STRICTLY PRIVATE & CONFIDENTIAL

CIMB Islamic Bank Berhad
(Company No.671380-H)
(Incorporated in Malaysia)

INFORMATION MEMORANDUM

Tier 2 Junior Sukuk Programme
of up to RM2.0 Billion in Nominal Value

Principal Adviser, Lead Arranger and Lead Manager

CIMB Investment Bank Berhad
(Company No. 18417-M)

This Information Memorandum is dated 20 August 2009.

RESPONSIBILITY STATEMENT

This Information Memorandum contains information regarding CIMB Islamic Bank Berhad ("**CIMB Islamic Bank**" or the "**Bank**" or the "**Issuer**"), its parent company CIMB Bank Berhad ("**CIMB Bank**") and CIMB Bank's subsidiaries ("**CIMB Bank Group**" or the "**Group**"), and CIMB Group Sdn Bhd ("**CIMBG**" or "**CIMB Group**") which has been approved by the directors of the Issuer and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries, and to the best of their information and belief, there are no false or misleading statements or other facts the omission of which would make any statement in this Information Memorandum false or misleading and there is no material omission in this Information Memorandum.

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This Information Memorandum is in connection with the Proposed Tier 2 Junior Sukuk Programme of up to RM2.0 billion in nominal value (the "**Junior Sukuk Programme**"), and each of the Junior Sukuk issued under the Junior Sukuk Programme by the Issuer (the "**Junior Sukuk**"). The proceeds from the Junior Sukuk will be used by CIMB Islamic Bank for its Islamic banking operations or any other Shariah-compliant use as approved by the Shariah Adviser, CIMB Investment Bank Berhad ("**CIMB**") (backed by CIMB Islamic Shariah Committee).

<u>Selling Restrictions at Issuance</u>
The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Junior Sukuk may be made, and to whom the Junior Sukuk are issued, would fall within:

(i) Schedule 6 or Section 229(1)(b), or Schedule 7 or Section 230(1)(b); and

(ii) Schedule 9 or Section 257(3)

of the Capital Markets and Services Act 2007 ("the **CMSA**") as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

<u>Selling Restrictions after Issuance</u>
The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Junior Sukuk may be made, and to whom the Junior Sukuk are issued, would fall within:

(i) Schedule 6 or Section 229(1)(b), and

(ii) Schedule 9 or Section 257(3)

of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

No application is being made to list the Junior Sukuk on any stock exchange, nor is any such application contemplated.

The Issuer has authorised CIMB (as the Lead Arranger ("**LA**") and Lead Manager ("**LM**")) to distribute this Information Memorandum. This Information Memorandum may not, in whole or in part, be reproduced or used for any other purpose, or shown, given or sent to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer and the LA/LM or as required under Malaysian laws, regulations and guidelines.

No representation or warranty, express or implied, is given or assumed by the LA/LM as to the authenticity, origin, validity, accuracy or completeness of information and data contained in this Information Memorandum or that the information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum. The LA/LM has not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Junior Sukuk and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum, except as provided by Malaysian laws. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, LA/LM or any other person. The LA/LM expressly does not undertake to review the financial condition or affairs of the Issuer during the tenure of the Junior Sukuk or to advise any investor of the Junior Sukuk of any information coming to their attention.

The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied (if any).

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia (the "**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation (or with or by any regulatory authorities or other relevant bodies) of any Foreign Jurisdiction and it does not constitute an issue or offer of, or an invitation to apply for, the Junior Sukuk or any other securities of any kind by any party in any Foreign Jurisdiction. The distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer and the LA/LM to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer, the LA nor LM accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction. This Information Memorandum is not and is not intended to be a prospectus and has not been registered or lodged under the laws of Malaysia or of any Foreign Jurisdiction as a prospectus.

In addition, recipients of this Information Memorandum should note the selling restrictions in the Summary of the Principal Terms and Conditions as set out in Section 2 of this Information Memorandum.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all information and data in this Information Memorandum, (b) it is lawful for the recipient to subscribe for or purchase the Junior Sukuk under all jurisdictions to which the recipient is subject, (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Junior Sukuk, (d) the Issuer, the LA/ LM and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Junior Sukuk, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Junior Sukuk is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Junior Sukuk can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Junior Sukuk, and is able and is prepared to bear the economic and financial risks of investing in or holding the Junior Sukuk, (g) it is subscribing or accepting the Junior Sukuk for its own account, and (h) it is a person to whom an issue, offer or invitation to subscribe or to purchase the Junior Sukuk would constitute an excluded issue, excluded offer or excluded invitation as defined in the CMSA. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Junior Sukuk in relation to any recipient who does not fall within item (h) above.

This Information Memorandum is not, and should not be construed as, a recommendation by the Issuer, the LA/ LM or any other party to the recipient to subscribe for or to purchase the Junior Sukuk. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Junior Sukuk and all other relevant matters, and each recipient should consult its own financial, legal and other appropriate professional advisers.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Junior Sukuk shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Junior Sukuk is correct as of any time subsequent to the date indicated in the document containing the same. The LA/LM expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Junior Sukuk or to advise any investor of the Junior Sukuk of any information coming to their attention.

This Information Memorandum includes "forward looking statements". All these statements are based on estimates and assumptions made by the Issuer that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of a forward looking statement in this Information Memorandum should not be regarded as a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer will be achieved.

All discrepancies (if any) in the tables included in this Information Memorandum between the listed amounts and totals thereof are due to, and certain numbers appearing in this Information Memorandum are shown after, rounding. Where this Information Memorandum contains or refers to a summary of a document or agreement, the summary is not meant to be exhaustive. The contents of the summary may be subject to some other provisions in the relevant document or agreement.

CIMB, in its capacity as the LA, will perform the functions required to be performed by the Facility Agent as stated in the Rules on Fully Automated System for Issuing/Tendering issued by Bank Negara Malaysia ("**BNM**") to the extent applicable to the Junior Sukuk.

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STATEMENTS OF DISCLAIMER

Subject to completion, a copy of the Information Memorandum will be deposited with the Securities Commission ("**SC**") in accordance with the CMSA, who takes no responsibility for its contents.

The approval from the SC for the issue of the Junior Sukuk has been granted. A recipient of this Information Memorandum acknowledges and agrees that the approval of the SC shall not be taken to indicate that the SC recommends an investment in or purchase of the Junior Sukuk.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness or completeness of any statements made or opinions or reports expressed or contained in this Information Memorandum.

Approval from BNM has been obtained for the issuance of the Junior Sukuk as Tier 2 capital of the Issuer pursuant to the updated Guidelines on Risk Weighted Capital Adequacy Framework (General Requirements and Capital Components) last updated on 20 September 2007.

This Information Memorandum is not an offer to sell the Junior Sukuk and is not soliciting an offer to buy the Junior Sukuk described herein in any jurisdiction where the offer for sale is not permitted.

The issue, offer or invitation in relation to the Junior Sukuk in this Information Memorandum is subject to the fulfillment of various conditions precedent.

EACH ISSUE OF ISLAMIC SECURITIES WILL CARRY DIFFERENT RISKS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN ANY ISSUE OF ISLAMIC SECURITIES, INCLUDING THE JUNIOR SUKUK. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR INVESTING IN THE JUNIOR SUKUK.

CONFIDENTIALITY

This Information Memorandum and its contents are strictly confidential and are provided strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, or any information, which is made available in connection with any further enquiries, must be held in complete confidence.

This Information Memorandum is provided to prospective investors solely for their own evaluation of the Junior Sukuk.

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CIMB Islamic Bank is a member of CIMBG. The Bank operates on a Dual Banking Leveraged Model which utilizes the full resources and the infrastructure of CIMBG thus benefiting from cost efficiencies and shared branding.

Principally the strategies, operations and key directions of the relevant entities within CIMBG are synergized and determined on a group-wide basis to afford maximum benefits to the CIMBG. Further resources are, to the extent possible, shared by the relevant entities. In this regard, certain discussions in this Information Memorandum may pertain to those of CIMBG.

SECTION 1.0 EXECUTIVE SUMMARY

1.1 Background of CIMB Islamic Bank

The Issuer is CIMB Islamic Bank, a wholly-owned subsidiary of CIMB Bank and was initially incorporated under the Company Act 1965 on 2 November 2004 as Commerce Tijari Bank Berhad ("**Commerce Tijari**"). It is a fully licensed Islamic bank under the Islamic Banking Act 1983 ("the **IBA**") and is principally involved in the provision of Islamic banking business as permitted under the license issued pursuant to the IBA. CIMB Islamic Bank is the anchor universal banking operating entity for CIMBG's overall Islamic banking and finance franchise known as "**CIMB Islamic**".

As a result of the restructuring exercise which began in June 2005 by Commerce-Asset Holdings Berhad ("**CAHB**"), now known as Bumiputra-Commerce Holdings Berhad ("**BCHB**"), to create a universal bank by combining its commercial and investment banking activities involving the acquisitions of Bumiputra-Commerce Bank Berhad ("**BCB**") and Southern Bank Berhad ("**SBB**"), Commerce Tijari merged with the Islamic investment banking division of CIMB and assumed its present name, CIMB Islamic Bank on 7 September 2006.

As at 30 June 2009, the authorised share capital of CIMB Islamic Bank is RM1,000,000,000 divided into 900,000,000 ordinary shares of RM1.00 each and 100,000,000 preference shares of RM1.00 each while the Issuer's issued and fully paid-up share capital is RM620,000,000 comprising 550,000,000 ordinary shares of RM1.00 each and 70,000,000 preference shares of RM1.00 each.

1.2 Brief Description of the Junior Sukuk

The Junior Sukuk are structured to comply with BNM's updated Guidelines on Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components) last updated on 20 September 2007. Approval from the BNM has been obtained for the Junior Sukuk to be classified under the Tier 2 capital of CIMB Islamic Bank under BNM's Risk Weighted Capital Ratio framework ("**RWCR Framework**").

The Junior Sukuk constitute direct and unsecured obligations of the Issuer, ranking pari passu among themselves and, in the event of a winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Junior Sukuk.

Further, the obligation by the Issuer to pay, as the case may be, the Exercise Price, the Advance Payments and Periodic Distributions (all known as "**Payment Obligations**") will also constitute direct and unsecured obligations of the Issuer and subordinated in right and priority in payment. The Payment Obligations will in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Payment Obligations.

There is a subordination of rights to receive cash flows in liquidation, and this provides loss protection to senior ranking claims against the Issuer. Further there are no provisions which may cause an early redemption of the Junior Sukuk other than as detailed in Section 2 of this Information Memorandum.
The Junior Sukuk will have a maturity of not less than 5 years from the issue date and may be redeemed on the Optional Redemption Dates, subject to the approval of BNM. The Optional Redemption Date is defined as "… an option to redeem the Junior Sukuk on any Periodic Payment Date (on whole or part) on or after 5 years prior to the maturity date of the Junior Sukuk". Further details are set out in Section 2 of this Information Memorandum.
**The call period for each issuance may be different subject to a minimum of 5 years prior to the maturity date of the Junior Sukuk as prescribed by the BNM under its relevant guidelines.*

Musyarakah is a partnership ("**Musyarakah Venture**") agreement between two or more parties to finance a business venture whereby all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture, which is the investment in the Trust Assets. Any profit derived from the Musyarakah Venture will be distributed based on a pre-agreed profit sharing ratio, but a loss will be shared on the basis of equity participation.

The Investors via the Trustee shall from time to time form a Musyarakah among themselves and shall invest in certain Shariah-compliant Trust Assets of the Issuer. Such investment in the Trust Assets will be referred to as Musyarakah Venture. The Investors shall contribute their portion of the Musyarakah Capital for the purpose of the Musyarakah Venture by subscribing to the investment certificates (i.e. Junior Sukuk) issued by the Issuer. Proceeds received shall be utilized by CIMB Islamic Bank for Shariah-compliant purposes as approved by the Shariah Adviser.

The Trust Assets of each issuance would be Shariah-compliant business(es) of CIMB Islamic Bank or any other Shariah-compliant asset approved by Shariah Adviser ("**Trust Assets**"). The Trustee, on behalf of the Sukukholders shall appoint the Issuer to manage the Trust Assets, for which the Issuer shall be paid an incentive management fee ("**Incentive Fee**") arising from the cashflow in excess of the Periodic Payment.

The Junior Sukuk shall entitle the Sukukholders to the following:

1) an undivided share of beneficial ownership in the Trust Asset (the quantum of which is evidenced by the Musyarakah Capital)

2) a right to share the income generated from the Trust Asset (in proportion to their undivided ownership based on a pre-agreed percentage) but on the basis that payments of such share of income ("**Periodic Payment**") shall:

   a. be equivalent to the Periodic Payment Amount in relation to each tranche of the Junior Sukuk provided always that in the event that the Periodic Distribution on any Periodic Payment Date is insufficient to pay the Periodic Payment Amount then the Issuer shall make Advance Payment equal to such deficiency. For avoidance of doubt, failure by the Issuer to make such payment shall constitute a Dissolution Event; and

   b. be received by the Sukukholders on the Dissolution Dates and/or Periodic Payment Dates whereby, for avoidance of doubt, failure by the Issuer to make such payments of Periodic Payment to the Sukukholders on the Dissolution Dates and/or Periodic Payment Dates shall constitute a Dissolution Event; and

3) the benefit of the Purchase Undertaking

For further details on the Junior Sukuk, please refer to Section 2.0 of this Information Memorandum

1.3 Details of Utilisation of Proceeds

The proceeds of the Junior Sukuk shall be made available for the Islamic banking operation of CIMB Islamic Bank or any other Shariah-compliant use as approved by the Shariah Adviser.

1.4 Rating of the Junior Sukuk

Malaysia Rating Corporation Berhad ("**MARC**") has assigned an indicative long-term rating of AA_{IS} for the Junior Sukuk Programme.

1.5 Selling Restrictions

<u>Selling Restrictions at Issuance</u>

The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer or invitation to subscribe for the Junior Sukuk and to whom the Junior Sukuk are issued would fall within:

1. Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); and
2. Schedule 9 (or Section 257(3))

of the CMSA, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

<u>Selling Restrictions after Issuance</u>

The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Junior Sukuk would fall within:

1. Schedule 6 (or Section 229(1)(b));and
2. Schedule 9 (or Section 257(3))

of the CMSA, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

1.6 Selected Financial Information

The following table sets out a summary of selected financial information and operating data, in each case for the periods and as of the dates indicated of CIMB Islamic Bank. A prospective investor should read the following summary selected financial information in conjunction with the Bank's historical financial statements and the related notes included elsewhere in this Information Memorandum (see Appendix 1 of this Information Memorandum).

Income Statement	June 2009	June 2008
	RM'000	RM'000
Income derived from investment of depositors' funds and others…………	384,505	254,448
Income derived from investment of shareholders' funds…………………..	49,663	51,398
Allowances for losses on financing, advances and other loans…………..	(90,315)	(22,743)
Impairment loss…………………………………………………………………	-	-

Transfer (to) / from profit equalization reserves	-	2,200
Total distributable income	343,853	285,303
Income attributable to depositors	(178,102)	(180,882)
Total net income	165,751	104,421
Personnel expenses	(45,033)	(23,516)
Other overheads and expenditures	(56,189)	(33,386)
Profit before zakat and taxation	64,529	47,519
Zakat and taxation	(15,746)	(12,600)
Net profit for the financial year	48,783	34,919
Earnings per share (sen)		
-basic/fully diluted	8.9	6.4

Balance Sheet	June 2009 RM'000	June 2008 RM'000
Assets		
Cash and short-term funds	5,081,251	8,738,051
Deposits and placement with banks and other financial institutions	939,935	1,123,451
Securities held for trading	1,766,288	935,092
Available-for-sale securities	625,302	577,182
Held-to-maturity securities	1,256,511	94,367
Derivative financial instruments	322,737	287,582
Financing, advances and other loans	9,327,421	2,507,679
Other assets	100,124	115,392
Deferred taxation	25,295	20,290
Amount due from holding company	86	-
Amount due from related companies	-	-
Statutory deposits with BNM	104,174	136,274
Property, plant and equipment	3,656	3,458
Intangible assets	4,367	8,121
Goodwill	136,000	136,000
Total assets	**19,693,147**	**14,682,939**
Liabilities		
Deposits from customers	11,832,397	12,530,181
Deposits and placement from banks and other financial institutions	5,805,437	1,050,316
Other liabilities	408,523	116,793
Derivatives financial instruments	161,848	73,063
Provision for tax and zakat	10,267	1,465
Bills and acceptances payable	14	11,889
Amount due to holding company	680,774	196,919
Amount due to related companies	1,722	7,019
Total liabilities	**18,900,982**	**13,987,645**
Capital and reserves attributable to equity holder of the Bank		
Perpetual preference shares	70,000	70,000
Ordinary share capital	550,000	550,000

Reserves ………………………………………………………………………..	172,165	75,294
Total equity	792,165	695,294
Total equity and liabilities	**19,693,147**	**14,682,939**
Commitments and contingencies	11,614,153	5,231,154
Capital adequacy		
Core capital ratio ………………………………………………………………	8.3%	13.7%
Risk-weighted capital ratio ……………………………………………………	9.9%	14.9%

	As at and for the period ended 30 June	
	2009	**2008**
Net Profit margin	1.2%	0.7%
Return on assets	0.3%	0.3%
Return on Equity	6.4%	5.1.%
Cost to income	39.5%	44.7%
Gross NPF Ratio	2.1%	8.1%
Net NPF Ratio	1.0%	4.9%
Financing to Deposit Ratio	78.8%	20%
Core Capital Ratio	8.3%	13.7%
Risk Weighted Capital Ratio	9.9%	14.9%

The Financial Ratios used are defined as:

Return on assets means net profit after taxation and zakat as a percentage of the average of beginning and year-end total assets.

Return on equity means net profit after taxation and zakat as a percentage of the average of beginning and year-end shareholders' funds.

Net profit margin means net profit income, excluding income-in-suspense recoveries from non-performing financings, advances and other loans net profit suspended, as a percentage of the average of beginning and year-end total assets.

Gross NPF ratio means gross non-performing financings as a percentage of gross financings, advances and other loans.

Net NPF ratio means net non-performing financings as a percentage of gross financings, advances and other loans less specific allowance.

Allowance for bad and doubtful financings means total specific allowance and general allowance for bad and doubtful financings as a percentage of non-performing financings.

Financings and advances/total deposits means gross financings, advances and other loans less general and specific allowances as a percentage of deposits from customers.

Cost to income means overhead expenses as a percentage of the net income.

Core capital ratio means the ratio of Tier 1 capital to risk-weighted assets

Risk-weighted capital ratio means the ratio of total capital base to risk-weighted assets

SECTION 2.0 SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE JUNIOR SUKUK PROGRAMME

The information set out in this section is principal terms and a condition approved by the SC and is qualified in its entirety by, and must be read in conjunction with, further information appearing elsewhere in this Information Memorandum. Words and expressions used and defined in this section shall, in the event of inconsistency with the definition sections of this Information Memorandum, only be applicable for this section.

BACKGROUND INFORMATION

1. ***Issuer***

(i) Name	:	CIMB Islamic Bank
(ii) Address	:	Correspondence Address Level 34, Menara Bumiputra-Commerce 11 Jalan Raja Laut 50350, Kuala Lumpur Registered Address 5th Floor, Bangunan CIMB, Jalan Semantan Damansara Heights, 50490 Kuala Lumpur
(iii) Business Registration No.	:	671380-H
(iv) Date /Place of Incorporation	:	2 November 2004 /Malaysia
(v) Date of Listing (in case of a public listed company)	:	Not applicable
(vi) Status	:	Resident-controlled company / Bumiputra-controlled company
(vii) Principal Activities	:	Islamic Banking and related financial services as approved under the IBA.
(viii) Board of Directors (as at 31 March 2009)	:	Datuk Dr. Syed Muhamad Syed Abdul Kadir *(Chairman)* Dato' Sri Nazir Razak *(Deputy Chairman)* Dato' Mohd Shukri Hussin Dato' Anwar bin Haji @ Aji Raja Shaharul Niza Raja Abdul Aziz Professor Dr. Mohammad Hashim Kamali Encik Badlisyah Abdul Ghani *(Executive Director/Chief Executive Officer)*

(ix) Structure of shareholding and name of shareholder or, in the case of public company, names of all major shareholders (as at 31 March 2009) :

	<---Direct--->	
	No. of Ordinary Shares	**%**
CIMB Bank Berhad	550,000,000	100

(x) Authorised share capital (as at 31 March 2009) : RM1,000,000,000.00 divided into 900,000,000 ordinary shares of RM1.00 each and 100,000,000 preference shares of RM1.00 each

Paid-up share capital (as at 31 March 2009) : RM620,000,000.00 divided into 550,000,000 ordinary shares of RM1.00 each and 70,000,000 preference shares of RM1.00 each

PRINCIPAL TERMS AND CONDITIONS

1. *Issuer's Name* — CIMB Islamic Bank

2. ***Names of parties involved in the proposed transaction (where applicable)***

(i) Principal Adviser(s)/ Lead Arranger(s)	:	CIMB
(ii) Arranger(s)	:	Not applicable
(iii) Valuers	:	Not applicable
(iv) Solicitors	:	Messrs. Zaid Ibrahim & Co.
(v) Financial Adviser	:	Not applicable
(vi) Technical Adviser	:	Not applicable
(vii) Guarantor	:	Not applicable
(viii) Trustee	:	Malaysian Trustees Berhad
(ix) Facility Agent	:	CIMB
(x)Primary Subscribers and amount subscribed (where applicable)	:	To be determined prior to the issuance in respect of issuance via bought deal basis only. Not applicable for issuance via private placement and book building.
(xi) Underwriter(s) and amount underwritten	:	Not applicable

	(xii) Syariah Adviser	:	CIMB (backed by CIMB Islamic Shariah Committee)
	(xiii) Central Depository	:	BNM
	(xiv) Paying Agent	:	BNM
	(xv) Reporting Accountant	:	Not applicable
	(xvi) Others (please specify)		
	(a) Lead Manager	:	CIMB and/or such other party(ies) as may be appointed by the Issuer
	(b) Calculation Agent	:	CIMB
	(c) Manager of the Trust Asset	:	Issuer (applicable to Musyarakah principle or any other principle that involves a Manager)
3.	*Islamic principle used*	:	Each issue of Junior Sukuk will be based on (but not limited to) the Shariah principle of Musyarakah. Where it is proposed to issue any Junior Sukuk based on the Shariah principle which is not listed above, the Issuer will seek prior consultation/approval (as the case may be) from the SC.
4.	*Facility Description*	:	The Tier 2 Junior Sukuk Programme of which the Junior Sukuk issued under the Junior Sukuk Programme is intended to qualify as Tier 2 capital of CIMB Islamic Bank for purposes of Risk Weighted Capital Adequacy ("**RWCA**") Framework as approved by BNM. The Issuer may issue Junior Sukuk based on but not limited to the Shariah principle identified in clause 3. "*Islamic principle used*" above. **<u>Musyarakah</u>** CIMB Islamic Bank shall issue Junior Sukuk to the sukukholders ("**Sukukholders" or "Junior Sukukholders**" or "**Investors**") in consideration for their capital contributions ("**Musyarakah Capital**"). The Junior Sukuk shall be issued under the Islamic principle of Musyarakah which is a partnership ("**Musyarakah Venture**") arrangement between two or more parties to finance a business venture whereby all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture, which is the investment in the Trust Assets. Any profit derived from the

venture will be distributed based on a pre-agreed profit sharing ratio, but a loss will be shared on the basis of equity participation.

The Investors via the Trustee shall from time to time form a Musyarakah among themselves and shall invest in certain Shariah-compliant Trust Assets (as defined below) of the Issuer. Such investment in the Trust Assets will be referred to as Musyarakah Venture. The Investors shall contribute their portion of Musyarakah Capital for the purpose of the Musyarakah Venture by subscribing to the investment certificates (i.e. Junior Sukuk) issued by the Issuer. Proceeds received shall be utilised by CIMB Islamic Bank for its Islamic banking operation or any other Shariah-compliant purposes as approved by the Shariah Adviser.

The Trust Assets of each issuance would be the Islamic banking operation of CIMB Islamic Bank or any other Shariah-compliant asset approved by Shariah Adviser ("**Trust Assets**"). The Trustee, on behalf of the Sukukholders shall appoint the Issuer to manage the Trust Assets, for which the Issuer shall be paid an incentive management fee ("**Incentive Fee**") arising from the cashflow in excess of the Periodic Payment (as defined below).

The Sukukholders shall agree that the Periodic Payment Amount (as defined below) will not, in any event, exceed the Periodic Payment (calculated based on the Periodic Payment Rate (as defined in clause 8 – *Profit Rate (%))* of the Sukuk as defined below) on the Junior Sukuk.

The Junior Sukuk shall entitle the Sukukholders to the following:

1) an undivided share of beneficial ownership in the Trust Asset (the quantum of which is evidenced by the Musyarakah Capital);
2) a right to share the income generated from the Trust Asset (in proportion to their undivided ownership based on a pre-agreed percentage) but on the basis that payments of such share of the income ("Periodic Payment") shall:

    (i) be equivalent to the Periodic Payment Amount (as defined below) in relation to each tranche of the Junior Sukuk provided always that in the event that the Periodic Distribution (as defined below) on any Periodic Payment Date (as defined in clause 9 – *Profit Payment Frequency and Basis*) is insufficient to pay the Periodic Payment Amount then the Issuer shall make Advance Payment (as defined below) equal to such deficiency. For avoidance of doubt, failure by the Issuer to make such payment shall constitute a Dissolution Event; and

(ii) be received by the Sukukholders on the Dissolution Dates and/or Periodic Payment Dates.

Dissolution Dates

Being the earlier of the following date in relation to the dissolution of the Musyarakah Venture of the particular tranche under the Junior Sukuk Programme pursuant to the exercise of Purchase Undertaking:

a) the maturity date or Mandatory Redemption Date of the Junior Sukuk; or
b) upon declaration of a Dissolution Event, or
c) the Optional Redemption Date of the Junior Sukuk where the Junior Sukuk is fully redeemed.
3) the benefit of the Purchase Undertaking (as defined below).

Periodic Payment Amounts and Periodic Payment Dates

Sukukholders will be entitled to Periodic Payments on the Periodic Payment Dates.

Periodic Payments (based on pre-agreed percentage) in relation to each tranche of the Junior Sukuk made during the tenor of the Junior Sukuk ("**Periodic Payment Amounts**") will comprise:

(i) periodic payments of the distribution made during the tenor of the Junior Sukuk from the income generated from the Trust Assets ("**Periodic Distributions**"); and

(ii) advance payments made during the tenor of the Junior Sukuk ("**Advance Payments**") provided that on any Periodic Payment Date, the aggregate of the Advance Payments and the Periodic Distributions, shall be equal to the Periodic Payment Amounts.

<u>Musyarakah Capital</u>

Issue proceeds received from the Sukukholders pursuant to their subscription to the Junior Sukuk issued by the Issuer.

<u>Purchase Undertaking</u>

CIMB Islamic Bank intends to acquire the interest of the Sukukholders in the Musyarakah Venture at the Exercise Price upon the occurrence of either of the following:

1) the maturity date (which shall also be known as "**Mandatory Redemption Date**"); or

2) the declaration of a Dissolution Event; or

3) upon the exercise of the Call Option (as defined in clause 27.1 – *Call Option*) of the Junior Sukuk on Optional Redemption Date (as defined in clause 7 – *Tenor of the Facility/Issue*)

4) Upon cancellation following the purchase of the Junior Sukuk by the Issuer under the Clause 27.10 – *Purchases by CIMB Islamic Bank*.

The Exercise Price which, in absolute terms is an amount as determined by the Calculation Agent and shall be calculated based on the following formula:

1) <u>On the Mandatory Redemption Date or the maturity date:</u>

   Exercise Price = Musyarakah Capital *plus* total Expected Return *less* Aggregate of Periodic Distributions, whereby the Musyarakah Capital, Expected Return and Aggregate of Periodic Distributions shall be calculated only in relation to the portion of the outstanding Junior Sukuk.

   The Issuer will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the outstanding Junior Sukuk.

2) On the declaration of a Dissolution Event:

Exercise Price = Musyarakah Capital *plus* total Expected Return on Dissolution Date *less* Aggregate of Periodic Distributions, whereby the Musyarakah Capital, Expected Return and Aggregate of Periodic Distributions shall be calculated only in relation to the portion of the outstanding Junior Sukuk.

The Issuer will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the outstanding Junior Sukuk.

3) Exercise of the Call Option on Optional Redemption Date:

Exercise Price = Musyarakah Capital *plus* total Expected Return on Optional Redemption Date *less* Aggregate of Periodic Distributions, whereby the Musyarakah Capital, Expected Return and Aggregate of Periodic Distributions shall be calculated only in relation to the portion of the outstanding Junior Sukuk.

The Issuer will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the outstanding Junior Sukuk.

4) On partial redemption

Exercise Price = Musyarakah Capital *plus* total Expected Return on Optional Redemption Date *less* Aggregate of Periodic Distributions, whereby the Musyarakah Capital, Expected Return and Aggregate of Periodic Distributions shall be calculated only in relation to the portion of the Junior Sukuk so redeemed.

The Issuer will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the Junior Sukuk so redeemed

5) <u>On partial cancellation following the purchase by the Issuer under clause 27.10</u>

Exercise Price = Musyarakah Capital *plus* total Expected Return on the date the Junior Sukuk are cancelled *less* Aggregate of Periodic Distributions, whereby the Musyarakah Capital, Expected Return and Aggregate of Periodic Distributions shall be calculated only in relation to the portion of the Junior Sukuk so purchased and cancelled.

The Issuer will be entitled to deduct the aggregate of the Advance Payments in relation to the portion of the Junior Sukuk so purchased and cancelled.

In the event of overdue payments of any amount pursuant to the Purchase Undertaking, the Issuer shall pay compensation (Ta'widh) on such overdue amounts at the rate and/or any other manner prescribed by the Shariah Advisory Council of the Securities Commission ("**SAC**").

For the avoidance of doubt, in relation to each tranche

(A) the exercise of Purchase Undertaking due to (i) Dissolution Event or (ii) on the Mandatory Redemption Date or (iii) on the Optional Redemption Date, whereby the Junior Sukuk are fully redeemed, will lead to the dissolution of the Musyarakah Venture of the particular tranche.

(B) the exercise of the Purchase Undertaking due to partial redemption or partial cancellation of the Junior Sukuk in one tranche will not lead to the dissolution of the Musyarakah Venture of the particular tranche, but will only reduce the participation of the investors in the Musyarakah Venture accordingly by the portion of the Junior Sukuk so redeemed or cancelled, and that the Trust Assets in relation to that particular tranche will also be reduced proportionately.

The transaction structure is depicted in Attachment I.

5. *Issue Size (RM)* : The Junior Sukuk Programme shall have a limit of RM2.0 billion in nominal value.

			The total outstanding Junior Sukuk shall not at any time exceed the nominal value of RM2.0 billion.
6.	*Issue Price*	:	The Junior Sukuk will be issued at par or at a discount to be determined prior to the issue date, and the issue price is calculated in accordance with the FAST Rules (as defined below).
7.	*Tenor of the Facility /Issue*	:	Availability Period of the Junior Sukuk Programme The Junior Sukuk Programme shall have an availability period of 7 years from the date of first issuance under the Junior Sukuk Programme. Tenor of the Junior Sukuk Programme The Junior Sukuk Programme shall have a tenor of 22 years from the date of first issuance under the Junior Sukuk Programme. Tenor of the Junior Sukuk Five (5) years and up to fifteen (15) years as the Issuer may select, provided that the Junior Sukuk mature prior to the expiry of the Junior Sukuk Programme. Each issuance of Junior Sukuk under the Junior Sukuk Programme may have a Call Option where the Issuer shall have the option to redeem the Junior Sukuk on any Periodic Payment Date (in whole or in part) on or after 5 years prior to the maturity date of each Junior Sukuk. ("Optional Redemption Date"). Details of the mechanism of the Call Option are described in Clause 27.1. Mandatory Redemption Date is defined as the maturity date of each tranche of Junior Sukuk issuance.
8.	*Profit Rate (%)*	:	The expected profit rate of the Junior Sukuk is to be determined prior to the issue date of each issuance ("**Periodic Payment Rate**"). For issuances with a Call Option, unless the Junior Sukuk are redeemed on the first Optional Redemption Date, the Sukukholders will be entitled to a step-up Periodic Payment Rate on the remaining outstanding Junior Sukuk (if any) from (and including) the first Optional Redemption Date and up to

			(excluding) the earlier of the date of early full redemption or the maturity date of the Junior Sukuk. The step-up Periodic Payment Rate per annum for each issuance shall be determined prior to the issue date of each issuance.
9.	*Profit Payment frequency and basis*	:	For Junior Sukuk issued under the principle of Musyarakah, the Periodic Payments made during the periodic payment dates shall be on a semi-annual basis with the first payment expected to be made six (6) months from the date of issuance of the Junior Sukuk ("**Periodic Payment Date**") with the last Periodic Payment to be made on the maturity date or upon the relevant Optional Redemption Date, whichever is earlier Periodic Distribution on any Periodic Payment Date will be calculated based on the actual number of days (actual/actual).
10.	*Yield to Maturity (%)*	:	The yield to maturity is the expected return to the Sukukholders under each Musyarakah Venture which shall be determined at the point of issuance of the respective Sukuk ("**Expected Return**"). For avoidance of doubt, the Expected Return comprises of the aggregate of the Periodic Payment on each Periodic Payment Date up to maturity date of the Junior Sukuk or the date of Call Option is exercised or the Dissolution Event *plus* the Discount portion of the Junior Sukuk (if applicable). Discount (determined at the point of issuance of the Junior Sukuk) shall be an amount equivalent to the face value of the relevant Junior Sukuk less the Musyarakah Capital in the event the Junior Sukuk is issued at a discount.
11.	*Security /Collateral (if any)*	:	None.
12.	*Details on utilisation of proceeds*	:	The proceeds of the Junior Sukuk shall be made available for the Islamic banking operation of CIMB Islamic Bank or any other Shariah-compliant use as approved by the Shariah Adviser.
13.	*Sinking Fund (if any)*	:	Not applicable
14.	*Rating and rating agency*	:	The rating agency is **MARC**. The Indicative rating for the Junior Sukuk Programme is AA_{IS}

15. *Form and Denomination* : The Junior Sukuk shall be issued in accordance with:

1. the “Code of Conduct and Market Practices for the Malaysian Corporate Bond Market” issued by the Institut Peniaga Bon Malaysia and approved by BNM (“**IPBM Code**”); and
2. the “Rules on the Scripless Securities” under the Real Time Electronic Transfer of Funds and Securities (“**Rentas**”) system issued by BNM (“**Rentas Rules**”); and
3. the Rules on Fully Automated System for Issuing/Tendering ("**FAST**") issued by BNM (“**FAST Rules**”),

or their replacement thereof (collectively the “**Codes of Conduct**”) applicable from time to time.

The Rentas Rules shall prevail to the extent of any inconsistency between the Rentas Rules and the IPBM Code.

The Junior Sukuk shall be represented by a global certificate to be deposited with BNM, and is exchanged for definitive bearer form only in certain limited circumstances. The denomination of the Junior Sukuk shall be RM1,000 or in multiples of RM1,000 at the time of issuance.

16. *Mode of Issue* : The Junior Sukuk may be issued via direct placement on a best effort basis or a bought deal basis or book running on a best effort basis without prospectus.

17. *Selling Restrictions* : Selling Restrictions at Issuance

The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer or invitation to subscribe for the Junior Sukuk and to whom the Junior Sukuk are issued would fall within:

1. Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); and
2. Schedule 9 (or Section 257(3))

of the **CMSA**, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

Selling Restrictions after Issuance

The Junior Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Junior Sukuk would fall within:

1. Schedule 6 (or Section 229(1)(b));and
2. Schedule 9 (or Section 257(3))

of the **CMSA**, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

18.	*Listing Status*	:	The Junior Sukuk will not be listed on Bursa Malaysia Securities Berhad or any other stock exchange.
19.	*Minimum Level of Subscription (RM or %)*	:	5% of each issuance of the Junior Sukuk to be issued if the issuance is via book-building. 100% of each issuance of the Junior Sukuk to be issued if the issuance is via private placement or bought deal.
20.	*Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)*	:	Approval from BNM for the classification of the Junior Sukuk issued under the Junior Sukuk Programme as Tier 2 capital of the Issuer. BNM's application has been made via letter dated 2 April 2009 and BNM's approval for the classification of the securities as "Tier 2 Capital Securities" has been obtained on 15 April 2009. Approval from the SC on the waiver from compliance with certain provisions under the SC Guidelines on Minimum Contents Requirements for Trust Deeds ("**Trust Deed Guidelines**") in respect of the Junior Sukuk Programme. The submission for the waiver under Paragraph 7.01 of the Guidelines on the Offering of Islamic Securities as well as waiver from compliance with certain provisions under the Trust Deed Guidelines have been made to the SC via its letter dated 3 April 2009 which approval was obtained on 16 April 2009
21.	*Identified Asset(s)*	:	The Shariah-compliant business(es) of CIMB Islamic Bank or any other Shariah-compliant asset approved by Shariah Adviser. The Issuer shall have the right to exchange the Trust Assets with qualified Trust Assets

("**Qualified Assets**") or purchase in whole or part of the Trust Assets pursuant to an exchange agreement. Qualified Assets shall mean assets which have been endorsed by the Shariah Adviser. For each issue, the value of the Trust Assets, which is determined based on the value at cost, shall be at least equivalent to the nominal amount of the Junior Sukuk outstanding at that point in time. For the avoidance of doubt, the total value (to be determined at cost) of the Trust Assets shall at all times be at least equivalent to the total nominal value of the Junior Sukuk outstanding. In case of any exchange of Trust Assets, the value of the new Trust Assets to be injected must be at least equivalent to the value of the Trust Assets to be replaced (which shall be valued at cost). As such, the value of the Trust Assets shall remain at least at the same level before any exchange of Trust Assets.

For any other principles, the Identified Assets shall be identified at the point of issuance of the Junior Sukuk and the SC will be notified accordingly.

22. *Purchase and selling price/ (where applicable)* :

Purchase Price
Not applicable under the contract of Musyarakah.

Selling Price
Not applicable under the contract of Musyarakah.

23. *Conditions Precedent* :

To include but not limited to the following (all of which shall be in form and substance acceptable to the Lead Arranger):

A Main Documentation

1. The Financing Documents have been signed and, where applicable, stamped and presented for registration.
2. All relevant notices and acknowledgements (where applicable) shall have been made or received as the case may be.

B The Issuer

1. Certified true copies of the Certificate of Incorporation, and the Memorandum and Articles of Association, of the Issuer.
2. Certified true copies of the latest Forms 24 and 49 of the Issuer.
3. A certified true copy of a board resolution of the Issuer authorising, among others, the execution of the transaction documents.
4. A list of the Issuer's authorised signatories and their respective specimen signatures.

5. A report of the relevant company search of the Issuer.
6. A report of the relevant winding up search or the relevant statutory declaration of the Issuer in form and substance acceptable to the Lead Arranger signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer.

C **<u>General</u>**

1. The approval from the SC and, where applicable, all other regulatory authorities.
2. The Junior Sukuk has received the approval of the Shariah Adviser.
3. The approval from BNM for the Junior Sukuk to be classified as Tier 2 Capital.
4. The Lead Arranger has received from its legal counsel a favourable legal opinion addressed to it and the Trustee advising with respect to, among others, the legality, validity and enforceability of the Financing Documents and a confirmation addressed to the Lead Arranger that all the conditions precedent have been fulfilled.

24. *Representations and Warranties* : Representation and warranties will include such representation and warranties customary and standard for a facility of this nature and shall include, but not limited to the following:

a) The Issuer is duly established and validly in existence and has the power and authority to carry out its business;
b) the Issuer has the power to enter into the Financing Documents (as defined in clause 27.8 below) and exercise its rights to perform its obligations under the Financing Documents;
c) Entry into and the exercise of the Issuer's rights and obligations under the Financing Documents do not violate any existing law or regulation;
d) The Financing Documents are valid, binding and enforceable;
e) All necessary actions, authorisations and consents required under the Financing Documents and the Junior Sukuk have been obtained and remain in full force and effect;
f) The audited accounts of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent true and fair view;
g) Save as disclosed in the information memorandum, there is no litigation

which would have a material adverse effect on the Issuer's ability to perform its obligations under the Financing Documents;

h) Any other representation and warranties as may be advised by the Solicitors.

25.	Dissolution Events or Events of Default (as the case may be)	:	Events of Default or Dissolution Events shall be: a) Default in payment of any Periodic Payment or Exercise Price or any part thereof and such default continues for 14 days; and b) Any step or action is taken against CIMB Islamic Bank for the winding up, dissolution or liquidation of CIMB Islamic Bank or the appointment of a receiver over the whole or a substantial part of the assets of CIMB Islamic Bank or any other similar proceedings and no action is taken in good faith to set aside, defend or settle such step, action, petition or appointment within 60 days from the date of service of such winding up notice or petition order or the taking of such step, action or appointment. There will be no other events of default. Upon the occurrence of an Event of Default or Dissolution Event (as the case may be), the Trustee shall (if so directed by a requisite majority of Sukukholders to be agreed) declare that the Junior Sukuk together with all other sums owing under the Junior Sukuk shall become immediately due and payable. Under the principle of Musyarakah, the Trustee shall be entitled to invoke the Purchase Undertaking whereupon the circumstances set out thereunder shall take place.
26.	*Principal terms and conditions for warrants (where applicable)*	:	Not applicable
27.	*Other principal terms and conditions for the issue*		
27.1	*Call Option*	:	Each issuance of Junior Sukuk under the Junior Sukuk Programme may have a callable option ("**Call Option**") (to be determined prior to each issuance). Under the Call Option, if applicable for the relevant tranche, the Issuer shall have the option to redeem (in whole or in part) the Junior Sukuk on any Optional Redemption Date.

For each tranche of the Junior Sukuk issuance where a Call Option is applicable, the Sukukholders shall grant an option to CIMB Islamic Bank, and subject to prior approval from BNM, CIMB Islamic Bank may, at its sole discretion exercise such option to acquire the Sukukholders' interest in the Musyarakah Venture (in whole or in part) on any Optional Redemption Date at the Exercise Price.

The Call Option exercised by the Issuer either to redeem in whole or in part in relation to one tranche does not trigger the exercise of the options in other tranches.

In the event, the Issuer exercises the Call Option to partially redeem the Junior Sukuk in one tranche, all holders of that tranche shall be redeemed on a pro-rata basis.

27.2	*No Further Rights to Participate in Profits and Assets*	:	The Junior Sukuk shall not confer any right or claim as regards participation in the profits and assets of CIMB Islamic Bank.
27.3	*Status of Junior Sukuk*	:	The Junior Sukuk will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority in payment, to the extent and in the manner provided in the Junior Sukuk, ranking pari passu among themselves. The Junior Sukuk, will in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Junior Sukuk. The obligation by the Issuer to pay, as the case may be, the Exercise Price, the Advance Payments, Periodic Distributions ("**Payment Obligations**") will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority in payment. The Payment Obligations will in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Payment Obligations.
27.4	*Covenants*	:	The Issuer shall comply with such applicable positive covenants as may be advised by the Solicitors and / or which are required in order to comply with the Trust Deed Guidelines (save for those which waiver has been sought and approved by the SC), including, but not

			limited to the following: a) Exercise diligence in carrying on its business and keep in force and effect all licenses, consents and rights necessary for the conduct of its business; b) Comply with all relevant laws and regulations; c) Maintain a paying agent in Malaysia; d) Maintain proper books and accounts and deliver financial statements to the Trustee on a timely manner; e) Inform the Trustee any actual or potential Dissolution Event or Event of Default, as the case may be; f) Deliver to the Trustee a periodic certificate of compliance There will be no restrictive covenants applicable to the Junior Sukuk.
27.5	*Redemption Upon Maturity*	:	Unless previously redeemed on the Optional Redemption Date, or purchase from the market and cancelled, the Junior Sukuk will be redeemed in full on maturity upon settlement of the Redemption Amount (as described in clause 27.6).
27.6	*Redemption Amount*	:	The cash amount ("**Redemption Amount**") payable on redemption due to Maturity or upon the exercise of the Call Option or upon occurrence of Dissolution Event of the Junior Sukuk.
27.7	*Voting Rights*	:	The Sukukholders shall have no voting rights in CIMB Islamic Bank.
27.8	*Financing Documents*		The Junior Sukuk shall be evidenced by, inter alia, the following: 1. Programme Agreement; 2. Depository and Paying Agency Agreement; 3. Trust Deed; 4. Any other relevant agreements as advised by the Solicitors
27.9	*Taxation*	:	All payments by the Issuer shall be made subject to withholding or deductions for or on account of any present or future tax, duty, or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any authority thereof having power to tax, and the Issuer shall not be required to gross up in connection with such withholding or deduction on these payments or distributions.

27.10	*Purchases by CIMB Islamic Bank*	:	The Issuer may at any time acquire the Junior Sukuk at any price in the open market or by private treaty. If purchases are made by tender, such tender must (subject to any applicable rules and regulations) be made available to all holders of the relevant issuance equally. Junior Sukuk purchased by CIMB Islamic Bank shall not be used for voting purposes or for directing or requesting the Trustee to take any action. Subject to the approval from BNM, all Junior Sukuk purchased by the Issuer may be cancelled at the Issuer's discretion.
27.11	*Governing Laws*	:	Laws of Malaysia. ***Waiver of Interest*** For the avoidance of doubt and notwithstanding any other provisions contained in this Principal Terms and Conditions, the Issuer, Junior Sukukholders and/or other relevant parties under this Junior Sukuk Programme recognise that the receipt and payment of interest is not permitted under Shariah and accordingly agree that if any claims for amounts due under any Financing Documents are made in a court of law and that court, by applying the laws and regulations of its legal system, imposes an obligation to pay interest on the amounts being claimed, the Issuer, Junior Sukukholders and/or other relevant parties under this Junior Sukuk Programme hereby irrevocably and unconditionally expressly waive and reject any entitlement to recover such interest.
27.12	*Other Conditions*		The Junior Sukuk shall at all times be governed by the guidelines issued and to be issued from time to time by the SC and BNM.

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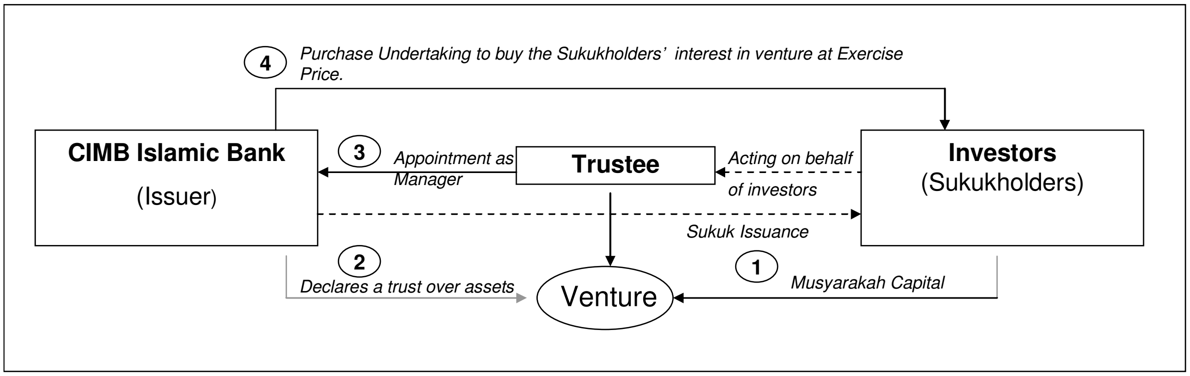
Attachment 1



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SECTION 3.0 INVESTMENT CONSIDERATIONS

An investment in the Junior Sukuk involves risks and such investment is only suitable for investors who have knowledge and experience in the financial and business matters necessary to enable them to evaluate the risks and merits of such an investment. The following section summarizes certain of such risks associated with the investment in the Junior Sukuk and may not be exhaustive. In addition to the other information contained in this Information Memorandum, prospective purchasers of the Junior Sukuk are strongly advised to read and carefully consider, in light of their own financial circumstances and investment objectives, the factors discussed below and to conduct their own independent investigation of the risks posed by the Junior Sukuk and consult their own financial and legal advisors on the risks associated with the investment in the Junior Sukuk prior to making an investment in the Junior Sukuk.

The Issuer believes that the considerations described below represent the principal risks inherent in investing in the Junior Sukuk, but the Issuer's inability to pay any amounts on or in connection with any of Junior Sukuk may occur for other reasons and the Issuer do not represent that the statements below regarding the considerations or risks of holding any of the Junior Sukuk are exhaustive. Although the Issuer believes that the various structural elements described in this Information Memorandum lessen some of these risks for an investor, there can be no assurance that these measures will be sufficient to ensure payment to any investors of any amounts due under the Junior Sukuk on a timely basis or at all. Prospective investors are strongly encouraged to undertake their own investigations and analysis on the Issuer, its business and the risks associated with the Junior Sukuk. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decisions.

3.1 Risk Relating to CIMB Islamic Bank and CIMB Group

Recent market instability, continued market deterioration or adverse economic and market conditions in other countries may have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

The economic and market conditions in other countries, particularly emerging market conditions in Asia and its major trading partners, could have an influence on the Malaysian economy. Any widespread global financial instability or a significant loss of investor confidence in other emerging market economies may adversely affect the Malaysian economy, which could materially and adversely affect the Bank's business, financial condition, and results of operations, prospects or reputation.

Recent market instability or continued market deterioration may result in adverse and continued constraints in the supply of liquidity which may, in turn, adversely affect the cost of funding the business and extreme liquidity constraints may limit growth possibilities. An inability to access funds or to access the markets from which it raises funds may create stress on the Bank's ability to finance its operations adequately. A dislocated credit environment or an unstable financial market compounds the risk that funds will not be available at favourable rates. In addition, the continued liquidity crisis in other affected economies may create difficulties for the Bank's customers to refinance or to repay financing to the Bank, which would result in deterioration of the credit quality of the Bank's financing portfolio and potentially increase the ratio of Bank's non-performing financing (the "**NPFs**"). Moreover, if there is a downturn in confidence in the Malaysian banking sector as a result of a liquidity crisis, the depositors may withdraw term deposits prior to maturity and as a result, have a negative impact on the Bank's funding base and liquidity. There can be no assurance that if unexpected withdrawals of deposits by the Bank's customers result in liquidity gaps, the Bank will be able to cover such gaps.

Although the Bank has not yet experienced any substantial adverse effect on its assets or funding sources as a consequence of this liquidity crisis, there can be no assurance that this liquidity crisis will not, if sustained, adversely affect the Bank's business, financial condition, and results of operations or prospects. In particular, if the Bank perceives a likelihood of impending deterioration in economic conditions, it may decrease its risk tolerance in its financing activities, which could have the effect of reducing its profit margin and profit income, and ultimately adversely affect the business, financial condition and results of operations of the Bank.

The CIMB Group's risk management and control framework may be inadequate or ineffective, thereby having a material adverse effect on the Bank

CIMB Group recognises that risk management is an integral part of its business and that an effective risk management system is critical for the Group to achieve continued profitability and sustainable growth in shareholder's value. In pursuing these objectives, CIMB Group has adopted the Enterprise-wide Risk Management (the "**EWRM"**) Framework to manage its risks and opportunities. The EWRM Framework involves an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the achievement of the Bank's business objectives. The EWRM Framework represents an integrated and structured risk management approach on an enterprise-wide basis applied in a consistent manner. It aims to provide the management of the Bank with the tools necessary or desirable for the anticipation and management of both existing and potential risks to its businesses and operations while taking into consideration, the changing risk profiles as dictated by changes in business strategies, regulatory environment and functional activities throughout the year.

The Bank's risk management structure comprises of various committees, beginning with the Board Risk Committee (the "**BRC"**), which determines the Bank's risk policy objectives in line with best practices in corporate governance and assumes ultimate responsibility for risk management. The BRC also establishes the yearly allocation of risk capital to support all risks undertaken by the Bank. The BRC which reports directly to the Board of Directors, oversees the entire EWRM Framework, provides strategic guidance and reviews decisions made by the various risk committees.

The day-to-day responsibility for risk management and control is delegated to the Group Risk Committee (the "**GRC"**), which reports directly to the BRC. The GRC, comprises of senior management of the Group, undertakes the oversight function for capital allocation and overall risk limits, in line with the risk appetite determined by the Board of Directors. The GRC is supported by four specialised sub-committees, namely the Market and International Risk Committee, the Credit Risk Committee (the "**CRC**"), the Liquidity Risk Committee and the Operational Risk Committee, each addressing market risks, credit risks, liquidity risks and operational risks, respectively. Although CIMB Group has established comprehensive risk management and control framework comprising detailed guidelines, processes and procedures, there can be no assurance that CIMB Group's risk management structure will function effectively or be adequately supported to combat all risk exposures of CIMB Group. The failure to maintain an effective and adequate framework may adversely affect the business, financial condition and results of operations of the Bank. See Section 8 of this Information Memorandum for a description of the Bank's risk management structure.

A significant deterioration in the Bank's asset quality could adversely affect the business, financial condition, results of operations or prospects of the Bank if their financing provisions or credit and risk management policies are insufficient to cover its liabilities or ineffective for any reason

Asset quality is a key driver of a bank's performance. The Bank adopts prudent credit risk management policies to manage its asset quality. The Bank recognises that credit policies need to be responsive to the changing environment and diverse market conditions. Additionally, the establishment and application of financing rules, policies and guidelines are consistently applied throughout CIMB Group. The Bank appreciates that financing pricing has to reflect the cost of risk in order to generate an optimal return on capital.

Although the Bank believes that it has adopted a sound asset quality management system, there is no assurance that the system will remain effective or adequate in the future. A significant deterioration of asset quality or material non-compliance with its credit risk management policies or asset quality management system may adversely affect the business, financial condition and results of operations of the Bank.

Credit risks arising in connection with the Bank's businesses or a deterioration in the credit quality of the Bank's counterparties could affect the recoverability and value of the Bank's assets and require increased provisioning

Credit and counterparty risk are defined as the possibility of losses due to an obligor or market counterparty or issuer of securities failing to perform its contractual obligations to the Bank.

Credit risk 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 counterparties will not be able or willing to fulfil their obligations and transactions on or before settlement date. In derivatives activities, 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. Credit risk may also arise where the downgrading of an entity's rating causes the fair value of the Bank's investment in that entity's financial instruments to fall.

All credit exposures are subjected to an internal rating, based on a combination of quantitative and qualitative criteria. Adherence to set credit limits is monitored daily by Group Risk Monitoring (the "**GRM**"), which combines all exposures of each counterparty, including off balance sheet items and potential exposure. Compliance to the Group-wide Credit Policy limits the exposure to any one counterparty or group, industry sector and rating classification.

Credit exposures are evaluated by CRC and are monitored against approved limits on a regular basis. Adherence to and compliance with single customer limit as well as assessing the quality of collateral are approaches adopted to address concentration risks to any large sector/industry, or to a particular counterparty group or individual.

CIMB Group enters into master agreements that provide for closeout and settlement netting with counterparties, whenever possible. A master agreement that governs all transactions between two (2) parties, creates the greatest legal certainty that credit exposure will be netted. This effectively enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

The extent, to which the CIMB Group's overall exposure to credit risk is reduced through a master netting arrangement, may change substantially within a short period following the balance sheet date as the exposure is affected by each transaction subject to the agreement.

Although CIMB Group believes that it has adopted an effective credit risk management system, credit risk could still arise from events beyond CIMB Group's control, including general deterioration in local and global economic conditions or from systemic risks within the financial systems, all of which could affect the recoverability and value of the Banks assets and require an increase in the Bank's provisions for the impairment of its assets and other credit exposures.

Deterioration in collateral values or inability to realise collateral value may necessitate an increase in the Bank's provisions

A significant portion of the Bank's financing facilities are secured by collateral such as real estates property and other physical assets. The values of such collateral in some cases have declined due to the global financial crisis and general economic deterioration. This may result in a portion of the Bank's financing exceeding the value of the underlying collateral. Any such deterioration in the value of the collateral securing the Bank's NPFs or inability to obtain additional collateral or inability to realise the value of the collateral may require the Bank to increase its financing asset provisions, which may adversely affect the business, financial condition and results of operations of CIMB Group.

Operational risks arising in connection with the Bank's failure or neglect to comply with rules and regulations could adversely impact the Bank

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

CIMB Group has established an Operational Risk Management Framework which is subjected to periodic review to cater for the changing business conditions. The Operational Risk Management Framework is designed to monitor and control operational risk effectively, leading to a sound and stable operational environment within CIMB Group. All operational risks, both inherent and anticipated, are properly identified, captured, monitored, managed and reported in a systematic and consistent manner. The Operational Risk Committee (ORC) has oversight responsibility for all operational activities conducted a day-to-day basis by the Bank.

Self Assessments and Controls are key elements within the Operational Risk Management Framework which ensure operational risk within the processes in each business unit are properly identified, analyzed and mitigated on a periodic basis. Relevant Key Risk Indicators are used to track changes that may highlight new risk concerns and potential areas of weaknesses in operational controls.

Each new or varied product and changes to the process flow are subjected to a rigorous risk review through sign offs from the relevant support units where all critical risks are identified and assessed independently from the risk takers or product owners.

The Bank continuously stress on the importance of adhering to internal controls and established procedures to deter fraud and to minimize losses due to staff negligence. In order to demonstrate the seriousness of such offences, strict disciplinary actions are instituted against staff concerned.

Although the Bank has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to entirely eliminate the operational risk of the Bank.

Liquidity risks arising in connection with the Bank's failure or neglect to anticipate changes in funding sources could adversely impact the Bank's ability to meet its obligations

Liquidity risk is defined as the risk to earnings or shareholders fund from the Bank's inability to efficiently meet its present and future (both anticipated and unanticipated) funding needs, arising from mismatches between the size or maturities of assets and liabilities.

The Bank's liquidity risk management policy is to maintain high quality and well diversified portfolio of liquid assets and sources of funds. Management action triggers have been established to alert management to potential and emerging liquidity pressures. The Bank's early warning system and contingency funding plan are in place to alert and to enable the management to act effectively and efficiently during a liquidity crisis and under adverse market conditions.

Market risks arising in connection with the Bank's trading activities and investments in securities could adversely impact the Bank

Market risk is defined as any fluctuation in the value of the portfolio resulting from changes in market prices, such as profit rates, currency exchange rates, credit spreads, equity prices and commodities prices.

Market risk results from trading activities can arise from customer-related businesses or from proprietary positions. The Bank hedges the exposures to market risk by employing varied strategies, including the use of derivative instruments.

The Bank adopts various measures in its risk management process to manage market risk. An accurate and timely valuation of position is critical to provide the Bank with its current market exposure. GRM values the exposures using market prices or a pricing model where appropriate.

The Bank also adopts a value-at-risk (the "**VAR**") approach in the measurement of market risks. Backtesting is performed to validate and reassess the accuracy of the existing VAR model. VAR is a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level. Backtesting involves the comparison of the daily model-generated VAR forecast against the actual or hypothetical profit or loss data over the corresponding period.

Stress testing is conducted to capture the potential market risk exposures from an unexpected market movement. Such stress test allows management to gain a better understanding of how portfolios and investments are likely to react to changing economic conditions and how the Bank can best prepare for and react to them.

Policies and procedures governing risk-taking translate limits and management triggers which complement the global Capital at Risk (the "**CaR**") limit. Limits constitute the key mechanism to control allowable risk taking, and are regularly reviewed in the face of changing business needs, market conditions and regulatory changes.

Although the Bank believes that it has adopted a sound market risk management process, there is no assurance that the process will response efficiently and function effectively to address all market risk events on a timely basis. Delay in responding to market condition with effective market risk management practices may adversely affect the business, financial condition and results of operations of the Bank.

The implementation of Basel II may result in increased operation costs to and minimum capital requirements of, the Bank

BNM has announced a two-phase approach for implementing the standards recommended by the Bank for International Settlements set out in "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II) in Malaysia. In the first phase, banking institutions will be required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions will be allowed to migrate directly to the Internal Rating-Based (the "**IRB**") approach by January 2010.

BNM has approved CIMB Group's application for direct migration to IRB approach. The approach for credit risk will be Advance IRB for retail exposure and Foundation IRB for corporate exposure. Operational risk will be based on Basic indicator Approach and working towards Standardised Approach in 2010. Regular meetings are held with BNM to ensure implementation initiatives are in line with their expectations.

A Basel II Steering Committee chaired by the Group Chief Executive Officer has been established to oversee the implementation initiatives across CIMB Group. Significant progress has been achieved in various workstreams, primarily, in rating models calibration and risk datamart.

CIMB Group employs an economic capital allocation framework, whereby capital is allocated to all business units in accordance to their respective risk profile. This is in line with the Second Pillar of Basel II framework – Supervisory Review Process and also BNM's Internal Capital Adequacy Assessment Process, which requires banks adopting IRB approach to develop a robust risk management framework (methodologies and process) to assess the adequacy of its internal economic capital in relation to the risk profile.

Although progress in the implementation of Basel II initiatives has been significant, there can be no assurance that CIMB Group's implementation of Basel II initiatives will be maintained, effective or adequate. Any failure or neglect in this connection could adversely impact CIMB Group's business, financial condition, results of operations and prospects. Furthermore, although the Bank does not presently anticipate that its operating costs will increase substantially or that it will be required to hold more capital as a result of methodological revisions in calculating minimum capital, the possibility of the Bank having to bear increased operating costs and being subjected to curtailed financing operations as a result of increased minimum capital requirements could adversely impact the business, financial condition and results of operations of the Bank.

Any failure to ensure compliance with Shariah principles or to adhere to the rulings issued by the Shariah Committee and or regulators may adversely affect the Bank's business, prospects and reputation

The Bank has established a Shariah compliance framework which is backed-up by CIMB Group's Shariah Compliance Policy and General Procedures Manual. Shariah's scope of activities are further strengthened with the two-tier two-tier Shariah advisory system carried out by the in-house Shariah Advisory Department and the independent Shariah Committee so as to provide the Shariah management a proper check-and-balance. This is further enhanced by the adherence of the Bank's Shariah practice to the guidelines set up by both Shariah Advisory Councils of BNM and SC. Although the Bank believes that it has adopted a strong Shariah compliance framework, there is no assurance that all Shariah-related risks have been totally eliminated.

Ineffective classification and provisioning policy for NPFs may adversely affect the business, financial condition and results of operations of the Bank

The Bank adopts a conservative accounting policy *vis-à-vis* BNM's requirements with regards to classification of NPFs, allowance for bad and doubtful financings, general provisions and write-off policies as described below.

Although the Bank believes that its policies for NPFs or provisions for bad and doubtful financing of its financing portfolio are adequate, no assurance can be given that the policies or level of provisions will prove to be effective or adequate or that the Bank would not have to make significant additional provisions for possible financing losses in the future, either of which may adversely affect the business, financial condition and results of operations of the Bank.

In addition, although the Bank’s gross NPFs ratio as at 30 June 2009 was 2.1 per cent., as compared to 8.1 per cent. as at 30 June 2008, there can be no assurance that the number and value of NPFs will continue to decrease in the future. There can be no assurance that the Bank’s efforts on recovery in respect of NPFs will continue to be successful.

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3.2 Risks Relating to the Industry

Regulatory Environment

BNM has extensive powers to regulate the Malaysian banking industry under the IBA, which came into effect on 7 April 1983. The IBA provides BNM with powers to supervise and regulate Islamic banks. The long-term objective of BNM is to create an efficient, progressive and comprehensive Islamic financial system that contributes significantly to the effectiveness and efficiency of the Malaysian financial sector.

BNM established the Shariah Advisory Council for Islamic Banking and Takaful on 1 May 1997 to streamline and harmonise the Shariah interpretations among the Islamic banks and takaful companies. The Shariah Advisory Council set up at BNM is the highest Shariah authority on Islamic banking and takaful set up to provide advice on all Shariah matters pertaining to Islamic banking and takaful in Malaysia.

BNM has broad investigative and enforcement powers. Accordingly, prospective investors should be aware that BNM, could in the future enforce regulations which may be adverse to the operations, financial conditions and the asset quality of the Bank and may otherwise significantly restrict the activities of the Bank including the Group, the Malaysian banks and the financial institutions generally. In addition, given the industry the Bank is operating in, BNM via the SAC may provide advice or rulings which may adversely affect the products or the activities of the Bank and other financial institutions in Malaysia in the future.

Competition

The Malaysian banking industry is transforming through BNM's deregulation process as part of BNM’s ten year Financial Sector Master Plan (2010), which has opened up opportunities for banks to widen their scope of business beyond traditional commercial banking. Concurrently, the liberalisation of the banking industry to allow greater presence of foreign conventional and Islamic banks has brought greater competition among banking institutions. Competition is expected to intensify further in the future. Increasing competition is encouraging banking institutions to work efficiently on shrinking margins. Banking institutions must improve their profitability, efficiency and technology, and explore cost effective solutions.

The Bank faces competition from Islamic and conventional banks from other domestic banking groups as well as foreign banks operating in Malaysia.

In line with the government's aim to position Malaysia as the global Islamic finance hub, the improvement of the regulatory and of the infrastructure are continuous and on going. BNM has recently made an announcement on further measures to liberalise the financial sector. The measures introduced include issuance of 2 new Islamic banking licenses to foreign players in 2009 and the increase of foreign equity limits up to 70% in existing domestic Islamic banks, investment banks, insurance and takaful companies. Although the industry, specifically the Islamic banking sector, may benefit from these measures when they are fully implemented, the increase level of competition may also impact the growth and the profitability of the Bank over the long run.

The Bank faces competition for customers from various other financial services companies. In addition, the level of competition in the Malaysian banking industry has been heightened with the gradual structural deregulation of the industry. In the event of consolidation or further strengthening of the Bank’s main Malaysian competitors, the Bank may lose its competitive edge in Malaysia and although the Bank believes it has implemented key strategies with the aim of ensuring its competitiveness and maintaining its position as a leading Malaysian bank, there can be no assurance that its key strategies will be adequate or effective against existing and future competitors. The adverse impact of market liberalisation and such increased competition may adversely impact the business, financial conditions and results of operations of the Bank.

Islamic Deposits in Malaysia are temporarily covered up to their full amount

BNM is not required to act as lender of last resort to meet liquidity needs in the banking system generally or for specific institutions. In the past, BNM has, on a case-by-case basis, provided a safety net for individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future.

On 16 October 2008, the Ministry of Finance and BNM jointly announced the implementation of a Government Deposit Guarantee (the "**Deposit scheme**") as a pre-emptive and precautionary measure to maintain the stability of the Malaysian financial system. The guarantee, implemented by Perbadanan Insurans Deposit Malaysia ("**PIDM**"), is only a temporary measure and is effective from 16 October 2008 and will be in force until 31 December 2010. It gives full protection to depositors holding all Ringgit and foreign currency-denominated deposits with commercial, Islamic, investment and international Islamic banks, as well as deposit-taking development financial institutions regulated by BNM.

However, not all deposits and instruments are guaranteed by the Deposit scheme, some of which include structured products that are not principal guaranteed, deposits payable outside Malaysia, inter-bank money market placements, negotiable instruments of deposit held by banks and repurchase agreements.

In addition, since its inception in September 2005, PIDM has applied a flat-rate premium system regardless of the risk profile of the relevant institution. The annual premium is derived based on a flat-rate of 0.06% charged on the total amount of insured deposits. In line with PIDM's mandate to promote sound risk management practices, a new differential premium system has been implemented to replace the current flat-rate premium system. The premium payable by a banking institution will depend on the institution's risk profile. An annual premium rate shall be prescribed in relation to each premium category. The applicable premium rate is based on the premium category in which a member is categorised. Such a differential premium system may result in higher deposit insurance costs for the Bank, which could adversely impact the business, financial condition and results of operations of the Bank.

3.3 Risks Relating to the Junior Sukuk

Risk Specific to the Musyarakah Structure

The Musyarakah Structure is based on the concept of a partnership. Therefore, the Junior Sukukholders as partners in a Musyarakah structure will be exposed to both, the risk of loss as well as to the profit. Any profit derived from the partnership will be distributed to each Junior Sukukholder based on an agreed profit sharing ratio while the loss will be borne in proportion to each Junior Sukukholders' respective capital contribution. The risk of loss is mitigated by the purchase undertakings given by the Issuer to the Trustee, pursuant to which the Issuer shall purchase the Junior Sukukholders' interest in the Musyarakah venture upon the maturity date of each series of the Junior Sukuk, upon the occurrence of an event of default or under such other circumstances as may be specified in the purchase undertaking

Subordinated Obligations

The Junior Sukuk and the obligation by the Issuer to pay any amount owing under the Junior Sukuk will constitute subordinated obligations of the Issuer. If the Issuer defaults on the payment of any profit payment or of Exercise Price or any part thereof derived from the Junior Sukuk, and such default continues for 14 days the Trustee (if so directed by a special resolution of the holders of the Junior Sukuk) shall declare that the Junior Sukuk together with all other sums owing under the Junior Sukuk shall become immediately due and payable, whereupon the Trustee shall also be entitled to invoke the Purchase Undertaking, whereby the Issuer shall acquire the interest of the holders of the Junior Sukuk at the nominal value of the outstanding Junior Sukuk together with any accrued profit due and owing. Thereafter, the Trustee may take action against the Issuer to institute a proceeding in Malaysia for the winding-up of the Issuer.

Upon the occurrence of any dissolution or winding-up proceeding, payments on the Junior Sukuk will be subordinated in right of payment to the prior payment in full of all deposits and other liabilities of the Issuer, except those liabilities which rank equally with or junior to the Junior Sukuk. In a winding-up proceeding, the holders of the Junior Sukuk may recover less than the holders of deposit liabilities or the holders of other unsubordinated and subordinated liabilities of the Issuer, which rank senior to the Junior Sukuk. As there is no precedent for the winding-up of a major financial institution in Malaysia, there is uncertainty as to the manner in which such proceeding would occur and the results thereof. See Section 2 of this Information Memorandum for detailed information.

No limitation on issuing other Tier-2 capital securities

There are no restrictions on the amount or number of other Tier-2 capital securities that the Issuer may issue which rank pari passu with the Junior Sukuk provided that such other issue of further Tier-2 capital securities ranking pari passu in right and priority of payment with or are subordinated to the Junior Sukuk in the case of a liquidation or winding up of the Issuer. The creation and issue of further Tier-2 capital securities ranking pari passu with the Junior Sukuk shall not require the consent of the holders of the Junior Sukuk. The issue of such Tier-2 capital securities and/or incurrence of such indebtedness may reduce the amount recoverable by the holders of the Junior Sukuk in the event of dissolution or winding-up of the Issuer.

Secondary Market for the Junior Sukuk

The Junior Sukuk will not be listed on Bursa Malaysia Berhad or any other exchange. There can be no assurance that a secondary market for the Junior Sukuk will develop or, if it does develop, that it will provide the holders of the Junior Sukuk with liquidity of investment or that such market or any liquidity of investment which may develop will continue for the entire tenure of the Junior Sukuk.

A downgrade in the rating of the Junior Sukuk may affect the market price of the Junior Sukuk

The Junior Sukuk are rated AA_{IS} by MARC. A rating is not a recommendation to buy, sell or hold the Junior Sukuk and may be subject to revision, suspension or withdrawal at any time by MARC if circumstances in the future so warrant. It is not an obligation of the Issuer to maintain the rating of the Junior Sukuk. A downgrade or withdrawal in MARC's rating of the Junior Sukuk may adversely affect the Bank's business, future financial performance, liquidity and trading price of the Junior Sukuk.

Redemption of the Junior Sukuk under certain circumstances

Where applicable, the Junior Sukuk may be redeemed at the option of the Issuer (in whole or in part) on the Optional Redemption Date subject to the prior approval of BNM. The optional redemption by the Issuer of the Junior Sukuk of one tranche does not trigger the redemption of the Junior Sukuk of any other tranches. See Section 2 of this Information Memorandum for detailed information.

Different tranches of Junior Sukuk issued

Each Junior Sukuk issued will carry different risks and all potential investors are strongly encouraged to evaluate each Junior Sukuk issue on its own merits.

3.4 Risks relating to Trust Assets

Recourse to the Issuer and the Trust Assets are limited

Each Junior Sukuk represents a fraction of undivided share of beneficial ownership in the Trust Assets relating to that issue. In order to mitigate the investment risk or uncertainty of income, the Sukukholders rely on the Deed of Undertaking provided by the Issuer. As such, the transaction will carry the full credit and faith of the Junior Sukuk which has been accorded a credit rating of "AA_{IS}" by the Rating Agency.

On the Mandatory Redemption Date, Optional Redemption Date or on the date of declaration of a dissolution event pursuant to the terms of the Junior Sukuk, the sole right of the Trustee (acting on behalf of the Sukukholders of the relevant series of Junior Sukuk) will be against the Purchase Undertaking in respect of such series. The Sukukholders will otherwise have no recourse to the Trust Assets. The Issuer's obligations are not secured by the Trust Assets or any other assets of the Issuer. The Trust Assets are not intended to be security for the Junior Sukuk.

The Issuer has not made searches and investigations relating to the Trust Assets

The Issuer has not made or caused to be made or will not make or cause to be made on its behalf all the enquiries, searches and investigations in the underlying Trust Assets which a prudent purchaser of the Trust Assets would make and the Lead Arranger/ Lead Manager and the Issuer have made no such enquiries, searches or investigations. The Trustee (acting on behalf of the Sukukholders) will rely on the representations and warranties made by the Issuer contained in the transaction documents. Ultimately payments of amounts due in respect of the Junior Sukuk will be dependent on the performance of the Issuer in making payments under the Junior Sukuk and Deed of Undertaking.

Claims for Specific Enforcement

In the event that the Issuer fails to perform its obligations under the Deed of Undertaking, then the potential remedies available to the Trustee (acting on behalf of the Sukukholders) include obtaining an order for specific enforcement of the Issuer's obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary remedy.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors. No assurance is provided on the quantum of damages which a court may award in the event of a failure by the Issuer to perform its obligations set out in the Deed of Undertaking.

3.5 Potential Conflict of Interest Situation

CIMB, a related party of the Issuer, has been appointed as a Principal Adviser, LA, LM, Facility Agent, Calculation Agent and Shariah Adviser for the Junior Sukuk Programme. Save as disclosed below, after making enquiries as were reasonable in the circumstances, CIMB is not aware of any circumstances that would give rise to a conflict of interest in its capacities as Principal Adviser, LA, LM, Facility Agent, Calculation Agent and Shariah Adviser in relation to the issuance of the Junior Sukuk. In view that CIMB is a related company of the Issuer, there is a potential conflict of interest on the part of the former in terms of its duties owed to the potential investors for the Junior Sukuk on one hand and its related company relationship to the Issuer on the other.

CIMB, in relation to its roles as the Principal Adviser, Lead Arranger, Lead Manager, Facility Agent, Calculation Agent and Shariah Adviser in respect of the Junior Sukuk Programme, has considered the factors involved and believes that objectivity and independence in carrying out its roles have been/will be maintained at all times for the following reasons:

(i) CIMB is a licensed investment bank and its appointment as the Principal Adviser, LA, LM, Facility Agent, Calculation Agent and Shariah Adviser in relation to the Junior Sukuk Programme is in the ordinary course of its business;

(ii) The roles of CIMB as the Facility Agent and Calculation Agent will be governed by the relevant agreements and documents which will set out the rights, duties and responsibilities of CIMB acting in such capacities;

(iii) The conduct of CIMB is regulated strictly by the BANKING AND FINANCIAL INSTITUTIONS ACT, 1989 and by its own internal controls and checks;

(iv) Save for the professional fees charged in relation to its roles as the Principal Adviser, LA, LM, Facility Agent, Calculation Agent and Shariah Adviser in respect of the Junior Sukuk Programme, CIMB will not be deriving any monetary benefit from the Junior Sukuk Programme outside its aforesaid capacities;

(v) CIMB is the Shariah Adviser for the Junior Sukuk Programme and is backed by CIMB Islamic Shariah Committee. CIMB Islamic Shariah Committee comprises of eminent Shariah scholars from various jurisdictions including those from the Middle East. The relevant parties have considered the factors involved and believe in the objectivity and independence of CIMB in carrying out its role as the Shariah Adviser for the Junior Sukuk Programme.

In order to further mitigate or address any such potential conflict of interest, the following measures have been/will be taken:-

(i) The potential conflict of interest situation has been brought to the attention of the Board of Directors of CIMB Islamic Bank and it is, hence, fully informed and aware of and is comfortable that there would be no conflict of interest that could arise by reason of CIMB being the related-company to CIMB Islamic Bank and acting as the Principal Adviser, LA, LM, Facility Agent, Calculation Agent and Shariah Adviser in relation to the Junior Sukuk Programme. Despite such potential conflicts of interest situations, the Board of Directors is prepared to proceed with the Junior Sukuk Programme based on the present arrangement and terms;

(ii) Messrs Zaid Ibrahim & Co acting as the external independent legal counsel, has been appointed to conduct a legal due diligence inquiry on CIMB Islamic Bank.

SECTION 4.0 BACKGROUND INFORMATION OF CIMB ISLAMIC BANK

4.1 Introduction

CIMB Islamic Bank, a fully licensed Islamic bank, is the anchor operating entity of "CIMB Islamic", the core Islamic banking and finance brand entity and franchise of CIMBG.

Under the Islamic banking license obtained on 8 March 2005 pursuant to the IBA, CIMB Islamic Bank is a comprehensive Islamic financial solutions provider, offering the full range of services in Islamic banking and finance and provision of specialist expertise in Shariah-based financial transactions, covering two (2) broad areas of activities comprising Investment Banking and Consumer Banking services. To ensure strict adherence to Shariah principles, all its operations are monitored by the CIMB Islamic Shariah Committee comprising of scholars from various jurisdictions including those from the Middle East and South East Asia.

CIMB Islamic Bank operates under a leveraged model where the Bank's products and services are offered at the same premises as CIMB Bank branches, leveraging on the same resources and infrastructure. As at 30 June 2009, the Bank has 362 local branches in Malaysia, 3,281 self service terminal including 1,823 Automated Teller Machine (ATM), 841 Cash and Deposit Machines (CDMs), and 275 Cheque Deposit Machines (CQM) and 342 Cheque Deposit Terminal (CDT) in Malaysia to serve its customers. In addition, the bank operates a domestic network of 22 business centres and 33 retail business centres with a focus on servicing small and medium sized enterprises (SMEs) and mid-sized corporations. The Bank also offers internet banking facilities through *CIMBclicks*. To enhance operations, CIMB Islamic Bank has adopted the same Group Management Committee of CIMB Group as the management team with such appointments having provided each business with clear leadership and accountability to meet the Bank's growth aspirations.

As at 30 June 2009, the total assets of the Bank amounted to approximately 10.7 per cent. of total assets of CIMB Bank Group. As at 30 June 2009, the Bank had total assets of RM 19.7 billion and customer deposits of RM11.8 billion.

Although a relatively young bank, CIMB Islamic Bank is recognized as an industry leader, having won accolades in Malaysia as well as regional and global awards. Examples of significant accolades won by the Bank include 'Best Islamic Bank in Asia 2008' by Euromoney; 'Best Islamic Finance House 2006, 2007 and 2008' by Finance Asia; Best Islamic Bank (Malaysia) 2008 by Islamic Finance News; 'Best Bank in Asia 2008 by Islamic Business & Finance; Islamic Products House of the Year 2008 by Asia Risk Awards and 'Best Islamic Finance House of Year 2008' by Alpha Southeast Asia Magazine. CIMB Islamic Bank was also named "Islamic Investment Bank of the Year", a global award by The Banker, for 2 consecutive years in 2006 and 2007.

4.2 History

The Bank was incorporated under the Companies Act 1965 on 2 November 2004 as Commerce Tijari and obtained its Islamic banking license under the IBA on 8 March 2005. Commerce Tijari was the Islamic banking subsidiary of BCB.

In June 2005, the acquisition of BCB by CIMB was announced following the strategic decision made by CAHB, now known as BCHB, to create a universal bank by combining its commercial and investment banking activities. This restructuring was completed in January

2006 and resulted in CIMBG owning 99.99 per cent of CIMB Bank and the change of BCB's name to CIMB Bank on 7 September 2006. Further to the restructuring, CIMB Bank then acquired SBB which was duly completed in November 2006.

For the Islamic banking business, pursuant to the above restructuring, Commerce Tijari merged with the Islamic investment banking division of CIMB and assumed its present name, CIMB Islamic Bank, on 7 September 2006. Subsequently, in November 2006 following the acquisition of SBB by CIMB Bank, all the Islamic assets and businesses of CIMB Bank were transferred to CIMB Islamic Bank.

With the integration being completed on 31 March 2007, where CIMB Group streamlined all of its Islamic banking and finance businesses in the 3 different business entities and merged them under CIMB Islamic Bank, the Bank then became the anchor universal banking operating entity for CIMB Group's overall Islamic banking and finance franchise known as "CIMB Islamic".

The impetus behind the various mergers, acquisitions and reorganisation of CIMB Islamic Bank was a result from the Bank having to navigate through a fast growing and very competitive Islamic banking industry locally and globally. The streamlining of CIMB Bank Group's Islamic banking and finance businesses under one roof and the dual banking leveraging model implemented by CIMB Group have given the business a strong platform to compete in this industry.

4.3 Share Capital and Substantial Shareholders

Share Capital

	30 June 2009	**31 Dec 2008**
Authorised		
Ordinary shares of RM1.00 each	900,000,000	500,000,000
Ordinary shares created during the financial year		400,000,000
Perpetual preference shares of RM1.00 each	100,000,000	100,000,000
Issued and fully paid		
Ordinary shares of RM1.00 each	550,000,000	150,000,000
Ordinary shares created during the financial year		400,000,000
Perpetual preference shares of RM1.00 each	70,000,000	70,000,000

Substantial Shareholders

The Issuer is a wholly-owned subsidiary of CIMB Bank.

4.4 The Business of CIMB Islamic Bank

As an Islamic universal bank, CIMB Islamic Bank operates as a parallel Shariah-compliant financial institution to the conventional counterparts within the CIMB Group, namely CIMB Bank and CIMB. Its main business can be divided into two (2) major segments– (1) Consumer Banking; and (2) Investment Banking. The Bank operates on a Dual Banking Leveraged Model that allows it to be the leading Islamic bank in Malaysia in terms of branch network and the size of total assets.

4.4.1 Consumer banking

The principal business activities of the Bank's Consumer Banking cover retail banking, business banking, direct banking and cards, and consumer sales and distributions.

(i) Retail Banking

The Retail Banking Division is responsible for the overall management and performance of the Bank's businesses such as consumer financing, deposit-taking, wealth management and other retail financial services and products for individual customers in Malaysia across all segments from mass market to high net worth customers. It operates in a dual banking model.

The main Retail Banking Islamic products and services comprise the following:

Property Financing

Retail Banking Property Financing portfolio consists mainly of financing for residential properties. These are typically secured by the property being purchased or refinanced and are generally term financing or overdrafts (or a combination of both). The Bank has introduced a wide range of residential property financing under various brand names (such as "Home Financing-i, Fixed Home Financing-i, Variable Home Financing-i, Flexi Home Financing-i"), which offer multiple and varied financing options including fixed or floating rate options and flexible payment options.

In addition to the above, the Bank also has a Non-Residential Property Financing portfolio under the brand names Business Premises Financing-i and Flexi Business Premises Financing-i to facilitate the customer's purchase of shop-houses.

The Bank's policy is to finance up to 90 per cent. of the assessed market value of the property for both residential and non-residential sectors. The marketing activities of the Retail Banking Division include various initiatives such as product-bundling options and active participation in sales launches and major property exhibitions.

Motor Vehicle Financing

The Bank manages motor vehicle financing through a specialised division, Auto Finance, within the Retail Banking Division.

Motor vehicle financing forms an important component of the Bank's retail credit business segment. This type of financing is offered primarily on a flat rate basis and secured by the vehicles being purchased, with financing typically covering 90 per cent. of the assessed collateral value of the vehicle. The payment term of this form of financing typically ranges from five to nine years.

In 2008, Auto Finance shifted its focus from financing the used cars segment to cater to the higher yield sector (comprising newer used cars, new cars and commercial vehicles) with the objective of strengthening its motor vehicle financing portfolio's asset quality. This strategy has been successful and especially so in the current challenging market conditions which are marked by intense price competition. The Bank has also formed non-exclusive strategic alliances with ten leading vehicle dealers and manufacturers to offer special preferential rate motor vehicle financing to prospective customers. It also relies on cross-selling by key market players such as Allianz General Insurance Malaysia Berhad, CIMB Aviva Assurance Berhad, CIMB Aviva Takaful Berhad, Takaful Ikhlas Sdn Bhd and Proton Commerce Sdn Bhd to attract a larger customer base and create brand awareness.

The Bank's principal focus will be on its rigorous management of asset quality, cross-selling, focus on product innovations, high service delivery standards and distribution networks.

Deposit-Taking

The Bank offers its customers a variety of deposit products, each of which aims to meet the financial and personal requirements of its customers of a targeted customer profile. Deposit products fall mainly into the following categories:

Savings Accounts, which generally allow the customer to deposit and withdraw funds at any time and earn profit that vary from time to time:

- **Savings Account-i** which allows the customer a choice of saving their money under Wadiah Yad Dhamanah (safekeeping) or Mudharabah (trustee profit sharing) concepts.
- **Wadiah Children Savings Account-i**, which is aimed at junior savers to inculcate good saving habits and teaching them the value of money.
- **EcoSave Savings Account-i**, Malaysia's first environmentally friendly savings account that promotes green course activities.

Current Accounts, which differs from its conventional equivalent in that they offer a return to the customers while also providing the typical checking facilities:

- **Wadiah Current Account-i**, the basic current account with the principal deposits being guaranteed under the concept of Wadiah Yad Dhamanah. Returns on deposits are at the Bank's discretion by way of Hibah.
- **Mudharabah Current Account-i**, where the deposits are invested in Shariah compliant activities and returns or profits are distributed according to a mutually agreed profit sharing ratio between the Bank and its customers

Investment Accounts, which generally require the customer's funds to be invested for a specific period of time and returns on investments are based on predetermined profit sharing ratio.

- **General Investment Account-i**, which requires the customer's funds to be invested for a specific period of time and returns on investments are based on Mudharabah concept
- **Why Wait Fixed Return Investment Account-i**, which is a guaranteed deposit account where the fixed profit rate is determined upfront such that customers can collect cash immediately upon making a deposit. The account operates according to the concept of Tawarruq and Murabahah in relation to Commodity Murabahah.
- **MaxInvestSave PSSIA-i**, the revolutionary savings cum investment account that gives customers access to structured investment from as little as RM50 and provides capital protection if the funds are held to maturity.

Wealth Management and Other Services

The Bank is active in offering a wide range of wealth management products and its related services such as bancatakaful, various unit trusts and Islamic structured investments through its extensive branch network.

A new comer in the bancatakaful business, CIMB Islamic Bank in partnership with CIMB Aviva Takaful Berhad, offers (through CIMB Islamic Bank branch network that are co-located at all CIMB Bank branches nationwide.) products such as fire, personal accident and houseowners and householder takaful products on highly competitive terms to satisfy the increasing takaful needs of its customers.

Together with CIMB Principal Islamic Asset Management, the Bank's fund management business offers a variety of Shariah-compliant unit trust funds catering to different risk appetites (CIMB Islamic Enhanced Sukuk and Short Term Sukuk Funds, CIMB Islamic Equity Aggressive Fund, CIMB Islamic Balanced Growth Fund). It also acts as the fund distribution and management agent for fund management firms and companies, selling unit trust funds as well as other money market funds, sukuk (Islamic bonds) and equity funds.

In addition, CIMB Islamic Bank also sells structured investments and products which are developed in-house such as Islamic All Stars Global Structured Investment-i, the Dynamic Market Rider NID-i, the Islamic Best Commodities NID-i and the CIMB Islamic Market Select.

(ii) ***Business Banking***

Business Banking Division is responsible for the development of products and services for customer segments comprising micro-enterprises, mid-sized corporate customers and the SMEs.

Business Banking Division underwent a period of consolidation in 2007 with active restructuring and rescheduling of weaker accounts together with an increased focus on asset quality and imposition of stricter compliance standards.

CIMB Islamic Bank is continuously expanding and enhancing its suite of business banking products and services. The Bank pursues an integrated marketing approach with relevant product bundling for its financial products and services, which are tailored to meet the needs of its business customers of a targeted customer profile and comprise core banking credit facilities such as term financing, trade finance facilities (including documentary credit-i, accepted bills-i and trust receipt-i, cash line-i facilities, bank guarantees-i, and foreign exchange contract facilities as well as general deposit products like current account-i and general investment accounts-i).

The Bank offers a range of business products to cater for the needs of small business customers to a larger corporate through its sales channels known as Retail Business Centres, Small Medium Enterprise Desk and Business Centres and supported by Trade Services Centres throughout the country. It also works closely with various partners to provide better access to financing for SME's, namely SME Bank and Credit Guarantee Corporation.

CIMB Islamic Bank's strengths in business banking are based upon its emphasis on customer relationship management and its local presence which are made possible by virtue of operating business centres managed by its large team of dedicated account officers who develop an in-depth knowledge of the Bank's customers and their requirements. The Bank has adopted a highly mobile customer-focused management approach which has increased opportunities for cross-selling and fee-generating activities.

The Bank will continue to rely on its rigorous and multi-tiered credit risk evaluation system comprising the CRC, the Business Credit Management Committee and the Business Credit Team to evaluate and to decide on financing applications while ensuring a high level of asset quality and, ultimately, the profitability of the Business Banking Division and the Bank. To maintain and to enhance its position as one of the leading business banks in Malaysia, the Bank will continue to focus on product innovation on both credit and non-credit products and services, financing asset quality while capitalising on its wide nationwide branch network as well as that of its alliances with strategic partners to increase its Islamic business banking market penetration.

(iii) Direct Banking and Cards

The CIMB Islamic Bank's credit card business is handled by Direct Banking and Cards Division comprising three business units which serve different customer segments: Direct Banking, Credit Card and Micro-Credit Financing. This division is supported by the following departments comprising Sales, Marketing & Customer Relations, Credit Cycle & Risk Control, and Business Support & Finance.

In 2007, we launched the Xpress Cash financing-i which is a micro-financing product targeted at the mass consumer as well as small businesses.

In 2008, we further broadened our Islamic portfolio by launching two major products. The CIMB Islamic Credit Card was launched based on the Ujrah service fee concept. The card's extensive benefits resonated well with customers and resulted in significant growth for the product. We also launched the Pembiayaan Peribadi Sektor Awam-i product which was a personal financing targeted specifically for Malaysian civil servants and offered attractive financing rates as well as 24 hour approval turn around times. As a result, both Xpress Cash Financing-i and Awam-i accounted for 81 per cent of total personal financing sales in 2008 for the division.

Through development of tailored products and services that create value for our customers and by leveraging CIMB Bank Group's extensive branch network as well as its Mobile Sales Force, the division will continue to rapidly grow its financing portfolio aggressively.

(iv) Consumer Sales and Distribution

The Consumer Sales and Distribution Division is the main sale, marketing and distribution arm for both CIMB Islamic Bank and CIMB Bank. It is responsible for the branch network, its resources and staff – operation and sales as well as servicing the 5.4 million customers in Malaysia. The division is the main marketeer for CIMB Group and markets over 90 per cent of the retail and business products - through its comprehensive sales and distribution channels.

With 362 branches throughout the country and a staff strength of approximately 8,428 people. CIMB Islamic Bank possesses one of the largest banking distribution and sales networks in Malaysia.

For a more cohesive, efficient and effective penetration into the market, Consumer Sales & Distribution has divided the Malaysian market into 9 regional centres. A Regional Director (RD) is appointed to manage each region. They are totally responsible for the performance of their regions, areas, branches, staff, resources, sales, marketing, growth and strategic planning. The RDs are also responsible for growing the enterprise and SME segments through the 22 Business Centres and 33 Retail Business Centres, both entities critical in growing the Islamic proposition for CIMB Islamic. This geographical segregation of the retail and business banking market extensive branch and kiosk network has enabled Consumer Sales and Distribution Division to service the Malaysian public in particular CIMB Islamic Bank's customers more effectively.

The 5.4 million customers in Malaysia have access to the 3,281 self-service terminals as at June 2009. The extensive coverage and strategic locations of these self-service terminals have seen the total number of transactions at these machines skyrocketed from 130 million in 2006 to 171.3 million (2007) and 275 million (2008).

CIMB Islamic Bank is in the position to further widen its customer base through its extensive branch network and self-service terminals in Malaysia as well as its telephone banking and internet portal facilities, the "1-300-880-900" hotline and "CIMB Clicks", both of which are alternate channels that enable customers to perform various banking transactions over the telephone and the internet, respectively.

4.4.2 Investment banking

The Bank has various Islamic investment banking offerings which are tailor made to cater mainly for capital markets and corporate banking clients. It has demonstrated a long standing remarkable achievement in the Islamic debt capital markets with its structuring and distribution capability as well as its large network of investors. Together with CIMB, it has consistently led the domestic and international sukuk league tables for the last 5 years, having arranged and managed some of the world’s most innovative sukuk deals. The Bank has garnered multiple awards for its innovativeness in coming out with many of the world’s firsts-of-its-kind sukuk.

The principal business divisions of the Bank’s Investment Banking business include Corporate and Investment Banking, and Treasury and Investment Divisions.

(i) Corporate and investment Banking Division

Corporate and Investment Banking Division is responsible for the development of products and services for customer segments comprising corporates and institutional investors. It offers a wide range of financial products and services such as Sukuk, Term Financing, Trade Finance and Islamic syndication which are tailored to meet the needs of its customers. This division comprise the following:

Shariah Advisory

Shariah Advisory functions as the Bank's in-house Shariah Advisor to advise on Shariah compliance in Islamic banking and finance business to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies and CIMB Islamic Shariah Committee.

In addition to the internal advisory, Shariah Advisory also renders the Shariah advisory services to external entities including fund management companies, financial institutions and other corporations, pre-initial public offering companies and listed companies.

Corporate Banking

The Bank offers a range of Shariah-compliant products and services including cash management, credit facilities, term finance, trade finance, working capital requirements and participation in Syndicated Islamic Financing via its Corporate Banking. Apart from bilateral financing, driven by size required to be raised, syndication team provides domestic and cross border fund raising solutions by originating and arranging the financing and trade finance products.

Cash Management

The Bank's Cash Management provides advisory services that are tailored for companies to accelerate collections, to control disbursements, to maximize the use of excess cash with the objective to provide customers cost-effective solutions and for efficient management of their working capital, process, information and risk management. These are delivered through the following solution components including Account Management, Accounts Payable Management, Accounts Receivable Management and Liquidity Management.

(ii) Treasury and Investment Division

Treasury handles the markets and treasury operations having capabilities to intermediate in profit rate, credit spread and forex term structures across every market segment including the consumer, SMEs, corporate, institutional investor and inter-bank markets. Treasury is responsible for the following functions:

- Balance sheet management, which is responsible for the preservation and optimization of economic value and periodic net profit income of the Bank's financing assets and the deposit balance sheet from financing rate volatility;
- Origination, syndication and market-making of fixed income securities, both in the domestic debt market, regional local currency markets and the G-3 Asian debt markets;
- Proprietary trading of fixed income Islamic securities, foreign exchange, commodities, equities and their derivatives;
- Sales of primary and secondary fixed income Islamic securities, foreign currency and corporate deposits;
- Derivatives, structured and banking products encompassing the derivatives market-making function of CIMB Group, focusing on structuring hedging solutions for clients covering financing rate, currency and commodity risks, structuring yield enhancing solutions for institutional and retail investors and structuring banking.

4.4.3 International Currency Business Unit ("ICBU")

The Bank was granted the ICBU license by BNM on the 7 November 2007. The license allows the Bank to conduct Islamic banking business in international currencies ex-Ringgit Malaysia. Also all income derived thereof is entitled for tax exemption for 10 years (2007 to 2016) under the Income Tax Exemption Order.

4.4.4 Recent Developments

Given the dual banking leverage model practised by the Bank, the following recent developments taking place at its parent company, CIMB Bank and its ultimate holding company, CIMBG, are likely to have a significant impact on the Bank's future operations and business prospects:

Sale of non-performing loans

On 13 August 2008, CIMB Bank and CIMB Bank (L) Limited entered into a conditional sale and purchase agreement ("SPA") to sell RM1.1 billion worth of non-performing loans (the "**Sale of NPLs**") comprising 202 corporate and small and medium enterprise accounts to Sinesinga Sdn Bhd, a special purpose vehicle established by the Standard Merchant Bank (Asia) Limited, which is part of Standard Bank Group Companies, pursuant to BNM's Guidelines on Disposal and Purchase of NPLs.

The Sale of NPLs resulted in a gross gain of RM106 million to CIMB Bank. Pursuant to a vesting order granted by the High Court of Malaya on 11 February 2009, all rights and benefits in the NPLs have been transferred to Sinesinga Sdn Bhd. The sale was undertaken to complement the focused recovery strategies adopted by CIMB Bank for NPLs, to provide a viable option to facilitate the reduction of long standing NPLs and represents yet another significant step by CIMB Bank to manage its substantial legacy NPL portfolio by deploying its internal "bad bank" (*i.e.* the Group Special Asset Management) to aggressively pursue recoveries and restructure NPLs/NPFs.

As of 30 June 2009, the Bank has not undertaken any sale of NPF.

Further details on "Group Special Asset Management" are set out in **Section 7.0** of this Information Memorandum.

Acquisition of a controlling stake in BankThai Public Company Ltd

On 5 November 2008, CIMB Bank completed the acquisition of 42.13 per cent. equity stake in BankThai Public Company Ltd ("**BankThai**") for a cash consideration of approximately THB 5.905 billion. As a result of the acquisition, CIMB Bank launched a mandatory general tender offer (the "**MTO**") to acquire the remaining ordinary shares in BankThai that it does not own. Following the completion of the MTO in January 2009, and following the completion of a rights offering by BankThai in March 2009, CIMB Bank's interest in BankThai has increased to 93.15 per cent. The acquisition will provide CIMB Bank Group with the opportunity of combining its operations and businesses with that of the BankThai group of companies and serve as a platform for CIMB Bank to penetrate the commercial banking market in Thailand through a well known brand with a relatively good scale of operations. BankThai's deposit and lending business and operating base of SMEs and retail customers is expected to complement CIMB Bank Group's businesses.

The Bank believes that the acquisition represents a unique value creation opportunity for it to create further market growth opportunities and grow strategically as a key Islamic regional player, given CIMB Bank Group's suite of universal banking products and services. CIMB Islamic aspires to provide its services in all regions where CIMBG is present in.

Acquisition of Bank of Yingkou Co., Ltd

On 17 March 2008, CIMBG entered into a share subscription agreement with Bank of Yingkou Co., Ltd ("**Bank of Yingkou**") to subscribe for 141.2 million new ordinary shares in Bank of Yingkou for RMB348.8 million cash. These shares amount to a 19.99 per cent. equity stake in Bank of Yingkou's enlarged share capital. Subsequently, CIMBG assigned its rights and novated its obligations under the share subscription agreement to CIMB Bank pursuant to a supplemental agreement dated 22 October 2008. This transaction was completed on 17 April 2009, with CIMB Bank emerging as the single largest shareholder of the Bank of Yingkou.

This acquisition represents the Group's first step towards entering the mainland Chinese market and CIMB Bank Group believes that the strategic alliance between the parties will strengthen CIMB Bank's franchise as a whole, leveraging on each parties' respective expertise, networks and reach. CIMB Islamic aspires to provide its services in all regions where the CIMBG is present in.

Disposal of certain assets and liabilities of Southern Investment Bank Berhad

On 13 June 2008, Southern Investment Bank Berhad ("**SIBB**"), an 80.0 per cent. owned subsidiary of CIMB Bank, entered into a sale of assets and liabilities agreement with Hong Leong Investment Bank Berhad (formerly known as HLG Credit Berhad and HLG Credit Sdn Bhd) ("**HLIB**"), a wholly-owned subsidiary of HLG Capital Berhad ("**HLGC**"), for the disposal of certain assets and liabilities of SIBB to HLIB for a total cash consideration, which was determined based on the aggregate sum of the net book value of the relevant assets and liabilities plus a premium of RM65 million to the net book value, free of all liens, charges, claims, counterclaims and other encumbrances as at the effective date of vesting of the said relevant assets and liabilities. The disposal was undertaken to enable CIMB Bank to rationalise CIMB Bank Group's businesses. The disposal was completed on 31 January 2009.

Disposal of SBB Securities Sdn Bhd

On 19 October 2007, SBB Capital Markets Sdn Bhd ("**SCMSB**") (as vendor), a wholly-owned subsidiary of CIMB Bank, together with CIMB Bank (as guarantor of SCMSB), entered into a conditional share sale agreement (the "**SSA**") with HLIB as purchaser and HLGC as purchaser's guarantor for the sale and purchase of the entire equity interest in SBB Securities Sdn Bhd ("**SSSB**") for a total cash consideration which was determined based on the net tangible assets of SSSB as at the completion date (the "**NTA**") plus a premium of RM20 million to the NTA. Pursuant to the SSA, SCMSB had transfer its entire equity interest in SSSB free from all liens, charges and encumbrances and with full legal and beneficial title, together with all rights attaching thereto, including rights to any dividend or distribution declared, with effect from the completion date of the disposal.

Similar to the disposal of certain assets and liabilities of SIBB, the disposal of SSSB was undertaken to enable CIMB Bank to rationalise the Group's businesses. The disposal was completed on 22 October 2008.

Technology

CIMB Bank Group is committed to investing in technology to foster and to support CIMB Bank Group's business objectives. To facilitate the appropriate level of investment in technology, CIMB Bank Group has earmarked considerable resources to building future capabilities in areas such as information and strategic applications. CIMB Bank Group will continue to make investments to promote new levels of process efficiency and effectiveness to improve its business performance and risk management policies. CIMB Bank Group's information technology polices and procedures comply with national standards and BNM's requirements.

The Bank is constantly searching for better and more innovative solutions to create value especially via cross selling. The Bank is in the process of enhancing its information technology through the Group-wide Project Optimus, which is due for completion in 2010. Through this project, the Bank will further strengthen its capabilities in consumer operations by upgrading and streamlining its IT infrastructure.

4.5 Principal Subsidiaries

CIMB Islamic Bank does not have any subsidiaries as at 30 June 2009.

4.6 Profile of Directors

The Directors of the Bank as at 30 June 2009 are as follows:

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

  Datuk Dr. Syed Muhamad Syed Abdul Kadir, a Malaysian aged 62 was appointed as an Independent Non- Executive Director and Chairman on 9 March 2005. Datuk Dr Syed is a member of the Audit Committee, Board Risk Committee as well as the Nomination and Remuneration Committee.

  Datuk Dr. Syed graduated with a Bachelor of Arts (Hons) degree from the University of Malaya in 1971. He obtained a Masters of Business Administration of degree from the University of Massachusetts, United States of America ("**USA**") in 1977 and proceeded to obtain a Ph.D (Business Management) from Virginia Polytechnic Institute and State University, USA in 1986. In 2005, he obtained a bachelor of Jurisprudence (Hons) degree from the University of Malaya and obtained a Certificate of Legal Practice in 2008.

  He started his career in 1973 as Senior Project Officer, School of Financial Management at the National Institute of Public Administration and held various positions before his final appointment as Deputy Director (Academic). In November 1988, he joined the Ministry of Education as Secretary of Higher Education and thereafter assumed the post of Deputy Secretary (Foreign and Domestic Borrowing, Debt Management) Finance Division, Federal Treasury. From 1993 to 1997, he joined the Board of Directors of Asian Development Bank, Manila Philippines, first as Alternate Executive Director and later as Executive Director.

  Datuk Dr. Syed then joined the Ministry of Finance as Secretary, Tax Analysis Division and later became Deputy Secretary General

(Operations). Prior to his retirement, Datuk Dr Syed was Secretary General in the Ministry of Human Resource.

During his career, he wrote and presented many papers relating to Human Resources Development, His special achievement was his dissertation on "A study on Board of Directors and Organisational Effectiveness" which was published by Garland Publisher, Inc of New York in 1991.

Datuk Dr. Syed is the Chairman of CIMB Islamic Investment House BSC (C), Bahrain and CIMB-Principal Islamic Asset Management Sdn Bhd. In addition, he is a Director of Bumiputra-Commerce Holdings Berhad, CIMB Group and CIMB Bank. He is also a Director of Euro Holdings Berhad and Solutions Engineering Holdings Berhad, both public companies. He also holds directorship in a number of private companies.

- **Dato' Sri Nazir Razak**

Dato' Sri Nazir Razak, a Malaysian, aged 43, was appointed Non-Independent Non-Executive Director and Deputy Chairman on 15 February 2007. He is a member of the Board Risk Committee. He is presently the Group Managing Director / Chief Executive Officer of Bumiputra-Commerce Holdings Berhad and CIMB Group and is also a Director and Deputy Chairman of CIMB and CIMB Bank.

Dato' Sri Nazir graduated from University of Bristol with a BSc (Hons) and obtained Master of Philosophy from the University of Cambridge. He joined CIMB's corporate advisory department in 1989 and managed various fund raising, privatisation, listing and corporate restructuring exercises. In 1993, he transferred to CIMB's wholly-owned subsidiary, CIMB Securities Sdn Bhd (now known as CIMBS Sdn Bhd) where he rose to the position of Executive Director. He moved back to CIMB as Deputy Chief Executive on 1 June 1996 and became Chief Executive on 1 June 1999. He assumed the position of BCHB Group Managing Director / Chief Executive Officer on 7 November 2006.

Dato' Sri Nazir is a member of the National Economic Council, the Employees Provident Fund's Investment Panel, the SC's Capital Market Advisory Council, Bursa Malaysia's Securities Market Consultative Panel, the MasterCard Asia/Pacific Regional Advisory Board and the Asia Business Council. He holds directorships in Multimedia Development Corporation and Malaysian Electronic Payment System (1997) Sdn Bhd. He is an Executive Committee member of the Malaysian International Islamic Financial Centre and also a trustee of both the Rahah Foundation and the Pride Foundation.

Dato' Sri Nazir was the winner of the Malaysia's CEO of the Year Award 2004 organised by Business Times and American Express Global Corporate Services. In 2005, he was named one of the "25 Stars of Asia" by BusinessWeek magazine and one of the World Economic Forum's Young Global Leaders. In 2006 and 2007, Asiamoney listed him among the top 100 most powerful and influential people in business and finance in the Asia-Pacific region. In 2006, Dato' Sri Nazir was named one of Asia's 50 most influential figures of the last decade (1996-2006) by FinanceAsia magazine.

In 2008, Institutional Investor ranked Dato' Sri Nazir second in its Asia's Best CEO (Bank) survey.

- **Dato' Mohd Shukri Hussin**

Dato' Mohd Shukri Hussin, a Malaysian, aged 55 was appointed as Non-Independent Non-Executive Director on 2 November 2004 and is also a member of the Board Risk Committee. He is also currently an Executive Director of BCHB and Director of CIMB Bank. On 8 May 2006 he was appointed as Commissioner of Bank Niaga.

Dato' Mohd Shukri was previously the Chief Operating Officer of BCHB and has held various senior positions within the BCHB Group inlcuding as Chief Executive Officer of Bank Muamalat Malaysia Berhad from 1999 to 2003 and Chief Executive Officer of CIMB Securities Sdn Bhd (now known as CIMBS Sdn Bhd) from 1992 to 1999.

Dato' Mohd Shukri holds a Bachelor of Economics (Hons) degree from the University of Malaya and is a qualified Chartered Accountants in England and Wales.

- **Dato' Anwar Bin Haji @ Aji**

Dato' Anwar Aji, a Malaysian, aged 59, was appointed Independent Non-Executive Director on 9 March 2005.

He graduated with a Bachelor of Economics (Hons) degree from the University of Malaya and obtained a Masters of Arts degree in International Studies from the Ohio University, United States of America in 1982.

He is a Director and Chairman of Zelan Berhad, a Director of Edaran Otomobil Nasional Berhad, Bakun Hydro-Electric Corporation Berhad, SPJ Corporation Berhad, CIMB-Principal Asset Management Berhad and CIMB Wealth Advisors Berhad. In addition, he also holds directorships in a number of private companies.

- **Raja Shaharul Niza Raja Abdul Aziz**

Raja Shaharul Niza Raja Abdul Aziz, a Malaysian, aged 61, was appointed Independent Non-Executive Director on 1 June 2005.

Raja Shaharul graduated as a Chartered Accountant from Institute of Chartered Accountant in England and Wales in 1973. He is a member of the Malaysian Association of Certified Public Accountants.

He started his career in 1974 as an Audit Supervisor with Touche Ross & Co. in the United Kingdom. He worked with Hanafiah Raslan & Mohamad, Malaysia as Audit Manager – Audit Assignment for 2 years, before joining Kwong Yik Bank Berhad as Chief Accountant, responsible for Finance and Corporate Planning in 1980. During his tenure of 17 years in Kwong Yik Bank Berhad, he worked in various departments as General Manager in charge of Banking and Operations. In 1997, he joined RHB Bank Berhad as Senior General Manager, Transaction Banking Division and in 1999 he was promoted as Executive Vice President in charge of Islamic Banking Division, a post he held until his resignation in 2004. Raja Shaharul does not hold any directorship in other companies.

- **Professor Dr. Mohammad Hashim Kamali**

  Prof Dr Mohammad Hashim, a Malaysian Permanent Resident, aged 64, was appointed as Independent Non-Executive Director on 15 September 2008 and is also Chairman of Group Shariah Committee.

  Prof. Dr. Mohammad Hashim is the Chairman and Chief Executive Officer of the International Institute of Advanced Islamic Studies. He formerly served as a Professor of International Institute of Islamic Thought and Civilisation (ISTAC), and Ahmad Ibrahim Kulliyyah of Laws, International Islamic University, Malaysia ("**IIUM**"). He has been teaching Islamic law and jurisprudence since 1985. He is also a renowned writer in the area of Islamic law and jurisprudence and has written many books and articles on the subject.

  He holds a 1st Class, BA Honours degree in Law and Political Science from Kabul University, Afghanistan, LLM degree from the London School of Economics, England and a PhD in Islamic Law from the School of Oriental & African Studies, University of London, England.

- **Encik Badlisyah Abdul Ghani**

  Badlisyah Abdul Ghani, a Malaysian, aged 35, joined CIMB Group in 2002 and was attached to the corporate finance division prior to his appointment as the Group Head of Islamic banking in the same year, a position he holds until now. He was appointed Executive Director and Chief Executive Officer of CIMB Islamic Bank, CIMB Group's Islamic banking flagship on 28 February 2006.

  He is also a Director of CIMB Islamic Investment House BSC (C), Bahrain and CIMB Islamic Funds LCC Limited, Brunei. Prior to CIMB Group, he was attached to an offshore banking subsidiary of a premier Malaysia Islamic financial group in structured finance, capital market and syndications.

  He chairs the Islamic Capital Market Committee of the Malaysian Investment Banking Association and sits in various other industry committees including:

    - Member, the Listing Committee of the Labuan International Financial Exchange
    - Member, the Exchange Committee of the Labuan International Financial Exchange
    - Member, the Islamic Capital Market Consultative Committee, Bursa Malaysia
    - Member, Working Group on Islamic Accounting Standard, Malaysian Accounting Standard Board

  Amongst his notable accomplishments includes the introductions of the world's first Sukuk al Ijarah, the world's first Istisna' Sukuk and the world's first Musyarakah ABS/RMBS. In 2004, at the age of 31, Euromoney named him one of “Global Top 20 Pioneers in Islamic Finance”. In 2007, he was voted “Islamic Banker of the Year” at the Islamic Business and Finance Awards, Dubai and awarded the “Best Individual Islamic Banker in 2007” by Islamic Finance News. Recently, he was named the sole recipient of “The Asian Banker Promising Young Banker Award for Malaysia 2007” in The Asian Banker Achievement Awards 2007 programme. He is a lifetime member of ANSARA Taiping and was the founding Vice-Chairman of UKEC. He holds a Bachelor of Laws degree from the University of Leeds, United Kingdom.

4.7 Profile of Shariah Committee

- **Sheikh Prof. Dr. Mohammad Hashim Kamali**

  Prof. Dr. Mohammad Hashim is the Chairman and Chief Executive Officer of the International Institute of Advanced Islamic Studies. He formerly served as a Professor of International Institute of Islamic Thought and Civilisation (ISTAC), and Ahmad Ibrahim Kulliyyah of Laws, IIUM. He has been teaching Islamic law and jurisprudence since 1985. He is also a renowned writer in the area of Islamic law and jurisprudence and has written many books and articles on the subject.

  He holds a 1st Class, BA Honors degree in Law and Political Science from Kabul University, Afghanistan, LLM degree from the London School of Economics, England and a PhD in Islamic Law from the School of Oriental & African Studies, University of London England.

- **Sheikh Nedham Yaqoobi**

  Nedham Yaqoobi is a Bahrain national and is a highly successfully businessman. He also sits on the Shariah Supervisory Boards including the Dow Jones Islamic Market Indexes, the Accounting and Auditing Organisation for Islamic Financial Institutions and the International Islamic Financial Market. He is the author of several articles and publications on Islamic finance and other sciences, in English and Arabic.

  He was educated in the classical Shariah in his native Bahrain and in Makkah under the guidance of eminent scholars, including Sheikh Abdulla al-Farisi, Sheikh Yusuf al-Siddiqi, Sheikh Muhammad Saleh al-Abbasi, Sheikh Muhammed Yasin al-Fadani (Makkah), Sheikh Habib-ur-Rahman A. Zaini (India), Sheikh Abdulla bin al-Siddiq al-Ghumar (Morocco), and others. He has a BA in Economics and Comparative Religion and M. Sc. in Finance from McGill University, Montreal, Canada. Currently, he is a PhD candidate of University of Wales in Islamic Law.

- **Sheikh Dr. Haji Mohd Nai’m bin Haji Mokhtar**

  Dr. Mohd Nai’m is a Malaysian, currently serving as a Chief Assistant Director of Family Support Division, Malaysian Shariah Judiciary Department, Prime Minister’s Department. He has been appointed as the member of the Shariah Committee on 1 August 2004 and registered with Securities Commission, Malaysia as Shariah Individual for Islamic Unit Trust Scheme. He served as a lecturer at Ahmad Ibrahim Kuliyyah of Laws, IIUM from 1990 – 1997. He then joined Messrs Zulkifli Yong, Azmi & Co as Shariah lawyer before being appointed as Syariah Judge in 1998. He was also assigned as a research officer at Malaysian Shariah Judiciary Department, Prime Minister's Department from 2003 – 2004, as well as Syariah Subordinate Court Judge for Federal Territory from 2007 – 2008 and Syariah Prosecutor, Federal Territory and Shariah Officer in 2008, before assuming his current position.

He received his LLB degree from IIUM, LLM from University of London, United Kingdom and PhD in Shariah from Universiti Kebangsaan Malaysia. He also holds Diploma in Shariah Law & Practice and Diploma in Administration & Islamic Judiciary both from IIUM.

- **Sheikh Dr. Shafaai bin Musa**

  Dr Shafaai is a Malaysian, currently serving as a lecturer at Ahmad Ibrahim Kuliyyah of Laws, IIUM, and Executive Director at IIUM Centre for Continuing Education Sdn Bhd.

  He received his Degree in Shariah from University of Al-Azhar, Egypt, Master in Comparative Laws from IIUM and PhD from Glasgow Caledonian University, United Kingdom.

  He has more than 10 years of experience in teaching Islamic law and jurisprudence and wrote several researches and articles. He served as a Shariah adviser for Department of Islamic Development Malaysia, Prime Minister's Department in 2005.

- **Sheikh Dr. Zainudin bin Jaffar**

  Dr. Zainudin is a Malaysian, currently serving as a Lecturer and Postgraduate Coordinator, at Department of Business and Management, Faculty of Business Economics & Policy Studies, University Brunei Darussalam. He had more than 10 years of experience since 1994 in teaching Islamic law and jurisprudence, Islamic business and management and Islamic financial planning. He is also a renowned writer and has written several articles and publications. He has served as Shariah Advisor and consultant for a few Islamic banks and unit trust funds in Malaysia. In his distinguished career, Dr. Zainuddin was the first ever appointed Shariah Specialist, to support the rapid growth of Islamic Finance after the launching of the Financial Sector Master Plan by Malaysian Government in 2001.

  He received 1st Class, Bachelor Shariah (Hons) from University of Malaya, LLM degree in a double major Administration of Criminal Justice and Islamic & Arab Law from King's College University of London and PhD in Muamalat Law from Edinburgh University, Scotland.

- **Sheikh Dr. Yousef bin Abdullah Al Shubaily**

  Dr. Yousef bin Abdullah Al Shubaily, a citizen of the Kingdom of Saudi Arabia is currently attached as a Lecturer at the Comparative Jurisprudence Department, High Institute of Judiciary, Imam Muhammad Bin Saud Islamic

University in the Kingdom of Saudi Arabia. He also serves as a Co-operating professor for the American Open University.

Beyond his academic career, Dr. Yousef bin Abdullah Al Shubaily has an extensive experience in serving on various Shariah boards of a number of banks and financial institutions in the Kingdom of Saudi Arabia, Bahrain, Kuwait, UAE, Qatar, United States of America and Britain. He also holds advisory functions in numerous religious and charitable organisations within and outside the Kingdom of Saudi Arabia. Dr. Yousef bin Abdullah Al Shubaily has written many books, academic papers and articles on Islamic jurisprudence and commercial law and has actively participated in numerous seminars and conventions in related areas. He also participates in religious and economic programs on television and radio broadcasts in the Kingdom of Saudi Arabia and abroad. He is a permanent guest for various television programs including the programs aired by Al Majd, MBC and CNBC channels.

He obtained a Bachelor Degree from the Faculty of Shariah and Fundamentals of Islam and a Masters Degree from the Department of Comparative Jurisprudence at Muhammad bin Saud Islamic University in 1993 and 1996, respectively. In 2001, he obtained a Ph.D in Islamic Jurisprudence from the same university.

4.8 Senior Management Team

The Bank's business is managed by the Group Management Committee of CIMB Group as follows:

Name	Position
Dato' Sri Nazir Razak	Group Managing Director/Chief Executive Officer
Dato' Mohd Shukri Hussin	Executive Director, BCHB
Dato' Charon Wardini Mokhzani	Deputy Chief Executive Officer, Corporate and Investment Banking
Dr. Gan Wee Beng	Deputy Chief Executive Officer, Group Risk Management
Lee Kok Kwan	Deputy Chief Executive Officer, Group Treasury and Head, Group Treasury Investment
Dato' Robert Cheim	Adviser, Corporate and Investment Banking
Kenny Kim	Group Chief Financial Officer, Group Strategy and Finance
Tunku Dato' Ahmad Burhanuddin	Group Customer Care and Management Support
Badlisyah Abdul Ghani	Islamic Banking
Peter England	Retail Banking
Sulaiman Mohd Tahir	Consumer Sales and Distribution
Tan Leng Hock	Business Banking
Hamidah Naziadin	Group Corporate Resources
Iswaraan Suppiah	Group Information and Operations
Raja Noorma Raja Othman	Group Asset Management

Name	Position
Peter Miller	Group Insurance
Jean Yap Yoke Yuen	Direct Banking and Cards
Abd Karim Md Lassim	Auto Finance
Ahmad Shazli Kamarrulzaman	Group Special Asset Management
Lim Tiang Siew	Group Chief Internal Auditor

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SECTION 5.0 CAPITALISATION AND INDEBTEDNESS

The following table sets out the capitalisation and indebtedness of the Bank as at 30 June 2009 and was adjusted to reflect the issuance of the Junior Sukuk. This table is derived from, and should be read in conjunction with, the Bank unaudited financial statements as at 30 June 2009. See Appendix 1 of this Information Memorandum.

	As at 30 June	Adjusted as at 30 June
	2009	**2009**
	(RM '000)	**(RM '000)**
Indebtedness		
Deposits from customers	11,832,397	11,832,397
Deposits and placements of banks and other FIs	5,805,437	5,805,437
Obligations on securities sold under repurchase agreements	-	-
Floating Rate Certificate of Deposit	-	-
Derivative financial instruments	161,848	161,848
Bills and acceptances payable	14	14
Amount due to holding company	680,774	680,774
Amount due to related companies	1,722	1,722
Other liabilities	408,523	408,523
Provision for taxation and zakat	10,267	10,267
Redeemable asset-backed bonds	-	-
Irredeemable Convertible Unsecured Financing Stocks	-	-
Other borrowings	-	-
Subordinated obligations[(1)]	-	300,000
Redeemable preference shares	-	-
Liabilities directly associated with non-current assets/disposal groups classified as held for sale	-	-
Total Indebtedness	18,900,982	19,200,982
Capitalisation		
Ordinary share capital[(2)]	550,000	550,000
Reserves	172,165	172,165
Perpetual preference shares[(3)]	70,000	70,000
Redeemable preference shares	-	-
Minority interest	-	-
Total Capitalisation	792,165	792,165
Total Capitalisation and Indebtedness	19,693,147	19,993,147
Commitments and contingencies	11,614,153	11,614,153

Notes:

(1) For adjusted number as at 30 June 2009, the Bank assumes issuance of RM300 million Junior Sukuk under the Junior Sukuk Programme.

(2) The authorised ordinary share capital of the Bank as at 30 June 2009 was RM 900,000,000 comprising 900,000,000 ordinary shares of RM1 each while the Bank's issued and paid-up share capital as at 30 June 2009 was 550,000,000 comprising RM550,000,000 ordinary shares of RM1 each.

(3) The authorised perpetual preference shares of the Bank as at 30 June 2009 was RM100,000,000 comprising 100,000,000 preference shares of RM1 each while the Bank's issued and paid up preference shares as at 30 June 2009 was RM70,000,000 comprising 70,000,000 preference shares of RM1 each.

SECTION 6.0 FUNDING AND CAPITAL ADEQUACY

Funding

The Bank's primary source of funding is customer deposits, accounting for 89.6 and 62.6 per cent of the Bank's total liabilities as at 30 June 2008 and 30 June 2009, respectively, with other sources of funding including interbank deposits, funding obtained from Cagamas Berhad, and other liabilities comprising the remaining 10.4 per cent. and 37.4 per cent., respectively. CIMB Bank Group has established comprehensive funding and liquidity policy guidelines, setting out measures to manage and to monitor its funding and liquidity requirements. Such measures include the diversification of funding sources, subjecting future cash flows to sensitivity and stress analyses as well as managing adequate contingent funding sources.

Customer Deposits

The Bank's total customer deposit structure as at 30 June 2008 primarily comprises investment deposits, demand deposits and savings deposits, representing 68.6 per cent. , 7.2 per cent. and 2 per cent., respectively.

As at 30 June 2009, the Bank's total customer deposit primarily comprised investment deposits, demand deposits and savings deposits, representing 64 per cent., 11.8 per cent. and 5 per cent.

As at 30 June 2008 and 30 June 2009, approximately 93.9 per cent. and 93.3 per cent., respectively, of total customer investment deposits and negotiable instruments of deposit had maturities of less than six months. Further 3.5 per cent. and 4.4 per cent., of customer general investment deposits and negotiable instruments of deposit respectively were due within the period of six months to a year. Based on the Bank's previous experience, a substantial portion of deposits will be rolled over upon maturity, thereby providing the Bank with a stable source of funding.

The Bank is focusing on increasing its savings deposits by leveraging on its strong distribution network and bundling of service offerings.

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The following tables illustrate the profile of the Bank's customer deposits and the maturity structure of investment deposits and negotiable instruments of deposit as at 30 June 2009 and 30 June 2008 respectively.

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM'000)**
Demand deposits.......................	1,394,879	899,754
Saving deposits	592,885	256,133
Investment deposits..................	7,576,322	8,595,939
Negotiable instruments of deposit....................................	407,182	191,914
Others..	1,861,129	2,586,441
	11,832,397	12,530,181

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Due within six months................	7,451,921	8,257,304
Six months to less than one year	353,965	304,370
One year to less than three years	174,760	226,179
Three years to less than five years	2,858	-
Five years and more	-	-
	7,983,504	8,787,853

Interbank Deposits

The Bank has the capacity to obtain funds comprising short term funds, deposits, placements with financial institutions and negotiable instrument of deposits from other financial institutions in the interbank market. The Bank obtains interbank funds primarily from other Malaysian banks for periods spanning from overnight to 180 days at prevailing interbank rates and maintains similar credit lines for the usage of other Malaysian banks.

As at 30 June 2008 and 30 June 2009, deposits and placements from financial institutions accounted for approximately 7.5 per cent. and 30.7 per cent. of the Bank's total liabilities, respectively.

Other Funding Sources

The Bank has in place comprehensive funding and liquidity policy guidelines, detailing measures to manage and to monitor its funding and liquidity requirements. Such measures include the diversification of funding sources as well as managing adequate contingent funding sources.

Contingency Funding Plan

Pursuant to the BNM's New Liquidity Framework (the "**BNM-NLF**"), all Malaysian banks are required to maintain a net cumulative cashflow surplus (the "**NCCS"**) of a designated minimum amount in the following short-term deposit maturity categories:

- with respect to deposits maturing within a week or less (three days or less for investment banks), the Bank is obliged to maintain a NCCS amounting to 3.0 per cent. of the total savings, demand and fixed deposits; and
- with respect to deposits maturing within a month, the Bank is obliged to maintain a NCCS amounting to 5.0 per cent. of the total savings, demand and fixed deposits.

To ensure compliance with BNM-NLF and as part of good practices, the Bank has established an internal Management Action Trigger (the "**MAT**") framework. The MAT framework represents a more comprehensive and prudent approach as compared to the BNM-NLF since it sets higher compliance ratios, as compared to the BNM-NLF, respectively. In addition to domestic operations, the MAT framework will also encompass operations from the Bank's overseas branches. In comparison to the compliance requirements under the BNM-NLF, the MAT framework will require internal compliance on a daily basis as compared to month-end compliance under the former.

Any non-compliance with the BNM-NLF will be escalated to the Bank's Liquidity Risk Committee (the "**LRC**") and Group Risk Committee (the "**GRC**") for the purposes of further evaluation and resolution. As at 30 June 2009, the Bank has not detected any internal non-compliance with the BNM-NLF requirements. In order to constantly assess its level of risk exposure whilst operating in hypothetical test conditions or under certain assumptions, the Bank conducts liquidity stress tests at least once every 6 months. As at 30 June 2009, the Bank has conducted 4 tests with the latest test being conducted on 31 December 2008. The assumptions used in these tests and the test results have been submitted to the LRC, the GRC, the Board of Directors of the Bank. The test results to date have indicated that the Group does possess sufficient liquidity capacity to meet the liquidity requirements under various stress test conditions.

In addition, CIMB Bank Group has established a contingency funding plan to manage any funding crisis that the Group may encounter. 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 CIMB Bank Group's management whenever CIMB Bank Group's liquidity position may be at risk. It provides CIMB Bank Group with the analytical framework to detect a likely liquidity problem and to evaluate CIMB Bank 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 CIMB Bank Group.

The funding crisis management team is comprised of the members of the LRC, senior management and the heads of relevant departments, and will oversee the contingency funding plan until the liquidity crisis subsides by assessing the severity of the liquidity condition, monitoring the liquidity condition closely and approving any decisions on strategies or actions to be taken.

Capital Adequacy

As at 30 June 2008 and 30 June 2009, the Bank's core capital ratios (which are the ratio of Tier-I capital to risk-weighted assets) were 13.7 per cent. and 8.3 per cent., respectively, and its risk-weighted capital ratios (the ratio of capital base to risk-weighted assets) were 14.9 per cent. and 9.9 per cent., respectively, all of which are considerably higher than BNM's minimum requirement of 8.0 per cent. risk-weighted capital ratio.

BNM's risk-adjusted capital standards require all banks in Malaysia to maintain a core capital ratio of at least 4.0 per cent. and total risk weighted capital ratio of at least 8.0 per cent., based on both the entity and the consolidated financial statements. To the extent a bank fails to maintain such a ratio, BNM may impose penalties on such a bank ranging from a fine to the revocation of its licence.

Capital adequacy is measured by risk-weighted capital ratios, which are calculated as the percentage of the capital base divided by the risk-weighted assets. The capital base is the sum of Tier 1 and Tier II capital less investments in subsidiary and joint venture companies. Tier 1 capital is the core capital, which includes paid-up ordinary share capital, share premium, statutory reserves, general reserves, retained profit/loss, minority interests and after deducting goodwill and deferred tax assets. Tier II capital is the supplementary capital, which includes general allowances for financing losses, subordinated financings with an initial maturity of at least five years and revaluation surpluses. The amount of risk-weighted assets is the sum of (i) the credit risk weights of all the different categories of on-balance sheet assets; (ii) the credit risk weights on off-balance sheet exposures after applying the credit conversion factors to the types of off-balance sheet instruments and (iii) the risk weighted assets equivalent for market risk calculated based on BNM's Market Risk Capital Framework. The credit risk weights and the credit conversion factors are provided in the BNM guidelines.

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The following table sets out the capital adequacy ratios of the Bank as at 30 June 2008 and 30 June 2009:

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Tier I capital		
Paid-up share capital	**550,000**	**550,000**
Perpetual preference share...........................	**70,000**	**70,000**
Statutory reserves	**98,156**	**54,564**
Retained profits and other reserves	**77,750**	**34,159**
	795,906	**708,723**
Less:		
Deferred tax assets.......................................	**(25,295)**	**(20,290)**
Goodwill..	**(136,000)**	**(136,000)**
Total Tier I Capital.......................................	**634,611**	**552,433**
Tier II Capital		
General allowance for bad and doubtful debts and financing..................................	**117,822**	**49,170**
Total Eligible Tier II capital..........................	**117,822**	**49,170**
Total Capital Base	**752,433**	**601,603**
Core capital ratio	**8.3%**	**13.7%**
Risk-weighted capital ratio	**9.9%**	**14.9%**

The following is a breakdown of the notional assets of the Bank in the various categories of risk weights as at 30 June 2008 and 30 June 2009:

	As at 30 June			
	2009		**2008**	
	(RM '000)	**(RM '000)**	**(RM '000)**	**(RM '000)**
	Principal	**Risk-weighted**	**Principal**	**Risk-weighted**
0%..	3,837,615	-	8,326,487	-
10%..	-	-	-	-
20%..	3,021,799	604,360	2,139,866	427,973
50%..	1,630,566	815,283	408,915	204,458
100%..	5,916,122	5,916,122	3,143,508	3,143,508
Total risk weighted assets for credit risks..	14,406,102	7,335,765	14,018,776	3,775,939
Risk weighted assets for market risk		274,943		260,625
Total risk weighted assets		7,610,708		4,036,564

SECTION 7.0 ASSET QUALITY

Financing Portfolio

The Bank has a stable and diversified financing portfolio, with its largest exposures being financings for purchase of transport vehicles, purchase of securities, working capital purposes and purchases of residential property. As at 30 June 2008 and 30 June 2009, the Bank's total outstanding gross financings were RM 2.6 billion and RM 9.6 billion respectively.

Financings and advances by type

The following table sets out a breakdown of the Bank's gross financing portfolio by product type as at 30 June 2008 and 30 June 2009.

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Cashline	**282,849**	**159,916**
Term financing		
- Housing financing	**4,892,538**	**1,098,688**
- Syndicated term financing..........................	**212,244**	**275,571**
- Hire purchase receivables	**3,133,833**	**1,494,526**
- Other term financing	**6,304,586**	**774,230**
- Staff financing..	**17**	**41**
Bills receivable...	**1,189**	**-**
Trust receipts...	**21,997**	**11,635**
Claim on customers under acceptance credit	**201,809**	**110,586**
Credit card receivables	**23,803**	**-**
Revolving Credit……………………………..	**897,912**	**256,933**
Other financings...	**73**	**75**
	15,972,850	**4,182,201**
Less: Unearned income	**(6,422,035)**	**(1,198,497)**
	9,550,815	**2,983,704**
Less: financing sold to Cagamas	**-**	**(338,264)**
Gross financings, advances and other loans	**9,550,815**	**2,645,440**
Allowance for bad and doubtful debts and financing		
- General	**(117,822)**	**(49,170)**
- Specific..	**(105,572)**	**(88,591)**
Total net financings, advances and other loans	**9,327,421**	**2,507,679**

Financings and advances by economic purpose

The following table illustrates the breakdown of the Bank's gross financing portfolio by economic purpose as at 30 June 2008 and 30 June 2009:

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Personal use..................................	**943,730**	**155,142**
Credit card.....................................	**23,803**	**-**
Purchase of consumer durables.....	**25**	**293**
Construction	**111,176**	**20,915**
Residential property (Housing).......	**1,722,601**	**478,080**
Non-residential property.................	**801,162**	**219,683**
Purchase of fixed assets other than land and building.................	**241,271**	**29,773**
Purchase of securities....................	**1,145,689**	**186,507**
Purchase of transport vehicles.......	**2,533,040**	**1,237,628**
Working capital	**1,949,542**	**565,478**
Other purpose................................	**78,776**	**90,205**
	9,550,815	**2,983,704**
Less: financing sold to Cagamas ...	**-**	**(338,264)**
	9,550,815	**2,645,440**

Purchase of transport vehicles

The Bank's largest concentration of the Bank's financings as at 30 June 2008 and 30 June 2009 was for the purchase of transport vehicles, comprising 41.5 and 26.5 per cent. of the Bank's total financings respectively.

Working capital

The Bank's second concentration of financings, as at 30 June 2008 and 30 June 2009, was for working capital purposes which accounted for 19 and 20.4 per cent., respectively. The Bank produces internal economic sector information and guidelines on specific industrial sectors with clear indications on the direction of new marketing efforts and guidance on whether certain of the Bank's exposures should be reduced or more closely monitored.

Financing maturity profile

As at 30 June 2009, financings maturing in less than one year constituted approximately 28.8 per cent. of the Bank's gross financings. 7.4 per cent. of gross financings had maturities of one to less than three years, 7.9 per cent. had maturities of three to less than five years and 55.9 per cent. had maturities of five years and more. The category of financings with maturities of less than one year includes revolving credit and cashline facilities and trade financing facilities.

The following table sets out the Bank's gross financing portfolio as at 30 June 2008 and 30 June 2009 by maturity:

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Maturing within one year	**2,751,586**	**959,843**
One year to less than three years	**709,711**	**274,856**
Three years to less than five years	**756,340**	**421,033**
Five years and more	**5,333,178**	**1,327,972**
	9,550,815	**2,983,704**
Less: financing sold to Cagamas	**-**	**(338,264)**
	9,550,815	**2,645,440**

Twenty Largest Financing Customers

As at 30 June 2008 and 30 June 2009, the Bank's 20 largest financing customers accounted for approximately RM0.6 billion and RM3 billion, or 20.9 per cent. and 32.9.0 per cent. of the Bank's total gross financings, respectively. These financing customers are involved in diversified activities such as finance, takaful and business services, transport, storage, real estate and general commerce.

Financing Approval Procedures

The Bank determines its financing authority in accordance with the guidelines established for its respective strategic business units (the "**SBUs**"), namely, Retail Banking, Business Banking, and Corporate Banking and International Banking & Transaction Services. There are distinct levels of approval authority across the Bank, spanning from Consumer Sales and Distribution via the relevant Branch Managers, the Monoline Authority (Direct Banking and Cards (the "**DBC**") and Auto Finance), SBU Authority, Business Credit Committee (the "**BCC**"), CRC, Group Executive Committee and the Bank's Board of Directors. Generally, the applicable level of financing approval is determined by the aggregation of all financing lines or facilities of all related companies, their principals and guarantors.

In the case of the Bank's Retail Consumer financing, the approval authority limits for the Consumer Sales and Distribution, DBC and Retail Banking Divisions are determined on a per customer basis inclusive of any joint customer(s) and aggregated within the said Division.

Authority to approve financing at Branch level is premised on the type of collateral offered and the number of authorised signatories available to approve such financing proposals. Consideration is based on customer basis, inclusive of joint customer(s). There is no singular approval authority. The approval authority in respect of any secured facility must be aggregated with related financings of the same customer at the level of the Retail Credit Centres (the "**RCC**"), Private Banking (the "**PB**") and DBC. All financing to "connected parties" (as defined pursuant to BNM's guidelines), must be escalated to the Joint Approval Authority/Board of Directors of the Bank so as to give effect to CIMB Bank Group's internal mechanism and guidelines with a view to monitor its financing exposure to connected parties (be they individuals or companies) and to take appropriate steps to control, mitigate or reduce any risks arising in connection with connected parties transactions.

Over and above the maximum Branch limit, all financings must be escalated to a centralised retail-financing centre. Authority at this centre is exercised based on the collateral offered and the number of authorised signatories to effect the approval. As a matter of principle, the higher the designation of an authorised signatory will enable a higher financing limit to be considered. For secured financing, approval is capped on the basis of per customer inclusive of a maximum unsecured limit. This is a combined financing limit applicable within RCC, PB and DBC. In the case of financings secured against liquid or marketable securities, a higher limit of approval authority is allocated. For prudence, the authority is aggregated within the limit for Consumer Sales and Distribution, RCC, PB and DBC.

For each of the Bank's Business Banking, Corporate Banking and International Banking & Transaction Services Divisions, various authorities within the respective divisions may, pursuant to joint authority, approve any financing which is secured by cash or fixed deposits up to a stipulated limit. There is also an unsecured limit applicable to each SBU. Above the level of SBUs, BCC may approve secured or unsecured financing of up to a set enhanced limit per customer (subject to total exposure of the Group not exceeding a maximum limit). A higher limit would be applicable if such financing are fully secured against cash or fixed deposits. The CRC may approve financing which are above BCC authority based on per customer while the Group's Executive Committee may approve all financing which exceed the CRC's approving limit up to the single customer limit. Any financing that exceeds the single customer limit per customer will require the special notation and approval of the Board of Directors of the Bank. In addition, if such financing were to exceed the regulatory imposed single customer limit, BNM's approval would also be required before the disbursement of such financing.

The risk rating of an obligor forms an integral part of the Bank's financing approval and financing review processes. All new and existing customers who satisfy stipulated criteria set will be rated through the Internal Credit Rating System (the "**ICRES**"). A key feature of the ICRES involves the rating of obligors and guarantors using the Obligor Risk Rating Framework (ORR Framework). Furthermore, the Corporate and SME Obligor Risk Rating Framework (the "**CSMEORR Framework**") governs the risk exposure in relation to Corporate Banking and SMEs. The CSMEORR Framework conducts its risk assessment by reviewing the standalone risk profile of a customer inclusive of any joint customer whilst taking into consideration, the nature and extent of external support provided by third parties in respect of the relevant financing, subject to the final review of the relevant financing approval authority.

Classification of NPF

BNM's guidelines classify NPFs into three categories based on how many months a financing has been in arrears with specific allowances for (i) 20.0 per cent. of the outstanding amount less the value of collateral, unearned profit and income-in-suspense (the "**reservable amount**") when six to less than nine months in arrears; (ii) 50.0 per cent. of the reservable amount when nine to less than 12 months in arrears; and (iii) 100.0 per cent. of the reservable amount when 12 months or more in arrears, with retroactive adjustment to income for profit accrued but unpaid prior to such date. However, the Bank has taken a more stringent policy by classifying NPFs when month in arrears is at 3 instead of 6. The Bank will conduct a re-valuation of security relating to its NPFs once every two years pursuant to BNM's guidelines.

In addition, BNM's unwritten guidelines (the "**Unofficial Policy**") provide for the reduction of the forced sale value of security (the "**FSV**") provided in respect of NPFs in arrears for over 5 and 7 years, by 50.0 per cent. and 100.0 per cent., respectively. The Bank has taken into consideration the required specific allowances and is in full compliance with the Unofficial Policy with respect to the FSV of security relating to the relevant NPFs. There is no other specific instance where the Bank is required to, or has taken into consideration, additional specific allowances.

The following summarises the classification of NPFs and the specific allowance requirements of the Bank:

Months in Arrears	Classification	Treatment
3-<9	**Substandard**	**Income suspended; 20% specific allowance**
9-<12	**Doubtful**	**Income suspended, 50% specific allowance**
≥12	**Bad**	**Income suspended; 100% specific allowance**

Note: The specific allowances are required against the reservable amount.

The Bank complies with BNM's guidelines on the treatment and classification of NPFs. The Bank will either classify a financing as non-performing earlier than required by these guidelines or make a specific allowance for any amount in excess of the reservable amount. When a financing has been classified as non-performing, the Bank will suspend profit from the first day the account is classified as NPF. The Bank seeks to prevent financings from becoming non-performing through early detection and proactive action. The Bank maintains a list of accounts with a higher probability of default in order to identify and to monitor potential sub-standard accounts while tracking information such as outstanding financing balances, profit and principal payments, targeted actions and responses and other information about the customer. Generally, once the Bank is concerned about a particular financing or sector, frequent reviews and proactive management of the relevant account is undertaken between the relevant account relationship officer and credit recovery officer.

Group Special Asset Management

The Group established, on 1 July 2007, its own "Bad Bank" division, namely, Group Special Asset Management (the "**G-SAM**"). The Good Bank/Bad Bank model is based on the premise that NPFs should be carved out from the Good Bank to avoid NPF distraction, thus enabling the Good Bank to concentrate on its core business of Lending/Financing, Customer Relationship and Quality Financing Asset growth.

G-SAM primarily comprises 5 frontline units consisting of Group Special Recovery, Corporate Recovery, Business Recovery, Retail Recovery and Property Mart and is supported by several centralised support units including Legal & Compliance, NPL/NPF Management and GSAM Operations. G-SAM operates mainly from a centralised platform based in Kuala Lumpur and is supported by 15 Regional Centres. With regards to Islamic NPF, G-SAM has set-up a centralized Islamic recovery unit to ensure consistency with Shariah guidelines and to enhance recovery efforts.

To proactively manage NPFs, G-SAM will commence initial debt recovery or rehabilitation efforts by entering into negotiations with the borrowers/customers, guarantors or other relevant parties with the aim of rescheduling debt payments or restructuring existing borrowings/financings. In the event of unsuccessful debt recovery or rehabilitation attempts, G-SAM will enforce the Bank's rights against recalcitrant parties through the commencement of legal proceedings. These will usually relate to the recovery of the debt (including all accrued profit, costs and expenses incurred therefrom), the winding up or bankruptcy of the relevant parties, foreclosure and sale of collateral properties and the appointment of receivers and managers or private liquidators against the relevant parties. The commencement of any legal proceedings against the borrowers/customers, guarantors or other relevant parties usually compels, in the majority of cases, some form of settlement or compromise negotiations between the relevant parties and the Bank. The Bank will deal with these negotiations on a case by case basis, depending on the prevailing circumstances.

Since commencing operations on 1 July 2007, G-SAM has been successful in its debt recovery and NPF management efforts. For the financial year ended 2008, G-SAM was able to reduce the size of its Gross NPL/NPF portfolio by RM1.7 billion (includes NPF of RM33.2 million) which has contributed to a reduction of net NPL (inclusive of NPFs) ratio to 2.55 per cent and significantly stemming the deterioration of the Group's Loan/Financing Loss Provision. G-SAM posted a Loan/Financing Loss Provision of a positive (+ve) RM300 million as opposed to a negative (–ve) RM457 million in the previous year. Year 2008 also saw G-SAM undertaking the first NPL sale which enabled the Group to dispose of RM1.1 billion of its legacy NPLs. There is no NPF sale as of 30 June 2009.

Financing Loss Provision Policy

The Bank's policy is to maintain its financing loss provision at a level at which it believes is adequate to address risks inherent in its financing portfolio in alignment with its risk management policies. Pursuant to BNM's guidelines, the Bank keeps both general and specific allowances for bad and doubtful financings.

BNM requires Malaysian banks to keep a general provision of an amount equal to at least 1.5 per cent. of gross financings less any specific allowance. As at 30 June 2008 and 30 June 2009, the Bank's general provision of each remains at 1.7 per cent. Such specific allowance is based on an analysis of the risk profile and payment history of individual financings. Financings which are written off decrease the provision, while recoveries are credited as income. In addition, specific allowances made can be credited as income provided that the financing customers have furnished cash payment or provided readily marketable additional security.

In addition, BNM requires Malaysian banks to keep a specific allowance of at least 20.0 per cent. of the reservable amount of sub-standard financings, at least 50.0 per cent. of the reservable amount of doubtful financings and 100.0 per cent. of the reservable amount of bad financings, respectively. A Malaysian bank may also provide a specific allowance immediately when a financing is in arrears under appropriate circumstances. For the purposes of determining the provision, BNM's guidelines require collateral (other than shares) to be valued based on the lower of forced sale value or, if an auction is pending, the reserve price. In exceptional circumstances, a bank may use the fair market value if evidence exists that the property is worth its fair market value. Normally, listed shares are valued based on the latest market prices with an appropriate discount for thinly traded shares or shares which comprise a large block. Plant, machinery and equipment, in the absence of any independent professional appraisal, are based on net book value using 20.0 per cent. straight-line depreciation. Guarantees by a licensed bank or merchant bank or by the Government are given full value while personal guarantees are given no value and other guarantees are valued on a case-by-case basis.

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The following table sets out movements in the Bank's allowance for bad and doubtful financings as at 30 June 2008 and 30 June 2009 respectively:

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
General allowance		
At 1 January.................................	**75,613**	**44,987**
Net allowance made during the financial year.............................	**42,209**	**4,183**
At 30 June....................................	**117,822**	**49,170**
(General allowance excluding allowance on RPSIA financing as % of gross financings, advances and other loans including financing sold to Cagamas, less financings exempted from general allowance by BNM and less specific allowance)	**1.7%**	**1.7%**
Specific allowance		
At 1 January.................................	**99,374**	**94,904**
Allowance made during the financial year................................	**64,580**	**44,694**
Amount written back in respect of recoveries	**(11,042)**	**(22,891)**
Amount written off	**(47,340)**	**(28,116)**
At 30 June	**105,572**	**88,591**

Write-Off Policy

BNM's guidelines further stipulate that Malaysian banks may write-off an uncollectible financing if, having taken into consideration the realisable value of any collateral, there is no realistic prospect of recovery. Write-offs of all financings must be approved by the Board of Directors of the Bank. The Bank holds NPFs on its books longer than is customary under international standards because Malaysian banks are required to comply with extensive recovery procedures prior to any write-off. Losses incurred by write-offs are tax deductible under Malaysian law only if it can be shown that all legally available and necessary steps for recovery have been taken. In addition, BNM's guidelines provide that banks should not write off financings when they are still collectible and then write back the amount upon eventual recovery as this practice may understate a bank's reserve levels. Prior to writing off a financing, the Bank will begin legal proceedings, which, in the case of collateralised financings, will involve foreclosure proceedings. In the case of collateralised financings, the Bank will attempt to sell the collateral. Alternatively, a court may conduct a public sale of the property and distribute the proceeds to the Bank. Any proceeds recovered from a sale of collateral will reduce the amount of the classified financing. After foreclosure, any uncollected amounts with respect to profit, penalty or principal will be written off.

BNM allows the partial write-off of NPFs under the following conditions: (i) the value of the collateral (determined under BNM's guidelines) is less than the outstanding balance of the financing (including principal, accrued profit and other charges) and the financing customer is not likely to provide more collateral; (ii) the outstanding balance of the financing (including principal, accrued profit and other charges) is in excess of the value of the collateral is uncollectible and worthless; (iii) the financing institution is in the final stage of foreclosing on the collateral; and (iv) the amount is rounded down to the value of the security (i.e. the shortfall in the value of security over the outstanding balance is written off).

Profile of NPFs

The Bank's gross NPFs stood at just below RM214 million and RM200 million as at 30 June 2008 and 30 June 2009, respectively. Additionally as at 30 June 2008 and 30 June 2009, the ratio of gross NPFs to total financings was 8.1 per cent. and 2.1 per cent., respectively, while the ratio of net NPFs to net financings was 4.3 per cent. and 1.0 per cent., respectively. BNM defines net financings as gross financings (including financings sold to Cagamas) less specific allowance.

The table below illustrates the Bank's total gross financings, advances and other financing assets (including financing sold to Cagamas) as at 30 June 2009 and 30 June 2008:

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM'000)**
Gross Financings, Advances And Other Loans (including Financing Sold To Cagamas)..	**9,550,815**	**2,983,704**

As at 30 June 2008 and 30 June 2009, over 77.1 per cent. and 73.4 per cent. of the Bank's NPFs respectively, were from the same three components that dominate the Bank's financing portfolio: (i) residential property (26.9 per cent. and 28.1 per cent, respectively) (ii) working capital (21.6 per cent. and 25 per cent., respectively); and (iii) purchase of transport vehicles (28.5 per cent. and 20.3 per cent., respectively).

Non-Performing Financings by Economic Purpose

The table below sets out the Bank's NPFs by economic purpose as at 30 June 2008 and 30 June 2009:

	As at 30 June			
	2009		**2008**	
	(RM '000)	**%**	**(RM '000)**	**%**
Personal use................	**16,723**	**8.3**	**12,528**	**5.9**
Credit card...................	**257**	**-**	**-**	**-**
Purchase of consumer durables	**-**	**-**	**-**	**-**
Construction	**5**	**-**	**-**	**-**
Residential property	**56,208**	**28.1**	**57,615**	**26.9**

	As at 30 June			
	2009		2008	
	(RM '000)	%	(RM '000)	%
(Housing)				
Non-residential property	14,093	7	17,370	8.1
Purchased of fixed assets other than land and building	1,620	1	-	-
Purchase of securities	18,669	9.3	18,667	8.7
Purchase of transport vehicles	40,718	20.3	60,945	28.5
Working capital	50,100	25	46,323	21.6
Other purpose..............	1,931	1	523	0.3
	200,324	100.0	213,971	100.0

Portfolio of Securities

Securities held-for-trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term or if so designated by management. Securities held-for-trading are recognised at fair value. Gain and loss arising from changes in the fair value are included in the income statement in the period at which they arise.

As at 30 June 2008 and 30 June 2009, the securities held-for-trading constituted 6.4 per cent. and 9 per cent. of the Bank's total assets, respectively. The Bank's securities held-for-trading comprises Government / BNM (7.8 per cent. and 9.8 per cent respectively), Islamic securities (5.6 per cent. and 6.9 per cent respectively) and negotiable instruments of deposit (36.6 per cent. and 70 per cent respectively).

Available-for-sale Securities

Available-for-sale securities 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 financing rates, exchange rates or equity prices. Available-for-sale securities are measured at fair value. Gain and loss arising from changes in the fair value 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 income statement. Investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

As at 30 June 2008 and 30 June 2009, the available-for-sale securities constituted 3.9 per cent. and 3.2 per cent. of the Bank's total assets, respectively. These available-for-sale securities comprise primarily of Islamic securities constituting 64.7 per cent. and 60.5 per cent., as at 30 June 2008 and 30 June 2009 respectively.

Held-to-maturity Securities

Held-to-maturity securities are non-derivative instruments with fixed or determinable payments and fixed maturities to which the Bank's management has demonstrated its clear intention and ability to hold to maturity. If the Bank sells an amount exceeding 10 per. cent. of the total amount of held-to-maturity investments, the entire category will be reclassified as available-for-sale securities. Held-to-maturity securities are initially recognised at fair value and subsequently measured at amortised cost using the effective profit method. Gain or losses arising from the derecognition or impairment of securities are recognised in the income statement.

The Bank's held-to-maturity securities comprise, as at 30 June 2008 and 30 June 2009, 0.6 per cent. and 6.4 per cent. of the Bank's total assets, respectively, which consist mainly Islamic securities.

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The following tables sets out the Bank's securities portfolio as at 30 June 2008 and 30 June 2009:

	As at 30 June	
Securities held for trading	**2009**	**2008**
Money market instruments	**(RM '000)**	**(RM '000)**
Unquoted:		
Khazanah bonds..	9,944	58,779
Malaysian Government treasury bills	-	-
Bank Negara negotiable bills	148,086	-
Islamic accepted bills.................................	221,465	467,968
Negotiable instruments of deposit.............	1,235,695	341,965
Islamic Commercial papers........................	14,854	-
Malaysia Government Investment Issue	14,905	14,222
Sub Total …………………………………….	1,644,949	882,934
Unquoted securities		
In Malaysia		
Private debt securities................................	121,339	52,158
	1,766,288	935,092

	As at 30 June	
	2009	**2008**
	(RM '000)	**(RM '000)**
Available-for-sale securities		
Money market instruments:		
Unquoted		
Khazanah bonds..	49,391	66,772
Government investment Issue	124,598	98,684
Islamic Commercial papers........................	24,539	4,953
Cagamas Bonds	48,193	32,694
	246,721	203,103
Unquoted securities:		
In Malaysia		
Private debt securities................................	378,006	373,504
Other government securities	-	-
Placement with IBFIM	575	575
	625,302	577,182
Held-to-maturity securities		
Unquoted securities		
Private Debt	1,224,546	98,644

Securities…………………………………...		
Islamic commercial papers.........................	37,741	-
Accretion of discount less amortisation of premium	(5,612)	(4,277)
Less: Allowance for impairment losses	(164)	-
	1,256,511	94,367

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SECTION 8.0 RISK MANAGEMENT

CIMB Group employs the EWRM to manage its risks and opportunities effectively. The EWRM framework involves an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting CIMB Group, implemented through a number of committees established by the Board of Directors. The EWRM framework provides the Board of Directors of CIMB Group and its management with an effective and robust methodology to assess and manage potential risks in CIMB Group, taking into consideration the changing risk profiles, as dictated by changes in business strategies and regulatory environment and functional activities throughout the year.

CIMB Group employs the CaR framework as a common measure of risk across CIMB Group. The CaR framework also provides basis for allocating economic capital within CIMB Group, to cushion against unexpected losses. CaR can be aggregated, thus allowing measurement of CIMB Group's total risk. It also provides a yardstick for evaluating risk-return relationship in different lines of business. The CaR framework also enables measurement of return on risk-adjusted-capital, to compare profitability across differing businesses and for performance measurement in CIMB Group.

CIMB Group performs a group wide stress test on a biannual basis to evaluate the financial impact on CIMB Group in the event of projected adverse economic and financial situations. This process enables CIMB Group to assess the sufficiency of its liquidity surplus and reserves, and whether it could continue to meet its minimum capital requirement under such scenario. Such group wide stress test allows management to gain a better understanding of how portfolios and investments are likely to react to changing economic conditions and how CIMB Group can best prepare for and react to them. In addition, CIMB Group performs ad-hoc stress tests on selected portfolio to evaluate its performance under a given stress scenario.

Role of senior management

At the apex of the CIMB Group risk management organisational architecture is the BRC, which comprises exclusively of non-executive Directors of the Banks. In line with best practices, the BRC determines the risk policy objectives for CIMB Group, and assumes ultimate responsibility for risk management. The BRC also decides on yearly allocation of risk capital to support all risks undertaken by CIMB Group.

The day-to-day responsibility for risk management and control is delegated to the GRC. The GRC, which comprises of senior management of CIMB Group, undertakes the oversight function for capital allocation and overall risk limits, in line with the risk appetite determined by the Board of Directors. The GRC is supported by four (4) specialised subcommittees, namely CRC, Liquidity Risk Committee, Market and International Risk Committee and Operational Risk Committee, which are set up to manage and control specific risk areas.

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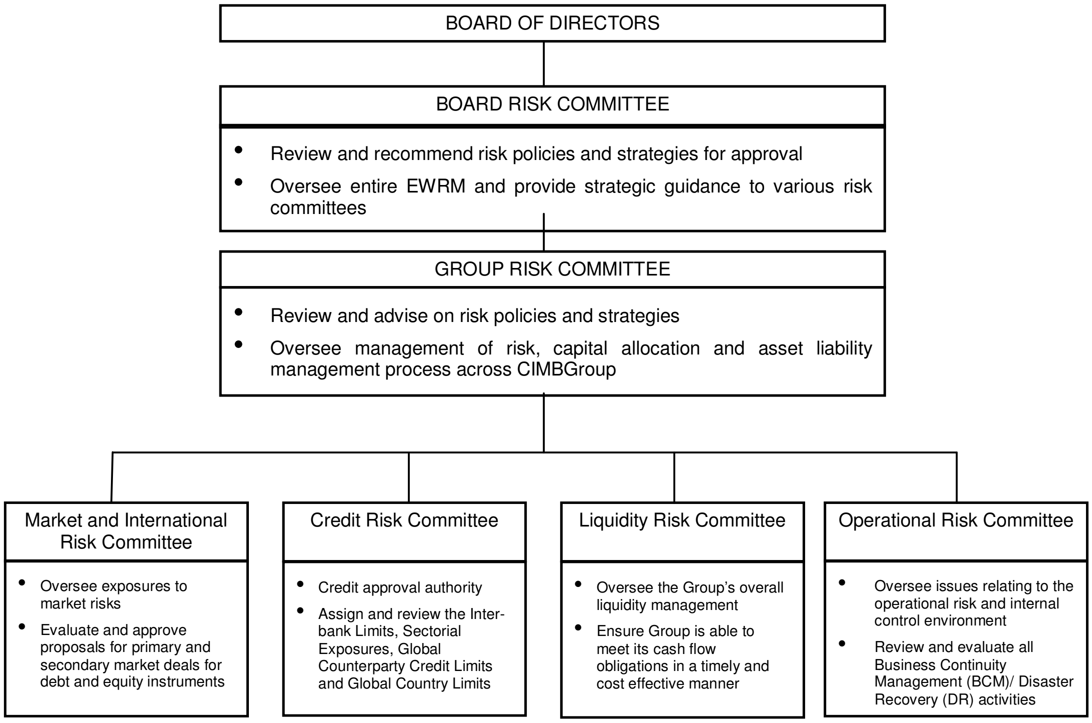
The roles and responsibilities of the committees and sub-committees are set out in the chart below:



The purpose of each sub-committee is to identify, analyse, monitor and review the principal risks to which CIMB Group is exposed. Essentially, these constitute:

(i) market risk – arising from changes in market prices from exposure to financing rates, currency exchange rate, credit spreads, equity and commodities prices;

(ii) credit risk – arising from losses due to obligor, counterparty or issuer failing to perform its contractual obligations to CIMB Group;

(iii) liquidity risk – arising from CIMB Group's inability to meet its present and future funding needs on a timely basis, from mismatches between the size of assets and liabilities or their maturities; and

(iv) operational risk – arising from internal processes which may result from inadequacies or failures in processes, controls or projects due to fraud, unauthorised activities, error, omission, inefficiency, systems failures or from external events.

Group Risk Division

The primary oversight body is the Group Risk Division (the "**GRD**"), comprising of Group Risk Management and Group Credit, which are independent of the business units and assist the management and the various risk committees in monitoring and controlling CIMB Group risk exposures.

The key responsibilities of GRD are to identify, analyse, monitor, review and report the principal risks to which CIMB 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 business and products.

Group Risk Management

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

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. Further, GRM also conducts validation on the risk pricing parameters and models used.

GRM is also tasked with the co-ordination of CIMB 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 relevance to current market conditions and integrity of the ratings.

On an annual basis, GRM proposes the global CaR limit to the GRC and BRC for approval. This limit is allocated by the GRC to the various businesses of the Group through Market and International Risk Committee and CRC. The appropriate market and credit allocations are given by the various business units to execute their business plans each year. GRC also ensures that the aggregate risk exposure does not exceed the global CaR limit approved by the BRC.

Group Credit

Group Credit (the "**GC**") is authorized to approve applications for credit facilities of up to RM10 million extended to SMEs. Otherwise, GC carries out independent assessments of all credit risk related proposals originating from the various business units such as loans/financing and advances, fixed income, derivatives, sales and trading, prior to submission to the CRC, the Executive Committee (EXCO) or Board of Directors for approval. GC also reviews the Group's holdings of all fixed income assets and recommends the internal ratings for CRC's approval. GC is also responsible for tracking and analyzing loans/financing assets which turn NPL/NPF within 1 year of approval.

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SECTION 9.0 SUPERVISION AND REGULATION

An Islamic bank is regulated by BNM, which was established on 26 January 1959 pursuant to the Central Bank of Malaya Ordinance, 1958 (now the Central Bank of Malaysia Act, 1958) (Revised 1994) as the Central Bank of Malaysia. BNM is directly involved in the regulation and supervision of Malaysia's financial system. Its principal functions are to (i) act as a banker and financial adviser to the Government; (ii) issue currency and keep reserves to safeguard the value of the currency; (iii) promote monetary stability and a sound financial structure; (iv) influence the credit situation to the advantage of Malaysia; (v) promote the reliable, efficient and smooth operation of national payment and settlement systems and to ensure that the national payment and settlement systems policy is directed to the advantage of Malaysia and (vi) manage public debt, administer exchange controls, supervise and regulate banks (including subsidiaries of foreign banks incorporated in Malaysia), and deal with international monetary institutions.

BNM and the Minister of Finance of Malaysia have extensive powers under the IBA which is the principal statute that sets out the laws for the licensing and regulation of institutions carrying on Islamic banking businesses. In addition to the IBA, Malaysian licensed institutions are subject to guidelines issued by BNM from time to time.

The following discussion sets out information with respect to certain regulations of the banking industry by BNM:

Licensing and limitation of business activities of banks

Under the IBA, Islamic banking business, which is defined to include deposit taking and provision of financing whose aims and operations do not involve any element which is not approved by the Religion of Islam, can only be conducted by a public company (which includes domestic public limited companies and subsidiaries of foreign banks incorporated as public limited companies in Malaysia) which has obtained a licence from the Minister of Finance on the recommendation of BNM.

Islamic banks are also subject to a number of other restrictions on the operation of their business. In particular, an Islamic bank may not: (i) pay any dividend on its shares until all of its capitalised expenditures have been written off in full and the prior approval of BNM has been obtained; (ii) grant any credit facilities to any of its directors or officers except as permitted under the IBA; (iii) accept its own shares or shares of its holding company as security (merchant banks are exempted from this provision); (iv) acquire or hold any shares in any other corporation except as permitted under the IBA or by prescribed regulation; and (v) open any branch offices unless the approval of BNM has been obtained.

Statutory reserves

BNM requires Malaysian Islamic banks to maintain a sum equivalent to the Statutory Reserve Requirement ratio (the "**SRR**") in the form of non-interest bearing reserves with BNM. Following the release of the Monetary Policy Statement by BNM on 24 February 2009, the SRR was adjusted downwards from 2 per cent. to 1 per cent. of eligible liabilities with effect from 1 March 2009. The daily variation from the SRR remains within the band of +/- 20% of the statutory reserve requirement rate i.e. 0.8 per cent. and 1.2 per cent.

Capital adequacy requirements

With effect from 1 September 1989, capital adequacy regulations implementing the agreement reached by the Basel Committee on Banking Supervision Practices (the Basel Committee) in July 1988 were introduced into the Malaysian banking system. These regulations, which were phased in over a two year period, specify a minimum Tier 1 capital to risk weighted assets ratio of 4.0 per cent. and a minimum total capital to risk-weighted assets ratio of 8.0 per cent. Tier 1 capital includes paid-up ordinary share capital, share premium, statutory reserves, general reserves, retained profit/loss, minority interests, innovative and non-innovative Tier 1 capital instruments approved by BNM and after deducting goodwill and deferred tax assets. Tier II capital includes general allowances for loan losses, subordinated debts with an initial maturity of at least five years, innovative and non-innovative Tier 1 capital instruments in excess of the limits set by BNM to qualify as Tier 1 capital which is approved by BNM as Tier II capital and revaluation surpluses.

Risk-weighted assets is the sum of (i) the credit risk weights of all the different categories of on-balance sheet assets; (ii) the credit risk weights on off-balance sheet exposures after applying the credit conversion factors to the types of off-balance sheet instruments; and (iii) the risk weighted assets equivalent for market risk calculated based on BNM's Market Risk Capital Adequacy Framework. The credit risk weights and the credit conversion factors are provided in the BNM guidelines.

Qualifications of directors; power to remove directors

Under the IBA, a person cannot be appointed as a director of an Islamic bank if, for example, that person has been declared bankrupt; has suspended payments or has compounded with his creditors whether within or outside of Malaysia; has been convicted of any offence under the IBA; or if there has been any order of detention, supervision, restricted residence, banishment or deportation made against him; or if that person has been a director of or directly concerned in the management of any company which is being or has been wound up by a court or has been any licensed Islamic bank whose licence has been revoked under the IBA. The appointment of directors and the chief executive officer of an Islamic bank is subject to the prior written approval of BNM. Based on BNM's Guidelines on Amendments to the Application Form for the Appointment/Reappointment of Chairman, Directors and Chief Executive Officers of Licensed Institutions, Financial Holding Companies & Islamic Banks issued on 24 July 2007, BNM may allow a longer tenure for the appointment and reappointment of directors, up to a maximum period of three years. BNM's Guidelines on Corporate Governance for Licensed Islamic banks which took effect on 24 January 2007 stipulate that:

(i) The Board of Directors of an Islamic bank must have an appropriate number of directors that commensurate with the complexity, size, scope and operations of the Islamic bank.

(ii) The Board of Directors should comprise of directors who as a group provide a mixture of core competencies such as finance, accounting, legal, business management, information technology and investment management.

(iii) At least one-third of the Board of Directors must be independent directors.

(iv) There should not be more than one executive director on the Board of Directors of an Islamic bank; however, under exceptional circumstances, BNM may allow up to a maximum of two executive directors.

(v) Directors who are errant, ineffective or negligent in discharging their responsibilities may be removed from the Board of Directors. All resignations and removal of independent directors from the Board of Directors can only take effect after the Board of Directors has cleared the resignation and removal with BNM.

(vi) There shall be clear separation between the roles of chairman and chief executive officer of an Islamic bank.

(vii) Individuals who are active in politics cannot be appointed as a director of an Islamic bank.

BNM is also empowered under the IBA to remove any director of an Islamic bank with the prior concurrence of the Minister of Finance if, inter alia, it is satisfied that the Islamic bank is carrying on its business in a manner detrimental to the interests of its depositors, its creditors or the public generally or is insolvent or has become or is likely to become unable to meet all or any of its obligations or is about to suspend payment of its debts.

Interest/Profit rate regulation

Effective 26 April 2004, BNM introduced a new interest/profit rate framework aimed at enhancing the effectiveness of monetary policy transmission process and efficiency of the operation of the financial markets as well as pricing by Islamic banking institutions. Under the new framework, Islamic banking institutions are allowed to determine their own financing rates on all credit facilities and financing products, other than credit card financings, and financing assets where the financing rates are governed by legislation or prescribed by BNM.

In addition, under the new framework, the Overnight Policy Rate (the "**OPR**") replaced the three month intervention rate as the policy rate. BNM will announce its monetary policy stance through changes in the OPR. The implementation of monetary policy targets the overnight interbank rate to fluctuate within a corridor around the OPR. To minimise excessive volatility in the overnight interbank rate, BNM has set a corridor of +/- 25 basis points around the OPR. BNM will ensure that overnight interbank rates trade within this corridor by providing a lending /financing facility and a deposit facility at the upper and lower limit of the corridor respectively.

Exchange control policy

Malaysia has historically maintained a liberal system of exchange controls. Prior to September 1998, the few exchange control rules that were in place were aimed at monitoring the settlement of payments and receipts for compilation of balance of payments statistics and to ensure that funds raised abroad were channelled to finance productive investments in Malaysia which either directly or indirectly generate foreign exchange.

On 1 September 1998, the Government introduced a series of selective exchange control measures. These measures were designed to eliminate the internationalisation of the Ringgit to contain speculation and to stabilise short-term capital flows. On 2 September 1998, the exchange rate was fixed at RM3.80 to US$1.00. With effect from 22 July 2005, the exchange rate had been allowed to operate in a managed float by BNM with its value being determined by various economic factors. BNM will monitor the exchange rate against a currency basket.

On 23 March 2005, BNM announced the relaxation of the foreign exchange administration rules governing overseas investments by residents (both individuals and corporations) and the retention of foreign currency in foreign currency accounts by residents. These changes in the foreign exchange administration rules became effective on 1 April 2005.

In 2007, the foreign exchange administration rules were further liberalised as part of the continuous efforts to increase efficiency and reduce cost of doing business in Malaysia.

In line with the liberalisation, registration requirements for forward foreign exchange contracts by residents, Ringgit-denominated loans/financings to non-residents for purchase or construction of immovable properties in Malaysia, investment in foreign currency assets by residents, foreign currency borrowing/financing by residents and prepayment or repayment/payment of foreign currency borrowing/financing by residents were abolished. Monthly reporting on balances of foreign currency accounts of residents was also abolished.

In May 2008, BNM had further liberalised the rules on borrowing and lending or financing by resident companies. Resident companies are free to borrow/to seek financing for any amount in foreign currency from other resident companies within the same corporate group basis without prior approval from BNM. Furthermore, in terms of lending/financing in Ringgit, a resident company or individual is free to lend/finance in Ringgit of any amount to non-resident non-bank companies or individuals to finance activities in the real sector in Malaysia (previously only up to RM10,000).

In addition, in line with BNM's continuous efforts to increase competitiveness of licensed onshore banks and to reduce cost of doing business in Malaysia, a licensed onshore bank is now allowed to export any amount of foreign currency notes from Malaysia with effect from July 2, 2008.

Priority sector lending/financing guidelines

There are currently three priority sectors identified by BNM which are applicable to commercial banks, including the Bank. These are (i) loans/financing assets for houses costing up to RM100,000 (for Peninsular Malaysia) and an additional 20.0 per cent. on the value of houses for the states of Sabah and Sarawak (ii) lending/financing to SMEs (including Bumiputera SMEs) and (iii) lending/financing to agriculture related activities. The housing loan lending/home financing is to ensure that financing of home ownership is available to lower income groups. The prescribed interest/profit rate on such loans/financing is Base Lending/Financing Rate (BLR/BFR) plus 1.75 per cent. The lending/financing to the agriculture sector is particularly crucial to boost domestic food production in the light of global increase in food prices experienced by economies. The lending/financing to SMEs aims to provide financial assistance to SMEs, including Bumiputera SMEs, to obtain financing for their business operations. The Bumiputera SMEs lending/financing is to ensure a minimum level of loans/financings is extended to this community. SME is defined as domestic business enterprises under three sectors, these being manufacturing (including agro-based and manufacturing related services), primary agriculture and the services sector (including information and communications technology) where the number of full-time employees must not be more than 150, 50 and 50 employees respectively or annual sales turnover must not exceed RM25 million, RM5 million and RM5 million respectively.

Powers of enforcement

BNM has broad powers to enforce the IBA. In particular, where an Islamic bank is insolvent or is likely to become unable to meet all or any of its obligations or is about to suspend payment, BNM may, with the prior concurrence of the Minister of Finance, remove from office any officer or director of the Islamic bank concerned, appoint any person as a director of the Islamic bank concerned, appoint any person to advise the Islamic bank in relation to the proper conduct of its business, recommend that the Minister of Finance place the Islamic bank under the control of BNM or authorise BNM to make a court application to appoint a receiver or manager to manage the affairs of the Islamic bank or authorise BNM to present a petition for winding-up of the Islamic bank concerned.

In addition, if BNM is of the opinion that an Islamic bank is likely to become unable to meet its obligations or is about to suspend payment, BNM may, with the concurrence of the Minister of Finance, grant loans (against the security of shares of such bank) to, or purchase shares of, such Islamic bank, or grant loans to another Islamic bank to purchase shares, or purchase part or all of the properties and liabilities, of such Islamic bank.

Inspections by BNM

BNM is empowered to examine from time to time, without any prior notice, the books or other documents, accounts and transactions of an Islamic bank and may be directed by the Minister of Finance to do so in the event the Minister of Finance suspects that the Islamic bank is carrying on its business in a manner which is, or which is likely to be, detrimental to the interests of its depositors or creditors or has insufficient assets to cover its liabilities to the public or is contravening any provisions of the IBA or the Central Bank of Malaysia Act, 1958.

Deposit Insurance

Deposit insurance is a system established by the Government to protect depositors against the loss of their deposits in the event a member institution is unable to meet its obligations to depositors. As an integral component of an effective financial safety net, a deposit insurance system enhances consumer protection by providing explicit protection to depositors.

In Malaysia, the deposit insurance system was brought into effect in September 2005 and is managed by Perbadanan Insurans Deposit Malaysia ("**PIDM**"). PIDM is an independent statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 (the "**PIDM Act**").

Benefits to insurance depositors include:

- PIDM insures depositors holding insured deposits with member institutions
- Deposit insurance is automatic
- There are no direct costs to depositors for deposit insurance protection
- Should a member institution fail, PIDM will promptly reimburse depositors up to the limit of the deposit insurance coverage provided under the PIDM Act.

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Benefits to the financial system include:

- PIDM promotes public confidence in Malaysia's financial system by protecting depositors against the loss of their deposits
- PIDM reinforces and complements the existing regulatory and supervisory framework by providing incentives for sound risk management in the financial system
- PIDM minimises costs to the financial system by finding least cost solutions to resolve failing member institutions
- PIDM contributes to the stability of the financial system by dealing with member institution failures expeditiously and reimbursing depositors as soon as possible.

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SECTION 10.0 OTHER INFORMATION

10.1 Material Litigation

As at 30 June 2009, the Issuer is not involved in any legal or arbitration proceedings (including proceedings which, as far as the Bank is aware, are pending or threatened) outside the ordinary course of business which management of the Bank believes would, individually or taken as a whole, have a material adverse impact on its business, financial condition, results of operations or prospects of any of them.

10.2 Material Contracts Outside the Ordinary Course of Business

Save as those disclosed in this Information Memorandum ,the Issuer has not entered into any material contracts which are outside its ordinary course of business which principally involves all aspects of banking and finance company businesses and the provision of related financial services.

10.3 Material Contingent Liabilities and Material Capital Commitment

Save as those disclosed in the Bank's unaudited financial statements for the period ended 30 June 2009 the directors of the Issuer are not aware of any material contingent liabilities and material capital commitment, which upon becoming enforceable may have substantial impact on the financial position and the business of the Issuer.

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11.0 TAXATION

Malaysian Taxation

The description below is of a general nature and is only a summary of the law and practice currently applicable in Malaysia. Prospective investors should consult their own professional advisers on the relevant taxation considerations applicable to the acquisition, holding and disposal of the Junior Sukuk and the receipt of distributions.

Withholding tax

Pursuant to section 109(1) of the Income Tax Act 1967, where any person (the payer) is liable to pay interest derived from Malaysia to any other person not known to the payer to be resident in Malaysia, other than interest attributable to a business carried on by such other person in Malaysia, the payer shall upon paying or crediting the interest (other than interest on an approved loan or interest of the kind referred to in paragraphs 33, 33A, 33B, 35 or 35A of Part I, Schedule 6) deduct there from tax at the rate applicable to such interest. Accordingly, interest derived from the notes payable to non-residents is subject to a withholding tax of 15.0 per cent. However, since the Junior Sukuk are issued by a person carrying on the business of banking in Malaysia and licensed under IBA, profit payable under the Junior Sukuk is tax exempt under paragraph 33 of Schedule 6 of the Income Tax Act 1967.

There is no withholding tax on dividends.

Capital gains tax

There is no capital gains tax in Malaysia.

Gift or Inheritance Tax

There is neither gift nor inheritance tax in Malaysia.

Stamp duty

The Stamp Duty (Exemption) (No. 23) Order 2000 and Stamp Duty (Exemption) (No. 3) (Amendment) Order 2005 provide that all instruments relating to the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, debentures or Islamic securities approved by the Securities Commission under section 32 of the Securities Commission Act 1993 (now section 212 of the Capital Markets and Services Act 2007) and the redemption or transfer of such debentures or Islamic securities, are exempted from stamp duty.

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Appendix I –Unaudited Financial Statements of CIMB Islamic Bank Berhad for the period ended 30 June 2009

Appendix II – Shariah Pronouncement for the Junior Sukuk Programme

ISSUER

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50350, Kuala Lumpur

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TRUSTEE

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