 |
| Money at call and deposit placements maturing within one month | **7,671,054** | 4,625,101 |
| | **7,744,407** | 4,680,918 |

## 3 Deposits and placements with banks and other financial institutions

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Licensed banks | **400,000** | 425,375 |
| Licensed investment banks | **-** | 29,900 |
| Other financial institutions | **550,000** | 537,000 |
| | **950,000** | 992,275 |

## 4 Financial assets held for trading

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| **Money market instruments** | | |
| **Unquoted:** | | |
| Bank Negara negotiable notes | **1,283,823** | 1,186,923 |
| Islamic accepted bills | **98,364** | 54,634 |
| Islamic negotiable instruments of deposits | **638,001** | 1,328,917 |
| Government Investment Issues | **194,227** | 498,587 |
| | **2,214,415** | 3,069,061 |
| **Unquoted securities** | | |
| In Malaysia | | |
| Private debt securities | **133,479** | 215,233 |
| | **2,347,894** | 3,284,294 |

## 5 Financial investments available-for-sale

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Money market instruments** | | |
| **Unquoted** | | |
| Government Investment Issues | **65,526** | 129,778 |
| Islamic Cagamas bonds | **35,423** | 34,392 |
| Islamic commercial papers | **-** | 19,538 |
| Khazanah bonds | **-** | 34,975 |
| | **100,949** | 218,683 |
| **Unquoted securities** | | |
| In Malaysia | | |
| Private debt securities | **354,435** | 322,821 |
| Placement with Islamic Banking and Finance Institute Malaysia | **575** | 575 |
| | **455,959** | 542,079 |

## 6 Financial investments held-to-maturity

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Money market instruments** | | |
| **Unquoted** | | |
| Government Investment Issue | **100,056** | - |
| **Unquoted securities** | | |
| In Malaysia | | |
| Islamic commercial papers | **-** | 6,775 |
| Private debt securities | **1,001,081** | 1,010,812 |
| | **1,101,137** | 1,017,587 |
| Amortisation of premium less accretion of discount | **(7,502)** | (6,209) |
| | **1,093,635** | 1,011,378 |

Private debt securities amounting to RM865 million (2009 : RM864 million) are funded by a Restricted Profit Sharing Investment Account (‘RPSIA’) depositor, as part of an arrangement with CIMB Bank.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 7 Islamic derivative financial instruments, commitments and contingencies

### (i) Islamic derivative financial instruments

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through income statement and hedging purposes. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at balance sheet date, 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.

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | | **Fair values** | | | Fair values | |
| | **Principal amount RM'000** | **Assets RM'000** | **Liabilities RM'000** | Principal amount RM'000 | Assets RM'000 | Liabilities RM'000 |
| Foreign exchange derivatives | | | | | | |
| Currency forwards | **33,825** | **42** | **(460)** | 542,757 | 1,982 | (479) |
| Currency swaps | **1,621,195** | **8,235** | **(20,753)** | 1,169,856 | 6,067 | (10,442) |
| Currency spot | **245** | **1** | **-** | | | |
| Cross currency profit rate swaps | **88,549** | **2,653** | **(2,653)** | 89,703 | 201 | (201) |
| | **1,743,814** | **10,931** | **(23,866)** | 1,802,316 | 8,250 | (11,122) |
| Profit rate derivatives | | | | | | |
| Islamic profit rate swaps | **5,799,537** | **122,279** | **(108,850)** | 3,405,868 | 144,670 | (587) |
| Equity related derivatives | | | | | | |
| Equity options | **2,219,544** | **6,342** | **(6,342)** | 2,984,288 | 104,768 | (104,768) |
| Held for hedging purpose | | | | | | |
| Islamic profit rate swaps | **4,400,000** | **11,136** | **(60,141)** | 1,350,000 | - | (41,559) |
| Total derivative assets/(liabilities) | **14,162,895** | **150,688** | **(199,199)** | 9,542,472 | 257,688 | (158,036) |

## 7 Islamic derivative financial instruments, commitments and contingencies (Continued)

### (i) Islamic derivative financial instruments (Continued)

**Fair value hedge**

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

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

| | 2010<br>RM'000 |
|---|---|
| Loss on hedging instruments | (6,643) |
| Gain on the hedged items attributable to the hedged risk | 8,522 |

### (ii) Commitments and contingencies

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

The commitments and contingencies constitute the following:

| | **2010**<br>**Principal amount**<br>**RM'000** | 2009<br>Principal amount<br>RM'000 |
|---|---|---|
| **Credit related** | | |
| Direct credit substitutes | **37,197** | 26,949 |
| Certain transaction-related contingent items | **374,102** | 334,694 |
| Short-term self-liquidating trade-related contingencies | **17,949** | 33,982 |
| Irrevocable commitments to extend credit: | | |
| - maturity not exceeding one year | **1,782,407** | 2,010,593 |
| - maturity exceeding one year | **1,411,601** | 1,386,942 |
| Miscellaneous commitments and contingencies | **91,231** | 23,788 |
| Total credit-related commitments and contingencies | **3,714,487** | 3,816,948 |

## 7 Islamic derivative financial instruments, commitments and contingencies (Continued)

### (ii) Commitments and contingencies (Continued)

| | **2010** | 2009 |
|---|---|---|
| | **Principal amount** | Principal amount |
| **Treasury related** | **RM'000** | RM'000 |
| Foreign exchange related contracts: | | |
| - less than one year | **1,655,265** | 1,712,613 |
| - one year to less than five years | **88,549** | 89,703 |
| Profit rate related contracts: | | |
| - less than one year | **377,279** | - |
| - one year to less than five years | **4,315,158** | 3,405,868 |
| - over five years | **5,507,100** | 1,350,000 |
| Equity related contracts: | | |
| - less than one year | **637,740** | 1,633,706 |
| - one year to less than five years | **1,075,479** | 1,131,977 |
| - above 5 years | **506,325** | 218,605 |
| Total treasury-related commitments and contingencies | **14,162,895** | 9,542,472 |
| | **17,877,382** | 13,359,420 |

As at 31 December 2010, the commitments and contingencies exposure to RPSIA financing is RM Nil (2009: RM2,250 million)

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 8 Financing, advances and other loans

(i) By type:

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Cash line | **322,529** | 241,179 |
| Term financing | | |
| - House financing | **5,532,014** | 9,950,056 |
| - Syndicated term financing | **380,986** | 388,512 |
| - Hire purchase receivables | **5,234,598** | 4,436,748 |
| - Other term financing | **10,518,830** | 12,344,730 |
| Credit card receivables | **90,472** | 48,973 |
| Bills receivable | **2,235** | 1,625 |
| Islamic trust receipts | **59,091** | 29,827 |
| Claims on customer under Islamic accepted bills | **191,657** | 173,893 |
| Revolving credits | **407,330** | 845,716 |
| Other loans | **11** | 72 |
| | **22,739,753** | 28,461,331 |
| Less: Unearned income | **-** | (12,093,008) |
| Gross financing, advances and other loans | **22,739,753** | 16,368,323 |
| Fair value changes arising from fair value hedges | **17,997** | 26,519 |
| | **22,757,750** | 16,394,842 |
| Less: Allowance for impairment loss | | |
| - Individual impairment allowance | **(92,683)** | - |
| - Portfolio impairment allowance | **(240,490)** | - |
| - Specific allowance | **-** | (143,020) |
| - General allowance | **-** | (158,004) |
| | **22,424,577** | 16,093,818 |

The Bank has undertaken fair value hedge on the profit rate risk of RM4,400 million (2009 : RM1,350 million) financing using Islamic profit rate swaps.

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Gross financing hedged | **4,400,000** | 1,350,000 |
| Fair value changes arising from fair value hedges | **17,997** | 26,519 |
| | **4,417,997** | 1,376,519 |

The fair value loss on profit rate swaps as at 31 December 2010 is RM49.0 million (2009 : RM41.6 million).

## 8 Financing, advances and other loans (Continued)

(ii) By contract:

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Bai' Bithaman Ajil *(deferred payment sale)* | **10,320,341** | 7,195,630 |
| Ijarah Muntahiyyah Bittamlik/AITAB *(lease ended with ownership)* | **5,979,854** | 4,210,366 |
| Murabahah (*cost-plus*) | **303,903** | 2,486,613 |
| Bai' al-'inah (*sale and buy back*) | **5,827,671** | 2,426,538 |
| Others | **307,984** | 49,176 |
| | **22,739,753** | 16,368,323 |

(iii) By type of customer:

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Domestic non-bank financial institutions | **213,028** | 51,355 |
| Domestic business enterprises | | |
| - Small medium enterprises | **1,267,220** | 617,749 |
| - Others | **3,131,681** | 5,366,716 |
| Government and statutory bodies | **4,539,837** | 1,527,492 |
| Individuals | **13,353,200** | 8,764,262 |
| Other domestic entities | **5,467** | 17,802 |
| Foreign entities | **229,320** | 22,947 |
| | **22,739,753** | 16,368,323 |

(iv) By profit rate sensitivity:

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Fixed rate | | |
| - house financing | **417,942** | 308,792 |
| - hire purchase receivables | **5,234,598** | 3,577,319 |
| - others | **8,024,882** | 4,014,889 |
| Variable rate | | |
| - house financing | **5,114,072** | 3,047,836 |
| - others | **3,948,259** | 5,419,487 |
| | **22,739,753** | 16,368,323 |

## 8 Financing, advances and other loans (Continued)

(v) By economic purpose:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Personal use | **1,710,557** | 1,417,727 |
| Credit card | **90,472** | 48,973 |
| Purchase of consumer durables | **-** | 21 |
| Construction | **759,803** | 258,358 |
| Residential property | **5,579,762** | 3,394,765 |
| Non-residential property | **1,651,458** | 1,005,163 |
| Purchase of fixed assets other than land and building | **391,915** | 317,848 |
| Purchase of securities | **20,606** | 2,515,992 |
| Purchase of transport vehicles | **5,234,598** | 3,577,816 |
| Working capital | **7,039,034** | 3,557,758 |
| Other purpose | **261,548** | 273,902 |
| | **22,739,753** | 16,368,323 |

(vi) Impaired/non-performing financing by economic purpose:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Personal use | **17,165** | 15,846 |
| Credit cards | **2,616** | 1,211 |
| Construction | **1,584** | - |
| Residential property | **85,002** | 56,379 |
| Non-residential property | **16,131** | 8,345 |
| Purchase of fixed assets other than land and building | **1,738** | 1,620 |
| Purchase of securities | **19,364** | 18,670 |
| Purchase of transport vehicles | **86,560** | 42,779 |
| Working capital | **101,590** | 47,781 |
| Other purpose | **4,129** | 48,034 |
| | **335,879** | 240,665 |

## 8 Financing, advances and other loans (Continued)

(vii) Movements in impaired/non-performing financing, advances and other loans are as follows:

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| At 1 January | | | |
| - as previously reported | | **240,665** | 201,468 |
| - classified as impaired due to adoption of FRS 139 | 39 | **37,594** | - |
| As restated | | **278,259** | 201,468 |
| Classified as impaired/non-performing during the financial year | | **337,853** | 259,833 |
| Reclassified as non-impaired/performing during the financial year | | **(74,091)** | (90,353) |
| Amount written back in respect of recoveries | | **(121,592)** | (34,424) |
| Amount written off | | **(84,550)** | (95,859) |
| At 31 December | | **335,879** | 240,665 |
| Ratio of gross impaired/non-performing financing, advances and other loans to gross financing, advances and other loans | | **1.48%** | 1.47% |

(viii) Movements in impairment allowance/allowance for bad and doubtful financing:

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **Specific allowance** | | | |
| At 1 January | | | |
| - as previously reported | | **143,020** | 99,374 |
| - effect of adoption of FRS 139 | 39 | **(143,020)** | - |
| As restated | | - | 99,374 |
| Allowance made during the financial year | | - | 165,047 |
| Amount written back in respect of recoveries | | - | (25,785) |
| Amount written off | | - | (95,616) |
| At 31 December | | - | 143,020 |
| **Individual impairment allowance** | | | |
| At 1 January | | | |
| - as previously reported | | **-** | - |
| - effect of adoption of FRS 139 | 39 | **105,851** | - |
| As restated | | **105,851** | - |
| Allowance written back during the financial year | | **(273)** | - |
| Unwinding income | | **(2,613)** | - |
| Amount written off | | **(10,282)** | - |
| At 31 December | | **92,683** | - |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 8 Financing, advances and other loans (Continued)

(ix) Movements in impairment allowance/allowance for bad and doubtful financing (Continued):

| | Note | **2010 RM'000** | 2009 RM'000 |
|---|---|---|---|
| **General allowance** | | | |
| At 1 January | | | |
| - as previously reported | | **158,004** | 75,613 |
| - effect of adoption of FRS 139 | 39 | **(158,004)** | - |
| As restated | | - | 75,613 |
| Net allowance made during the financial year * | | - | 82,391 |
| At 31 December | | - | 158,004 |
| As % of gross financing, advances and other loans excluding RPSIA financing and financing exempted from general allowance by BNM) less specific allowance | | - | 1.51% |

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| **Portfolio impairment allowance** | | |
| At 1 January | | |
| - as previously reported | **-** | - |
| - effect of adoption of FRS 139 (Note 39) | **260,926** | - |
| As restated | **260,926** | - |
| Allowance made during the financial year | **162,884** | - |
| Transfer to CIMB Bank* | **(119,980)** | - |
| Unwinding income | **(1,838)** | - |
| Amount written off | **(61,502)** | - |
| At 31 December | **240,490** | - |
| As % of gross financing, advances and other loans (inclusive of regulatory reserve), excluding RPSIA financing) less individual impairment allowance | **2.30%** | - |

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

*As at 31 December 2010, the gross exposures to RPSIA financing is RM7,331 million (2009 : RM4,247 million) and the portfolio impairment allowance relating to this RPSIA amounting to RM 154.8 million (2009 general allowance : RM63.7 million) is recognised in the Financial Statements of CIMB Bank. There was no individual impairment/specific allowance provided on this RPSIA financing.

## 9 Other assets

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Income receivable | **-** | 16,611 |
| Deposits and prepayments | **308** | 315 |
| Sundry debtors | **53,235** | 35,185 |
| Credit Support Annex for derivative transactions | **68,470** | - |
| Clearing accounts | **212,214** | 55,920 |
| | **334,227** | 108,031 |

## 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:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| General allowance for bad and doubtful financing | **-** | 37,928 |
| Accelerated tax depreciation | **(809)** | (912) |
| Financial investments available-for-sale | **(1,694)** | (65) |
| Other temporary differences | **8,092** | 7,674 |
| Deferred tax assets | **5,589** | 44,625 |

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

## 10 Deferred taxation (Continued)

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

| Deferred tax assets/(liabilities) | Porftolio impairment/ general allowance for bad and doubtful financing RM'000 | Accelerated tax depreciation RM'000 | Financial investments available-for-sale RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **At 1 January 2010** | | | | | |
| **- as previously reported** | **37,928** | **(912)** | **(65)** | **7,674** | **44,625** |
| **- effect of adoption of FRS 139** | **8,613** | **-** | **-** | **6,501** | **15,114** |
| **As restated** | **46,541** | **(912)** | **(65)** | **14,175** | **59,739** |
| **Credited to profit or loss (Note 31)** | **(46,541)** | **39** | **-** | **(5,377)** | **(51,879)** |
| **Under/(over) provision in prior year** | **-** | **64** | **-** | **(706)** | **(642)** |
| **Transferred to equity** | **-** | **-** | **(1,629)** | **-** | **(1,629)** |
| **At 31 December 2010** | **-** | **(809)** | **(1,694)** | **8,092** | **5,589** |
| | | | | | |
| At 1 January 2009 | 17,330 | (1,543) | 573 | 4,702 | 21,062 |
| Credited to profit or loss (Note 31) | 20,598 | 631 | - | 2,663 | 23,892 |
| Underprovision in prior year | - | - | - | 309 | 309 |
| Transferred to equity | - | - | (638) | - | (638) |
| At 31 December 2009 | 37,928 | (912) | (65) | 7,674 | 44,625 |

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

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

## 12 Statutory deposits with Bank Negara Malaysia

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

## 13 Property, plant and equipment

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

The above property, plant and equipment include renovations and computer equipment under construction at cost of RM Nil (2009: RM173,000).

## 13 Property, plant and equipment (Continued)

| 2009 | Renovations, office equipment, furniture and fixtures RM'000 | Motor vehicles RM'000 | Computer equipment RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January | 6,751 | 302 | 21 | 7,074 |
| Additions | 1,330 | - | - | 1,330 |
| Reclassified to intangible assets | (1,081) | - | - | (1,081) |
| At 31 December | 7,000 | 302 | 21 | 7,323 |
| **Accumulated depreciation** | | | | |
| At 1 January | 3,092 | 118 | 9 | 3,219 |
| Charge for the financial year | 1,415 | 60 | 4 | 1,479 |
| At 31 December | 4,507 | 178 | 13 | 4,698 |
| **Net book value at 31 December** | 2,493 | 124 | 8 | 2,625 |

## 14 Intangible assets

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| **Computer software** | | |
| **Cost** | | |
| At 1 January | **12,338** | 11,043 |
| Additions | **2,809** | 214 |
| Reclassified from property, plant and equipment | **832** | 1,081 |
| **At 31 December** | **15,979** | 12,338 |
| **Amortisation** | | |
| At 1 January | **8,662** | 5,081 |
| Amortisation for the financial year | **3,030** | 3,581 |
| At 31 December | **11,692** | 8,662 |
| **Net book value at 31 December** | **4,287** | 3,676 |

The above intangible assets include computer software under construction at cost of RM479,000 (2009: RM Nil).

## 15 Goodwill

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January/At 31 December | **136,000** | 136,000 |

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

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2011 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% (2009: 5.00%). The discount rate is 8.89% (2009: 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.

## 16 Deposits from customers

(i) By type of deposits

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Non-Mudharabah | | |
| Demand deposits | **2,941,557** | 984,356 |
| Savings deposits | **701,147** | 510,379 |
| Fixed return investment accounts | **5,126,454** | 2,439,828 |
| Islamic negotiable instruments of deposits | **1,033,019** | 523,090 |
| Commodity Murabahah | **69,379** | 17,125 |
| Others | **25,191** | 7,366 |
| | **9,896,747** | 4,482,144 |
| Mudharabah | | |
| Demand deposits | **1,497,390** | 2,155,363 |
| Savings deposits | **289,034** | 204,066 |
| General investment deposits (inclusive of Special General investment deposits of RM7,561,472,000 (2009:RM7,425,800,000)) | **8,642,020** | 8,996,342 |
| Specific investment deposits | **2,352,764** | 1,658,582 |
| | **12,781,208** | 13,014,353 |
| | **22,677,955** | 17,496,497 |

## 16 Deposits from customers (Continued)

(ii) By type of customer

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Government and statutory bodies | **5,685,744** | 4,071,897 |
| Business enterprises | **12,465,878** | 10,365,604 |
| Individuals | **3,573,972** | 2,517,423 |
| Others | **952,361** | 541,573 |
| | **22,677,955** | 17,496,497 |

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

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Licensed Islamic banks | **394,625** | 50,000 |
| Licensed investment banks | **571,200** | 1,110,350 |
| Licensed banks | **10,108,954** | 7,048,002 |
| Other financial institutions | **50,249** | 14,080 |
| | **11,125,028** | 8,222,432 |

Included in the deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account (‘RPSIA’) placed by CIMB Bank amounting to RM8,460 million (2009: RM5,091 million) for tenures between 1 month to 5 years at profit rates from 2.81% to 4.18% per annum (2009: 2.42% to 2.50%). 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.

## 18 Subordinated Sukuk

The RM300 million subordinated Sukuk (‘the Sukuk’) is part of the Tier-2 Junior Sukuk programme which was approved by the Securities Commission on 22 May 2009. Under the programme, the Bank is allowed to raise Tier-2 capital of up to RM2.0 billion in nominal value outstanding at any one time.

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

The RM300 million Sukuk qualify as Tier-2 capital for the purpose of the RWCR computation.

## 19 Other liabilities

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Income payable | - | 49,317 |
| Accruals and other payables | 25,099 | 17,153 |
| Clearing accounts | 327,463 | 80,732 |
| Others | 31,993 | 82,185 |
| | 384,555 | 229,387 |

## 20 Perpetual preference shares

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Authorised** | | |
| **Perpetual preference shares of RM1.00 each** | | |
| At 1 January/31 December | **100,000** | 100,000 |
| | | |
| **Issued and fully paid** | | |
| **Perpetual preference shares of RM1.00 each** | | |
| At 1 January/31 December | **70,000** | 70,000 |

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

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

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

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

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

## 21 Ordinary share capital

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Authorised** | | |
| **Ordinary shares of RM1.00 each:** | | |
| At 1 January/31 December | **900,000** | 900,000 |
| | | |
| **Issued and fully paid** | | |
| **Ordinary shares of RM1.00 each:** | | |
| At 1 January | **550,000** | 550,000 |
| Issued during the financial year | **200,000** | - |
| At 31 December | **750,000** | 550,000 |

## 22 Reserves

(a) The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act, 1983 and is not distributable as cash dividend.

(b) Merger reserves, which are non-distributable, relate to the difference between the cost of the merger between the Bank and the Islamic banking operation of CIMB Bank Berhad, and the value of the net assets and reserves transferred to the Bank.

(c) Capital reserves, which are non-distributable, relate to the retained earnings of the Islamic banking business of CIMB Bank Berhad which were transferred to the Bank, arising from the business combination under common control using the 'pooling-of-interest'/merger accounting method in the financial year 2007.

(d) Regulatory reserves are maintained as an additional credit risk absorbent to ensure robustness on the financing impairment assessment methodology with the adoption of FRS 139 beginning 1 January 2010.

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

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| At 1 January | **194** | (1,719) |
| Net gain from change in fair value | **7,047** | 4,485 |
| Realised gain transferred to profit and loss on disposal | **(530)** | (1,934) |
| Deferred taxation | **(1,629)** | (638) |
| Net change in available-for-sale securities | **4,888** | 1,913 |
| At 31 December | **5,082** | 194 |

## 23 Income derived from investment of depositors' funds and others

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Income derived from investment of | | |
| - General investment deposits | **567,865** | 444,156 |
| - Specific investment deposits | **436,896** | 183,138 |
| - Other deposits | **387,054** | 230,415 |
| | **1,391,815** | 857,709 |

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

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Financing, advances and other loans | | |
| - Income other than recoveries | **442,369** | 334,115 |
| - Unwinding income* | **2,763** | - |
| Financial assets held for trading | **10,945** | 5,911 |
| Financial investments available-for-sale | **11,526** | 15,494 |
| Financial investments held-to-maturity | **6,202** | 6,838 |
| Money at call and deposit with financial institutions | **74,876** | 52,148 |
| | **548,681** | 414,506 |
| Accretion of discount less amortisation of premium | **16,374** | 27,772 |
| Total finance income and hibah | **565,055** | 442,278 |
| | | |
| Other operating income | | |
| Net (loss)/gain from financial assets held for trading | | |
| - realised | **(715)** | 1,787 |
| - unrealised | **(536)** | (201) |
| Net gain from sale of financial investments available-for-sale | **287** | 1,195 |
| Net loss on maturity of financial investments held-to-maturity | **(100)** | - |
| Net gain/(loss) from foreign exchange transactions | **982** | (3,295) |
| | **(82)** | (514) |
| Fee and commission income | **2,892** | 2,392 |
| | **567,865** | 444,156 |

**Unwinding income is income earned on impaired financial assets*

## 23 Income derived from investment of depositors' fund and others (Continued)

### (ii) Income derived from specific investment deposits

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Financing, advances and other loans | | |
| - Income other than recoveries | **349,922** | 105,619 |
| Money at call and deposit with financial institutions | **42,657** | 34,686 |
| Financial investments held-to-maturity | **44,317** | 43,033 |
| Total finance income and hibah | **436,896** | 183,338 |
| Other operating income | | |
| Net loss from maturity/redemption of financial investments held-to-maturity | **-** | (200) |
| | **436,896** | 183,138 |

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

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Financing, advances and other loans | | |
| - Income other than recoveries | **303,848** | 175,336 |
| - Unwinding income* | **1,781** | - |
| Financial assets held for trading | **7,678** | 3,265 |
| Financial investments available-for-sale | **7,967** | 7,939 |
| Financial investments held-to-maturity | **4,274** | 3,486 |
| Money at call and deposit with financial institutions | **50,263** | 25,840 |
| | **375,811** | 215,866 |
| Accretion of discount less amortisation of premium | **11,226** | 13,773 |
| Total finance income and hibah | **387,037** | 229,639 |
| Other operating income | | |
| Net (loss)/gain from financial assets held for trading | | |
| - realised | **(487)** | 976 |
| - unrealised | **(409)** | (196) |
| Net gain from sale of financial investments available-for-sale | **218** | 635 |
| Net loss on maturity of financial investments held-to-maturity | **(70)** | - |
| Net loss from foreign exchange transactions | **(1,130)** | (1,885) |
| | **(1,878)** | (470) |
| Fees and commission income | **1,895** | 1,246 |
| | **387,054** | 230,415 |

**Unwinding income is income earned on impaired financial assets*

## 24 Income derived from investment of shareholders' fund

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Financing, advances and other loans | | |
| - Income other than recoveries | **33,450** | 29,729 |
| - Unwinding income* | **192** | - |
| Financial assets held for trading | **850** | 514 |
| Financial investments available-for-sale | **879** | 1,395 |
| Financial investments held-to-maturity | **471** | 617 |
| Money at call and deposits with financial institutions | **5,461** | 4,732 |
| | **41,303** | 36,987 |
| Accretion of discount less amortisation of premium | **1,239** | 2,513 |
| Total finance income and hibah | **42,542** | 39,500 |
| | | |
| Other operating income | | |
| Net (loss)/gain from financial assets held for trading | | |
| - realised | **(53)** | 157 |
| - unrealised | **(49)** | (19) |
| Net gain from sale of financial investments available-for-sale | **25** | 104 |
| Net loss on maturity of financial investments held-to-maturity | **(7)** | - |
| Net loss from foreign exchange transactions | **(138)** | (291) |
| Net loss from hedging derivatives | **(1,923)** | (1,625) |
| Net gain/(loss) from derivative financial instruments | | |
| - realised | **165,770** | 79,633 |
| - unrealised | **(147,031)** | (77,859) |
| | **16,594** | 100 |
| Fees and commission income | **57,710** | 66,631 |
| Less : Fee and commission expense | **(1,430)** | (636) |
| Net fees and commision income | **56,280** | 65,995 |
| Other income: | | |
| - Sundry income | **8,860** | 10,210 |
| | **124,276** | 115,805 |

**Unwinding income is income earned on impaired financial assets*

## 25 Impairment allowances on financing, advances and other loans

| | **2010** **RM'000** | 2009 RM'000 |
|---|---|---|
| Allowance for bad and doubtful debts and financing: | | |
| Specific allowance | | |
| - made during the financial year | **-** | 165,047 |
| - written back during the financial year | **-** | (25,785) |
| General allowance | | |
| - net allowance made during the financial year | **-** | 82,391 |
| Individual impairment allowance | | |
| - written back during the financial year | **(273)** | - |
| Portfolio impairment allowance | | |
| - net allowance made during the financial year | **162,884** | - |
| Bad debts on financing: | | |
| - recovered | **(20,900)** | (14,631) |
| - written off | **5** | 36 |
| | **141,716** | 207,058 |

## 26 Income attributable to depositors

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Deposits from customers | | |
| - Mudharabah | **285,613** | 184,680 |
| - Non-Mudharabah | **118,899** | 62,388 |
| Deposits and placements of banks and other financial institutions | | |
| - Mudharabah | **280,724** | 111,916 |
| - Non-Mudharabah | **38,545** | 17,846 |
| Others | **17,505** | 4,752 |
| | **741,286** | 381,582 |

## 27 Personnel expenses

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Wages and salaries | **10,109** | 8,518 |
| Allowances and bonuses | **14,690** | 9,850 |
| Personnel expenses charged by CIMB Bank | **60,337** | 57,219 |
| Staff incentive | **4,645** | 5,195 |
| Other staff related costs | **26,588** | 16,818 |
| | **116,369** | 97,600 |

## 28 Other overheads and expenditures

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Establishment** | | |
| Rental | **1,122** | 1,282 |
| Depreciation of property, plant equipment | **1,139** | 1,479 |
| EDP expenses | **1,204** | 2,211 |
| Repairs and maintenance | **2,661** | 1,870 |
| Overheads charged by CIMB Bank | **34,385** | 27,041 |
| Others | **4,475** | 1,936 |
| **Promotion** | | |
| Advertisement and publicity | **4,819** | 13,514 |
| Promotion costs charged by CIMB Bank | **1,089** | 6,498 |
| Others | **19,567** | 25,692 |
| **General expenses** | | |
| Professional fees | **2,133** | 1,585 |
| Amortisation of intangible assets | **3,030** | 3,581 |
| General expenses charged by CIMB Bank | **17,910** | 15,106 |
| Communication | **170** | 1,499 |
| Incidental expenses on banking operations | **2,712** | 3,431 |
| Others | **16,486** | 10,190 |
| | **112,902** | 116,915 |

The above expenditure includes the following statutory disclosures:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Directors remuneration (excluding benefits-in-kind) (Note 30) | **2,064** | 1,542 |
| Auditors' remuneration : | | |
| PwC Malaysia (audit) | | |
| - statutory audit | **105** | 94 |
| - limited review | **40** | 40 |
| - other audit related | **75** | - |
| PwC Malaysia (non-audit) | | |
| - tax and taxation services | **12** | 18 |
| - others | **60** | - |

## 29 Significant related party transactions and balances

### (a) Related parties and relationship

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

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

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

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

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

### (b) Related party transactions

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

| | **Immediate and ultimate holding company RM'000** | **Other related companies RM'000** | **Key management personnel RM'000** |
|---|---|---|---|
| **2010** | | | |
| **Income** | | | |
| Profit income on deposits and placement with banks and other financial institutions | **168** | **1,993** | - |
| Profit income on financial investments held-to-maturity | **1,010** | **-** | - |
| Profit income on financing, advances and other loans | **-** | **-** | 2 |
| **Expenditure** | | | |
| Profit expense on deposits and placements of banks and other financial institutions | **290,521** | **26,431** | - |
| Profit expense on deposits from customers | **-** | **141** | - |
| Profit expense on subordinated sukuk | **17,447** | **58** | - |
| Outsourced back office processing | **113,721** | **41,513** | - |
| Security services | **-** | **47** | - |

| | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM'000 |
|---|---|---|---|
| 2009 | | | |
| Income | | | |
| Profit income on deposits and placement with banks and other financial institutions | 1,823 | 2,119 | - |
| Expenditure | | | |
| Profit expense on deposits and placements of banks and other financial institutions | 104,664 | 15,528 | - |
| Profit expense on deposits from customers | - | 38 | 2 |
| Profit expense on subordinated sukuk | 4,735 | 16 | - |
| Outsourced back office processing | 105,863 | 15,882 | - |
| Security services | - | 66 | - |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

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

### (b) Related party transactions (Continued)

Key management compensation

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Salaries and other short term employee benefits | **2,483** | 1,562 |

Transactions with other related parties are aggregated because these transactions are similar in nature and no single transaction with these parties is significant enough to warrant separate disclosure.

| | **2010** | 2009 |
|---|---|---|
| | **Unit** | Unit |
| Share options balance of ultimate holding company | **7,880,840** | 10,314,000 |

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

There were no financing, advances and other 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 2010 and 2009 for financing, advances and other loans made to the key management personnel

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

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

### (c) Related party balances

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

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

### (c) Related party balances (Continued)

| | Parent company RM'000 | Other related companies RM'000 | Key management personnel RM’000 |
|---|---|---|---|
| 2009 | | | |
| Amounts due from | | | |
| Current accounts, deposits and placements with banks and other financial institutions | 102,750 | 88,712 | - |
| Profit income on deposits and placements with banks and other financial institutions | 16 | 44 | - |
| | | | |
| Amounts due to | | | |
| Deposit from customers | - | 256,665 | 1,089 |
| Deposits and placements of banks and other financial institutions | 6,870,808 | 1,301,623 | - |
| Profit expense on deposits from customers | - | 32 | - |
| Profit expense on deposits and placements of banks other financial institutions | 16,894 | 2,620 | - |
| Subordinated sukuk | 299,000 | 1,000 | - |
| Profit expense on subordinated sukuk | 4,735 | 16 | - |
| Outsourced back office processing | 9,892 | 1,395 | - |

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

### (d) Management Equity Scheme ('MES')

The MES were granted to eligible senior management of the Bank as part of the performance linked compensation scheme by a substantial shareholder of CIMB Group. The scheme was initially launched in 1 March 2004 at CIMB Group level and in November 2007, both the Nomination and Remuneration Committee of CIMB Group approved amendments to the terms which provides for the inclusion of the senior management of CIMB Group in the MES.

The eligibility for participation in the scheme shall be at the discretion of the Nomination and Remuneration Committee of CIMB Group. Entitlement 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 options granted vest in proportions across various exercise periods.

In December 2008, the substantial shareholder of CIMB Group approved the extension of the MES Scheme from 28 February 2009 to 28 February 2012. The MES will continue to be in force until 28 February 2012, after which the voting rights of unexercised balances will remain with the substantial shareholder of CIMB Group.

Subsequent to the bonus issue undertaken by CIMB Group during the current financial year, the number of entitlements had increased by 1,086,557 units and the reference price was revised from RM3.48 each to RM1.74 each effective 24 May 2010.

The weighted average remaining contractual life is 1.2 years (2009: 2.2 years).

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Number of options: | | |
| - Granted during the financial year (units) | **353** | 350 |
| - As at 31 December (units) | **1,708** | 268 |

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

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

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

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Outstanding credit exposures with connected parties | **681,773** | 413,419 |
| Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures | **1.9%** | 1.9% |
| Percentage of outstanding credit exposures with connected parties which is non-performing or in default | **0.0%** | 0.0% |

## 30 CEO, Directors and Shariah Committee Members remuneration

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

Non-Executive Directors

Datuk Dr. Syed Muhamad bin Syed Abdul Kadir
Dato' Sri Mohamed Nazir bin Abdul Razak
Dato' Mohd Shukri bin Hussin
Dato' Anwar bin Haji @ Aji
Raja Shaharul Niza bin Raja Abdul Aziz
Professor Dr. Mohammad Hashim Kamali
Achmad Riawan Amin (appointed on 6 October 2010)

Executive Director

Badlisyah bin Abdul Ghani

## 30 CEO, Directors and Shariah Committee Members remuneration (Continued)

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| CEO and Executive Director | | |
| - Salary and other remuneration, including meeting allowance | **766** | 692 |
| - Bonus | **934** | 546 |
| - Benefits-in-kind | **413** | 11 |
| | **2,113** | 1,249 |
| Non-Executive Directors | | |
| - Fees | **364** | 304 |
| - Benefits-in-kind | **6** | 9 |
| | **370** | 313 |
| Shariah Committee members | **307** | 196 |
| | **2,790** | 1,758 |

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

The Directors' bonus for the financial year 2010 will be paid in tranches, spread over financial year 2011, while for financial year 2009, it will be paid in tranches, spread over financial year 2010 and 2011 with the final tranche paid in the first quarter of financial year 2011, after certain key financial performance indicators for the Bank in respect of the financial year 2010 has been met. A similar condition is also imposed on the bonus for financial year 2010 of certain key personnel.

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

| | 2010 | 2009 |
|---|---|---|
| Executive Director | | |
| RM1,200,001 – RM1,250,000 | **-** | 1 |
| RM2,100,001 – RM2,150,000 | **1** | - |
| Non-Executive Directors | | |
| RM50,000 and below | **3** | 2 |
| RM50,001 to RM100,000 | **3** | 3 |
| RM100,001 to RM150,000 | **-** | - |
| RM150,001 to RM200,000 | **1** | 1 |

## 31 Taxation

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Taxation based on profit for the financial year: | | |
| - Malaysian income tax | **47,386** | 64,529 |
| Deferred taxation (Note 10) | **51,879** | (23,892) |
| Over/(under) accrual in prior year | **2,782** | (277) |
| | **102,047** | 40,360 |
| **Reconciliation between tax expense and the Malaysian tax rate** | | |
| Profit before tax and zakat | **403,818** | 170,523 |
| Tax calculated at a rate of 25% | **100,955** | 42,631 |
| Tax effects: | | |
| - income not subject to tax | **(2,186)** | (2,785) |
| - expenses not deductible for tax purposes | **496** | 791 |
| Under/(over) accrual in prior year | **2,782** | (277) |
| Tax expense | **102,047** | 40,360 |

## 32 Earnings per share

a) Basic earnings per share

The basic earnings per ordinary share is calculated based on the net profit for the financial year of RM301,771,000 (2009: RM123,742,000) divided by the weighted average number of ordinary shares of 620,685,000 (2009: 550,000,000) in issue during the financial year.

b) Diluted earnings per share

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

## 33 Lease commitments

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

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Within one year | **560** | 560 |
| One year to five years | **2,238** | 2,798 |
| Five years and more | **1,912** | 1,935 |

## 34 Capital commitments

| | **2010** | 2009 |
|---|---|---|
| | **RM'000** | RM'000 |
| Capital expenditure: | | |
| - authorised and contracted for | **1,184** | 2,635 |
| - authorised but not contracted for | **3,553** | 13,316 |

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

## 35 Capital adequacy

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

The capital management process is centrally supervised by the Group Executive Committee (EXCO), Group Risk Committee (GRC) and Board Risk Committee (BRC) periodically assess and review of the capital requirements and source of capital across Group. Available capital is allocated across competing demands, guided by the predetermined policies, and to ensure regulatory compliance. Regular updates on capital position of the Group are also provided to the Board of Directors.

With effect from 1 July 2010, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Guidelines on Risk Weighted Capital Adequacy Framework: Internal Rating-Based approach (IRB approach) for Credit Risk, where Advanced Internal Rating-Based (AIRB) is used for retail exposure and Foundation IRB for Non-Retail exposure while Operational risk is based on Basic Indicator Approach. Market Risk remained unchanged under Standardised Approach.

## 35 Capital adequacy (Continued)

The Bank has applied paragraph 7.2 of Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) dated 5 February 2010, where the Bank is exempted from disclosing comparative figures in the previous reporting period.

The comparative capital adequacy ratios for 31 December 2009 is based on Bank Negara Malaysia Guidelines on Risk Weighted Capital Adequacy Framework for Credit and Market risk (Basel 1).

*Capital Structure and Adequacy*

The table below sets out the summary of the sources of capital and the capital adequacy ratios of the Bank as at 31 December 2010. The Bank issue various capital instruments pursuant to the respective regulatory guidelines, including tier 2 subordinated sukuk that qualify as capital pursuant to the Risk Weight Capital Adequacy Framework (Basel II) ("RWCAF") issued by BNM.

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

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Tier I capital | **1,184,591** | 690,239 |
| Eligible Tier II capital | **355,874** | 458,004 |
| Capital base | **1,540,465** | 1,148,243 |
| | | |
| Core capital ratio | **13.24%** | 6.82% |
| Risk-weighted capital ratio | **17.21%** | 11.34% |

## 35 Capital adequacy (Continued)

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

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Tier I capital** | | |
| Paid-up share capital | **750,000** | 550,000 |
| Perpetual preference shares | **70,000** | 70,000 |
| Other reserves | **506,180** | 250,864 |
| | **1,326,180** | 870,864 |
| Less: Deferred tax | **(5,589)** | (44,625) |
| Less: Goodwill | **(136,000)** | (136,000) |
| | **1,184,591** | 690,239 |
| **Tier II capital** | | |
| Subordinated Sukuk | **300,000** | 300,000 |
| General allowance for bad and doubtful financing | **-** | 158,004 |
| Regulatory reserve | **7,405** | - |
| Portfolio impairment allowance^ | **30,892** | - |
| Surplus of total eligible provision over expected loss | **17,577** | - |
| Total Tier II capital | **355,874** | 458,004 |
| Total capital base | **1,540,465** | 1,148,243 |

(c) Breakdown of risk-weighted assets in the various categories of risk-weights as at 31 December 2010 :

| | RM'000 |
|---|---|
| Credit risk | **7,623,657** |
| Market risk | **285,115** |
| Operational risk | **1,041,278** |
| | **8,950,050** |

## 35 Capital adequacy (Continued)

Breakdown of risk-weighted assets in the various categories of risk-weights as at 31 December 2009 :

| | Principal RM'000 | Risk-weighted RM'000 |
|---|---|---|
| 0% | 6,100,082 | - |
| 20% | 2,070,774 | 414,155 |
| 50% | 3,068,223 | 1,534,112 |
| 100% | 7,628,648 | 7,628,648 |
| Total risk – weighted assets for credit risk | 18,867,727 | 9,576,915 |
| Risk weighted assets for market risk | | 548,828 |
| Total risk weighted assets | | 10,125,743 |

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

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

As at 31 December 2010, RPSIA assets excluded from the RWCR calculation amounted to RM6,217 million (2009 : RM5,091 million).

## 36 Use of financial instruments

## A Financial Risk Management

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

Risk management is an integral component of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, Group Risk Management (GRM) is involved at the early stage of the risk taking process by providing independent inputs such as the relevant valuations, credit evaluations, new product assessments and Capital-at-Risk (CaR) quantifications. These inputs enable business units to align their business strategies with the Group's risk appetite.

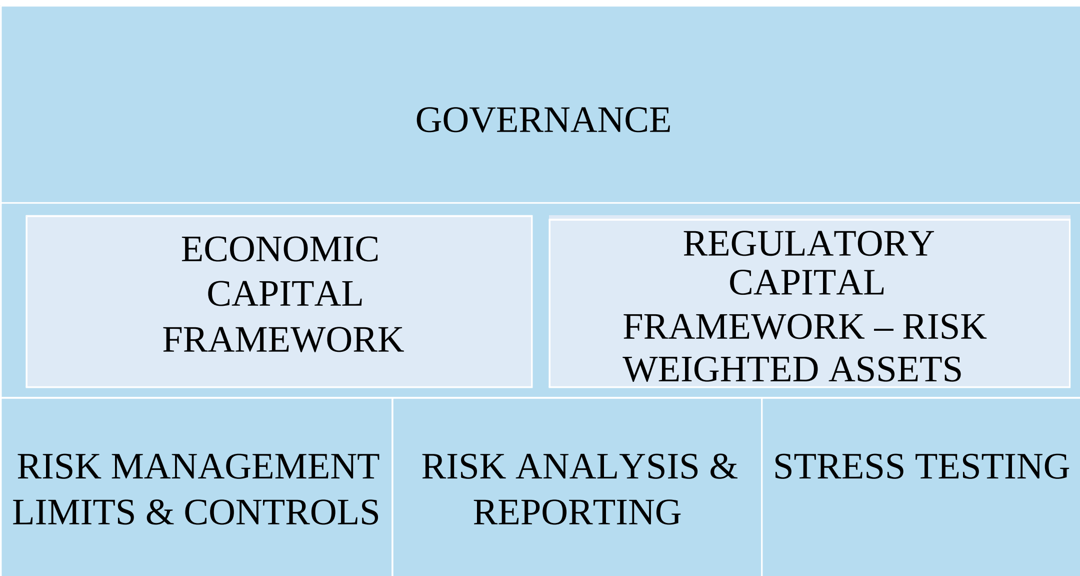
The objectives of CIMB Group's risk management activities are to:

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

### (b) Enterprise Wide Risk Management Framework

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

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



## 36 Financial Risk Management (Continued)

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

The framework is centred on resilient risk and capital management which requires the Group to identify, evaluate, measure, manage and control its significant risks and risk appetite, and relate these to its capital requirements and at all times ensure capital adequacy. CIMB Group employs CaR as the common and consistent measurement of risk across CIMB Group. The CaR framework provides the basis of allocating economic capital within the Group. It provides a benchmark to facilitate the comparison of risk across business units and risk types. This enables the Group to consider both the downside risk, for risk protection and upside potential, for earnings growth. Hence, allowing the Group to measure the performance of each business on an absolute basis (economic profit) and relative percentage return basis (RAROC) against the Group's costs of capital.

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

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

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

## 36 Financial Risk Management (Continued)

### (c) Risk Governance

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

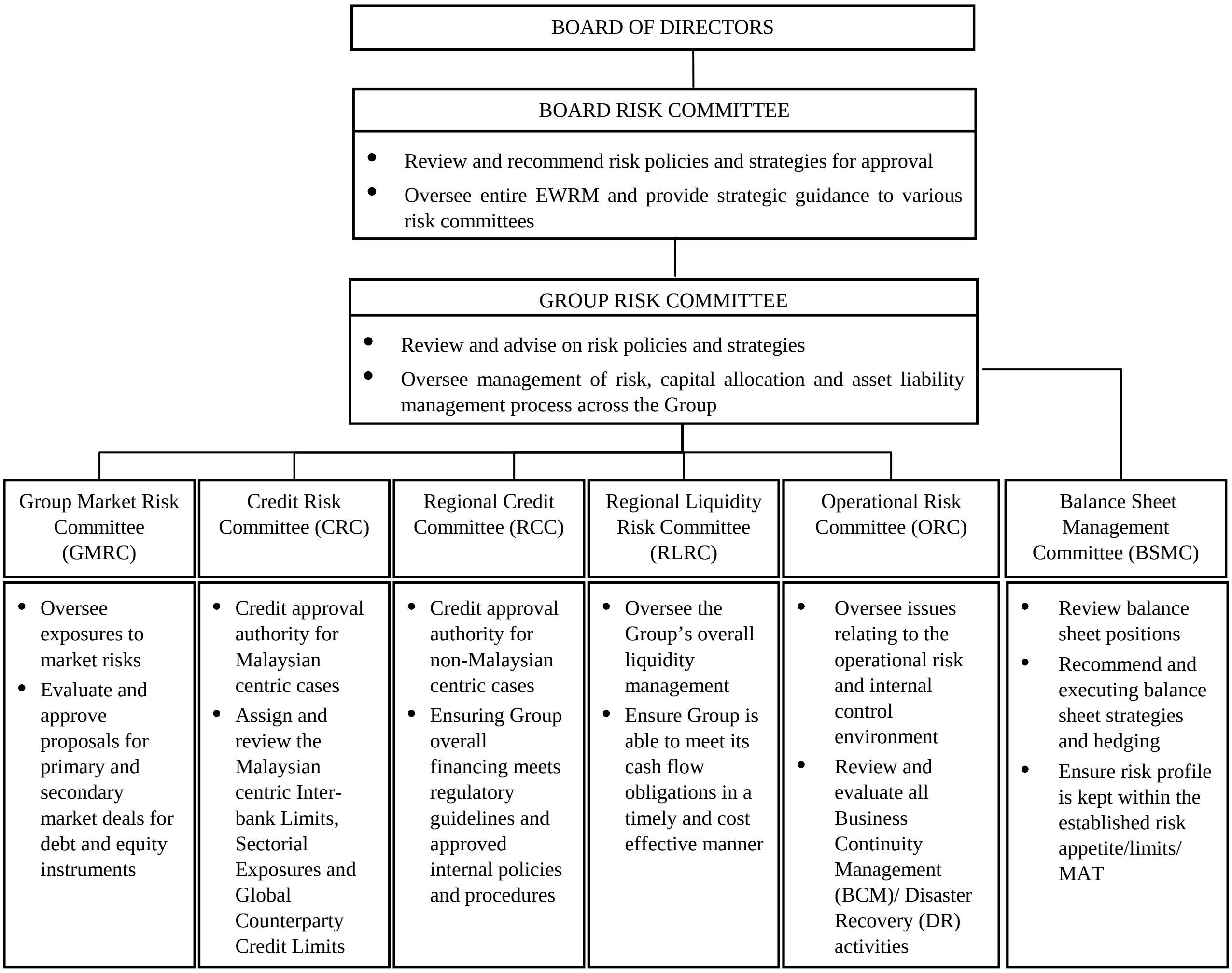
GRC is the primary delegated authority for managing risk on a group-wide basis and reports directly to BRC. Sub-committees, namely Credit Risk Committee (CRC), Group Market Risk Committee (GMRC), Regional Credit Committee (RCC), Regional Liquidity Risk Committee (RLRC) and Operational Risk Committee (ORC), delegated from the GRC are set up to manage and control specific risk areas. In relation to Rate of return Risk in the Banking Book (RORBB), GRC is further assisted by Balance Sheet Management Committee (BSMC) that is responsible for recommending and executing strategies and hedging proposal of the banking book as well as ensuring the Group's profit rate risk profile is within the risk limits/MATs endorsed by the GRC. With this set-up, the Board and BRC through the various risk committees and BSMC maintain oversight of various risks across the Group.

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

## 36 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

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



## 36 Financial Risk Management (Continued)

### (c) Risk Governance (Continued)

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

### (d) Group Risk Division

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

The key responsibilities of GRD are to identify, analyse, monitor and review the principal risks to which the Group is exposed. It also helps to create shareholder value through proper allocation of risk capital, development of risk-based pricing framework and facilitate development of new businesses and products.

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

## 36 Financial Risk Management (Continued)

### (e) Group Risk Management

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

GRM maintains an oversight of the functions performed by the risk management units in the asset management and insurance/takaful subsidiaries.

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

GRM is also tasked with the co-ordination of the Group's effort towards implementation of the Basel II framework in compliance with the International Convergence of Capital Measurement and Capital Standards prescribed by the Bank of International Settlements and as adopted by BNM. In this regard, GRM develops, implements and validates all internal rating and scoring models and closely monitors the usage of the rating and scoring systems to ensure relevancy to current market conditions and integrity of the ratings.

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

## 36 Financial Risk Management (Continued)

### (f) Group Credit

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

### (g) Regional Credit Management

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

### Strategies and Processes for Various Risk Management

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

## 36.1 Credit Risk

Credit risk, is defined as arising from losses due to the obligor, market counterparty or issuer of securities or other instruments held, failing to perform its contractual obligations to the Group. It arises primarily from financing activities through financing assets as well as commitments to support clients' obligations to third parties, i.e. guarantees. In sales and trading activities, credit risk arises from the possibility that the Group's counterparties will not be able or willing to fulfill their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able to or willing to fulfill their obligation to pay the positive fair value or receivable resulting from the execution of contract terms. Credit risk may also arise where the downgrading of an entity's rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

## 36 Financial Risk Management (Continued)

### 36.1 Credit Risk (Continued)

**Credit Risk Management**

The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with risk.

The credit approving authority is established and documented in the Group's credit policy. The Group adopts a multi-tiered credit approving authority spanning various delegated authorities and various credit committees. The credit committees namely, BCC, SBCC, CRC and RCC are set up to enhance the efficiency and effectiveness of the credit oversight as well as the credit approval process for all credit applications originating from the Group's business units. The Committees also ensures the overall financing portfolio meets the guidelines of the regulatory authorities and adherence to the approved credit policies and procedures.

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

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

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

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit Risk (Continued)

**Credit Risk Management (Continued)**

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

In addition to the above, the Group also employs CaR to measure and manage credit portfolio risk due to credit events. The Group adopted the Monte Carlo simulation approach in the generation of possible portfolio scenarios to obtain the standalone and portfolio CaR. This approach takes into account the credit concentration risk and the correlation between obligors/counterparties and industries. In estimating the portfolio CaR, the Group uses 25,000 simulation numbers at 99% confidence level. The generated portfolio CaR, and any shortfall in the provision for defaulted accounts make up to the total Credit CaR utilization to be compared against the allocated capital. The CaR usage versus pre-determined limit is monitored by Risk Management & Analytics (RMA) within GRM. Any exception will be highlighted to Management in accordance with the Group's exception management procedure. These are summarized and reported to GRC and BRC on a monthly basis.

**Credit Risk Mitigation**

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

*Collaterals/Securities*

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit Risk (Continued)

**Credit Risk Mitigation (Continued)**

*Collaterals/Securities (Continued)*

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

*Collateral Valuation and Management*

The Group has in place policies which govern the determination of eligibility of various collaterals including 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.

*Netting*

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

*Concentrations within risk mitigation*

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

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010

## 36 Financial Risk Management (Continued)

### 36.1 Credit Risk (Continued)

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

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

*Credit Risk Mitigation*

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

*Treatment of Rating Downgrade*

Based on the terms of the existing CSA and our exposure as at 31 December 2010, there will be no requirement for additional collateral to be posted in the event of a one-notch downgrade of rating.

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

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

The following table represents credit risk exposure to the Bank as at 31 December 2010, before taking account of any collateral held or other credit enhancements and after allowance for impairment where appropriate.

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

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

### 36.1.1 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The maximum credit risk exposures of the Bank as at 31 December 2010 are as follows:

| | |
|---|---|
| **Items recognised in the statement of financial position** | **RM'000** |
| Cash and short-term funds | **7,744,407** |
| Deposits and placements with banks and other financial institutions | **950,000** |
| Financial assets held for trading | |
| - Money market instruments | **2,214,415** |
| - Unquoted securities | **133,479** |
| Financial investments available-for-sale | |
| - Money market instruments | **100,949** |
| - Unquoted securities | **355,010** |
| Financial investments held-to-maturity | |
| - Money market instruments | **100,040** |
| - Unquoted securities | **993,595** |
| Islamic derivative financial instruments | |
| - Trading derivatives | **139,552** |
| - Hedging derivatives | **11,136** |
| Financing, advances and other loans | |
| - Cashline | **310,925** |
| - Term financing | **21,395,426** |
| - Bills receivable | **2,235** |
| - Islamic trust receipts | **54,886** |
| - Claim on customers under Islamic accepted bills | **176,123** |
| - Credit card receivables | **86,591** |
| - Revolving credits | **398,391** |
| Other assets | **121,182** |
| Amount due from holding company | **245,034** |
| Amount due from related companies | **828** |
| | **35,534,204** |
| **Items not recognised in the statement of financial position** | |
| Financial guarantees | **36,420** |
| Credit related commitments and contingencies | **3,303,964** |
| **Total maximum credit risk exposures** | **38,874,588** |

# CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

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

### (a) Geographical sectors

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

| | Malaysia RM'000 | Singapore RM'000 | United States RM'000 | United Kingdom RM'000 | Hong Kong RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Items recognised in the statement of financial position** | | | | | | |
| Cash and short-term funds | 7,473,635 | 77,088 | 17,924 | 61,670 | 114,090 | 7,744,407 |
| Deposits and placements with banks and other financial institutions | 950,000 | - | - | - | - | 950,000 |
| Financial assets held for trading | | | | | | |
| - Money market instruments | 2,214,415 | - | - | - | - | 2,214,415 |
| - Unquoted securities | 133,479 | - | - | - | - | 133,479 |
| Financial investments available-for-sale | | - | - | - | - | |
| - Money market instruments | 100,949 | - | - | - | - | 100,949 |
| - Unquoted securities | 355,010 | - | - | - | - | 355,010 |
| Financial investments held-to-maturity | | - | - | - | - | |
| - Money market instruments | 100,040 | - | - | - | - | 100,040 |
| - Unquoted securities | 993,595 | - | - | - | - | 993,595 |
| Islamic derivative financial instruments | | - | - | - | - | |
| - Trading derivatives | 139,552 | - | - | - | - | 139,552 |
| - Hedging derivatives | 11,136 | - | - | - | - | 11,136 |
| Financing, advances and other loans | | - | - | - | - | |
| - Cashline | 310,925 | - | - | - | - | 310,925 |
| - Term financing | 21,395,426 | - | - | - | - | 21,395,426 |
| - Bills receivable | 2,235 | - | - | - | - | 2,235 |
| - Islamic trust receipts | 54,886 | - | - | - | - | 54,886 |
| - Claim on customers under Islamic accepted bills | 176,123 | - | - | - | - | 176,123 |
| - Credit card receivables | 86,591 | - | - | - | - | 86,591 |
| - Revolving credits | 398,391 | - | - | - | - | 398,391 |
| Other assets | 121,182 | - | - | - | - | 121,182 |
| Amount due from holding company | 245,034 | - | - | - | - | 245,034 |
| Amount due from related companies | 828 | - | - | - | - | 828 |
| | 35,263,432 | 77,088 | 17,924 | 61,670 | 114,090 | 35,534,204 |
| **Items not recognised in the statement of financial position** | | | | | | |
| Financial guarantees | 36,420 | - | - | - | - | 36,420 |
| Credit related commitments and contingencies | 3,303,964 | - | - | - | - | 3,303,964 |
| **Total credit exposures** | 38,603,816 | 77,088 | 17,924 | 61,670 | 114,090 | 38,874,588 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

### (b) Industry sectors

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

| | 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: Trading derivatives | Islamic derivative financial instruments: Hedging derivatives | Other financial assets * | Financing, advances and other loans (ii) | Total credit exposures |
|---|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Agriculture | - | - | - | 15,107 | - | - | - | 86 | 814,791 | 829,984 |
| Mining and quarrying | - | - | - | - | - | - | - | - | 4,823 | 4,823 |
| Manufacturing | - | - | - | - | - | - | - | - | 563,825 | 563,825 |
| Electricity, gas and water | - | - | 5,145 | 33,108 | - | - | - | 726 | 236,480 | 275,459 |
| Construction | - | - | 10,143 | 67,498 | 8,826 | - | - | 576 | 251,485 | 338,528 |
| Transport, storage and communications | - | - | - | 19,602 | 490,192 | - | - | 4,257 | 740,303 | 1,254,354 |
| _Finance, takaful, real estate and business services_ | | | | | | | | | | |
| Finance, takaful and business services | 879,297 | 950,000 | 736,365 | 91,362 | 494,577 | 139,552 | 11,136 | 352,931 | 5,992,377 | 9,647,597 |
| Real estate | - | - | - | 10,129 | - | - | - | 52 | - | 10,181 |
| _Others_ | | | | | | | | | | |
| Purchase of landed property | | | | | | | | | | |
| - Residential | - | - | - | - | - | - | - | - | 5,410,723 | 5,410,723 |
| General commerce | - | - | - | 31,142 | - | - | - | 400 | 380,715 | 412,257 |
| Government and government agencies | 6,865,110 | - | 1,596,241 | 177,225 | 100,040 | - | - | 7,145 | - | 8,745,761 |
| Purchase of transport vehicles | - | - | - | - | - | - | - | - | 5,234,598 | 5,234,598 |
| Consumption credit | - | - | - | - | - | - | - | - | 1,776,563 | 1,776,563 |
| Education and health | - | - | - | - | - | - | - | - | 644,240 | 644,240 |
| Others | - | - | - | 10,786 | - | - | - | 871 | 373,654 | 385,311 |
| | 7,744,407 | 950,000 | 2,347,894 | 455,959 | 1,093,635 | 139,552 | 11,136 | 367,044 | 22,424,577 | 35,534,204 |

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

# 36 Financial Risk Management (Continued)

## 36.1 Credit risk (Continued)

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

### (b) Industry sectors (Continued)

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

| | Financial assets held for trading | | Financial investments available-for-sale | | Financial investments held-to-maturity | | |
|---|---|---|---|---|---|---|---|
| | Money market instruments RM'000 | Unquoted securities RM'000 | Money market instruments RM'000 | Unquoted securities RM'000 | Money market instruments RM'000 | Unquoted securities RM'000 | Total credit exposures RM'000 |
| Agriculture | - | - | - | 15,107 | - | - | 15,107 |
| Electricity, gas and water | - | 5,145 | - | 33,108 | - | - | 38,253 |
| Construction | - | 10,143 | - | 67,498 | - | 8,826 | 86,467 |
| Transport, storage and communications | - | - | - | 19,602 | - | 490,192 | 509,794 |
| *Finance, takaful, real estate and business services* | | | | | | | |
| Finance, takaful and business services | 736,365 | - | 35,423 | 55,939 | - | 494,577 | 1,322,304 |
| Real estate | - | - | - | 10,129 | - | - | 10,129 |
| *Others* | | | | | | | |
| General commerce | - | - | - | 31,142 | - | - | 31,142 |
| Government and government agencies | 1,478,050 | 118,191 | 65,526 | 111,699 | 100,040 | - | 1,873,506 |
| Others | - | - | - | 10,786 | - | - | 10,786 |
| | 2,214,415 | 133,479 | 100,949 | 355,010 | 100,040 | 993,595 | 3,897,488 |

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

### (b) Industry sectors (Continued)

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

| | Cashline | Term financing | Bills receivable | Islamic trust receipts | Claim on customers under Islamic accepted bills | Credit card receivables | Revolving credits | Total credit exposures |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Agriculture | 15,209 | 737,100 | - | - | 4,599 | - | 57,883 | 814,791 |
| Mining and quarrying | 2,782 | 2,041 | - | - | - | - | - | 4,823 |
| Manufacturing | 22,817 | 385,323 | - | 15,156 | 102,905 | - | 37,624 | 563,825 |
| Electricity, gas and water | - | 236,480 | - | - | - | - | - | 236,480 |
| Construction | 56,453 | 180,680 | - | 5,068 | 4,220 | - | 5,064 | 251,485 |
| Transport, storage and communications | 14,431 | 717,947 | - | 724 | 1,356 | - | 5,845 | 740,303 |
| *Finance, takaful, real estate and business services* | | | | | | | | |
| Finance, takaful and business services | 82,021 | 5,733,588 | - | - | 914 | - | 175,854 | 5,992,377 |
| *Others* | | | | | | | | |
| Purchase of landed property | | | | | | | | - |
| - Residential | - | 5,410,723 | - | - | - | - | - | 5,410,723 |
| General commerce | 70,576 | 108,917 | 2,235 | 33,938 | 62,113 | - | 102,935 | 380,714 |
| Purchase of transport vehicles | - | 5,234,598 | - | - | - | - | - | 5,234,598 |
| Consumption credit | - | 1,689,972 | - | - | - | 86,591 | - | 1,776,563 |
| Others | 46,636 | 958,057 | - | - | 16 | - | 13,186 | 1,017,895 |
| | 310,925 | 21,395,426 | 2,235 | 54,886 | 176,123 | 86,591 | 398,391 | 22,424,577 |

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

### (b) Industry sectors (Continued)

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

| | **Financial guarantees RM'000** | **Credit related commitments and contingencies RM'000** |
|---|---|---|
| Agriculture | - | 247,387 |
| Mining and quarrying | - | 602 |
| Manufacturing | 11,004 | 156,645 |
| Electricity, gas and water | - | 655,274 |
| Construction | 17,922 | 208,417 |
| Transport, storage and communications | 2,144 | 243,987 |
| _Finance, takaful, real estate and business services_ | | |
| Finance, takaful and business services | 2,252 | 929,943 |
| General commerce | 2,938 | 242,012 |
| Others | 160 | 619,697 |
| | **36,420** | **3,303,964** |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

### 36.1.3 Credit quality of financial assets

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

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

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

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

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

**(i) Financing, advances and other loans (Continued)**

**(a) Financing, advances and other loans that are "neither past due nor impaired"**

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

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

**(i) Financing, advances and other loans (Continued)**

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

Financial statement descriptions can be summarised as follows:

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

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

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

**(i) Financing, advances and other loans (Continued)**

**(b) Financing, advances and other 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 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 loans that are "past due but not impaired" as at 31 December 2010 is set out below:

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

The Bank does not disclose the fair value of collateral held as security for financing, advances and other loans that are "past due but not impaired" as it is not practicable to do so.

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

| | RM'000 |
|---|---|
| Total gross impaired financing, advances and other loans | **335,879** |
| Less: Impairment allowances | **(190,168)** |
| Total net impaired financing, advances and other loans | **145,711** |
| Fair value of collateral | **401,064** |

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

#### (ii) Financial assets held for trading and financial investments

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

| | **Neither past due nor impaired** |
|---|---|
| | **RM'000** |
| Financial assets held for trading | |
| - Money market instruments | **2,214,415** |
| - Unquoted securities | **133,479** |
| Financial investments available-for-sale | |
| - Money market instruments | **100,949** |
| - Unquoted securities | **355,010** |
| Financial investments held-to-maturity | |
| - Money market instruments | **100,040** |
| - Unquoted securities | **993,595** |
| **Total** | **3,897,488** |

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

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

### (ii) Financial assets held for trading and financial investments (Continued)

### (a) Financial assets held for trading and financial investments that are "neither past due nor impaired"

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

| | Sovereign (no rating) | Investment grade (AAA to BBB-) | Others (no rating) | Total |
|---|---|---|---|---|
| | | | | - |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets held for trading | | | | |
| - Money market instruments | **1,916,630** | **297,785** | **-** | **2,214,415** |
| - Unquoted securities | **-** | **59,809** | **73,670** | **133,479** |
| Financial investments available-for-sale | | | | - |
| - Money market instruments | **100,949** | **-** | **-** | **100,949** |
| - Unquoted securities | **21,351** | **333,084** | **575** | **355,010** |
| Financial investments held-to-maturity | | | | |
| - Money market instruments | **100,040** | **-** | **-** | **100,040** |
| - Unquoted securities | **464,906** | **38,496** | **490,193** | **993,595** |
| **Total** | **2,603,876** | **729,174** | **564,438** | **3,897,488** |

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

### (iii) Other credit risk financial assets

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

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

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

## 36 Financial Risk Management (Continued)

### 36.1 Credit risk (Continued)

#### 36.1.4 Renegotiated financial instruments

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

#### 36.1.5 Repossessed collateral

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

## 36 Financial Risk Management (Continued)

### 36.2 Market risk

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

The function of Risk Management & Analytics Team in CIMB is to measure and control market risk of the Bank through robust measurement and the setting of limits while facilitating business growth within a controlled and transparent risk management framework. Here, the Capital-at-Risk (CaR) framework is employed to measure market risk where CaR represents the worst expected loss in portfolio value under normal market conditions over a specific time interval at a given confidence level. The Bank has adopted a historical simulation approach to compute CaR. This approach assesses potential loss in portfolio value based on the last 500 daily historical movements of relevant market parameters. At the 99% confidence level, CaR would be given by the fifth largest expected loss in market value of the portfolio.

Broadly, the Bank is exposed to four major types of market risk namely equity risk, profit rate risk, foreign exchange risk and commodity risk. Each business unit is allocated CaR limits for each type of market risk undertaken for effective risk monitoring and control. These limits are approved by the GRC and utilization of limits is monitored on a daily basis. Daily risk reports are sent to the relevant traders, Group Treasury’s Market Risk Team and Risk Middle Office (RMO) within GRM. The head of each business unit is accountable for all market risk under his/her purview. Any excession will be escalated to Management in accordance to the Group's exception management procedures.

In addition to daily monitoring of CaR usage, on a monthly basis, all market exposures and CaR of the Bank will be summarised and submitted to GRC and BRC for its perusal. The usage of market CaR by risk type based on 1-day holding period of the Bank’s  trading exposures as at 31 December 2010 is shown in Note 36.2.1.

Although historical simulation provides a reasonable estimate of market risk, this approach relies heavily on historical daily price movements of the market parameter of profit. Hence, the resulting market CaR is exposed to the danger that price and rate changes over the stipulated time horizon might not be typical.

Example, if the past 500 daily price movements were observed over a period of exceptionally low volatility, then the CaR computed would understate the risk of the portfolio and vice versa. In order to ensure historical simulation gives an adequate estimation of market CaR, backtesting of the historical simulation approach is performed annually. The Bank also complements CaR with stress testing exercises to capture event risk that are not observed in the historical time period selected to compute CaR.

## 36 Financial Risk Management (Continued)

### 36.2 Market risk (Continued)

An accurate and timely valuation of position is critical to providing the Bank with its current market exposure. GRM values the exposure using market price (Mark-to-Market) or a pricing model (Mark-to-Model) (collectively known as ‘MTM’) where appropriate. These valuation methods are used in deriving the fair value to restate the security value to its current value for the purpose of calculating the profits and losses or to confirm that margins required are being met.

The MTM process is carried out on all trading positions, transactions/instruments Held for Trading and Available for Sale portfolio on a daily basis for the purposes of meeting independent price verification requirements.

RMO undertakes the monitoring and oversight process at Group Treasury and Equity Market & Derivatives trading floors, which include reviewing and analysing treasury trading strategy, positions and activities vis-à-vis changes in the financial markets, monitoring limits usage, assessing limits adequacy, and verifying transaction prices.

The valuation models are validated by the Quantitative Analysts to assess its ability to cope with 'real' market conditions. The process includes verification of the inputs, assumptions used, programming code and reporting capability. Existing valuation models are reviewed on a yearly basis to ensure they remain relevant to changing market conditions.

*Backtesting*
CaR is an important market risk measurement and control tool and consequently the computation method is regularly assessed via backtesting. Backtesting involves comparing the derived 1-day CaR against the hypothetical change in portfolio value assuming end-of-day positions in the portfolio were to remain unchanged. The number of exceptions would be the number of times the difference in hypothetical value exceeds the computed 1-day CaR.

*Stress Testing*
Cognisant of the limitations of the CaR measure, the Bank also augments the use of CaR with stress exercises. The latter involves assessing potential losses to the Bank’s market risk exposures under pre-specified scenarios. This type of scenario analysis is performed twice yearly. Scenarios are designed in collaboration with the Regional Research Team to reflect extreme and yet highly plausible stress scenarios. Stress test results are presented to the GRC to provide senior management with an overview of the impact to the Bank if such stress scenarios were to materialise.

## 36 Financial Risk Management (Continued)

### 36.2 Market risk (Continued)

### 36.2.1 CaR

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

| | RM'000 |
|---|---|
| **CaR** | |
| Foreign exchange risk | 319 |
| Profit rate risk | 1,216 |
| Total | 1,535 |
| | |
| Total shareholders' funds | 1,338,667 |
| Percentage over shareholders' funds | 0.11% |

### 36.2.2 Profit rate risk

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

**(a) Profit rate risk**

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

## 36 Financial Risk Management (Continued)

## 36.2 Market risk (Continued)

### 36.2.2 Profit rate risk (Continued)

| | 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** | **Trading book** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Financial assets** | | | | | | | | | |
| Cash and short-term funds | 7,671,054 | - | - | - | - | - | 73,353 | - | **7,744,407** |
| Deposits and placements with banks and other financial institutions | - | 800,000 | 150,000 | - | - | - | - | - | **950,000** |
| Financial assets held for trading | - | - | - | - | - | - | - | 2,347,894 | **2,347,894** |
| Financial investments available-for-sale | - | 5,034 | 9,858 | 10,069 | 176,246 | 254,177 | 575 | - | **455,959** |
| Financial investments held-to-maturity | - | - | - | 464,908 | 333,847 | 294,880 | - | - | **1,093,635** |
| Islamic derivative financial instruments | | | | | | | | | |
| - Trading derivatives | - | - | - | - | - | - | - | 139,552 | **139,552** |
| - Hedging derivatives | - | - | - | - | - | 11,136 | - | - | **11,136** |
| Financing, advances and other loans | 8,953,173 | 1,781,804 | 3,462,540 | 279,115 | 1,568,979 | 6,378,955 | 11 | - | **22,424,577** |
| Other assets | - | - | - | - | - | - | 121,182 | - | **121,182** |
| Amount due from holding company | - | - | - | - | - | - | 245,034 | - | **245,034** |
| Amount due from related companies | - | - | - | - | - | - | 828 | - | **828** |
| **Total financial assets** | **16,624,227** | **2,586,838** | **3,622,398** | **754,092** | **2,079,072** | **6,939,148** | **440,983** | **2,487,446** | **35,534,204** |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.2 Market risk (Continued)

### 36.2.2 Profit rate risk (Continued)

| | 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** | **Trading book** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 15,065,444 | 4,637,984 | 312,880 | 377,081 | 1,576,731 | 528,266 | 179,569 | - | **22,677,956** |
| Deposits and placements of banks and other financial institutions | 2,470,971 | 2,927,735 | 480,108 | - | 5,246,214 | - | - | - | **11,125,029** |
| Islamic derivative financial instruments | | | | | | | | | |
| - Trading derivatives | - | - | - | - | - | - | - | 139,058 | **139,058** |
| - Hedging derivatives | - | - | - | - | - | 60,141 | - | - | **60,141** |
| Other liabilities | - | - | - | - | - | - | 23,055 | - | **23,055** |
| Subordinated sukuk | - | - | - | - | - | 300,000 | - | - | **300,000** |
| **Total financial liabilities** | **17,536,415** | **7,565,719** | **792,988** | **377,081** | **6,822,945** | **888,407** | **202,624** | **139,058** | **34,325,239** |
| **Net profit sensitivity gap for items recognised in the statement of financial position** | **(912,188)** | **(4,978,881)** | **2,829,410** | **377,011** | **(4,743,873)** | **6,050,741** | | **2,348,388** | |
| **Net profit sensitivity gap for items not recognised in the statement of financial position** | | | | | | | | | |
| Financial guarantees | - | - | - | - | - | - | 3,303,964 | - | **3,303,964** |
| Credit related commitments and contingencies | - | - | - | - | - | - | 36,420 | - | **36,420** |
| Treasury related commitments and contingencies | - | - | - | - | - | 4,400,000 | - | - | **4,400,000** |

## 36 Financial Risk Management (Continued)

## 36.2 Market risk (Continued)

### 36.2.2 Profit rate risk (Continued)

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

| | Up to 1 month | > 1 – 3 months | > 3 – 6 months | > 6 – 12 months | > 1 – 5 years | Over 5 years | Non-profit sensitive | Total |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial investments available-for-sale | | | | | | | | |
| - Money market instruments | - | - | - | 5,044 | 45,725 | 50,180 | - | **100,949** |
| - Unquoted securities | - | 5,034 | 9,858 | 5,024 | 130,521 | 203,998 | 575 | **355,010** |
| Financial investments held-to-maturity | | | | | | | | |
| - Money market instruments | - | - | - | - | 100,040 | - | - | **100,040** |
| - Unquoted securities | - | - | - | 464,907 | 233,807 | 294,881 | - | **993,595** |
| Financing, advances and other loans | | | | | | | | |
| - Cashline | 310,925 | - | - | - | - | - | - | **310,925** |
| - Term financing | 8,301,615 | 1,509,240 | 3,359,175 | 277,450 | 1,568,979 | 6,378,956 | 11 | **21,395,426** |
| - Bills receivable | 2,235 | - | - | - | - | - | - | **2,235** |
| - Trust receipts | 29,865 | 15,412 | 9,609 | - | - | - | - | **54,886** |
| - Claim on customers under Islamic accepted bills | 54,388 | 103,232 | 18,503 | - | - | - | - | **176,123** |
| - Credit card receivables | 86,591 | - | - | - | - | - | - | **86,591** |
| - Revolving credits | 167,554 | 153,920 | 75,253 | 1,664 | - | - | - | **398,391** |
| **Total** | **8,953,173** | **1,786,838** | **3,472,398** | **754,089** | **2,079,072** | **6,928,015** | **586** | **23,974,171** |

## 36 Financial Risk Management (Continued)

### 36.2 Market risk (Continued)

### 36.2.2 Profit rate risk (Continued)

### (b) Sensitivity of profit and reserves

#### i) Sensitivity of profit

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

| | + 100 basis points<br>RM'000 | - 100 basis points<br>RM'000 |
|---|---|---|
| Impact to profit (after tax) | (24,063) | 24,063 |

Sensitivity is measured using the EaR methodology. The treatments and assumptions applied are based on the contractual repricing and remaining maturity of the products, whichever is earlier. Items with indefinite repricing maturity are treated based on the earliest possible repricing date. The actual dates may vary from the repricing profile allocated due to factors such as pre-mature withdrawals, prepayment and others.

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

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

## 36 Financial Risk Management (Continued)

### 36.3 Market risk (Continued)

### 36.2.2 Profit rate risk (Continued)

**b) Sensitivity of profit and reserves (Continued)**

**ii) Sensitivity of reserves**

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

| | + 100 basis points RM'000 | - 100 basis points RM'000 |
|---|---|---|
| Impact to reserves | (22,071) | 22,071 |

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

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

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

## 36 Financial Risk Management (Continued)

### 36.2.3 Foreign exchange risk

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

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

**(a) Foreign exchange risk**

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

| | MYR RM'000 | USD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
|---|---|---|---|---|---|
| **Items recognised in the statement of financial position** | | | | | |
| Cash and short-term funds | 7,276,964 | 467,443 | - | 467,443 | 7,744,407 |
| Deposits and placements with banks and other financial institutions | 950,000 | - | - | - | 950,000 |
| Financial assets held for trading | | | | | |
| - Money market instruments | 2,214,415 | - | - | - | 2,214,415 |
| - Unquoted securities | 133,479 | - | - | - | 133,479 |
| Financial investments available-for-sale | | | | | |
| - Money market instruments | 100,949 | - | - | - | 100,949 |
| - Unquoted securities | 355,010 | - | - | - | 355,010 |
| Financial investments held-to-maturity | | | | | |
| - Money market instruments | 100,040 | - | - | - | 100,040 |
| - Unquoted securities | 993,595 | - | - | - | 993,595 |
| Islamic derivative financial instruments | | | | | |
| - Trading derivatives | 127,366 | 8,796 | 3,390 | 12,186 | 139,552 |
| - Hedging derivatives | 11,136 | - | - | - | 11,136 |
| Financing, advances and other loans | | | | | |
| - Cashline | 310,925 | - | - | - | 310,925 |
| - Term financing | 21,395,426 | - | - | - | 21,395,426 |
| - Bills receivable | 2,235 | - | - | - | 2,235 |
| - Islamic trust receipts | 54,886 | - | - | - | 54,886 |
| - Claim on customers under Islamic accepted bills | 176,123 | - | - | - | 176,123 |
| - Credit card receivables | 86,591 | - | - | - | 86,591 |
| - Revolving credit | 398,391 | - | - | - | 398,391 |
| Other assets | 120,808 | 374 | - | 374 | 121,182 |
| Amount due from holding company | 245,034 | - | - | - | 245,034 |
| Amount due from related companies | 828 | - | - | - | 828 |
| | 35,054,201 | 476,613 | 3,390 | 480,003 | 35,534,204 |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.2 Market risk (Continued)

### 36.2.3 Foreign exchange risk (Continued)

| | MYR RM'000 | SGD RM'000 | USD RM'000 | Others RM'000 | Total non-MYR RM'000 | Grand total RM'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits from customers | 22,551,470 | - | 126,485 | - | 126,485 | 22,677,955 |
| Deposits and placements of banks and other financial institutions | 10,071,078 | - | 1,053,950 | - | 1,053,950 | 11,125,028 |
| Islamic derivative financial instruments | | | | | | |
| - Trading derivatives | 126,886 | - | 8,782 | 3,390 | 12,172 | 139,058 |
| - Hedging derivatives | 60,141 | - | - | - | - | 60,141 |
| Other liabilities | 22,187 | - | 868 | - | 868 | 23,055 |
| Subordinated sukuk | 300,000 | - | - | - | - | 300,000 |
| | 33,131,762 | - | 1,190,085 | 3,390 | 1,193,475 | 34,325,237 |
| **Items not recognised in the statement of financial position** | | | | | | |
| Financial guarantees | 36,372 | - | 48 | - | 48 | 36,420 |
| Credit related commitments and contingencies | 3,200,750 | 299 | 96,378 | 6,537 | 103,214 | 3,303,964 |
| | 3,237,122 | 299 | 96,426 | 6,537 | 103,262 | 3,340,384 |

## 36 Financial Risk Management (Continued)

### 36.3 Market risk (Continued)

### 36.2.3 Foreign exchange risk (Continued)

**(b) Sensitivity of profit**

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

| | 1% appreciation RM'000 | 1% depreciation RM'000 |
|---|---|---|
| Impact to profit (after tax) | 224 | (224) |

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

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

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk

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

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

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

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk (Continued)

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

# CIMB Islamic Bank Berhad

(Incorporated in Malaysia)

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk (Continued)

### 36.3.1 Contractual maturity of financial assets and liabilities

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

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

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk (Continued)

#### 36.3.1 Contractual maturity of financial assets and liabilities (Continued)

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

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk (Continued)

### 36.3.2 Contractual maturity of financial liabilities on an undiscounted basis

**Non-derivative financial liabilities**

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

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

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

### 36.3 Liquidity risk (Continued)

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

**Derivative liabilities**

The table below analyses the cash flows payable by the Bank in relation to the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

| | Up to 1 month | > 1 – 3 months | > 3 – 6 months | > 6 – 12 months | > 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Derivative financial liabilities** | | | | | | | |
| **Derivatives held for trading** | | | | | | | |
| - Profit rate derivatives | (2,028) | (1,581) | (2,747) | (3,948) | 23,510 | 83,387 | 96,593 |
| - Equity related derivatives | 6,342 | - | - | - | - | - | 6,342 |
| **Hedging derivatives** | | | | | | | |
| - Profit rate derivatives | 11,894 | (11,517) | 22,479 | 22,623 | 207,855 | 171,623 | 424,957 |
| | 16,208 | (13,098) | 19,732 | 18,675 | 231,365 | 255,010 | 527,892 |

# 36 Financial Risk Management (Continued)

## 36.3 Liquidity risk (Continued)

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

**Derivative liabilities (Continued)**

The Bank's derivatives that will be settled on a gross basis include:

Foreign exchange derivatives: currency forward, currency swap, currency options and cross currency profit rate swaps

The table below analyses the cash flows payable by the Bank in relation to the Bank's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

| | 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 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | | |
| **Derivatives held for trading** | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| - Outflow | 360,780 | 477,452 | 159,493 | 206,024 | 49,027 | 1,252,776 |
| - Inflow | (354,342) | (467,477) | (154,825) | (201,695) | (46,589) | (1,224,928) |
| | 6,438 | 9,975 | 4,668 | 4,329 | 2,438 | 27,848 |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

## 36.4 Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and items not recognised in the statements of financial position. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction.

The fair values are based on the following methodologies and assumptions:

**Short term funds and placements with financial institutions**

For short term funds and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, the estimated fair value is based on discounted cash flows using prevailing 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.

**Financing, advances and other 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/specific allowance, being the expected recoverable amount.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

## 36.4 Fair value of financial instruments (Continued)

**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.

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

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for deposits and placements with similar remaining period to maturities.

**Bills and acceptances payable**

The estimated fair values of bills and acceptances payable with maturities of less than six months approximate the carrying values. For bills and acceptances payable with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for bills and acceptance payable with similar remaining period to maturity

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

## 36.4 Fair value of financial instruments (Continued)

**Sukuk, subordinated obligations and others**

The fair values for the quoted sukuks and subordinated obligations are obtained from quoted market prices while the fair values for unquoted sukuks 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 approximates the carrying values. For other borrowings with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

**Redeemable preference shares**

The estimated fair value of redeemable cumulative preference shares ("RCPS") approximates the carrying value based on Directors' estimate as the effective profit rate of the RCPS is a fair reflection of the current rate for such similar instrument.

**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.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 36 Financial Risk Management (Continued)

## 36.4 Fair value of financial instruments (Continued)

### 36.4.1 Financial instruments not measured at fair value

The total fair value of each financial assets and liabilities presented on the statements of financial position as at 31 December 2010 of the Bank approximates the total carrying value as at the reporting date, except for the following:

| 2010 | Carrying amount RM'000 | Fair value RM'000 |
|---|---|---|
| **Financial assets** | | |
| Financial investments held-to-maturity | **1,093,635** | 1,128,835 |
| Financing, advances and other loans | **22,424,577** | 23,412,463 |
| **Financial liabilities** | | |
| Deposits from customers | **22,677,955** | 22,536,032 |
| Subordinated sukuk | **300,000** | 324,326 |

The carrying amount of the financial assets at the statement of financial position data were not reduced to their estimated fair value as the Directors are of the opinion that the amounts will be recoverable in full on maturity.

## 37 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

*(a) Impairment of available-for-sale equity investments*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant and prolonged decline in the fair value below its costs. This determination of what is significant and prolonged required judgement. The Bank evaluate, among other factors, the duration and extent to which the fair value of the investment is less than cost; and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

*(b) Impairment losses on financing, advances and other loans*

The Bank makes allowance for losses on financing, advances and other 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 loans. Among the factors considered are the Bank's aggregate exposure to the customers, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

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

*(c) Goodwill impairment*

The Bank tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note J(a) of the Summary of Significant Accounting Policies.

The first step of the impairment review process requires the identification of independent operating units, dividing the Group's business into the various business segments. The goodwill is then allocated to these various business segments. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the business segment, including the allocated goodwill, is compared to its fair value 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.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 38 Segment reporting

**Primary reporting – business segments**

Definition of segments

In the financial year 2010, segment reporting by the Bank was prepared for the first time in accordance with FRS 8'Operating Segment'. Segment information for 2009, that is reported as comparative information for 2010 has been re-presented to conform with the requirements of FRS 8. Following the management approach of FRS 8, 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.

All inter-segment transactions are conducted on an arm's length basis and on normal commercial terms not more favourable than those generally available to the public.

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management reporting structure.

## 38 Segment reporting (Continued)

| 2010 | Corporate and Investment Banking | Commercial Banking | Retail Banking | Treasury | Support and others | Total |
|---|---|---|---|---|---|---|
| **Bank** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Net income | | | | | | |
| - external | 345,341 | 19,648 | 754,886 | (282,027) | (147,608) | 690,240 |
| - inter-segment | (252,317) | 37,112 | (321,734) | 417,194 | 119,744 | (1) |
| | 93,024 | 56,760 | 433,152 | 135,167 | (27,864) | 690,239 |
| Other income | 12,190 | 6,639 | 55,652 | 31,331 | (21,246) | 84,566 |
| Operating income | 105,214 | 63,399 | 488,804 | 166,498 | (49,110) | 774,805 |
| Overhead expenses | (19,378) | (24,555) | (175,975) | (18,920) | 9,557 | (229,271) |
| Consist of : | | | | | | |
| Depreciation of property, plant and equipment | - | - | - | - | (1,139) | (1,139) |
| Amortisation of intangible assets | - | - | - | - | (3,030) | (3,030) |
| Profit/(loss) before allowances | 85,836 | 38,844 | 312,829 | 147,578 | (39,553) | 545,534 |
| Impairment allowance on financing, advances and other loans | 11,474 | (27,161) | (126,029) | - | - | (141,716) |
| Segment results | 97,310 | 11,683 | 186,800 | 147,578 | (39,553) | 403,818 |
| Taxation and zakat | | | | | | (102,047) |
| **Net profit for the financial year** | | | | | | 301,771 |
| Segment assets | 8,360,190 | 1,743,537 | 13,373,482 | 11,758,416 | 265,758 | 35,501,383 |
| Unallocated assets | | | | | | 537,010 |
| **Total assets** | | | | | | 36,038,393 |
| Segment liabilities | 2,216,076 | 4,224,971 | 2,459,035 | 24,947,669 | 538,987 | 34,386,738 |
| Unallocated liabilities | | | | | | 312,988 |
| **Total liabilities** | | | | | | 34,699,726 |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 38 Segment reporting (Continued)

| **2009**<br>**Bank** | Corporate and Investment Banking RM'000 | Commercial Banking RM'000 | Retail Banking RM'000 | Treasury RM'000 | Support and others RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| Net income | | | | | | |
| - external | 178,630 | 28,564 | 432,181 | (23,653) | (102,549) | 513,173 |
| - inter-segment | (97,966) | 4,427 | (143,392) | 155,739 | 81,192 | - |
| | 80,664 | 32,991 | 288,789 | 132,086 | (21,357) | 513,173 |
| Other income | 20,008 | 5,143 | 50,358 | 14,280 | (11,030) | 78,759 |
| Operating income | 100,672 | 38,134 | 339,147 | 146,366 | (32,387) | 591,932 |
| Overhead expenses | (19,818) | (20,121) | (151,820) | (18,319) | (4,437) | (214,515) |
| Consist of : | | | | | | |
| Depreciation of property, plant and equipment | - | - | - | - | (1,479) | (1,479) |
| Amortisation of intangible assets | - | - | - | - | (3,581) | (3,581) |
| Profit/(loss) before allowances | 80,854 | 18,013 | 187,327 | 128,047 | (36,824) | 377,417 |
| Allowances for losses on financing, advances and other loans | (50,133) | (3,342) | (153,596) | 13 | - | (207,058) |
| Writeback of impairment loss | - | - | - | 164 | - | 164 |
| Segment results | 30,721 | 14,671 | 33,731 | 128,224 | (36,824) | 170,523 |
| Taxation and zakat | | | | | | (46,781) |
| **Net profit for the financial year** | | | | | | 123,742 |
| Segment assets | 7,028,572 | 1,252,183 | 8,687,904 | 9,817,579 | 285,110 | 27,071,348 |
| Unallocated assets | | | | | | 258,865 |
| **Total assets** | | | | | | 27,330,213 |
| Segment liabilities | 1,829,328 | 1,905,088 | 1,802,890 | 20,270,021 | - | 25,807,327 |
| Unallocated liabilities | | | | | | 651,828 |
| **Total liabilities** | | | | | | 26,459,155 |

*Basis of pricing for inter-segment transfers:*

Intersegmental charges are computed on the profit-bearing assets and liabilities of each business segment with rates applied based on the profit yield curve according to the term structure of maturity.

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 39 Changes in accounting policies and comparatives

During the financial year, the Bank changed the following accounting policies upon adoption of new accounting standards, amendments and improvements to published standards and interpretations:

- Financial assets
- Impairment of financial assets

Refer to the summary of significant accounting policies for the details of the changes in accounting policies.

(i) The following are effects arising from the adoption of FRS 139:

Impact on Bank's statement of financial position as at 1 January 2010:

| | As at 31 December 2009 RM'000 | Effects of adopting FRS 139 RM'000 | Adjusted as at 1 January 2010 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Financing, advances and other loans | | | |
| - impaired financing, advances and other loans | 240,665 | 37,594 | 278,259 |
| - individual impairment allowance | - | (105,851) | (105,851) |
| - portfolio impairment allowance | - | (260,926) | (260,926) |
| - specific allowance | (143,020) | 143,020 | - |
| - general allowance | (158,004) | 158,004 | - |
| Deferred taxation | 44,625 | 15,114 | 59,739 |
| **Equity** | | | |
| Reserves | 251,058 | (39,050) | 212,008 |

## 39 Changes in accounting policies and comparatives (Continued)

(i) The following are effects arising from the adoption of FRS 139 (Continued):

Impact on Bank's statement of comprehensive income:

| | Increase/(decrease) for the financial year ended 31 December 2010 Effects of adopting FRS 139 RM'000 |
|---|---|
| Profit income | (11,914) |
| Taxation | (2,979) |

The effects of the adoption of FRS139 on financing impairment for the current financial year is not disclosed by the Bank as it is not practical to do so.

Impact on the Bank's statement of financial position as at 31 December 2010

| | Increase/(decrease) to balances as at 31 December 2010 Effects of adopting FRS 139 RM'000 |
|---|---|
| **Assets** | |
| Financing, advances and other loans | 11,914 |
| Deferred taxation | (53,042) |
| | |
| **Liabilities** | |
| Deposit from customers | 154,427 |
| Other liabilities | (154,427) |
| Provision for taxation and zakat | (56,021) |

# Notes to the Financial Statements for the financial year ended 31 December 2010 (Continued)

## 40 Significant event during the financial year

**Rights issue of ordinary share capital**

The Bank had on 25 August 2010, made a rights issue of RM200 million, RM1 par value ordinary share.

## 41 Authorisation for issue of Financial Statements

The Financial Statements have been authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 3 March 2011.