

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2013

		30-Jun-13	31-Dec-12
<u>Assets</u>		RM'000	RM'000
Cash and short term funds	1	5,782,964	6,296,329
Deposits and placements with banks and other financial institutions	2	696,321	601,335
Financial assets held for trading	3	5,483,515	6,117,048
Financial investments available-for-sale	4	2,250,929	2,797,337
Financial investments held-to-maturity	5	607,261	652,390
Islamic derivative financial instruments	12(i)	223,944	168,360
Financing, advances and other financing/loans	6	34,029,336	33,073,282
Other assets	7	383,504	254,882
Deferred taxation		11,983	10,731
Tax recoverable		11,383	-
Amount due from related companies		278	431
Statutory deposits with Bank Negara Malaysia		1,339,679	1,104,097
Property, plant and equipment		5,260	5,490
Intangible assets		10,549	7,328
Goodwill		136,000	136,000
Total Assets		50,972,906	51,225,040
<u>Liabilities</u>			
Deposits from customers	8	35,434,228	35,267,899
Deposits and placements of banks and other financial institutions	9	11,235,373	11,660,728
Other liabilities	10	492,001	397,106
Islamic derivative financial instruments	12(i)	335,260	380,529
Provision for tax and Zakat		503	9,870
Subordinated Sukuk	11	861,506	863,557
Amount due to holding company		95,347	298,352
Amount due to related companies		9,240	3,554
Total liabilities		48,463,458	48,881,595
<u>Equity</u>			
Capital and reserves attributable to equity holder of the Bank			
Ordinary share capital		1,000,000	1,000,000
Reserves		1,439,448	1,273,445
		2,439,448	2,273,445
Perpetual preference shares		70,000	70,000
Total equity		2,509,448	2,343,445
Total equity and liabilities		50,972,906	51,225,040
Commitments and contingencies	12(ii)	27,615,667	26,964,137
Net assets per share (RM)		2.44	2.27

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2012.

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF INCOME
FOR THE QUARTER ENDED 30 JUNE 2013

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		QUARTER ENDED 30-Jun-13 RM'000	QUARTER ENDED 30-Jun-12 RM'000	6 MONTHS ENDED 30-Jun-13 RM'000	6 MONTHS ENDED 30-Jun-12 RM'000
Income derived from investment of depositors' funds and others	14	538,405	478,566	1,052,852	934,341
Income derived from investment of shareholder's funds	15	28,884	36,711	67,230	89,843
Net allowances of impairment for losses on financing	16	(613)	(25,842)	(26,772)	(34,834)
Allowances for other receivables		313	(67)	(163)	(86)
Total distributable income		<u>566,989</u>	489,368	<u>1,093,147</u>	989,264
Income attributable to depositors	17	<u>(296,006)</u>	<u>(262,270)</u>	<u>(591,275)</u>	<u>(526,408)</u>
Total net income		<u>270,983</u>	227,098	<u>501,872</u>	462,856
Personnel expenses	18	(20,557)	(16,743)	(40,088)	(34,716)
Other overheads and expenditures	19	(116,476)	(95,782)	(222,596)	(186,633)
Profit for the financial period		<u>133,950</u>	114,573	<u>239,188</u>	241,507
Taxation		<u>(34,711)</u>	(28,642)	<u>(61,400)</u>	(60,754)
Net profit for the period		<u><u>99,239</u></u>	<u>85,931</u>	<u><u>177,788</u></u>	<u>180,753</u>

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 JUNE 2013

Profit for the period	99,239	85,931	177,788	180,753
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Revaluation reserve financial investments available-for-sale				
- Net (loss)/gain from change in fair value	(3,422)	1,435	(3,514)	3,991
- Realised gain transferred to comprehensive income	(10,756)	(2,694)	(12,120)	(5,320)
- Income tax effects	3,544	314	3,908	332
Other comprehensive income for the period, net of tax	<u>(10,634)</u>	(945)	<u>(11,726)</u>	(997)
Total comprehensive income for the period	<u><u>88,605</u></u>	<u>84,986</u>	<u><u>166,062</u></u>	<u>179,756</u>
Earnings per share (sen)	9.92	8.59	17.78	18.08

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2012

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 JUNE 2013

	← Non-distributable						Distributable →				
	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve - financial investments available-for-sale RM'000	Merger deficit RM'000	Capital reserve RM'000	Regulatory reserve RM'000	Share-based payment reserve RM'000	Accumulated profits RM'000	Total RM'000	Perpetual preference shares RM'000	Total equity RM'000
30 June 2013											
At 1 January 2013, as previously reported	1,000,000	654,922	21,977	(2,457)	458	242,624	336	355,585	2,273,445	70,000	2,343,445
Net profit for the financial period	-	-	-	-	-	-	-	177,788	177,788	-	177,788
Other comprehensive income (net of tax)	-	-	(11,726)	-	-	-	-	-	(11,726)	-	(11,726)
- Financial investments available-for-sale	-	-	(11,726)	-	-	-	-	-	(11,726)	-	(11,726)
Total comprehensive income for the period	-	-	(11,726)	-	-	-	-	177,788	166,062	-	166,062
Share-based payment expense	-	-	-	-	-	-	262	-	262	-	262
Transfer to regulatory reserve	-	-	-	-	-	28,649	-	(28,649)	-	-	-
Transfer to statutory reserve	-	44,667	-	-	-	-	-	(44,667)	-	-	-
Shares released under Equity Ownership Plan	-	-	-	-	-	-	(321)	-	(321)	-	(321)
At 30 June 2013	1,000,000	699,589	10,251	(2,457)	458	271,273	277	460,057	2,439,448	70,000	2,509,448
30 June 2012											
At 1 January 2012, as previously reported	1,000,000	454,387	8,268	(2,457)	458	59,113	16,499	322,282	1,858,550	70,000	1,928,550
Effect of adopting MFRS 1	-	-	5,027	-	-	-	-	-	5,027	-	5,027
As restated	1,000,000	454,387	13,295	(2,457)	458	59,113	16,499	322,282	1,863,577	70,000	1,933,577
Net profit for the financial period	-	-	-	-	-	-	-	180,753	180,753	-	180,753
Other comprehensive income (net of tax)	-	-	(997)	-	-	-	-	-	(997)	-	(997)
- Financial investments available-for-sale	-	-	(997)	-	-	-	-	-	(997)	-	(997)
Total comprehensive income for the period	-	-	(997)	-	-	-	-	180,753	179,756	-	179,756
Expiry of Management Equity Scheme	-	-	-	-	-	-	(16,279)	16,279	-	-	-
Share-based payment expense	-	-	-	-	-	-	241	-	241	-	241
Transfer to regulatory reserve	-	-	-	-	-	39,950	-	(39,950)	-	-	-
Transfer to statutory reserve	-	90,377	-	-	-	-	-	(90,377)	-	-	-
Shares released under Equity Ownership Plan	-	-	-	-	-	-	(135)	-	(135)	-	(135)
At 30 June 2012	1,000,000	544,764	12,298	(2,457)	458	99,063	326	388,987	2,043,439	70,000	2,113,439

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2012

CIMB ISLAMIC BANK BERHAD
CONDENSED INTERIM FINANCIAL STATEMENTS
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2013

	30-Jun-13 RM'000	30-Jun-12 RM'000
Profit before taxation	239,188	241,507
Adjustments for non-cash items	<u>(27,251)</u>	<u>(91,975)</u>
Operating profit before changes in working capital	211,937	149,532
Net changes in operating assets	(796,638)	(4,135,640)
Net changes in operating liabilities	(486,874)	2,077,743
Tax paid	<u>(78,490)</u>	<u>(66,075)</u>
Net cash used in operating activities	(1,150,065)	(1,974,440)
Net cash flows (used in)/generated from investing activities	655,719	(540,120)
Net cash flows from financing activities	<u>(19,019)</u>	<u>(13,082)</u>
Net change in cash and cash equivalents	(513,365)	(2,527,642)
Cash and cash equivalents at beginning of the financial period	6,296,329	7,554,885
Cash and cash equivalents at end of the financial period	<u>5,782,964</u>	<u>5,027,243</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2012

EXPLANATORY NOTES

A. BASIS OF PREPARATION

The unaudited condensed interim financial statements for the financial period ended 30 June 2013 have been prepared under the historical cost convention, except for financial assets held for trading, financial investments available-for-sale, derivative financial instruments, investment properties and non-current assets/disposal groups held for sale, that have been measured at fair value.

The unaudited condensed interim financial statements have been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 of Bursa Malaysia Securities Berhad's Listing Requirements.

The unaudited condensed interim financial statements should be read in conjunction with the Bank's audited financial statements for the financial year ended 31 December 2012. The explanatory notes attached to the condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2012.

The significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2012, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2013:

MFRS 13 "Fair value measurement"
Amendment to MFRS 7 "Financial instruments: Disclosures - offsetting financial assets and financial liabilities"
Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012)
Amendment to MFRS 134 "Interim financial reporting"

The adoption of the new standards, amendments to published standards and interpretations are not expected to have impact on the financial results of the Bank, other than as disclosed below:

- Amendment to MFRS 101 "Presentation of items of other comprehensive income"

The amendment requires items of comprehensive income to be presented into two grouping, which is to separate items of other comprehensive income that would be reclassified subsequently to profit or loss when specific conditions are met from those that would never be reclassified subsequently to profit or loss. The adoption of the revised standards affects only the disclosures in the financial statements. There is no financial effect on the results, earnings per share and the financial position of the Bank for the current and previous financial periods.

- MFRS 13 "Fair value measurement"

MFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards for all assets and liabilities measured at fair value. The Bank has adopted this standard and the disclosures are disclosed in Note 20.

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

B. CHANGES IN ESTIMATES

There were no material changes to financial estimates made in respect of the current financial period that had previously been announced or disclosed.

C. ISSUANCE AND REPAYMENT OF DEBT EQUITY SECURITIES

There were no issuance and repayment of debt securities during the period.

D. PROPOSED DIVIDEND

There were no dividends paid or proposed for the period ended 30 June 2013.

E. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There were no significant events that had occurred between 30 June 2013 and the date of this announcement.

F. PERFORMANCE REVIEW

For the second quarter 30 June 2013, the Bank registered a profit after tax of RM99.2 million, an increase of 15.5% from a profit after tax of RM85.9 million in the previous year corresponding period.

G. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

The Bank is going through the tougher macro operating environment that it has been bracing for, as evident in our relatively slower asset growth rates in recent quarters. This period of adjusting for a major flow back of funds to developed markets and weaker outlook for Asean economies brings volatile financial markets and other downside risks. At the same time, banks also have to navigate new rules as regulators attempt to mitigate stresses to their domestic economies.

The Bank will focus on managing its business carefully through this period but at the same time we will look for opportunities that it brings for us in terms of supporting our clients through temporary difficulties and exploiting financial market fluctuations. As it stands, the Bank think that at the operational level we will do better in the second half riding on improved momentum in Malaysian consumer and regional corporate banking and more flows in treasury markets.

	30-Jun-13 RM'000	31-Dec-12 RM'000
<u>Notes to the accounts</u>		
1 Cash and short-term funds		
Cash and balances with banks and other financial institutions	134,710	128,732
Money at call and deposit placements maturing within one month	5,648,254	6,167,597
	<u>5,782,964</u>	<u>6,296,329</u>
2 Deposits and placements with banks and other financial institutions		
Licensed Islamic banks	182,008	291,230
Licensed banks	296,663	153,706
Licensed Investment banks	217,650	146,362
Other financial institutions	-	10,037
	<u>696,321</u>	<u>601,335</u>
3 Financial assets held for trading		
Money market instruments		
Unquoted		
Malaysian Government treasury bills	59,285	68,456
Government investment issues	58,805	251,804
Islamic negotiable instruments of deposits	2,655,566	1,656,985
Islamic accepted bills	185,084	150,202
Bank Negara Monetary Notes	2,182,966	3,540,897
	<u>5,141,706</u>	<u>5,668,344</u>
Unquoted securities		
Islamic private debt securities	341,809	448,704
	<u>5,483,515</u>	<u>6,117,048</u>
4 Financial investments available-for-sale		
Money market instruments		
Unquoted		
Government investment issues	999,377	1,140,378
Islamic Cagamas bonds	20,458	20,764
Malaysian Government Securities	33,779	34,262
Khazanah bonds		54,240
	<u>1,053,614</u>	<u>1,249,644</u>
Unquoted securities		
Islamic private debt securities	1,196,740	1,547,118
Placement with IBFIM	575	575
	<u>2,250,929</u>	<u>2,797,337</u>
5 Financial investments held-to-maturity		
Money market instruments		
Unquoted securities		
Islamic private debt securities	607,298	652,430
Amortisation of premium less accretion of discount	(37)	(40)
	<u>607,261</u>	<u>652,390</u>

	30-Jun-13 RM'000	31-Dec-12 RM'000
6 Financing, advances and other financing/loans		
(i) By type of financing:		
Cash line	453,846	471,590
Term financing		
- House financing	8,865,827	8,231,990
- Syndicated financing	427,754	330,015
- Hire purchase receivables	6,703,645	6,495,487
- Other term financing	16,063,922	15,766,461
Bills receivable	3,566	3,766
Islamic trust receipts	29,913	35,707
Claims on customer under Islamic accepted bills	317,740	340,687
Credit card receivables	95,455	97,882
Revolving credits	1,259,862	1,450,191
Share purchase financing	15,222	35,226
Gross financing, advances and other financing/loans	<u>34,236,752</u>	<u>33,259,002</u>
Fair value changes arising from fair value hedges	164,373	222,909
Less : Allowance for impairment losses		
- Individual impairment allowance	(45,107)	(60,925)
- Portfolio impairment allowance	(326,682)	(347,704)
Total net financing, advances and other financing/loans	<u><u>34,029,336</u></u>	<u><u>33,073,282</u></u>
The Bank has undertaken fair value hedges on financing using Islamic profit rate swaps.		
Gross financing hedged	6,225,000	6,500,000
Fair value changes arising from fair value hedges	164,373	222,909
	<u><u>6,389,373</u></u>	<u><u>6,722,909</u></u>
The fair value loss on Islamic profit rate swaps in this hedge transaction as at 30 June 2013 were RM189 million (31 December 2012 : fair value loss of RM247 million).		
(ii) By geographical distribution:		
Malaysia	<u>34,236,752</u>	<u>33,259,002</u>
	<u><u>34,236,752</u></u>	<u><u>33,259,002</u></u>
(iii) By contract :		
Bai' Bithaman Ajil (<i>deferred payment sale</i>)	13,863,385	12,957,557
Ijarah Muntahiyah Bittamlik/AITAB (<i>lease ending with ownership</i>)	7,673,186	7,330,211
Murabahah (<i>cost plus sale</i>)	295,954	325,682
Bai' al-'inah (<i>sale and repurchase</i>)	12,107,825	12,455,612
Others	296,402	189,940
	<u><u>34,236,752</u></u>	<u><u>33,259,002</u></u>
(iv) By type of customer :		
Domestic non-bank financial institutions		
- Others	523,211	574,212
Domestic business enterprises		
- Small medium enterprises	1,735,097	1,360,257
- Others	4,910,419	5,191,432
Government and statutory bodies	6,746,071	6,747,294
Individuals	20,058,281	19,122,879
Other domestic entities	16,657	16,981
Foreign entities	247,016	245,947
	<u><u>34,236,752</u></u>	<u><u>33,259,002</u></u>

	30-Jun-13 RM'000	31-Dec-12 RM'000
(v) By profit rate sensitivity :		
Fixed rate		
- House financing	276,213	316,820
- Hire purchase receivables	6,703,645	6,495,487
- Others	12,179,544	12,112,954
Variable rate		
- House financing	8,589,614	7,915,170
- Other financing	6,487,736	6,418,571
	<u>34,236,752</u>	<u>33,259,002</u>
(vi) By economic purpose :		
Personal use	3,219,661	3,233,098
Credit card	95,454	97,882
Construction	1,886,256	1,970,429
Residential property	8,912,076	8,273,772
Non-residential property	2,947,033	2,573,888
Purchase of fixed assets other than land and building	283,094	360,709
Merger and acquisition	9,467	20,290
Purchase of securities	25,236	35,648
Purchase of transport vehicles	6,762,485	6,512,442
Working capital	7,209,580	7,289,268
Other purpose	2,886,410	2,891,576
	<u>34,236,752</u>	<u>33,259,002</u>
(vii) By residual contractual maturity :		
Within one year	2,300,421	2,674,004
One year to less than three years	1,020,085	914,279
Three years to less than five years	3,163,698	3,051,647
Five years and more	27,752,548	26,619,072
	<u>34,236,752</u>	<u>33,259,002</u>
(viii) Impaired financing by economic purpose :		
Personal use	12,538	15,570
Credit card	386	419
Construction	2,475	894
Residential property	85,259	91,240
Non-residential property	45,696	35,148
Purchased of fixed assets other than land & building	1,710	1,966
Purchase of securities	271	10
Purchase of transport vehicles	95,913	87,912
Working capital	68,609	63,532
Other purpose	9,727	7,437
	<u>322,584</u>	<u>304,128</u>
(ix) Impaired financing by geographical distribution:		
Malaysia	322,584	304,128
	<u>322,584</u>	<u>304,128</u>

	30-Jun-13 RM'000	31-Dec-12 RM'000
(x) Movement in impaired financing, advances and other financing/loans :		
Balance as at 1 January	304,128	345,778
Impaired during the period/year	225,341	383,095
Reclassification from unwinding income	-	10,109
Reclassified as non-impaired during the period/year	(81,686)	(152,618)
Recoveries	(43,065)	(73,013)
Amount written off	(82,134)	(209,223)
Balance as at 30 June/31 December	<u>322,584</u>	<u>304,128</u>
Ratio of gross impaired financing to total financing advances, and other financing/loans	0.94%	0.91%

(xi) Movements in allowance for impaired financing :

Individual impairment allowance

Balance as at 1 January	60,925	103,256
Net allowance made/(written back) during the period/year	(12,714)	1,586
Unwinding income	-	4,090
Transfer to intercompany	(1,672)	-
Amount written off	(1,432)	(48,007)
Balance as at 30 June/31 December	<u>45,107</u>	<u>60,925</u>

Portfolio impairment allowance

Balance as at 1 January	347,704	417,744
Net allowance made during the period/year	63,909	86,543
Transfer to intercompany	(4,229)	-
Unwinding income	-	6,019
Amount written off	(80,702)	(162,602)
Balance as at 30 June/31 December	<u>326,682</u>	<u>347,704</u>

Portfolio impairment allowance (inclusive of regulatory reserve) as % of gross financing, advances and other financing/loans (excluding RPSIA financing) less individual impairment allowance	2.30%	2.30%
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7 Other assets

Deposits and prepayments	95	100
Sundry debtors	209,011	36,369
Collateral pledged for derivative transactions	59,480	61,430
Clearing accounts	114,918	156,983
	<u>383,504</u>	<u>254,882</u>

	30-Jun-13 RM'000	31-Dec-12 RM'000
8 Deposits from customers		
(i) By type of deposit		
Savings deposits		
Wadiah	1,296,161	1,181,904
Mudharabah	549,552	524,422
Demand deposits		
Wadiah	3,359,635	3,522,732
Qard	20,655	1,875
Mudharabah	4,028,842	4,234,083
Term deposit		
Commodity Murabahah	5,011,096	6,666,383
Negotiable instruments of deposit		
Mudharabah	700,415	1,031,344
Hybrid (Bai Bithamin Ajil (BBA) and Bai al-Dayn)	3,617,322	2,370,187
Short term money market deposit-i		
Wakalah	13,589,652	12,849,247
General investment account		
Wadiah	78,579	173,002
Mudharabah	2,198,230	2,056,034
Wakalah	771,213	440,838
Specific investment account		
Mudharabah	177,247	175,087
Others	35,629	40,761
	<u>35,434,228</u>	<u>35,267,899</u>
(ii) Maturity structure of investment deposits and negotiable instruments of deposit		
One year or less (short term)	25,327,990	24,912,546
More than one year (medium/long term)	815,765	849,576
	<u>26,143,755</u>	<u>25,762,122</u>
(iii) By type of customer		
Government and statutory bodies	4,217,841	6,493,384
Business enterprises	13,561,227	13,353,094
Individuals	4,435,175	4,566,521
Others	13,219,985	10,854,900
	<u>35,434,228</u>	<u>35,267,899</u>
9 Deposits and placements of banks and other financial institutions		
<u>Mudharabah</u>		
Licensed Islamic banks	815,471	180,156
Licensed banks	1,694,323	987,452
Licensed investment banks	936,390	998,659
	<u>3,446,184</u>	<u>2,166,267</u>
<u>Non-Mudharabah</u>		
Licensed Islamic banks	603,946	1,135,317
Licensed banks	7,149,622	8,088,281
Other financial institutions	35,621	270,863
	<u>7,789,189</u>	<u>9,494,461</u>
	<u>11,235,373</u>	<u>11,660,728</u>

	30-Jun-13 RM'000	31-Dec-12 RM'000
10 Other liabilities		
Accruals and other payables	307,158	74,304
Clearing accounts	154,237	291,125
Others	30,606	31,677
	492,001	397,106

11 Subordinated sukuk

The RM850 million subordinated Sukuk (“the Sukuk”) is part of the Tier-2 Junior Sukuk programme which was approved by the Securities Commission on 22 May 2009. Under the programme, the Bank is allowed to raise Tier-2 capital of up to RM2.0 billion in nominal value outstanding at any one time.

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

The second tranche of the Sukuk of RM250 million was issued at par on 21 April 2011 and is due on 21 April 2021, with optional redemption on 21 April 2016 or any periodic payment date thereafter. The Sukuk bears a profit rate of 4.20% per annum payable semi-annually in arrears.

On 18 September 2012, the Bank had issued the third tranche of Sukuk of RM300 million at par and is due on 15 September 2022, with the optional redemption on 18 September 2017 or any periodic payment date thereafter. The Sukuk bears a profit rate of 4.00% per annum, payable semi-annually in arrears.

The RM850 million Sukuk qualify as Tier-2 capital for the purpose of the RWCR computation.

12 Islamic derivative financial instruments, commitments and contingencies

(i) Islamic derivative financial instruments

The following tables summarise the contractual or underlying principal amounts of trading derivative and financial instruments held for hedging purposes. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at the end of the reporting period, and do not represent amounts of risk.

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

	30-Jun-13			31-Dec-12		
	Principal amount	Fair values	Fair values	Principal amount	Fair values	Fair values
	RM'000	Assets	Liabilities	RM'000	Assets	Liabilities
<u>Foreign exchange derivatives</u>						
Currency forwards						
- Less than 1 year	742,528	20,542	(2,105)	858,427	10,507	(17,665)
- 1 year to 3 years	31,864	706	(596)	60,153	1,167	(1,011)
- More than 3 years	658,997	32,817	(23,755)	660,784	22,101	(12,988)
Currency swaps						
- Less than 1 year	3,300,024	57,116	(24,639)	2,628,568	15,854	(8,780)
Currency spot						
- Less than 1 year	10,740	66	(66)	1,604	1	(1)
Currency options						
- Less than 1 year	40,880	395	(395)	92,114	297	(297)
Cross currency profit rate swaps						
- 1 year to 3 years	91,504	4,374	(4,374)	91,384	5,480	(5,480)
- More than 3 years	240,400	10,081	(10,081)	240,400	12,514	(12,514)
	<u>5,116,937</u>	<u>126,097</u>	<u>(66,011)</u>	<u>4,633,434</u>	<u>67,921</u>	<u>(58,736)</u>
<u>Islamic profit rate derivatives</u>						
Islamic profit rate swaps	8,919,376	75,093	(58,511)	8,265,671	75,209	(52,354)
- Less than 1 year	392,406	1,416	(545)	1,093,346	5,011	(193)
- 1 year to 3 years	1,603,580	9,262	(7,630)	1,527,680	9,391	(7,377)
- More than 3 years	6,923,390	64,415	(50,336)	5,644,645	60,807	(44,784)
<u>Equity related derivatives</u>						
Equity options	826,115	10,852	(10,851)	1,471,506	15,856	(15,856)
- Less than 1 year	112,295	3,552	(3,552)	710,633	2,615	(2,615)
- 1 year to 3 years	138,011	1,568	(1,568)	151,964	2,556	(2,556)
- More than 3 years	575,809	5,732	(5,731)	608,909	10,685	(10,685)
<u>Held for hedging purpose</u>						
Islamic profit rate swaps	6,804,424	11,902	(199,887)	7,078,403	9,374	(253,583)
- 1 year to 3 years	250,000	4,896	-	-	-	-
- More than 3 years	6,554,424	7,006	(199,887)	7,078,403	9,374	(253,583)
Total derivative assets/(liabilities)	<u>21,666,852</u>	<u>223,944</u>	<u>(335,260)</u>	<u>21,449,014</u>	<u>168,360</u>	<u>(380,529)</u>

Market Risk

Market risk is defined as any fluctuation in the value arising from changes in value of market risk factors such as profit rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility. The contractual amounts provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. The Group's risk management department monitors and manages market risk exposure via stress testing of the Group's Value-at-Risk (VaR) model, in addition to reviewing and analysing its treasury trading strategy, positions and activities vis-à-vis changes in the financial market, monitoring limit usage, assessing limit adequacy, and verifying transaction prices.

Credit Risk

Credit risk arises when counterparties to derivative contracts, such as profit rate swaps, are not able to or willing to fulfil their obligation to pay the Bank the positive fair value or receivable resulting from the execution of contract terms. As at 30 June 2013 the amount of credit risk in the Bank, measured in terms of the cost to replace the profitable contracts, was RM224million (31 December 2012 RM168 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

There have been no changes since the end of the previous financial year in respect of the following:

- the types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts;
- the risk management policies in place for mitigating and controlling the risks associated with these financial derivative contracts; and
- the related accounting policies.

The above information, policies and procedures in respect of derivative financial instruments of the Bank are discussed in the audited annual financial statements for the financial year ended 31 December 2012.

12 Islamic derivative financial instruments, commitments and contingencies

(ii) Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following :

	30-Jun-13	31-Dec-12
	Principal amount	Principal amount
	RM'000	RM'000
<u>Credit-related</u>		
Direct credit substitutes	157,512	195,449
Certain transaction-related contingent items	356,745	434,554
Short-term self-liquidating trade-related contingencies	14,605	85,180
Irrevocable commitments to extend credit :		
- maturity not exceeding one year	4,333,682	3,852,873
- maturity exceeding one year	1,050,148	901,637
Miscellaneous commitments and contingencies	36,123	45,430
Total credit-related commitments and contingencies	<u>5,948,815</u>	<u>5,515,123</u>
<u>Treasury-related</u>		
Foreign exchange related contracts :		
- less than one year	4,094,173	3,580,714
- one year to less than five years	127,058	157,015
- above 5 years	895,706	895,706
Profit rate related contracts :		
- less than one year	392,406	1,093,345
- one year to less than five years	6,716,944	4,615,834
- over five years	8,614,450	9,634,894
Equity related contracts :		
- less than one year	112,295	710,632
- one year to less than five years	315,137	345,162
- above 5 years	398,683	415,712
Total treasury-related commitments and contingencies	<u>21,666,852</u>	<u>21,449,014</u>
	<u>27,615,667</u>	<u>26,964,137</u>

13 CAPITAL ADEQUACY

On 28 November 2012, Bank Negara Malaysia (BNM) issued revised guidelines on the capital adequacy framework which took effect beginning 1 January 2013. The revised guidelines sets out the general requirements concerning regulatory capital adequacy, components of eligible regulatory capital and requirements for computing risk-weighted assets.

The risk-weighted assets of the Bank are computed in accordance with the Capital Adequacy Framework for Islamic Banks (Basel II - Risk-Weighted Assets). The IRB Approach is applied for the major credit exposures. It prescribes two approaches, the F-IRB Approach and A-IRB Approach. The remaining credit exposures and Market Risk are on the Standardised Approach while Operational Risk is based on Basic Indicator Approach. The components of eligible regulatory capital is based on the Capital Adequacy Framework for Islamic Banks (Capital Components). The comparative capital adequacy ratios as at 31 December 2012 were based on BNM's Risk-Weighted Capital Adequacy Framework (RWCAF).

30 June 2013 - Basel III

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

	30-Jun-13 RM'000
Common equity tier 1 ratio	9.14%
Tier 1 ratio	9.44%
Total capital ratio	<u>13.32%</u>

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

	30-Jun-13 RM'000
Credit risk	18,269,211
Market risk	803,570
Operational risk	1,766,593
Total risk-weighted assets	<u>20,839,374</u>

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

	30-Jun-13 RM'000
Common Equity Tier I capital	
Ordinary shares	1,000,000
Other reserves	1,439,449
Common Equity Tier I capital before regulatory adjustments	<u>2,439,449</u>
<u>Less: Regulatory adjustments</u>	
Goodwill	(136,000)
Intangible assets	(8,535)
Deferred tax assets	(13,996)
Others	(376,843)
Common Equity Tier I capital after regulatory adjustments	<u>1,904,075</u>
Additional Tier I capital	
Perpetual preference shares	63,000
Additional Tier I capital before regulatory adjustments	<u>63,000</u>
<u>Less: Regulatory adjustments</u>	
Additional Tier I capital after regulatory adjustments	<u>63,000</u>
Total Tier I capital	<u>1,967,075</u>
Tier II capital	
Subordinated notes	765,000
Portfolio impairment allowance and regulatory reserves ^	44,526
Tier II capital before regulatory adjustments	<u>809,526</u>
<u>Less: Regulatory adjustments</u>	-
Total Tier II capital	<u>809,526</u>
Total capital	<u>2,776,601</u>

31 December 2012 - Basel II

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

	31-Dec-12 RM'000
Before deducting proposed dividends	
Core capital ratio	8.69%
Risk-weighted capital ratio	<u>13.27%</u>
After deducting proposed dividends	
Core capital ratio	8.69%
Risk-weighted capital ratio	<u>13.27%</u>

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

	31-Dec-12 RM'000
Credit risk	19,554,311
Market risk	913,826
Operational risk	1,678,915
Total risk-weighted assets	<u>22,147,052</u>

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

	31-Dec-12 RM'000
Tier I capital	
Paid-up capital	1,000,000
Perpetual preference shares	70,000
Other reserves	1,008,843
Less:	
Deferred tax assets	(18,057)
Goodwill	(136,000)
Total Tier I capital	<u>1,924,786</u>
Tier II capital	
Subordinated notes	850,000
Regulatory reserve	242,624
Portfolio impairment allowance ^	45,257
Excess of total expected loss over total eligible provision	(122,870)
Total Tier II capital	<u>1,015,011</u>
Total capital base	<u>2,939,797</u>

^ The capital base of the Bank as at 30 June 2013 has excluded portfolio impairment allowance on impaired financings for standardise approach assets restricted from Tier II capital of RM20.3 million (2012: RM16.48 million).

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED	QUARTER ENDED	6 MONTHS ENDED	6 MONTHS ENDED
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
	RM'000	RM'000	RM'000	RM'000
14 Income derived from investment of depositors funds and others				
Income derived from investment of :				
- General investment deposits	248,154	199,845	496,455	395,482
- Specific investment deposits	19,314	22,272	35,535	45,642
- Other deposits	270,937	256,449	520,862	493,217
	<u>538,405</u>	<u>478,566</u>	<u>1,052,852</u>	<u>934,341</u>
14a Income derived from investment of general investment deposits				
Financing, advances and other financing/loans				
- Profit income	196,179	156,408	396,055	319,233
- Unwinding income [^]	859	555	1,570	1,109
Financial assets held for trading	4,627	2,154	10,127	4,221
Financial investments available-for-sale	13,722	6,644	27,498	12,517
Financial investments held-to-maturity	3,557	5,605	7,373	10,036
Money at call and deposit with financial institutions	16,650	14,855	32,753	37,409
	<u>235,594</u>	<u>186,221</u>	<u>475,376</u>	<u>384,525</u>
Accretion of discount less amortisation of premium	7,666	409	17,073	(3,596)
Total finance income and hibah	<u>243,260</u>	<u>186,630</u>	<u>492,449</u>	<u>380,929</u>
Other operating income				
- Net gain/(loss) arising from financial assets held for trading				
- realised gain/(loss)	(1,543)	8,632	(1,426)	8,833
- unrealised gain/(loss)	(364)	1,751	(940)	718
- Net gain from sale of financial investments available-for-sale	4,905	1,126	5,552	2,259
- Net gain from sale of financial investments held-to-maturity	-	-	117	106
- Net gain from foreign exchange transactions	1,621	350	206	739
	<u>4,619</u>	<u>11,859</u>	<u>3,509</u>	<u>12,655</u>
Fee and commission income	275	1,356	497	1,898
	<u>248,154</u>	<u>199,845</u>	<u>496,455</u>	<u>395,482</u>
14b Income derived from investment of specific investment deposits				
Financing, advances and other financing/loans				
- Profit income	9,956	13,029	20,151	26,103
Money at call and deposit with financial institutions	9,358	9,243	15,384	19,539
	<u>19,314</u>	<u>22,272</u>	<u>35,535</u>	<u>45,642</u>

[^] Unwinding income is income earned on impaired financing, advances and other loans

Notes to the accounts

INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
QUARTER ENDED	QUARTER ENDED	6 MONTHS ENDED	6 MONTHS ENDED
30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
RM'000	RM'000	RM'000	RM'000

14c Income derived from investment of other deposits

Financing, advances and other financing/loans				
- Profit income	214,192	200,710	415,374	397,766
- Unwinding income [^]	939	712	1,654	1,383
Financial assets held for trading	5,052	2,764	10,588	5,266
Financial investments available-for-sale	14,981	8,527	28,847	15,634
Financial investments held-to-maturity	3,883	7,193	7,724	12,555
Money at call and deposit with financial institutions	18,179	19,061	34,387	46,359
	257,226	238,967	498,574	478,963
Accretion of discount less amortisation of premium	8,370	525	17,839	(4,323)
Total finance income and hibah	265,596	239,492	516,413	474,640

Other operating income

- Net gain/(loss) arising from financial assets held for trading				
- realised gain/(loss)	(1,685)	11,077	(1,567)	11,321
- unrealised gain/(loss)	(398)	2,246	(977)	996
- Net gain from sale of financial investments available-for-sale	5,356	1,445	6,007	2,816
- Net gain from sale of financial investments held-to-maturity	-	-	118	128
- Net gain from foreign exchange transactions	1,769	449	345	920
	5,042	15,217	3,926	16,181
Fee and commission income	299	1,740	523	2,396
	270,937	256,449	520,862	493,217

15 Income derived from investment of shareholder's funds

Financing, advances and other financing/loans				
- Profit income	19,833	17,051	39,807	34,556
- Unwinding income [^]	87	60	158	120
Financial assets held for trading	467	235	1,017	457
Financial investments available-for-sale	1,387	724	2,764	1,356
Financial investments held-to-maturity	360	611	741	1,087
Money at call and deposit with financial institutions	1,683	1,619	3,292	4,044
	23,817	20,300	47,779	41,620
Accretion of discount less amortisation of premium	775	45	1,715	(386)
Total finance income and hibah	24,592	20,345	49,494	41,234

Other operating income

- Net gain/(loss) arising from financial assets held for trading				
- realised gain/(loss)	(156)	941	(144)	963
- unrealised gain/(loss)	(36)	191	(94)	80
- Net gain from sale of financial investments available-for-sale	496	123	561	245
- Net gain from sale of financial investments held-to-maturity	-	-	12	11
- Net gain from foreign exchange transactions	163	38	22	80
- Net gain/(loss) arising from hedging activities	(100)	(939)	229	(946)
- Net gain/(loss) arising from derivative financial instrument				
- realised gain/(loss)	(11,858)	18,482	10,465	(35,819)
- unrealised gain/(loss)	361	(16,622)	(25,537)	42,660
	(11,130)	2,214	(14,486)	7,274
Fee and commission income	15,132	13,467	31,779	39,636
Less : fee and commission expense	(616)	(513)	(1,110)	(998)
Net fee and commission income	14,516	12,954	30,669	38,638
Other income				
- Sundry income	906	1,198	1,553	2,697
	28,884	36,711	67,230	89,843

[^] Unwinding income is income earned on impaired financing, advances and other financing/loans

Notes to the accounts

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED	QUARTER ENDED	6 MONTHS ENDED	6 MONTHS ENDED
	30-Jun-13 RM'000	30-Jun-12 RM'000	30-Jun-13 RM'000	30-Jun-12 RM'000
16 Allowance for impairment losses on financing, advances and other financing/loans				
Individual impairment allowance				
- Made during the period	-	1,981	-	1,981
- Written back	(124)	1,244	(12,714)	-
Portfolio impairment allowance				
- Made during the period	13,340	35,331	63,909	62,872
Impaired financing :				
- recovered	(13,151)	(12,837)	(25,582)	(28,423)
- written off	548	123	1,159	(1,596)
	<u>613</u>	<u>25,842</u>	<u>26,772</u>	<u>34,834</u>
17 Income attributable to depositors				
Deposits from customers				
- Mudharabah	36,338	42,487	65,881	101,578
- Non-Mudharabah	161,896	116,578	331,076	220,618
Deposits and placements of banks and other financial institutions				
- Mudharabah	23,704	21,339	42,454	40,971
- Non-Mudharabah	64,621	75,376	133,009	150,237
Subordinated Sukuk	9,447	6,490	18,855	13,004
	<u>296,006</u>	<u>262,270</u>	<u>591,275</u>	<u>526,408</u>
18 Personnel expenses				
Salaries, allowances and bonuses	17,621	15,328	34,598	32,632
Pension cost (defined contribution plan)	747	614	1,480	1,247
Training fees	103	130	113	176
Overtime	33	9	57	23
Others	2,053	662	3,840	638
	<u>20,557</u>	<u>16,743</u>	<u>40,088</u>	<u>34,716</u>
19 Other overheads				
Establishment				
Rental	338	492	658	810
Depreciation of property, plant and equipment	523	289	1,005	620
Outsourcing expenses	197	3,523	339	4,643
Others	1,337	3,153	2,284	3,831
Marketing				
Advertisement and publicity	2,532	521	4,999	2,223
Others	409	612	817	897
General expenses				
Auditor's remuneration-statutory audit	96	24	126	128
Amortisation of intangible assets	741	365	1,271	953
Professional fees	1,082	(333)	2,083	417
Others	6,644	3,985	12,344	7,206
	<u>13,899</u>	<u>12,631</u>	<u>25,926</u>	<u>21,728</u>
Shared service costs paid/payable to CIMB Bank/CIMB Investment Bank	102,577	83,151	196,670	164,905
	<u>116,476</u>	<u>95,782</u>	<u>222,596</u>	<u>186,633</u>

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Determination of fair value and fair value hierarchy

The Bank classified its financial instruments measured at Fair Value accordance to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable for the asset or liability, either directly or indirectly

Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs)

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value measurement hierarchy as at 30 June 2013 and 31 December 2012.

	Fair Value 30 June 2013					Fair Value 31 December 2012				
	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
<u>Financial assets</u>										
Financial assets held for trading										
-Money market instruments	5,141,706	-	5,141,706	-	5,141,706	5,668,344	-	5,668,344	-	5,668,344
-Quoted securities					-					-
-Unquoted securities	341,809	-	341,809	-	341,809	448,704	-	448,704	-	448,704
Financial investments available-for-sale										
-Money market instruments	1,053,614	-	1,053,614	-	1,053,614	1,249,644	-	1,249,644	-	1,249,644
-Quoted securities					-					-
-Unquoted securities	1,196,740	-	1,196,740	-	1,196,740	1,547,118	-	1,547,118	-	1,547,118
Derivative financial instruments										
-Trading derivatives	212,042	-	212,042	-	212,042	158,986	-	158,986	-	158,986
-Hedging derivatives	11,902	-	11,902	-	11,902	9,374	-	9,374	-	9,374
Total	7,957,813	-	7,957,813	-	7,957,813	9,082,170	-	9,082,170	-	9,082,170
<u>Financial liabilities</u>										
Derivative financial instruments										
Trading derivatives	135,373	-	135,372	-	135,372	126,946	-	126,946	-	126,946
Hedging derivatives	199,887	-	199,887	-	199,887	253,583	-	253,583	-	253,583
Total	335,260	-	335,260	-	335,260	380,529	-	380,529	-	380,529

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain bonds, government bonds, corporate debt securities, repurchase and reverse purchase agreements, loans, credit derivatives, certain issued notes and the Bank's over the counter ("OTC") derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes private equity investments, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities) and certain bonds.

Notes to the accounts

21 Credit transactions and exposures with connected parties

	30-Jun-13	30-Jun-12
	RM'000	RM'000
Outstanding credit exposures with connected parties	975,736	501,955
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	1.90%	1.10%
Percentage of outstanding credit exposures with connected parties which is impaired or in default	0.00%	0.00%

22 Change in accounting policies

There were no changes in the accounting policy during the financial period.