Serial No. 001

**STRICTLY PRIVATE & CONFIDENTIAL**

CIMB BANK

**CIMB Bank Berhad**
**(Company No.13491-P)**
**(Incorporated in Malaysia)**

# INFORMATION MEMORANDUM

Tier 2 Subordinated Debts (RM) Programme

*which together with*

Tier 2 Junior Sukuk (RM) Programme,
Tier 2 Subordinated Debts (Foreign Currency) Programme and
Tier 2 Junior Sukuk (Foreign Currency) Programme

*shall have a combined limit of RM5 billion (or its foreign currency equivalent)*

**Principal Adviser, Lead Arranger and Lead Manager**

CIMB

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

**This Information Memorandum is dated 23 November 2010.**

# RESPONSIBILITY STATEMENT

This Information Memorandum (the "**Information Memorandum**") contains information regarding CIMB Bank Berhad ("**CIMB Bank**" or the "**Bank**" or the "**Issuer**") and the Bank's subsidiaries ("**CIMB Bank Group**" or the "**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 Tier 2 Ringgit denominated subordinated debts programme (the "**Subordinated Debts (RM) Programme**"), which together with the Tier 2 Ringgit denominated junior sukuk programme, the Tier 2 foreign currency denominated subordinated debts programme and the Tier 2 foreign currency denominated junior sukuk programme shall have a combined aggregate limit of RM5 billion (or its foreign currency equivalent).

The Tier 2 Ringgit denominated subordinated debts issued by the Issuer under the Subordinated Debts (RM) Programme shall be defined as "**Subordinated Debts**".

The proceeds from the Subordinated Debts will be used by CIMB Bank for its working capital, general banking and other general corporate purposes, including the refinancing of existing subordinated debts.

<u>Selling Restrictions at Issuance</u>
The Subordinated Debts 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 Subordinated Debts may be made, and to whom the Subordinated Debts 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 Subordinated Debts 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 Subordinated Debts may be made, and to whom the Subordinated Debts 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 Subordinated Debts on any stock exchange, nor is any such application contemplated.

The Issuer have authorised CIMB Investment Bank Berhad ("**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 have not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Subordinated Debts 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 do not undertake to review the financial condition or affairs of the Issuer during the tenure of the Subordinated Debts or to advise any investor of the Subordinated Debts 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 Subordinated Debts or any other Subordinated Debts 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 2.0 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 Subordinated Debts 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 Subordinated Debts, (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 Subordinated Debts, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Subordinated Debts is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Subordinated Debts 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 Subordinated Debts, and is able and is prepared to bear the economic and financial risks of investing in or holding the Subordinated Debts, (g) it is subscribing or accepting the Subordinated Debts for its own account, and (h) it is a person to whom an issue, offer or invitation to subscribe or purchase the Subordinated Debts 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 Subordinated Debts 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 purchase the Subordinated Debts. 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 Subordinated Debts 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 Subordinated Debts 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 Subordinated Debts is correct as of any time subsequent to the date indicated in the document containing the same. The LA/LM expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Subordinated Debts or to advise any investor of the Subordinated Debts 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.

This Information Memorandum may include certain historical information, estimates, projections or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the Malaysian economy and certain other matters. Such information, estimates, projections or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimate and projection or report thereon derived from such and other third party sources.

## STATEMENTS OF DISCLAIMER

Subject to completion, a copy of this 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 Subordinated Debts (RM) Programme has been granted on 2 March 2009. An application was made to the SC on 24 August 2010 for the removal of the provision of a step up coupon for the Subordinated Debts with Call Option in accordance with the requirements of Bank Negara Malaysia for tier 2 subordinated debts and the SC has granted such approval on 24 September 2010. 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 Subordinated Debts.

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.

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

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

EACH ISSUE OF PRIVATE DEBT 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 PRIVATE DEBT SECURITIES, INCLUDING THE SUBORDINATED DEBTS. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR INVESTING IN THE SUBORDINATED DEBTS.

## 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 Subordinated Debts.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all cost, expenses and losses incurred and/or suffered, in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient’s professional advisors, directors, employees and any other persons concerned with the Subordinated Debts.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the LA/LM promptly upon the LA/LM’s request, unless that recipient provides proof of a written undertaking satisfactory to the LA/LM with respect to destroying these documents as soon as reasonably practicable after the said request from the LA/LM.

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## SECTION 1.0 EXECUTIVE SUMMARY

### 1.1 Background of the Issuer

The Bank was incorporated in Malaysia under the Companies Act 1965 on 30 December 1972 as United Asian Bank Berhad. Subsequently, on 31 October 1991 and 30 September 1999, the Bank's name was changed to Bank of Commerce (M) Berhad and Bumiputra Commerce Bank Berhad ("**BCB**"), respectively.

In June 2005, the acquisition of BCB by CIMB was announced following the strategic decision by Commerce Asset-Holding Berhad ("**CAHB**"), now known as CIMB Group Holdings Berhad ("**CIMBGH**") (previously known as Bumiputra-Commerce Holdings Berhad ("**BCHB**")), to create a universal bank by combining its commercial and investment banks. This restructuring, was completed in January 2006 and resulted in CIMB Group Sdn Bhd ("**CIMB Group**") owning 99.99 per cent of CIMB Bank, and the change of BCB's name to CIMB Bank Berhad on 7 September 2006. The Bank's acquisition and integration of Southern Bank Berhad ("**SBB**") was duly completed in November 2006. The acquisition of SBB added a strong commercial banking platform to the Bank by combining the Bank's considerable resources and market reach with SBB's substantial banking expertise in Malaysia.

CIMB Bank's main business operations consist of its commercial banking and related financial services, as well as the provision of trustee services, nominee services, Islamic Banking, investment holding, financial services, trading in financial futures and options, unit trust management, factoring, leasing, offshore trust, offshore banking, property investment and management services and outsourcing, through its principal subsidiaries, CIMB Thai Bank Public Company Limited ("**CIMB Thai**"), CIMB Trust Limited, CIMB Bank (L) Limited, CIMB Islamic Bank Berhad ("**CIMB Islamic**"), CIMB Trustee Berhad, iCIMB (M) Sdn Bhd and BHLB Trustee Berhad respectively.

### 1.2 The Issue

The Issuer intends to establish the Subordinated Debts (RM) Programme which, together with the Tier 2 Ringgit denominated junior sukuk programme, the Tier 2 foreign currency denominated subordinated debts programme and the Tier 2 foreign currency denominated junior sukuk programme, shall have a combined aggregate limit of RM5 billion (or its foreign currency equivalent) in nominal value.

**This Information Memorandum is in relation to the Subordinated Debts (RM) Programme only.**

<u>Brief structure of the Subordinated Debts</u>

The Subordinated Debts 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 ("**RWCA Framework**").

The Subordinated Debts (RM) Programme shall have an availability period of 7 years from the date of first issuance under the Subordinated Debts (RM) Programme. Each issuance of Subordinated Debts under the Subordinated Debts (RM) Programme shall have a tenor of not less than 5 years from the issue date. Each issuance of Subordinated Debts under the Subordinated Debts (RM) Programme may have a callable option ("**Call Option**") which shall be determined prior to the issuance of the Subordinated Debts. Under the Call Option, if applicable, the Issuer may redeem the Subordinated Debts on any coupon payment date on or after the 5$^{th}$ year prior to the maturity date ("**Call Date**"). The Issuer may at its sole discretion, and subject to prior approval of Bank Negara Malaysia ("**BNM**"), redeem the Subordinated Debts in part or in whole on the Call Date at their principal amount. Call Option exercised in one tranche of the Subordinated Debts does not trigger the redemption in other tranches of the Subordinated Debts.

The coupon rate shall be determined prior to the issue date of each issuance and the coupon rate is applicable throughout the tenure of the relevant Subordinated Debts.

The Subordinated Debts will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Debts, ranking pari passu among themselves. The Subordinated Debts 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 those liabilities which by their terms rank equally in right of payment with or are subordinate to the Subordinated Debts.

## 1.3 Details of Utilisation of Proceeds

The proceeds of the Subordinated Debts shall be made available to the Issuer, without limitation, for its working capital, general banking and other corporate purposes, including refinancing of existing subordinated debts.

## 1.4 Rating of the Subordinated Debts

Malaysia Rating Corporation Berhad ("**MARC**") has assigned a long-term rating of AA+ for the Subordinated Debts (RM) Programme.

## 1.5 Selling Restrictions

<u>Selling Restrictions at Issuance</u>
The Subordinated Debts may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Subordinated Debts may be made, and to whom the Subordinated Debts 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 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 Subordinated Debts may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Subordinated Debts may be made, and to whom the Subordinated Debts 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.

## 1.6 Approvals Required

The issue of the Subordinated Debts has been approved by BNM by its letter dated 24 March 2009.

By a letter dated 16 January 2009, the SC has granted its approval for the waiver from complying with paragraphs 12.1 (i), 12.1 (ii), 14.1 (iii), 14.1 (vi), 16.1 (i), 16.3, 20.3 (i) and 20.3 (ii) of the Guidelines on the Minimum Content Requirement For Trust Deeds.

The Subordinated Debts (RM) Programme has been approved by the SC by its letter dated 2 March 2009. The Issuer had on 24 August 2010 sought the SC's approval to remove the provision of a step up coupon for the Subordinated Debts with Call Option (the "**Proposed Variations**"). This is pursuant to the Basel Committee on Banking Supervision of the Bank for International Settlement's consultation paper on reforms for capital and liquidity regulations for financial institutions ("**Basel 3 Proposals**") and the discussions with BNM, where the Issuer understands that going forward, all tier 2 subordinated debts should not have a step up coupon, which is deemed to be an incentive for the financial institution to redeem the subordinated debts prior to its stated maturity. The approval from the SC for the Proposed Variations has been granted on 24 September 2010.

<u>General</u>
The approvals of the SC and BNM should not be taken to indicate that the SC or BNM recommends subscription for or purchase of the Subordinated Debts. Investors should rely on their own evaluation to assess the merit and risk of investment.

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## SECTION 2.0 SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS

### 2.1 Summary of the Principal Terms and Conditions – Subordinated Debts (RM) Programme

**BACKGROUND INFORMATION**

1. ***Issuer***

| | | |
|---|---|---|
| *(i) Name* | : | CIMB Bank Berhad ("**CIMB Bank**" or "**the Issuer**") |
| *(ii) Address* | : | Correspondence Address<br><br>Menara Bumiputra-Commerce<br>11 Jalan Tun Perak<br>50350 Kuala Lumpur<br><br>Registered Address<br><br>$5^{th}$ Floor, Bangunan CIMB<br>Jalan Semantan<br>Damansara Heights<br>50490, Kuala Lumpur |
| *(iii) Business Registration No.* | : | 13491-P |
| *(iv) Date /Place of Incorporation* | : | 30 December 1972/Malaysia |
| *(v) Date of Listing (in case of a public listed company)* | : | Not applicable |
| *(vi) Status* | : | Resident-controlled company / Bumiputera-controlled company |
| *(vii) Principal Activities* | : | To carry on commercial banking and other related financial services |
| *(viii) Board of Directors (as at 1 August 2010)* | : | Dato' Dr Mohamad Zawawi Ismail<br>Tan Sri G. K. Rama Iyer<br>Datuk Dr. Syed Muhamad bin Syed Abdul Kadir<br>Tan Sri Dato' Seri Haidar Mohamad Nor<br>Dato' Sri Mohamed Nazir bin Abdul Razak<br>Dato' Sulaiman Mohd Tahir<br>Dato' Dr. Gan Wee Beng<br>Dato' Mohd Shukri bin Hussin<br>Dato' Zainal Abidin bin Putih<br>Dato' Seri Yeap Leong Huat |

(viii) *Structure of shareholding and name of shareholder or, in the case of public company, names of all major shareholders (as at 1 August 2010)* :

| | <---Direct---> | |
|---|---|---|
| **Shareholder** | **No. of Ordinary Shares** | **%** |
| CIMB Group Sdn Bhd | 3,764,433,300 | 99.999 |

(ix) *Authorised share capital (as at 1 August 2010)* : RM7,550,125,000 divided into 7,000,000,000 ordinary shares of RM1.00 each, 500,000,000 perpetual preference shares of RM1.00 each, 1,000,000 redeemable preference shares of RM0.10 each, 200,000 non-cumulative redeemable preference shares of RM0.10 each, 5,000,000,000 redeemable preference shares of RM0.01 each and 5,000 non-cumulative perpetual preference shares of RM1.00 each.

*Paid-up share capital (as at 1 August 2010)* : RM3,994,208,612 comprising 3,764,468,517 ordinary shares of RM1.00 each, 200,000,000 perpetual preference shares of RM1.00 each, and 2,974,009,486 redeemable preference shares of RM0.01 each.

**PRINCIPAL TERMS AND CONDITIONS**

1. *Issuer Name* : CIMB Bank Berhad

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

(i) *Principal Adviser(s)/ Lead Arranger(s)* : CIMB Investment Bank Berhad ("**CIMB**")

(ii) *Arranger(s)* : Not applicable

(iii) *Valuers* : Not applicable

(iv) *Solicitors* : <u>In respect of legal due diligence of the Issuer and Malaysian Law:</u>
Messrs. Zaid Ibrahim & Co.

<u>In respect of English Law or other agreed jurisdiction in respect of non Ringgit issuance:</u>
To be determined

(v) *Financial Adviser* : Not applicable

(vi) *Technical Adviser* : Not applicable

(vii) *Guarantor* : Not applicable

(viii) *Trustee* : <u>For any Ringgit Malaysia ("RM") denominated Subordinated Debts issuance:</u>

| | | |
|---|---|---|
| | | Malaysian Trustees Berhad<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>None |
| *(ix) Facility Agent* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>CIMB<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>Such person or entity as may be elected by the Issuer. |
| *(x) Primary Subscribers and amount subscribed (where applicable)* | : | To be determined prior to the issuance in respect of issuance via bought deal basis only.<br><br>Not applicable for issuance via private placement and book building. |
| *(xi) Underwriter(s) and amount underwritten* | : | Not applicable |
| *(xii) Central Depository* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>Bank Negara Malaysia ("**BNM**")<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>The Central Depository shall be either:<br><br>1. Euroclear Bank S.A./N.V. as operator of the Euroclear system and Clearstream Banking, societe anonyme (Clearstream, Luxembourg); or<br>2. such other central depository as may be elected by the Issuer. |
| *(xiii) Paying Agent* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>BNM<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>Such person or entity as may be elected by the Issuer. |
| *(xiv) Reporting Accountant* | : | Not applicable |
| *(xv) Others (please specify)* | | |
| *(a) Lead Manager* | : | CIMB and such other party(ies) as may be elected by the Issuer. |
| *(b) Calculation Agent* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>CIMB |

| | | | |
|---|---|---|---|
| | | | <u>For any foreign currency denominated Subordinated Debts issuance:</u><br>Such person or entity as may be elected by the Issuer. |
| 3. | *Facility Description* | : | The Tier 2 subordinated debts (“**Subordinated Debts**”) programme (“**Subordinated Debts Programme**”), of which the Subordinated Debts are issued under the Subordinated Debts Programme will qualify as Tier 2 capital of CIMB Bank for purposes of Risk Weighted Capital Adequacy (“**RWCA**”) Framework as approved by BNM. |
| 4. | *Issue Size (RM)* | : | The Subordinated Debts Programme together with the proposed Tier 2 Junior Sukuk programme (“**Junior Sukuk Programme**”) to be established concurrently by CIMB Bank will have a combined limit of RM5 billion (or its foreign currency equivalent) in nominal value. Final currency depending on the market of issue.<br><br>The total outstanding Subordinated Debts and junior Sukuk (“**Junior Sukuk**”) issued under the Junior Sukuk Programme shall not at any time exceed the nominal value of RM5 billion (or its foreign currency equivalent). |
| 5. | *Issue Price* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>The Subordinated Debts 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).<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>The foreign denominated Subordinated Debts will be issued at par or at a discount to be determined prior to the issue date. |
| 6. | *Tenor of the Facility /Issue* | : | <u>Availability Period of the Subordinated Debts Programme</u><br><br>The Subordinated Debts Programme shall have an availability period of 7 years from the date of first issuance under the Subordinated Debts Programme.<br><br><u>Tenor of the Subordinated Debts</u><br><br>Each issuance of Subordinated Debts under the Subordinated Debts Programme shall have a tenor of not less than 5 years from the issue date.<br><br><u>Call Option</u><br><br>Each issuance of Subordinated Debts under the |

| | | | |
|---|---|---|---|
| | | | Subordinated Debts 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 the Subordinated Debts on the Call Date.<br><br>Call Date is defined as "any Coupon Payment Date on or after 5 years prior to the maturity date". |
| 7. | *Coupon/profit or equivalent rate (%) (please specify)* | : | The coupon rate is to be determined prior to the issue date of each issuance. The coupon rate herein is applicable throughout the tenure of the relevant Subordinated Debts. |
| 8. | *Coupon/profit Payment frequency and basis* | : | Payable semi-annually in arrears from the issue date ("**Coupon Payment Date**") with the last coupon payment to be made on the maturity date or upon Early Redemption, whichever is the earlier.<br><br>For any RM denominated Subordinated Debts issuance, the actual number of days in the relevant period divided by 365.<br><br>For any foreign currency denominated Subordinated Debts issuance, the appropriate day count convention of the relevant currency in which the Subordinated Debts are issued. |
| 9. | *Yield to Maturity (%)* | : | To be determined at the point of each issuance. |
| 10. | *Security /Collateral (if any)* | : | None. |
| 11. | *Details on utilisation of proceeds* | : | The proceeds of the Subordinated Debts shall be made available to the Issuer, without limitation, for its working capital, general banking and other corporate purposes, including the refinancing of existing subordinated debts. |
| 12. | *Sinking Fund (if any)* | : | Not applicable |
| 13. | *Rating and rating agency* | : | <u>For any RM denominated Subordinated Debts issuance:</u><br>The rating agency is Malaysian Rating Corporation Berhad ("**MARC**"). The rating for the Subordinated Debts is AA+.<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>Such rating as may be assigned by an internationally recognised rating agency appointed by the Issuer (if any). |
| 14. | *Form and Denomination* | : | <u>For any RM denominated Subordinated Debts</u> |

issuance:

The Subordinated Debts 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 Subordinated Debts 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 Subordinated Debts shall be RM1,000 or in multiples of RM1,000 at the time of issuance.

For any foreign currency denominated Subordinated Debts issuance:

The Subordinated Debts shall be issued in registered form. A certificate will be issued to each holder in respect of its registered holding of the Subordinated Debts. Each certificate will be numbered serially with an identifying number, which will be recorded on the relevant certificate and in a register, which the Issuer will procure to be kept by an appointed registrar.

15. *Mode of Issue* : The Subordinated Debts 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.

16. *Selling Restrictions* : Selling Restrictions at Issuance

For any RM denominated Subordinated Debts issuance:
The RM denominated Subordinated Debts 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 Subordinated Debts and to whom the Subordinated

Debts 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 Capital Markets and Services Act, 2007, as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

<u>For any foreign currency denominated Subordinated Debts issuance:</u>

The foreign currency denominated Subordinated Debts 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 Subordinated Debts and to whom the Subordinated Debts are issued would fall within:

1. Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b));
2. Schedule 8 (or Section 257(3));
3. Schedule 9 (or Section 257(3))

of the Capital Markets and Services Act, 2007, as amended from time to time, and Practice Note 1 issued pursuant to the Guidelines on the Offering of Private Debt Securities and such other selling restrictions as may be applicable outside Malaysia.

<u>Selling Restrictions after Issuance</u>

<u>For RM denominated Subordinated Debts issuance:</u>

The RM denominated Subordinated Debts 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 Subordinated Debts and to whom the Subordinated Debts are issued would fall within:

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

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

<u>For any foreign currency denominated Subordinated Debts issuance:</u>

The foreign currency Subordinated Debts 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 Subordinated Debts and to whom the Subordinated Debts are issued would fall within:

1. Schedule 6 (or Section 229(1)(b));
2. Schedule 8 (or Section 257(3)); and
3. Schedule 9 (or Section 257(3))

of the Capital Markets and Services Act, 2007 ("CMSA"), as amended from time to time, and Practice Note 1 issued pursuant to the Guidelines on the Offering of Private Debt Securities and such other selling restrictions as may be applicable outside Malaysia.

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| 17. | *Listing Status* | : | The Subordinated Debts that are denominated in RM will not be listed on Bursa Malaysia Securities Berhad or any other stock exchange.<br><br>The Subordinated Debts that are denominated in non-RM will be listed on such stock exchange as may be agreed by the Issuer and the Lead Manager. |
| 18. | *Minimum Level of Subscription (RM or %)* | : | 5% of each issuance of the Subordinated Debts to be issued if the issuance is via book-building.<br><br>100% of each issuance of the Subordinated Debts to be issued if the issuance is via private placement or bought deal. |
| 19. | *Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)* | : | (i) Approval from BNM for the classification of the Subordinated Debts issued under the Subordinated Debts Programme as Tier 2 capital of the Issuer.<br><br>(ii) 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 Subordinated Debts Programme. |
| 20. | *Conditions Precedent* | : | To include but not limited to the following (all of which shall be in form and substance acceptable to the Lead Arranger:<br><br>**A** **<u>Main Documentation</u>**<br><br>1. The Financing Documents have been signed and, where applicable, stamped and presented for registration.<br><br>2. All relevant notices and acknowledgements (where applicable) shall have been made or received as the case may be.<br><br>**B** **<u>The Issuer</u>**<br><br>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** **General**

1. The approval from the SC and, where applicable, all other regulatory authorities.

2. The approval from BNM for the Subordinated Debts to be classified as Tier 2 Capital.

3. 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 transaction documents and a confirmation addressed to the Lead Arranger that all the conditions precedent have been fulfilled.

21. *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 section 24.5 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 Subordinated Debts 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.

22. *Events of Default* : Events of Default shall be:

a) Default in payment of any principal or coupon payment and such default continues for 14 days; and
b) Any step or action is taken against the Issuer for the winding up, dissolution or liquidation of the Issuer or the appointment of a receiver over the whole or a substantial part of the assets of the Issuer 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, the Trustee shall (if so directed by requisite majority of holders to be agreed) declare that the Subordinated Debts together with all other sums owing under the Subordinated Debts shall become immediately due and payable.

23. *Principal terms and conditions for warrants (where applicable)* : Not applicable

24. *Other principal terms and conditions for the issue*

24.1 *Optional Redemption* : For each tranche of the Subordinated Debts issuance where Call Option is applicable, the Issuer may, at its sole discretion, and subject to prior approval of BNM, redeem the Subordinated Debts in part or in whole on the Call Date at their principal amount. The optional redemption by the Issuer of the Subordinated Debts of one tranche does not trigger the redemption of the Subordinated Debts in other tranches.

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| 24.2 | *Redemption at maturity* | : | Unless previously redeemed on the Call Date, or purchased from the market and cancelled, the Subordinated Debts will be redeemed at their principal amount on the maturity date. |
| 24.3 | *Covenants* | ; | For any RM denominated Subordinated Debts issuance:<br>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 SC's guidelines on Minimum Contents Requirements for Trust Deed (save for those which waiver has been sought and approved by the SC), including, but not limited to the following;<br><br>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;<br>b) Comply with all relevant laws and regulations;<br>c) Maintain a paying agent in Malaysia;<br>d) Maintain proper books and accounts and deliver financial statements to the Trustee on a timely manner;<br>e) Inform the Trustee any actual or potential Event of Default;<br>f) Deliver to the Trustee a periodic certificate of compliance<br><br>For any foreign currency denominated Subordinated Debts issuance:<br>The Issuer shall comply with such applicable positive covenants as may be advised by the Solicitors and / or agreed by the Issuer.<br><br>There will be no restrictive covenants applicable to the Subordinated Debts. |
| 24.4 | *Status of Subordinated Debts* | : | The Subordinated Debts will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Debts, ranking pari passu among themselves. The Subordinated Debts will, 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 subordinate to the Subordinated Debts. |
| 24.5 | *Financing Documents* | : | The RM denominated Subordinated Debts shall be evidenced by, inter alia, the following: |

1. Programme Agreement;
2. Depositary and Paying Agency Agreement;
3. Trust Deed;
4. Any other relevant agreements as advised by the Solicitors

<u>The foreign currency denominated Subordinated Debts</u> shall be evidenced by, inter alia, an agency agreement / fiscal agency agreement and such other documentation to be determined.

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| 24.6 | *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. |
| 24.7 | *No Further Rights to Participate in Profits and Assets* | : | The holders of the Subordinated Debts shall not confer any right or claim as regards participation in the profits and assets of CIMB Bank. |
| 24.8 | *Voting Rights* | : | The holders of the Subordinated Debts shall have no voting rights in CIMB Bank. |
| 24.9 | *Repurchase and Cancellation* | | The Issuer or any of its subsidiaries may at any time purchase the Subordinated Debts 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. Subordinated Debts purchased by the Issuer or a subsidiary shall not be used for voting purposes or for directing or requesting the Trustee to take any action. Subject to the approval from the BNM, all Subordinated Debts purchased by the Issuer or its subsidiaries may be cancelled. |
| 24.10 | *Governing Laws* | : | <u>For RM denominated Subordinated Debts issuance:</u><br>Laws of Malaysia.<br><br><u>For any foreign currency denominated Subordinated Debts issuance:</u><br>English law or such other law as may be agreed by the Issuer and the Lead Manager save for Clause 24.4 - *Status of Subordinated Debts,* which will be governed by and construed in accordance with Malaysian law). |
| 24.11 | *Other Conditions* | : | The Subordinated Debts shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and/or any other authority having jurisdiction over matters pertaining to the Subordinated Debts.<br><br>For any foreign currency denominated issuance of |

the Subordinated Debts, such other terms and conditions shall apply as are customary required for such issuance.

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## SECTION 3.0 INVESTMENT CONSIDERATIONS

An investment in the Subordinated Debts involves risks and such investment is only suitable for investors who have knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of such an investment. The following section summarises certain risks associated with the investment in the Subordinated Debts and may not be exhaustive. Only sophisticated investors who have knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Subordinated Debts should consider any investment therein. In addition to the other information contained in this Information Memorandum, prospective purchasers of the Subordinated Debts 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 Subordinated Debts and consult their own financial and legal advisors on the risks associated with the investment in the Subordinated Debts prior to making an investment in the Subordinated Debts.

The Issuer believes that the considerations described below represent the principal risks inherent in investing in the Subordinated Debts, but the Issuer's inability to pay any amounts on or in connection with any of Subordinated Debts 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 Subordinated Debts are exhaustive. Although the Issuer believe 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 investor of any principal or interest on the Subordinated Debts 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 Subordinated Debts. 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 decision.

### 3.1 Risk Relating to the Group

***Economic, Market and Political Factors that are outside of the Group's control***

External factors beyond the Group's control can cause volatility in, and adversely affect, demand for the Group's financial services and operating margins. Examples of such external factors include:

- entry of new competitors and other actions by new and existing competitors;
- general economic conditions;
- consumer spending patterns;
- currency fluctuations;
- international events and circumstances such as wars, terrorist attacks and political instability; and
- changes in legal regimes and governmental regulations, such as licensing and approvals, taxation, duties and tariffs, in Malaysia and abroad.

Investors should note that whilst the Group strives to continue to take effective measures such as prudent financial management and efficient operating procedures, there can be no assurance that adverse economic, market and political factors will not materially affect the Group's operation and financial results.

***The Group's risk management and control framework may not be able to respond adequately to all adverse circumstances, thereby having a material adverse effect on the Group***

The Group recognises that risk management is an integral part of its day-to-day operations and that the identification and management of risks will affect the achievement of the Group's business objectives and protect shareholder's value. In pursuing these objectives, the Group has adopted the Enterprise-wide Risk Management (the "**EWRM**") Framework to manage its risks and operations. The EWRM Framework involves an on-going process of identifying, evaluating, monitoring, managing and reporting the significant risks affecting the achievement of the Group'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 Group 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, functional activities and experienced by the industry and the Group.

The Group's risk management structure is comprised of various committees, beginning with the Board Risk Committee (the "**BRC**"), which reports directly to the Board of Directors (the "**Board**"), oversees the entire EWRM Framework, provides strategic guidance and reviews decisions made by the various risk committees. Whilst 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 undertakes the oversight function for capital allocation and overall risk limits, in line with the risk appetite determined by the Board. The GRC is further supported by five specialised sub-committees, each addressing market risks, credit risks, liquidity risks and operational risks, respectively. These committees meet either weekly or monthly to review the risk exposure profile reports.

Although the Group has established comprehensive risk management and control framework for all foreseeable and expected adverse scenarios, there may be events that are beyond the Group's anticipation, such as when market movements vary or differ significantly from historical norm, sudden collapse of a financial market; which may challenge the efficiency and effectiveness of our risk management framework. The failure to adequately manage, control and mitigate such risk exposures of the Group may adversely affect the business, financial condition, brand reputation and results of operations of the Group.

***Credit risks arising in connection with the Group's businesses or a deterioration in the credit quality of the Group's counterparties could affect the recoverability and value of the Group'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 or other instruments held failing to perform its contractual obligations to the Group.

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 for each counterparty or group, including off balance sheet items and potential exposure. Limits are also monitored based on industry, sector and rating classification.

Credit exposures are evaluated by Group Credit (the “**GC**”) or Regional Credit Management (the “**RCM**”) 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.

The 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 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.

Although the Group believes that it has adopted an effective credit risk management system, credit risk could still arise from events beyond the 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 Group’s assets and require an increase in the Group’s provisions for the impairment of its assets and other credit exposures.

***Operational risks arising from fast changing market and business environment, regulatory requirements and the evolution of financial crimes, could adversely impact the Group***

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risks have broader coverage than credit and market risks, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes.

The 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 the Group. The Operational Risk Committee (the “**ORC**”) has oversight responsibility for all operational activities conducted a day-to-day basis by the Group. Recognising the needs to respond to the constantly evolving business environment, the ORC also discusses and provides recommendations on forward looking operational matters affecting the financial services industry at large and the Group specifically.

In managing compliance and regulatory risks, the Group developed and maintains a compliance program and the self-assessment review program that provides reasonable assurance that our business complies with the Group’s ethical standards and the relevant laws and regulations. Under these programmes, each employee is responsible to familiarise and keep himself updated with the relevant laws, regulations and ethical standards related to his area of business or support functions.

The Group has also established a Fraud Intelligence Unit (the “**FIU**”) to spearhead its effort in combating financial crimes. The FIU gathers and analyses information on the current trend of financial crimes and assess the adequacy of our current systems and processes to prevent and or mitigate any similar attempts on our Group.

The Group 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. The promotion of a culture within the Group whereby the demand for integrity and honesty is non-negotiable remains the core theme of the Group's operational risk awareness programme.

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

***Liquidity risks arising in connection with the Group's failure to adequately manage its funding and usage could adversely impact the Group's ability to meet its obligations***

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

The Group's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Liquidity risk undertaken by the Group is governed by a set of established risk tolerance levels. Management action triggers have been established to alert management to potential and emerging liquidity pressures. The Group'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.

Although the Group maintains sufficient liquidity reserves and implemented a robust liquidity risk management and monitoring system, liquidity risk could still arise from events, such as severe deterioration in financial market or from systemic risks within the financial systems, all of which could affect Group's ability to raise the required funds in a timely manner.

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

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

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

The Group adopts various measures in its risk management process to manage market risk. An accurate and timely valuation of position is critical to provide the Group with its current market exposure.

The Group 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. 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 Group can best prepare for and react to them.

Limits and management triggers are established to monitor and ensure that the risk exposures are within the risk appetite of the Group. 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 Group believes that it has adopted a sound market risk management process, there is the possibility that the process will not response efficiently 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 Group.

***Interest rate risks***

Interest rate risk arises primarily from mismatches in repricing of assets and liabilities. Typical of Malaysian banking industry, there is inherent interest rate risk in the Group mainly from the lack of long term deposit resources to match the longer term maturity period of its loans and investment portfolio. In addition the existence of disproportionate size of floating rate and fixed rate transactions in both deposits and loan and investment give rise to interest rate risk, whether due to a rise or decline of market interest rates arising from monetary policy changes or other reasons.

For example, when interest rates decline, the Group's net interest margin generally decreased mainly due to immediate reprice of its base lending rate ("**BLR**") pegged loans compared with slower adjustments in the interest rates paid  on its customer deposits which is reprice only upon maturity.

On the other hand, when interest rates rise, the Group's fixed rate loan portfolio with long tenor (including hire purchase loans) which is financed through the deposits resources with maturities of typically up to one year would reduce its net interest margin.

***Inadequate allowances for loans impairment losses***

The Group's allowances for loans impairment losses are in compliance with the accounting standard, FRS139 Financial Instruments: Recognition and Measurement. Whilst the Group believes that its policies for setting allowances for loans impairment losses are adequate, no assurance can be given that such policies or level of allowances will prove to be effective or adequate or that the Group would not have to make significant additional allowances for possible financing losses in the future, either of which may adversely affect the business, financial condition and results of operations of the Group.

***Dependence on Directors and Key Management***

The Group believes human capital is its single most important asset. Its success depends to a significant extent, on the continued employment of its key management personnel. The loss of any key management personnel may have a material adverse effect on its performance. Its future success will, to a large extent, depend on its ability to attract and retain skilled personnel. The Group will strive to ensure that it is able to retain its skilled personnel and attract new talent. Where possible, the Group endeavours to groom younger members of management to gradually assume greater responsibility of its business and operations.

***Liquidity and Short-Term Funding Sources***

The Malaysian banks' funding resources to support their loan and investment operations are characterized by short-term customer deposits, comprising demand, savings, and fixed deposits and short-term loans from financial institutions. Due to its large delivery network and marketing focus, the Group's deposits resources contain a very high level of core deposits. This provides the Group with a very stable funding base. Although the Group is committed to prudent lending policy, however, there is no assurance that its stable deposit resources will continue; in particularly, due to external environment or otherwise. For instance, if very large amounts of deposits are withdrawn or not renewed upon maturity, whether involve retail or large depositors, the Group's liquidity position could be adversely affected and it may need to borrow from alternative sources at a higher cost, whether short term or long term, to fund its operations. It is also possible, under very exceptional circumstances, that the Group might not be able to obtain sufficient funds under such scenario.

***A significant deterioration in the Bank's asset quality could adversely affect the business, financial condition, results of operations or prospects of the Bank and the Group if their allowances for loan impairment losses 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 financial institution'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 lending rules, policies and guidelines must be consistently applied throughout the Group. The Bank appreciates that loan 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 and intends to maintain it, 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 and in turn, the Group.

***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 loans are secured by collateral such as real estate and securities, the values of which, in some cases, have declined due to economic deterioration or general worsening of the current global market outlook. This may result in a portion of the Bank's loans exceeding the value of the underlying collateral. Any such deterioration in the value of the collateral securing the Bank's loans portfolio or inability to obtain additional collateral or inability to realise the value of the collateral may require the Bank to increase its allowance for loans impairment losses, which may adversely affect the business, financial condition and results of operations of the Group.

***The Bank may be required to raise additional capital if its capital adequacy ratio deteriorates in the future, but it may not be able to do so on favourable terms or at all.***

Pursuant to BNM's capital adequacy guidelines, banks in Malaysia are required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of at least 8.0 per cent. As of 30 September 2010, the Bank's Tier I capital adequacy ratio as well as the combined Tier I and

Tier II capital adequacy ratio was 14.0 per cent (net of proposed dividend). The Bank plans to raise capital through various sources including the issuance of the Subordinated Debts. However, the Bank's capital base and capital adequacy ratio may deteriorate in the future if the result of the Bank's operations or financial condition deteriorates for any reason, including as a result of any deterioration in the asset quality of its loans, or if the Bank is not able to deploy its funding into suitably low-risk assets.

If the Bank's capital adequacy ratio deteriorates, the Bank may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. The Bank may not be able to obtain additional capital on favourable terms, or at all. The Bank's ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Malaysia or from other Asian countries are seeking to raise capital at the same time. To the extent that the Bank fails to maintain its capital adequacy ratios in the future, BNM may impose penalties on it ranging from a warning to suspension or revocation of its license.

***If the Group is unable to adapt to rapid technological changes, its business could suffer***

The Group's future success and ability to compete with other banks will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis.  While the Group has dedicated significant resources to implementing the latest technological advances to improving the accessibility of its services e.g. through internet banking and electronic banking, there is no assurance that the Group will successfully implement new technologies effectively or adapt its transaction - processing systems to customer requirements or industry standards, which may, in turn, have a material adverse effect on its business and financial condition.

### 3.2 Risk Relating to the Industry

***Regulatory Environment***

The Issuer's principal business activities are highly regulated and supervised by various Malaysian government authorities and statutory bodies/ agencies. The Issuer is regulated by Bank Negara Malaysia ("**BNM**") who has extensive powers to regulate the Malaysian banking industry under the Banking and Financial Institutions Act 1989 ("**BAFIA**"). This includes the power to limit the interest rates charged by banks on certain types of loans, establish caps on lending to certain sectors of the Malaysian economy and establish priority lending guidelines in furtherance of certain social and economic objectives. BNM also has broad investigative and enforcement powers. Accordingly, potential investors should be aware that BNM could, in the future, set interest rates at levels or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including the Bank, and may otherwise significantly restrict the activities of the Bank and Malaysian banks and financial institutions generally.

***Scope and costs of deposits insurance in Malaysia***

BNM is not required to act as a lender of last resort to meet liquidity needs in the banking system generally or for specific institutions, although it has, in the past and 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 1 September 2005, BNM introduced a deposit insurance system. Under the "Deposit Insurance System", eligible deposits are insured up to a prescribed limit of RM60,000 (inclusive of principal and interest) per depositor, per member institution. There is also separate coverage of up to RM60,000 per depositor, per member institution for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership, trust accounts and accounts in the name of sole proprietorships and partnerships. The Deposit Insurance System is administrated by the Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia) ("**MDIC**"), an independent statutory body, and all licensed commercial banks (including subsidiaries of foreign banks operating in Malaysia) and Islamic banks are member institutions of the Deposit Insurance System. To preserve confidence in the Malaysian financial system and to curb potentially damaging capital outflows, the Ministry of Finance and BNM announced on 16 October 2008 that all ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks, and deposit-taking development financial institutions regulated by BNM will be fully guaranteed by the Government through MDIC until 31 December 2010. The Government Deposit Guarantee ("**GDG**") extends to all domestic and locally incorporated foreign banking institutions.

The GDG has been put in place as a pre-emptive and precautionary measure to maintain the stability of Malaysia's financial system and follows initiatives taken by neighbouring jurisdictions. Given the soundness and strong capitalisation of the Malaysian banking institutions, it is unlikely that the GDG will be called upon. Once the temporary GDG expires on 31 December 2010, the MDIC plans to revert to the explicit and limited coverage Deposit Insurance System. MDIC will monitor developments in the banking system and evaluate the need to increase the limit and the scope of coverage at that time.

## 3.3 Risk Relating to the Subordinated Debts

***Limited Rights to Accelerate and Subordinated Obligations***

The Subordinated Debts will be subordinated obligations of the Issuer. There are limited events of default in respect of the Subordinated Debts. If the Issuer defaults on the payment of principal or interest on the Subordinated Debts and such default continues for 14 days, the holders may institute proceedings to enforce the obligations of the Issuer under such Subordinated Debts and may institute proceeding in Malaysia for the winding-up of the Issuer. In the case of default on the payment of interest on the Subordinated Debts, such holders will have no right to accelerate payment of the Subordinated Debts. If any step or action is taken against the Issuer for the winding up, the Trustee shall (if so directed by requisite majority of holders of the Subordinated Debts to be agreed) declare that the Subordinated Debts together with all other sums owing under the Subordinated Debts shall become immediately due and payable (*as set out in Section 2.0 – Principal Terms and Conditions of the Subordinated Debts (RM) Programme – Clause 22: Events of Default*)

***The Subordinated Debts may be subject to optional redemption by the Issuer if the Subordinated Debts have a call option***

In relation to each tranche of the Subordinated Debts issuance where Call Option is applicable, such tranche may be redeemed at the option of the Bank (at its sole discretion and subject to prior approval of BNM), in part or in whole on the Call Date at their principal amount (*as set out in Section 2.0 – Principal Terms and Conditions of the Subordinated Debts (RM) Programme – Clause 24.1: Optional Redemption*). The optional redemption of a tranche of Subordinated Debts shall not be deemed to be an exercise by the Issuer of the optional redemption under the other tranches of Subordinated Debts.

## 3.4 Risk Relating to the Subordinated Debts generally

Set out below is a brief description of other risks relating to the Subordinated Debts generally:

***Issuer's ability to meet its obligations under the Subordinated Debts***

The Subordinated Debts constitute direct and unsecured obligations of the Issuer and are payable out of the business operations of the Issuer and thus will not be the obligations or responsibilities of any person other than the Issuer. The ability of the Issuer to meet its obligations to pay the nominal value of the Subordinated Debts and the interest thereon will largely be dependent on the revenue generated by its operations and the receipts of dividends from its subsidiaries. The ability of its subsidiaries to pay dividends is dependent on them maintaining profitable operations and is subject to applicable laws, regulatory guidelines and restrictions on the payment of dividends by any of the regulatory authorities or by restrictions contained in relevant financial or other agreements.

***The Subordinated Debts may not be a suitable investment for all investors***

Each potential investor in the Subordinated Debts must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Subordinated Debts, the merits and risks of investing in the Subordinated Debts and the information contained or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Subordinated Debts and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Subordinated Debts, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Subordinated Debts and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The secondary market generally***

Investors may not be able to sell their Subordinated Debts easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. These Subordinated Debts generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Subordinated Debts.

The holders of Subordinated Debts should also take note that the Subordinated Debts shall not be listed on the Bursa Malaysia Securities Berhad or any other exchanges and there are selling restrictions governing the Subordinated Debts *(see Section 1.5 – Selling Restrictions*).

Accordingly, the purchase or subscription of the Subordinated Debts is suitable only for investors who can bear the risks associated with a lack of liquidity in the Subordinated Debts apart from the financial and other risks associated with an investment in the Subordinated Debts.

***Interest rate risks***

Investment in the Subordinated Debts involves the risk that subsequent changes in market interest rates may adversely affect the value of the Subordinated Debts.

***Credit ratings may not reflect all risks***

MARC has assigned a credit rating of AA+ for the Subordinated Debts (RM) Programme; this rating is subject to reviews by MARC on an ongoing basis. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Subordinated Debts. The rating is not a recommendation to buy, sell or hold securities and may be suspended, downgraded or upgraded by the rating agency at any time. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Subordinated Debts but would not constitute an event of default or an event obliging the Issuer to repay the Subordinated Debts.

***Change of law***

The issue of the Subordinated Debts is based on BNM's requirements, Malaysian law, tax and administrative practice in effect as at the date of issue of the Subordinated Debts. No assurance can be given as to the impact of any possible judicial decision or change to BNM's requirements or Malaysian law after the date of issue of the Subordinated Debts.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent the Subordinated Debts are legal investments for it and other restrictions apply to its purchase or pledge of the Subordinated Debts. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Subordinated Debts under any applicable risk-based capital or similar rules.

***No limitation on issuing further bonds or debt securities or incur further borrowings***

The Issuer shall be at liberty from time to time (subject always to the provisions of the trust deed) without the consent of the relevant holders of the Subordinated Debts to create and issue further bonds or debt securities or incur further borrowings howsoever designated either ranking senior, *pari passu* or subordinated in all respects to the Subordinated Debts and/or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such further bonds or debt securities or incur further borrowings may reduce the amount recoverable by the holders of the Subordinated Debts in the event of dissolution or winding up of the Issuer.

In line with BNM's guidelines which state there should be no restrictive covenants for the Subordinated Debts, there will be no limitation on the Issuer under the Subordinated Debts to incur further borrowings/indebtedness. Additional borrowings/indebtedness may reduce the amount recoverable by the holders of the Subordinated Debts in the event of dissolution or winding up of the Issuer.

## 3.5 Potential Conflict of Interest Situation And Appropriate Mitigating Measures

CIMB has been appointed as the principal adviser, LA, LM, facility agent and calculation agent for the Subordinated Debts (RM) Programme. Save as disclosed below, after making enquiries as were reasonable in the circumstances, CIMB is not aware of any circumstance that would give rise to conflict of interest in its capacities as principal adviser, LA, LM, facility agent and calculation agent in relation to the Subordinated Debts (RM) Programme. As 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 to potential investors for the Subordinated Debts (RM) Programme and its related-company relationship to the Issuer.

CIMB, in relation to its role as the principal adviser, LA, LM, facility agent and calculation agent in respect of the Subordinated Debts (RM) Programme, has considered the factors involved and believes that objectivity and independence in carrying out its role 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 and calculation agent in relation to the Subordinated Debts (RM) Programme is in the ordinary course of its business;

(ii) The role of CIMB as the facility agent and calculation agent will be governed by the relevant agreements and documents which set out the rights, duties and responsibilities of CIMB acting in such capacities;

(iii) The conduct of CIMB is regulated strictly by the BAFIA and by its own internal controls and checks;

(iv) The lines of business of CIMB and the Issuer are distinct and their operations are independent of one another; and

(v) Save for the professional fees charged in relation to its role as the principal adviser, LA, LM, facility agent and calculation agent in respect of the Subordinated Debts (RM) Programme, CIMB will not be deriving any monetary benefit from the Subordinated Debts (RM) Programme outside its aforesaid capacities.

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 the Issuer 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 the Issuer and acting as the principal adviser, LA, LM, facility agent and calculation agent in relation to the Subordinated Debts (RM) Programme. Despite such potential conflicts of interest situations, the Board Of Directors is prepared to proceed with the Subordinated Debts (RM) Programme based on the present arrangement and terms;

(ii) The potential conflict of interest situations shall also be disclosed in the information memorandum and prospectus (if any) to be issued by the Issuer to prospective investors; and

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

## SECTION 4.0 SELECTED FINANCIAL INFORMATION

The following tables present summary audited consolidated financial information of the Group for each of the financial years ended 31 December, 2008 and 2009 (save for the financial ratios which have not been audited) and summary unaudited consolidated interim financial information of the Group for the 9 months period ended 30 September 2009 and 2010. The audited financial information set out below has been derived from (adjusted for rounding effects), and should be read in conjunction with, the consolidated financial statements of the Group set out in Appendix 1 – Financial Statements of the Issuer.

| | **Audited For the year ended 31 December** | | **Unaudited for the 9 month period ended 30 September** | |
|---|---|---|---|---|
| | **2008** | **2009** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| **Income statement** | | | | |
| Interest income | 7,341,222 | 6,958,548 | 5,305,779 | 5,092,340 |
| Interest expenses | (3,625,092) | (2,729,639) | (2,098,733) | (1,903,072) |
| Net interest income | 3,716,130 | 4,228,909 | 3,207,046 | 3,189,268 |
| Income from Islamic Banking operations | 340,390 | 716,117 | 499,529 | 814,789 |
| Non interest income | 1,375,773 | 1,997,968 | 1,596,929 | 1,499,159 |
| | 5,432,293 | 6,942,994 | 5,303,504 | 5,503,216 |
| Overheads | (2,697,439) | (3,714,232) | (2,697,416) | (2,986,910) |
| Profit before allowances | 2,734,854 | 3,228,762 | 2,606,088 | 2,516,306 |
| Allowances for impairment losses on loans, advances and financing | (602,714) | (680,234) | (599,538) | (163,410) |
| Write back of / (Allowance for) losses on other receivables | 469 | (189) | - | (3,196) |
| Allowance for commitment and contingencies | - | (21,199) | (17,532) | (2,131) |
| Write-back of / (Allowance for) other impairment losses | 46,481 | (12,531) | 50,255 | 8,258 |
| Profit after allowances | 2,179,090 | 2,514,609 | 2,039,273 | 2,355,827 |
| Share of results of associates | (40,565) | 23,602 | 15,668 | 35,726 |
| Share of results of a jointly controlled entity | 3,253 | 6,858 | 6,743 | 7,140 |
| Profit before taxation and zakat | 2,141,778 | 2,545,069 | 2,061,684 | 2,398,693 |
| Taxation and zakat | (567,080) | (528,153) | (438,826) | (478,991) |
| Net profit after taxation and zakat | 1,574,698 | 2,016,916 | 1,622,858 | 1,919,702 |
| | | | | |
| Attributable to: | | | | |
| Equity holders of the Bank | 1,572,746 | 1,993,868 | 1,606,512 | 1,911,120 |
| Minority interest | 1,952 | 23,048 | 16,346 | 8,582 |
| | 1,574,698 | 2,016,916 | 1,622,858 | 1,919,702 |
| Earnings per share attributable to ordinary equity holders of the Bank - basic/fully diluted (sen) | 43.20 | 53.84 | 43.62 | 50.77 |

| | Audited As at 31 December | | Unaudited As at 30 September | |
|---|---|---|---|---|
| | 2008 | 2009 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM '000) | (RM '000) |
| **Balance sheets** | | | | |
| **Assets** | | | | |
| Cash and short-term funds | 21,966,362 | 25,023,098 | 16,371,225 | 18,294,704 |
| Reverse repurchase agreements | 2,967,770 | 4,260,951 | 3,952,622 | 2,202,110 |
| Deposits and placements with banks and other FIs | 2,139,459 | 3,402,596 | 7,439,435 | 10,560,797 |
| Financial assets held for trading | 9,564,281 | 13,818,079 | 10,250,782 | 14,481,908 |
| Financial investments available-for-sale | 7,360,190 | 8,080,319 | 8,359,169 | 8,772,554 |
| Financial investments held-to-maturity | 11,625,970 | 12,875,251 | 13,220,487 | 13,734,520 |
| Derivative financial instruments | 5,335,535 | 3,504,962 | 3,932,465 | 5,058,913 |
| Loans, advances and financing | 95,687,146 | 113,480,642 | 112,403,283 | 121,997,245 |
| Other assets | 2,095,571 | 2,119,150 | 2,452,386 | 3,024,037 |
| Deferred taxation | 304,537 | 301,447 | 353,525 | - |
| Tax recoverable | 248,055 | 2,945 | 1,026 | 91,122 |
| Statutory deposits with central banks | 2,723,540 | 841,857 | 832,338 | 1,163,791 |
| Investment in jointly controlled entity | 127,701 | 134,559 | 134,444 | 136,540 |
| Investment in associated companies | 587,280 | 268,636 | 210,520 | 378,241 |
| Amount due from holding company and ultimate holding company | 278,350 | 47,122 | 22,912 | 29,289 |
| Amount due from related companies | 90,926 | 998,818 | 82,347 | 793,142 |
| Goodwill | 3,695,075 | 4,923,701 | 4,830,552 | 4,896,601 |
| Intangible assets | 412,288 | 573,416 | 456,591 | 558,044 |
| Prepaid lease payments | 29,618 | 16,340 | 51,680 | 11,390 |
| Property, plant and equipment | 728,713 | 996,521 | 1,200,667 | 941,917 |
| Investment properties | 100,175 | 120,349 | 101,277 | 98,362 |
| | 168,068,542 | 195,790,759 | 186,659,733 | 207,225,227 |
| Non-current assets/disposal groups held for sale | 82,452 | 226,224 | 27,184 | 140,829 |
| **Total assets** | 168,150,994 | 196,016,983 | 186,686,917 | 207,366,056 |
| **Liabilities** | | | | |
| Deposits from customers | 121,090,975 | 146,872,345 | 137,583,489 | 157,167,717 |
| Deposits and placements of banks and other FIs | 15,149,296 | 14,180,946 | 15,993,633 | 12,508,210 |
| Repurchase agreements | - | 565,097 | - | 132,614 |
| Derivative financial instruments | 4,849,035 | 3,462,938 | 3,727,552 | 5,341,680 |
| Bills and acceptances payable | 3,091,173 | 4,056,811 | 2,590,584 | 3,524,600 |
| Amount due to Cagamas Berhad | 993,818 | 335,612 | 454,651 | 211,710 |
| Amount due to ultimate holding company | - | 55,439 | - | 49,976 |
| Amount due to related companies | 15,432 | 9,710 | 26,269 | 5,281 |
| Other liabilities | 2,751,252 | 3,149,346 | 3,621,178 | 3,802,815 |

| | Audited As at 31 December | | Unaudited As at 30 September | |
|---|---|---|---|---|
| | 2008 | 2009 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM '000) | (RM '000) |
| Deferred taxation | - | - | - | 46,073 |
| Provision for taxation and zakat.................. | 5,698 | 109,169 | 248,855 | - |
| Bonds........................................................... | - | 443,051 | 442,440 | 417,950 |
| Irredeemable convertible unsecured loan stocks ...................................................... | 667,000 | - | - | - |
| Other borrowings.......................................... | 1,039,350 | 1,027,500 | 1,041,750 | 926,250 |
| Subordinated obligations............................. | 4,573,212 | 4,106,716 | 3,972,497 | 4,115,039 |
| Redeemable preference shares .................... | 813,336 | 751,437 | 773,020 | 732,755 |
| | 155,039,577 | 179,126,117 | 170,475,918 | 188,982,670 |
| Liabilities directly associated with non-current assets/disposal groups classified as held for sale ........................................ | 29,499 | - | - | 44,389 |
| **Total liabilities ...........................................** | 155,069,076 | 179,126,117 | 170,475,918 | 189,027,059 |
| | | | | |
| **Capital and reserves attributable to equity holders of the Bank ...................** | | | | |
| Ordinary share capital ................................. | 2,974,009 | 3,764,466 | 3,764,466 | 3,764,466 |
| Reserves....................................................... | 9,859,290 | 12,640,620 | 12,141,086 | 14,085,281 |
| Shareholders' funds..................................... | 12,833,299 | 16,405,086 | 15,905,552 | 17,849,747 |
| Perpetual preference shares......................... | 200,000 | 200,000 | 200,000 | 200,000 |
| Redeemable preference shares | 29,740 | 29,740 | 29,740 | 29,740 |
| Minority interest.......................................... | 18,879 | 256,040 | 75,707 | 259,510 |
| Total equity ................................................. | 13,081,918 | 16,890,866 | 16,210,999 | 18,338,997 |
| Total equity and liabilities........................... | 168,150,994 | 196,016,983 | 186,686,917 | 207,366,056 |
| Commitments and contingencies ................. | 307,223,451 | 308,557,853 | 315,901,930 | 348,156,910 |
| Net assets per ordinary share (RM) ............ | 4.32 | 4.36 | 4.29 | 4.74 |

## Financial Ratios [1]

| | As at and for the year ended 31 December | | As at and for the 9 month periods ended 30 September | |
|---|---|---|---|---|
| | 2008 | 2009 | 2009 | 2010 |
| | (%) | (%) | (%) | (%) |
| Net Interest Margin ...................................... | 2.1 | 2.2 | 1.7 | 1.6 |
| Return on Assets.......................................... | 1.0 | 1.1 | 0.9 | 1.0 |
| Return on Equity .......................................... | 12.7 | 13.8 | 11.3 | 11.2 |
| Cost to Income ............................................ | 49.7 | 53.5 | 50.9 | 54.3 |
| Gross impaired/Non performing loans ratio^........................................................ | 5.5 | 3.5 | 6.0 | 4.6 |
| Net NPL^ ..................................................... | 2.6 | 1.5 | 2.6 | N/A |
| Allowance for impairment on loans, advances and financing/impaired loans^....................................................... | 87.5 | 103.8 | 85.7 | 80.0 |
| Loans and Advances/Total Deposits........... | 79.0 | 77.3 | 81.7 | 77.6 |
| Core Capital Ratio (net of proposed dividend) .................................................. | 10.8 | 14.8 | 13.5 | 14.0 |
| Risk – Weighted Capital Ratio (net of proposed dividend) ................................. | 13.9 | 15.1 | 14.0 | 14.0 |

*^ Prior to 1 January 2010, loans impairment and its related allowances were accounted for in conformity with the requirements of BNM/GP3 and revised BNM/GP8. With the adoption of FRS139 effective 1 January 2010, loans impairment and the allowances for the impairment losses were assessed and accounted for based on the new accounting standard.*

**Notes:** (1) 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 interest margin** means net interest income, excluding interest suspended and recoveries from impaired loans, as a percentage of the average of beginning and year-end total assets.

**Gross impaired / Non performing loans ratio** means gross impaired / non-performing loans as a percentage of gross loans, advances and financing.

**Net NPL ratio** means net non-performing loans as a percentage of gross loans, advances and financing less specific allowance. This ratio is not applicable for year 2010 onwards due to the adoption of FRS139.

**Allowance for impairment on loans, advances and financing / impaired loans** means total individual impairment allowance and portfolio impairment allowance (or total specific allowance and general allowance pre FRS139), as a percentage of gross impaired / non-performing loans.

**Loans and advances/total deposits** means gross loans, advances and financing less allowance for impairment on loans, advances and financing, 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 (net of proposed dividend) to risk-weighted assets.

**Risk-weighted capital ratio** means the ratio of total capital base (net of proposed dividend) to risk-weighted assets.

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## SECTION 5.0 BACKGROUND INFORMATION OF THE GROUP

### 5.1 Introduction

The Group is a consumer bank in Malaysia and is part of CIMB Group Holdings Berhad's ("**CIMBGH**") universal banking group. As one of Malaysia's leading banks, the Bank possesses a strong and profitable domestic franchise. As at 31 December 2009, the total assets of the Bank amounted to approximately 81.7 per cent. of total assets of the Group. As at 30 September 2010, the total assets of the Bank amounted to approximately 81.8 per cent. of total assets of the Group.

As at 30 September 2010, the Group had total assets of RM207.4 billion and customer deposits of RM157.2 billion.

The main business operations of the Group include commercial banking and the provision of related financial services through the Bank, as well as the provision of trustee services, nominee services, Islamic banking, investment holding, financial services, trading in financial futures and options, unit trust management, factoring, leasing, offshore trust, offshore banking, property investment and management service company services and outsourcing, through its subsidiaries, including CIMB Thai, CIMB Trust Limited, CIMB Bank (L) Limited, CIMB Islamic, CIMB Trustee Berhad, iCIMB (M) Sdn Bhd and BHLB Trustee Berhad, respectively.

As at 1 November 2010, the Bank has 324 local branches in Malaysia, 3,704 self- service terminals including 2,065 automated teller machines (**ATM**s), 1,000 cash and deposit machines (**CDM**s), 328 cheque deposit terminals (**CDTs**) and 311 cheque deposit machines (**CQM**) in Malaysia to serve its customers, 2 branches in Singapore, 1 branch in London, 1 offshore branch and 1 offshore bank subsidiary in Labuan, 1 representative office in Shanghai and 1 representative office in Myanmar.

<u>Key achievements and awards of the Group in 2010</u>

| | |
|---|---|
| **Winner of the Loan Origination category**<br>In recognition of CIMB's innovation and business strategies. | Financial Insights Innovation Awards 2010 |
| **Best Trade Finance Bank – Domestic, Malaysia**<br>In recognition of CIMB's expertise and excellence in all aspects of trade finance. | The Asset Triple A Transaction Banking Awards 2010 |
| **Best Transaction Bank, Malaysia**<br>In recognition of CIMB's expertise in transaction banking services. | The Asset Triple A Transaction Banking Awards 2010 |

| | |
|---|---|
| **Outstanding contribution to the development of Islamic Finance- Badlisyah Abdul Ghani, Chief Executive Officer of CIMB Islamic**<br>Mr Badlisyah Abdul Ghani is the first industry practitioner and the youngest to be honoured with this award. | Euromoney Islamic Finance Awards 2010 |
| **Best Islamic Bank in Asia**<br>CIMB Islamic was recognised as the Best Islamic Bank in Asia by Euromoney. | Euromoney Islamic Finance Awards 2010 |
| **The Asian Banker Achievement Award for Cash Management**<br>In recognition of CIMB's cash management, payments and trade finance solutions in the competition for market share, product and operational excellence | The Asian Banker Transaction Banking Award 2010 |
| **Best Risk and Analytics Project**<br>In recognition of CIMB's implementation of an enterprise wide risk management solution. | The Asian Banker Technology Implementation Awards 2010 |
| **The Asian Banker Achievement Award for Islamic Finance**<br>In recognition of CIMB Islamic's steady hand in dealing with the global financial crisis earning it the region's top award for Islamic Finance | The Asian Banker Technology Implementation Awards 2010 |
| **Strongest Bank in Malaysia Award**<br>In recognition of CIMB Group's superior domestic franchise under the leadership of the Chairman and CEO, strong commitment to domestic customers at the product and service levels, strong governance structure at both the board and management levels under the leadership of the Chairman and CEO, the ability to execute on strategy and respond to changes in the marketplace and leading towards a stable and long term commitment to all shareholders. | The Asian Banker Strongest Banks in Country 'Awards 2010 |
| **Islamic Bank of the Year Country Awards**<br>In recognition of CIMB Islamic Bank's capabilities as a leading provider of Islamic financial services in Malaysia | The Asset Triple A Islamic Finance Awards 2010 |
| **Islamic Investment House of the Year – Asia Pacific**<br>In recognition of CIMB Islamic capabilities as a leading Islamic Investment House in Asia Pacific | The Asset Triple A Islamic Finance Awards 2010 |

| | |
|---|---|
| **Best Domestic Bank**<br>In recognition of CIMB Bank's as a leading financial services provided in Malaysia | The Asian Banker Technology Implementation Awards 2010 |
| **Best Domestic Bank**<br>In recognition of CIMB Bank's as a leading financial services provided in Malaysia | Asiamoney Best Bank Awards 2010 |
| **Best Bank**<br>In recognition of CIMB Bank's as a leading domestic financial services provider | Euromoney Awards for Excellence 2010 |
| **Best Local Islamic Finance House in Malaysia**<br>In recognition of CIMB Islamic Bank's capabilities as a leading provider of Islamic financial services. | Alpha Southeast Asia Magazine (Best Financial Institution Awards in Southeast Asia 2010) |
| **Special Marquee Awards: Best Islamic Finance Bank in Southeast Asia**<br>In recognition of CIMB Islamic's lead in sukuk issuances both globally and domestically and it's increasing visibility in Islamic finance in Southeast Asia. | Alpha Southeast Asia Magazine (Best Financial Institution Awards in Southeast Asia 2010) |

## 5.2 History

The Bank was incorporated in Malaysia under the Companies Act 1965 on 30 December 1972 as United Asian Bank Berhad. Subsequently, on 31 October 1991 and 30 September 1999, the Bank's name was changed to Bank of Commerce (M) Berhad and Bumiputra Commerce Bank Berhad, respectively.

In June 2005, the acquisition of Bank of Commerce (M) Berhad was announced subsequent to the decision by Bumiputa-Commerce Holdings Berhad (now known as **CIMBGH**), to create a universal bank by combining its commercial and investment banks. This restructuring was completed in January 2006 and resulted in CIMB Group owning 99.99 per cent. of the Bank. On 7 September 2006, the Bank became known by its present name, CIMB Bank Berhad. The Bank's acquisition and integration of SBB was duly completed in November 2006. The acquisition of SBB enhanced the commercial banking platform of the Group by combining the Bank's considerable resources and market reach with SBB's substantial banking expertise in Malaysia.

## 5.3 Share Capital and Substantial Shareholders

**Share Capital**

As at 1 November 2010, the authorised share capital of the Bank is RM7,550,125,000 divided into 7,000,000,000 ordinary shares of RM1.00 each, 500,000,000 perpetual preference shares of RM1.00 each, 1,000,000 redeemable preference shares of RM0.10 each, 200,000 non-cumulative redeemable preference shares of RM0.10 each, 5,000,000,000 redeemable preference shares of RM0.01 each and 5,000 non-cumulative perpetual preference shares of RM1.00 each.

As at 1 November 2010, the issued and paid-up share capital of the Bank is RM3,994,208,612 comprising 3,764,468,517 ordinary shares of RM1.00 each, 200,000,000 perpetual preference shares of RM1.00 each and 2,974,009,486 redeemable preference shares of RM0.01 each.

**Substantial Shareholders**

As at 1 November 2010, 99.99 per cent. of the Bank's issued shares were held by its parent company, CIMB Group. CIMB Group is a wholly-owned subsidiary of CIMBGH.

## 5.4 The Business of the Group

The Group's consumer banking operations comprise the following divisions: (i) Retail banking, (ii) Commercial Banking (iii) Consumer Sales and Distribution and (iv) Group Cards & Personal Financing.

**Retail Banking**

Our Retail Banking division is accountable for the overall management and financial performance of the bank's business for both individual customers and micro & small enterprise business in Malaysia. Retail Banking develops and sources a range of products and services to be sold to these customers. Key product lines which covers both conventional and Islamic retail banking, include the following:

- Residential property loans;
- Non residential property loans;
- SME Business Loans
- Security financing;
- Personal loans;
- Auto finance;
- Deposit and other banking products
- Wealth management; and
- Remittance and other transactional services

The key functions within Retail Banking include business strategy, product development, marketing, credit cycle management, alternate channels development (internet, phone banking, self service terminals) and customer relationship management.

**Commercial Banking**

The establishment of the Commercial Banking Division in July 2010 saw the merger of Business Banking and Group Special Asset Management into a single division responsible for both the development of products and services for customer segments comprising mid-sized corporate customers and medium business enterprises, as well as the management and recovery of CIMB Group's legacy impaired loans.

The banking function of this division includes strategy, credit and customer management, as well as the development, bundling and management of products and services for the customer segmentation of RM10.0 million to RM250.0 million in annual turnover. Consistent with the dual banking concept, this division promotes a wide range of financial products and services, encompassing conventional and Islamic banking facilities to its customer.

The Bank is continuously expanding and enhancing its suite of commercial banking products and services. The Bank has adopted an integrated marketing approach with regard to its financial products and services, which are tailored to meet the needs of its commercial customers of a targeted customer profile and comprise core banking credit facilities (such as term loans, trade finance facilities including letters of credit, bankers' acceptance and trust receipts), overdraft facilities, bank guarantees and foreign exchange contract facilities as well as general deposit products like current/savings accounts and fixed deposit accounts. The Bank also offers trade bill financing where customers can process their trade bills at the bank's 20 trade service centres with a view to enhancing service delivery, reduce costs and increase operational efficiency.

The Bank will continue to leverage on the Group's expertise by bundling and cross-selling various financial products and services through its strategic business units. With the increasing presence of mid-sized corporate in the commercial segment, a new department has been created specifically to provide solutions and cater for this emerging segment.

In recognition of its role in supporting SMEs, the Bank had won the accolade of the “Top SMI Supporter” award for 15 consecutive years, awarded by Credit Guarantee Corporation Malaysia Berhad. In 2010, Commercial Business had successfully implemented the Business Credit System (BCS) with the objective of improving the end-to-end loan application process. For this initiative, CIMB Bank was presented with the Financial Insights Innovation Award.

With establishment of Group Special Asset Management (“**G-SAM**”) on 1 July 2007, impaired loans were carved out enabling the Good Bank to concentrate on its core business of lending, customer relationship, quality loan asset growth and avoid the distraction of impaired loans. Since then G-SAM has reduced gross impaired loans by RM3.2 billion and contributed an accumulated profit before tax of RM1.0 billion to the Group.

On 30 November 2009, CIMB Bank sold a portfolio of RM8.4 billion of impaired loans (inclusive of written off loans) to Southeast Asia Special Asset Management Berhad (“**SEASAM**”); severing the legacy impaired loans from CIMB Bank.

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 Affairs, NPL Management and G-SAM Operations. G-SAM also services the impaired loans to SEASAM. G-SAM operates mainly from a centralised platform based in Kuala Lumpur and is supported by 5 Regional Centres.

To proactively manage impaired loans, G-SAM will commence initial debt recovery or rehabilitation efforts by entering into negotiations with the borrowers, 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 CIMB 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 interest/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, guarantors or other relevant parties usually compels, in the majority of cases, some form of settlement or compromise negotiations between the relevant parties and CIMB Bank. CIMB Bank will deal with these negotiations on a case by case basis, depending on the prevailing circumstances.

**Consumer Sales & Distribution**

Consumer Sales & Distribution (“**CSD**”) is responsible for initiating, implementing and managing the sales and distribution for Retail Banking, Commercial Banking and other third party products and services. It serves 5.4 million customers through the network of 324 branches, 3,704 self service terminals and Internet channels (CIMB Clicks and CIMB BizChannel).

CSD is structured into 22 units. The units in CSD are divided into sales channel and channel drivers. The channel drivers provide the necessary support and infrastructure to ensure all the sales channels achieved their goals. The sales channel comprises of the 9 regional centres, a mobile sales force team and mortgage sales team.

The channel drivers comprises of sales management, strategy, operations, Islamic product distribution, service quality & innovation, preferred banking, special projects, government relation, customer resolution, credit evaluation & management and performance improvement.

The 9 regional centres which are overseen by regional directors are responsible for formulating sales and strategies for their respective areas. These regional directors manage all the channels comprising branches, business centres, all the sales and operation staff.

In addition, CSD is tasked to grow the business banking proposition for the SME and mid corp segments through its 22 business centres. In addition, 29 mobile sales centres are created to assert greater penetration beyond the traditional branch sales structure. To cater for the mass affluent market segment, the Preferred banking unit is responsible in rolling out, managing, improving and implementing the Preferred banking proposition presently at 46 branches.

CSD's visions are to establish CIMB Bank as the first choice consumer bank for all Malaysian, to become a highly profitable financial provider to SME's and mid sized corporations in Malaysia and to deliver the most profitable growth to our Group. In 2009, CIMB Bank won the Best Branch Innovation Award (Asia Pacific) from the financial magazine, The Asian Banker and Best Bank for Malaysia at Euromoney Awards for Excellence 2010.

**Group Cards & Personal Financing**

Group Cards & Personal Financing Division ("**GCPF**") is responsible for managing the Malaysian and regional card operations as well as personal financing. For card operations, the division has overall management responsibility of the range of business activities relating to cards including marketing, merchant services, customer relations as well as operations support and finance in addition to overall credit and risk management. The division is also responsible for the strategy, product bundling, development of partnerships and overall profitability of the business.

In Malaysia, CIMB Bank's card operations is currently the largest MasterCard issuer in terms of card base, card spending and receivables. In addition, it is the second largest merchant acquirer in the industry. Customer support is provided through CIMB Bank's extensive branch network as well as through full fledge credit card service centres located in Kuala Lumpur, Penang, and Johor Bahru.

CIMB Bank's credit card business is focused at providing value to all segment of the consumer market. In addition to Classic, Gold and Platinum credit cards, CIMB Bank is the first in Malaysia to launch the CIMB World MasterCard for the affluent. Following the successful launch of CIMB World MasterCard, the bank launched the Visa Infinite, allowing the bank to compete its product range that cut across all segments in Malaysia, from the mass (Classic and Gold), the mass affluent (Platinum) all the way to the affluent market (World and Infinite). For the affluent segment, our CIMB WORLD MasterCard comes with a host of exclusive privileges that includes free regional golf, fine dining, double rewards for overseas spending and free coffee.

The Bank also identified specific segments where it is able to provide added value to its customers through its co-brand partners such as Malaysia Airline (Enrich), Petronas, and

Touch n’ Go, with each partner bringing distinctive value to specific customer profiles. For example, the CIMB Enrich MasterCard has strong appeal to travelers who are able to fast-track accumulation of air miles and has been recording significant usage by this segment. Meanwhile, the Petronas and Touch n’ Go co-brand cards provides cardholders with CIMB Smart Drivers deals. The CIMB Petronas MasterCard offers a 5% rebates on fuel purchases on the first day of the month, 2% cash rebate on fuel purchases on the days and 0.5% rebates for retail transactions, while the CIMB Touch n’ Go card VISA offers free auto reload fees on Touch n’ Go reloads as well as provides customers with a multiple choice of reload values. Both cards are free for life.

In respect to personal loan financing, the division is responsible for product development and its entire operations including credit and risk management.

GCPF began rapidly growing the personal financing business in 2010 through the launch of Cash Plus-i. This product features 24 hour approval and disbursement and is priced attractively. For civil servants, the Pembiayaan Peribadi Sektor Awam-i product, is a very competitively priced personal financing product that has shown tremendous growth over a short period of time. Both products are available through the retail branch network.

CIMB Bank is a pioneer in micro-financing. Its flagship Xpress Cash product has been positively received in the market and continues to be well accepted by small businesses as a means to further expand their business.

Regional card operations support CIMB Bank’s credit card businesses in Indonesia and Singapore by working towards development of member privileges that are applicable across the region. For instance, regional golf benefits allow CIMB World Card holders from Malaysia, Indonesia, and Singapore to play for free in over 20 golf courses spread across the three countries. It also endeavors for common adoption of best practices across the region.

**Corporate Banking**

The Corporate Banking Division focuses on the provision of a wide range of financial and lending services and products for large corporates listed on Bursa Malaysia Securities Berhad, multinational corporations as well as institutional and public sector customers with a view of supporting and enhancing their growth.

The Corporate Banking Division provides funding expertise in the following sectors:-natural resources, telecommunication media and technology, infrastructure and construction, agriculture, financial institutions, government linked companies and manufacturing. Corporate Banking Division operates from four regional centres in Malaysia; central with 5 marketing teams, Northern, Southern and East Malaysia. Additionally, our dedicated Deposit Desk caters to our customers deposit requirements.

Core lending products cover both conventional and Islamic products (both Ringgit- and foreign currency-denominated) ranging from term loans, bridging loans, revolving credit, overdraft, foreign exchange, trade finance facilities (including letters of credit, bankers acceptance, trust receipts, bills discounting, export credit refinancing, shipping guarantees, bankers guarantees, collection bills), leasing to factoring while core deposit products cover (both Ringgit- and foreign currency-denominated) term, savings and current account deposits.

Corporate Banking Division works closely with investment banking, islamic banking, treasury, corporate finance, cash management, consumer loans, credit card, structured products, and insurance and private banking service teams giving its customer the whole spectrum of products under the Group. The products range includes advisory services - placement, underwriting, brokerage, agency, cash management, debt capital market, structured products, asset management, bancassurance, mortgage, share margin, auto hire purchase, credit cards and private banking.

Apart from cross selling products of the Group, Corporate Banking Division also actively participates in product feedback, development and delivery of the new products with the various service teams of the Group.

This perfect synchronisation of efforts helps CIMB Bank leverage on the CIMBGH's expertise in banking and financial services and has given us the added advantage to become the provider of seamless, single stop and optimal banking solutions for each of CIMB Bank's corporate customers, their related entities, shareholders, directors as well as employees.

Corporate Banking Division also practises prudent risk management practices to ensure good asset quality with fair returns and assistance to customers in the challenging economic environment.

Hence the Group's structure, forward planning, strong local relationships, extensive distribution network, dedicated relationship managers, product innovation and delivery of personalised services has made CIMB Bank, the banker of choice for many corporations, the Government and government-linked companies in Malaysia. CIMB Bank is poised and determined to retain and grow in market dominance.

**Regional Banking**

Regional Banking ("**RB**") is responsible for providing financing as well as transaction banking solutions to our large corporate clients which have regional presence in the ASEAN region. RB comprises of the following business units:

***Global Corporates***

Global Corporates provides a spectrum of local and foreign currency financial services for our clients based in Malaysia, Singapore and Indonesia which have regional presence in the ASEAN region. These financial services include bilateral loans, trade finance and transactional lending, leveraging on the Group's presence Malaysia, Singapore and Indonesia, as well as our overseas branches in Hong Kong, London and our offshore banking subsidiary located at Labuan.

***Structured Finance & Syndications***

Structured Finance & Syndications provides expertise in structuring, underwriting and syndicating all forms of private financing including leverage & acquisition finance, project finance, structured finance, structured trade finance and syndication.

***Regional Transaction Banking***

Regional Transaction Banking is a business unit that houses Trade Finance and Cash Management together on a regional platform across Malaysia, Indonesia, Singapore and Thailand. Cash Management provides services which are tailored for companies to accelerate collections, control disbursements, maximize the use of excess cash and minimise cost of funding. Trade Finance provides solutions along the entire trade value chain to address the business needs in funding, risk mitigation and trade documentary services. Our products and services are customisable to meet the requirements of domestic and international trade flows.

***Global Financial Institutions***

Global Financial Institutions is the correspondent banking arm of the Group which maintains relationships with financial institutions worldwide.

***Security Services***

Security Services comprises credit agency, fund accounting, trustee custodian and nominees services.

***Trade Services Network***

Trade Services Network comprises 20 Trade Services Centers ("**TSC**") nationwide. Besides being the 1-stop center for customer service for all trade finance customers, The TSC is also responsible for enhancing revenue and asset quality of the trade finance business.

**Group Treasury**

The Group Treasury Division is responsible for various key functions of the Group. It operates the Group's markets franchise in intermediating interest rate, credit and foreign exchange across various market segments domestically and regionally. It also manages the interest rate volatility of the Group's loan and deposit balance sheet. Capital management is also a key function of Group Treasury which manages the capital of the Group and its banking subsidiaries including investment of shareholders funds in high credit quality investments.

These functions are conducted by the following departments:

***Debt Capital Markets and Syndicate***

Debt Capital Markets and Syndicate specialises in providing funding, liability management and fixed income investment solutions to sovereign, corporate and institutional issuers and investors in the ASEAN region. Underlying its leading position in the regional capital markets is the Group's capability in the regional domestic debt markets, commercial papers, medium term notes programme, Islamic capital markets, convertible bonds, asset-backed securities, credit derivatives and structured finance markets.

***Cross Markets Trading***

Cross Markets Trading is primarily engaged in the trading of over-the-counter and exchange-listed fixed income, foreign exchange, equity, commodities and derivative products in the domestic and foreign currency markets. Cross Markets Trading is also an active market-maker in Ringgit debt securities and foreign exchange options.

***Structured Products and Rates Market Making***

Structured Products and Rates Market Making Unit is responsible for market-making in government bonds, interest rate derivatives as well as developing derivative-linked solutions for the Group. It offers customised solutions for the Group's various client segments including corporates, government agencies, institutional investors and individuals.

This unit also originates structured investment products on a Group-wide basis which is distributed across its various distribution channels including CIMB Niaga.

***Global Sales and Group Funding***

Global Sales and Group Funding comprises two major sub-groups, Global Sales and Group Funding. Global Sales represents the client facing unit for the firm's entire suite of treasury products. Client activities are segmented into 3 main areas, namely Foreign Exchange Sales, Institutional Sales and Derivatives Sales.

Group Funding undertakes the responsibility for efficiently funding the Group including our foreign branches in Singapore, London and Labuan. In addition, the team offers a wide range of products to corporate and institutional investors and depositors to help generate return on their funds. These products include overnight placements to investments of up to 1 year at competitive rates. Fixed deposit rates are quoted for Ringgit as well as all major foreign currencies.

***Capital Investments***

Our Group's shareholders funds are invested separately where operating businesses are fully liability funded and where their earnings are not subsidised by shareholders funds. The investment objective of the investment portfolio is to invest in high credit quality fixed income securities to generate stable returns even during volatile markets.

***Balance Sheet Management***

Balance Sheet Management team was set up to manage the interest rate risk and return profile of the Group's banks' loan and deposit balance sheet as well as to coordinate pricing of all loan and deposit products. The primary function is to immunise and optimise Net Interest Income and Margin from interest rate volatility for the Group.

***CIMB Islamic Treasury***

CIMB Islamic Treasury offers a wide range of Shariah-compliant products and services covering Foreign Exchange, Money Market, Fixed Income, Derivatives and Structured Products to corporations, institutional investors and individuals domestically, in the region and the Middle East.

***Capital Structure***

This unit is responsible for managing the capital and debt gearing structure of the Group and the dialogue and relationship with domestic and international rating agencies. The core responsibility of this unit includes the optimal composition of equity, hybrid tier 1 and subordinated debt capital in their various currencies and across different loan and debt market segments for the holding company and its banking subsidiaries.

**Islamic Banking**

CIMB Islamic is the global Islamic universal banking and finance arm of the Group. It operates as a parallel bank that offers innovative and comprehensive Shariah-compliant financial solutions in investment banking, consumer banking, asset management, takaful, private banking and wealth management. CIMB Islamic's products and operations are managed in strict compliance with Shariah principles under the guidance of the CIMB Islamic Shariah Committee, which comprises the world's leading Islamic scholars.

CIMB Islamic is recognised as a pioneer in Islamic financial markets, having advised on the world's first Shariah-compliant exchangeable bond and the largest sovereign sukuk issue globally. It has garnered numerous awards with recent accolades such as "Best Islamic Bank in Asia" by Euromoney, "Islamic Bank of the Year for Asia and Malaysia and Islamic Investment House of the year-Asia Pacific" by The Assets Triple A, and "Best Local Islamic Finance Bank in Southeast Asia 2009-2010" and "Special Marquee Award for Best Islamic Finance Bank in Southeast Asia 2009-2010" by Alpha Southeast Asia.

## 5.5 Principal Subsidiaries

The Bank engages in certain financial and non-financial service activities through its subsidiaries and affiliates. These subsidiaries and associated companies include retail banking, commercial banking, Islamic banking, finance and investment holding companies. Each of these entities has the necessary licences, exchange memberships and other regulatory requirements to enable the Group to provide a comprehensive and diversified range of financial and non-financial services and products to its customers. The Bank's principal subsidiaries include CIMB Bank (L) Limited, CIMB Islamic and CIMB Thai (the "**Principal Subsidiaries**").

***CIMB Bank (L) Limited***

CIMB Bank (L) Limited was incorporated on 1 April 1993 in the Federal Territory of Labuan under the Labuan Companies Act, 1990 as a limited liability company, and holds a Labuan banking license as permitted by the Labuan Financial Services and Securities Act 2010. It is a wholly-owned subsidiary of the Bank. It provides mainly Labuan banking services.

| | As at 31 December | | | As at 30 September |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | (US '000, except %) | (US '000, except %) | (US '000, except %) | (US '000, except %) |
| Total assets | 3,688,312 | 3,271,007 | 3,104,835 | 3,076,952 |
| Shareholders' funds | 623,294 | 638,550 | 712,130 | 730,410 |
| Profit after taxation | 51,041 | 22,273 | 71,925 | 53,489 |
| Percentage of total assets of the Group | 7.9% | 6.7% | 5.4% | 4. 6% |
| Percentage of profit after taxation of the Group | 10.1% | 4.7% | 12.7% | 9.1% |

### *CIMB Islamic*

CIMB Islamic is the anchor operating entity of "*CIMB Islamic*", the core Islamic banking and finance brand entity and franchise of the Group and a vital part of the Group's platform as South East Asia's Most Valued Universal Bank.

CIMB Islamic started in 2002 as an Islamic investment banking arm of the Group. Following the internal reorganisation of the Group in 2006, CIMB Islamic was transformed into an Islamic universal bank and CIMB Islamic was established. CIMB Islamic currently offers a comprehensive range of Shariah-compliant products and services in consumer banking, investment banking, asset management and private banking and operates mainly in South East Asia with presence in the Middle East.

| | **As at 31 December** | | | **As at 30 September** |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| | **(RM '000, except %)** | **(RM '000, except %)** | **RM '000, except %)** | **RM '000, except %)** |
| Total assets...................................................... | 8,989,030 | 18,654,029 | 27,330,213 | 34,828,839 |
| Shareholders' funds ....................................... | 672,241 | 745,403 | 871,058 | 1,243,827 |
| Profit/(loss) after taxation and zakat.............. | 64,743 | 73,319 | 123,742 | 207,675 |
| Percentage of total assets of the Group ......... | 5.8% | 11.1% | 13.9% | 16.8% |
| Percentage of profit/(loss) after taxation of the Group ....................................................... | 3.7% | 4.7% | 6.2% | 10.9% |

### *CIMB Thai*

CIMB Thai is the Group's platform to operate and offer a wide range of financial products and services to Thai customers, both corporate and retail. Through its subsidiaries, CIMB Thai also provide securities services, mutual funds management, wealth management and insurance products.

CIMB Thai represents an integral component of the CIMBGH's regional universal banking platform, which is anchored in Malaysia, Singapore, Indonesia and Thailand, the second largest banking market in Southeast Asia.

On 5 November 2008, CIMB Bank became CIMB Thai's largest shareholder after completing its purchase of a 42.13% stake in CIMB Thai from the FIDF for THB5.9 billion, or THB2.10 per share. On 20 November 2008, CIMB Bank made a tender offer for the remaining shares of CIMB Thai at THB2.10 per share and upon completion of the tender offer on 6 January 2009, CIMB Bank held 92.04% of CIMB Thai's shares. In March 2009, CIMB Thai completed a THB2.5 billion rights offering, which resulted in CIMB Bank increasing its shareholding in CIMB Thai to 93.15%.

| | As at 31 December | | | As at 30 September |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | (THB '000, except %) | (THB '000, except %) | (THB '000, except %) | (THB '000, except %) |
| Total assets | 205,752,980 | 214,051,029 | 127,056,760 | 132,648,367 |
| Shareholders' funds | 711,017 | 5,135,235 | 7,944,131 | 9,030,974 |
| Profit/(loss) after taxation and zakat | (6,928,726) | (1,989,797) | 1,667 | 179,617 |
| Percentage of total assets of the Group | N/A | N/A | 7.4% | 6.5% |
| Percentage of profit/(loss) after taxation of the Group | N/A | N/A | 0.01% | 0.95% |

## 5.6 Profile of Directors

**The Directors of the Bank as at 1 November 2010 are as follows:**

**Tan Sri Dato' Seri Haidar Mohamed Nor**

Tan Sri Dato' Seri Haidar Mohamed Nor, a Malaysian, aged 71, was appointed Independent Non-Executive Director/Chairman on 3 May 2005. He is also the Chairman of the Board Risk Committee and the Group Nomination and Remuneration Committee of CIMBGH.

Tan Sri Dato' Seri Haidar is also a Chairman of CIMB Trustee Berhad, CIMB Trust Limited, CIMB Bank (L) Ltd, BHLB Trustee Berhad, and CIMB Group Sdn Bhd ("**CIMB Group**"), the holding company of CIMB Bank. He is also a Trustee of the Perdana Leadership Foundation and a board member of a number of private companies.

Tan Sri Dato' Seri Haidar was the Chief Judge of Malaya from December 2002 until November 2004, and has a long and distinguished record of service with the Malaysian judiciary. Tan Sri Dato' Seri Haidar qualified as a Barrister-at- Law from Lincoln's Inn, United Kingdom in 1966 and began his service with the Magistrate Court in Kuala Lumpur in February 1967. He then became Senior Federal Counsel with the Attorney General's Chambers in Kuala Lumpur and this was followed with appointments as Senior President at the Sessions Court in Pulau Pinang, Alor Setar and Kuala Lumpur between 1974 and 1980. Tan Sri Dato' Seri Haidar had also held the position as State Legal Adviser in Pulau Pinang and Perak.

After becoming Chief Registrar at the Supreme Court in Kuala Lumpur in 1983, he served as Judge at the High Courts in Kuching, Johor Bahru and Kuala Lumpur until January 1998. He was Judge at the Court of Appeal and the Federal Court of Malaysia in Kuala Lumpur before being appointed Chief Judge of Malaya from 2002 until his retirement in November 2004.

Prior to his appointment as Chairman of CIMB Bank, Tan Sri Dato' Seri Haidar was the Chairman of the Financial Mediation Bureau (the "**Bureau**"), an independent body with members from the financial institutions and financial services providers. The Bureau helps to settle certain financial disputes as an alternative to the courts.

**Dato' Sri Mohamed Nazir Abdul Razak**

Dato' Sri Nazir Razak, a Malaysian, aged 43, was appointed Non-Independent Non-Executive Director on 5 June 2005 and elected Deputy Chairman on 20 March 2007. He is a member of the Board Risk Committee. He is presently the Managing Director/ Chief Executive Officer of CIMBGH and Group Chief Executive of CIMB Group Sdn Bhd. In addition, he is also a Director and Deputy Chairman of both CIMB Investment Bank Berhad and CIMB Islamic Bank Berhad.

Dato' Sri Nazir graduated from University of Bristol with a BSc (Hons) and obtained an MPhil 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 where he rose to Executive Director with responsibility for its institutional business comprising equities research, sales and dealing. 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 Investment Panel of the Employees Provident Fund, the SC's Capital Market Advisory Council and the Asia Business Council. He is also a Director of Malaysia Electronic Payment System (1997) Sdn Bhd and is an Executive Committee member of the Malaysia International Islamic Financial Centre. Dato' Sri Nazir is Chairman of the World Islamic Economic Forum (WIEF) Young Leaders Network. He is also a trustee of both the Rahah Foundation and the Pride Foundation.

In 2006, Dato' Sri Nazir was named one of Asia's 50 most influential figures of the last decade by FinanceAsia magazine. In 2008, Institutional Investors ranked Dato' Sri Nazir second in its Asia's Best CEO (Bank) survey. In 2009, Dato' Sri Nazir became the youngest ever recipient of FinanceAsia's "Lifetime Achievement Award". He was also named "Best Top Executive in Malaysia" in Asiamoney's Best Managed Companies Award 2009.

**Tan Sri G. K. Rama Iyer**

Tan Sri G. K. Rama Iyer, a Malaysian, aged 78, has been an Independent Non-Executive Director since 25 June 1987. He is a member of the Audit Committee and Board Risk Committee. He is also a Director of YTR Harta Sdn Bhd and Maritime Institute of Malaysia and Trustee of a number of foundations.

Tan Sri Rama holds a Master's degree in Public Administration from Harvard University, USA and a B.A. Hons. (Economics) degree from University of Malaya (Singapore). He had also completed the Advanced Management Programme course at Harvard Business School.

During his 30 years' career in the civil service, he had been Secretary-General of the Ministry of General Planning and Social Economic Research, the Ministry of Works and Utilities and the Ministry of Primary Industries. He was also the first Chairman of Malaysian Airline System Berhad and a founder Director of Malaysian International Shipping Corporation Berhad.

**Dato' Dr. Mohamad Zawawi Ismail**

Dato' Dr. Mohamad Zawawi Ismail, a Malaysian, aged 64, was appointed Independent Non-Executive Director on 8 October 2001. Dato' Dr. Zawawi gained both his degree and doctorate in electronic engineering from Leeds University, England in 1969 and 1972 respectively. In 1996 he received the degree of Doctor of Engineering from Leeds. He is a

Foundation Fellow of the Academy of Sciences Malaysia, a Professional Engineer and a Member of the Institute of Engineers Malaysia, and a Fellow of The Institute of Physics Malaysia for which he served as its President for many years.

Dato' Dr. Zawawi was a Professor of Electronic Engineering and the founding Vice-Chancellor of Universiti Malaysia Sarawak ("**Unimas**"), a position he held from October 1992 until December 2000. Other previous appointments include Deputy Director General of Mimos, and Dean of Engineering and Deputy Vice-Chancellor of Universiti Kebangsaan Malaysia. He still maintains links with academia through being an adjunct Professor of the Department of S&T University of Malaya, Chairman Board of Governors Inti College, and an Emeritus Professor of Unimas.

Dato' Dr Zawawi had also served several national bodies including National Information Technology Council, National Aerospace Council, National Scientific Research and Development Council and National Higher Education Council. He was once advisor to both the National Science Centre and National Planetarium.

He is currently Chairman of iCIMB (Malaysia) Sdn Bhd and iCIMB (MSC) Sdn Bhd. In addition, Dato' Dr. Zawawi is Chairman of Inti Universal Holdings Berhad, a listed company and also sits on the boards of several other private companies.

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

Datuk Dr. Syed Muhamad Syed Abdul Kadir, a Malaysian, aged 63, was appointed Independent Non-Executive Director on 8 April 2004. Datuk Dr. Syed is a member of the Audit Committee, the Board Risk Committee and the Group Nomination and Remuneration Committee of CIMBGH.

Datuk Dr Syed is the Chairman of CIMB Islamic, CIMB Middle East B.S.C and CIMB-Principal Asset Management Sdn Bhd. In addition, he is a Director of CIMB Group Holdings Berhad and CIMB Group Sdn Bhd. He is also Director of Euro Holdings Berhad and Solutions Engineering Holdings Berhad, both public companies. He also holds directorship in a number of private companies.

Datuk Dr. Syed graduated with a Bachelor of Arts (Hons) from the University of Malaya in 1971. He obtained a Masters of Business Administration from the University of Massachusetts, 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.) from the University of Malaya.

He started his career in 1973 as Senior Project Officer, School of Financial Management at the National Institute of Public Administration (**INTAN**) 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, Ministry of Human Resource.

During his career he wrote and presented many papers relating to Human Resources Development. His special achievement was that his dissertation 'A Study on Board of

Directors and Organisational Effectiveness' was published by Garland Publisher, Inc. of New York in 1991.

**Dato' Zainal Abidin Putih**

Dato' Zainal, a Malaysian, aged 64, was appointed Independent Non-Executive Director on 1 July 2006. He is also a member of the Board Risk Committee. In addition, he is Chairman of the Audit Committee and a member of the Group Nomination and Remuneration Committee of CIMBGH. Dato' Zainal has extensive experience in audit, management consulting and taxation, having been involved as a practicing accountant throughout his career. He was the Chairman of Pengurusan Danaharta Nasional Berhad up to 31 December 2005. He was an Adviser with Ernst & Young Malaysia until his retirement on 31 December 2004 and was formerly the Country Managing Partner of Hanafiah Raslan & Mohamad which merged with Arthur Andersen in 1990. He is also a Past President of the Malaysian Institute of Certified Public Accountants and previously served as a member of the Malaysian Communication & Multimedia Commission. He qualified as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is currently the Chairman of the Malaysian Accounting Standards Board.

Dato' Zainal also sits on the Boards of CIMBGH, the ultimate holding company of CIMB Bank, CIMB Group Sdn Bhd, the holding company of the Bank, and CIMB Investment Bank Berhad. Dato' Zainal is also the Chairman of the Dutch Lady Milk Industries Berhad and Land & General Berhad and also sits on the Board of ESSO Malaysia Berhad and Tenaga Nasional Berhad, both public listed companies, and a Trustee of the National Heart Institute Foundation. Dato' Zainal is also Chairman of Mobile Money International Sdn Bhd and also holds directorship in a number of private companies.

**Dato' Mohd Shukri Hussin**

Dato' Mohd Shukri Hussin, a Malaysian, aged 55, was appointed Non-Independent Non-Executive Director on 1 July 2006. He is also a member of the Board Risk Committee and the Executive Director of CIMBGH.

Dato' Shukri was previously the Chief Operating Officer of CIMBGH. He has held various senior positions within the BCHB Group including as Chief Executive Officer of Bank Muamalat Malaysia Berhad from 1999 to 2003 and Chief Executive Officer of CIMB Securities Sdn Bhd from 1992 to 1999. He was appointed a Director of CIMBGH on 3 January 2006. On 8 May 2006 he was appointed as President Commissioner of PT Bank Niaga tbk. He holds a Bachelor of Economics (Hons) Degree from the University of Malaya and qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

He is also a Director of CIMB Group Sdn Bhd, the holding company of the Bank, CIMB Islamic Bank, Commerce Capital (Labuan) Limited, CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad.

**Dato' Seri Yeap Leong Huat**

Dato' Seri Yeap Leong Huat, a Malaysian, aged 63, was appointed Independent Non-Executive Director on 30 January 2007.

Dato' Seri Yeap was admitted to the Degree of Doctor of Laws (honoris causa) of Deakin University, Australia on 20 September 1997 for distinguished service to education. Dato' Seri

Yeap also sits on the Boards of SBB Berhad (a subsidiary company of CIMBGH, as well as SFB Auto Berhad, Southern Investment Bank Berhad (SIBB)), CIMB and SBB Capital Corporation. In addition, Dato' Seri Yeap is also a Director in a number of private companies.

**Dato' Dr. Gan Wee Beng**

Dato' Dr. Gan Wee Beng, a Malaysian, aged 62, was appointed Executive Director, on 2 May 2006. He is now the Deputy Chief Executive Officer, Group Risk Management of CIMB Group, heading the Group Risk Management division.

He has been a consultant to various local and international agencies which include BNM, the Economic Planning Unit of the Prime Minister's Department, Ministry of Finance, World Bank, International Labour Organisation, Asian Development Bank, and United Nations Conference on Trade and Development. He was a member of Bank Negara Malaysia Working Group on Market Risk Capital Adequacy Framework. Currently he is a member of National Economic Advisory Committee Steering Committee on Price Control & Subsidies. He is currently a member of the Oliver Wyman CEO Forum. Dato' Dr Gan is also a member of the Institute of International Finance's Asia Pacific Chief Risk Officer Forum which discusses regional risk management challenges and priorities. He received the Tun Abdul Razak Foundation Award for Best Published Article in an academic journal.

Prior to joining CIMB Bank, Dato' Dr. Gan was the Senior Adviser (Economics) for the Monetary Authority of Singapore besides having held positions as Executive Director of CIMB, General Manager, Executive Director of CIMB Securities Sdn Bhd, Senior Vice President and Head of Corporate Banking for CIMB Bank and as an Associate Professor at University of Malaya. He holds a Bachelor's and Masters' Degree in Economics from the University of Malaya and obtained his PhD from the University of Pennsylvania, USA.

**Dato' Sulaiman Mohd Tahir**

Dato' Sulaiman Mohd Tahir, a Malaysian aged 47 was appointed as the Executive Director on 1 October 2009 and is also the Head of Consumer Sales and Distribution Division, a position he held since July 2005.

Dato' Sulaiman has held various positions in the Bank including Group Head of the Japanese Business Unit, Branch Manager Shah Alam, Area Business Manager managing Business Credit Relationship for Shah Alam and Petaling Jaya before being appointed as Regional Manager for Business Credit relationships in Selangor and Wilayah Persekutuan. In 2002, he was selected to lead the Credit Card Centre before assuming the role of Head of Retail Sales and subsequently, appointed to helm the Retail Sales and Distribution Division in January 2005.

In his present role, Dato' Sulaiman head the development, implementation and management of the sales and distribution channels for the Group's consumer banking products and services. This encompasses a nationwide Malaysian branch network of branches, business centres, mobile sales centres, self-service terminals and a staff force of 7,650 which serve a total of 5.4 million customers. As a strong believer that a firm should contribute to the wellbeing of the society, he passionately drives Community Link projects through branch network.

A graduate of RMIT University, Australia with a degree in Accounting, Dato' Sulaiman served PricewaterhouseCoopers before joining Bank of Commerce (M) Berhad (now known as CIMB Bank) in 1987.

### 5.7 Senior Management Team

As at 1 November 2010, the Bank's business is managed by the following senior officers:

| Name | Position |
|---|---|
| Dato' Sri Mohamed Nazir Abdul Razak | Group Managing Director/Chief Executive Officer |
| Dato' Sulaiman Mohd Tahir | Head of Consumer Sales & Distribution |
| Dato' Dr. Gan Wee Beng | Head of Group Risk Management |
| Peter England | Head of Retail Banking |
| Lim Tiang Siew | Group Chief Internal Auditor |
| Abdul Karim Md Lassim | Head of Auto Finance |
| Jean Yap Yoke Yuen | Head of Group Cards & Personal Financing |
| Raja Noorma Othman | Head of Group Asset Management |
| Ahmad Shazli Bin Kamarulzaman | Head of Commercial Banking |
| Kenny Kim | Group Chief Financial Officer / Group Strategy and Finance |
| Dato' Lee Kok Kwan | Head of Group Treasury and Investments |
| Hamidah Naziadin | Head of Group Corporate Resources |
| Dato' Charon Wardini Mokhzani | Head of Corporate and Investment Banking |
| Dato' Mohd Shukri Hussin | Executive Director, CIMBGH |
| Iswaraan Suppiah | Head of Group Information and Operations |
| Subhak Siwaraksa | President/Chief Executive Officer of CIMB Thai Bank Public Company Limited |
| Mak Lye Mun | CEO of CIMB Bank, Singapore |

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## 5.8 The Group's Strategy

**Business Strategies and Key Growth**

The Group is an integral part of the larger CIMBGH, a regional universal bank with core footprint across Malaysia, Indonesia, Singapore and Thailand, and with arguably the largest full-service branch network and a leading capital market franchise across Southeast Asia, offering consumer banking, investment banking, treasury, asset management and insurance products and services, and operate on a dual banking basis, offering both Islamic and conventional financial solutions.

**CIMBGH's Vision - To be Southeast Asia's Leading Universal Bank**

CIMBGH's vision is to further entrench its position as a comprehensive and leading universal bank across Southeast Asia. CIMBGH continuously aims to provide customised financial solutions and value propositions to its customers, which include both individuals and businesses, either local or with an interest in the region by fully leveraging on its regional universal banking platform.

With Southeast Asia being one of the fastest growing economies and banking sectors in Asia, it is CIMBGH's belief that the region has much to offer and that CIMBGH is able to capitalise on and contribute to the region's growth and prospects. As a leading regional financial group, CIMBGH aims to leverage on its position and brand recognition to capitalise on high growth domestic and cross-border banking and capital markets, and flows of trade and investment across the region.

To ensure that its vision becomes reality, CIMBGH has adopted few key strategies:

***(i) Regionalisation***

Having completed various acquisitions over the past few years, CIMBGH has commenced the process of regionalising and unifying the group, which encompasses all its businesses, operations and people. As part of the process, CIMBGH continues to leverage on the core strengths and capabilities of each market in which it operates, which has led to various businesses being driven out of different centres of excellence, such as Treasury in Malaysia, Risk Management in Singapore and Transaction Banking in Indonesia.

CIMBGH has also identified new key markets within Southeast Asia such as Vietnam and Cambodia, having opened its first consumer banking branch in Cambodia on 19 November 2010, and has also lodged an application to regulatory authorities in Vietnam to seek approval to establish its banking presence in Vietnam.

With its enlarged distribution network and enhanced alternate delivery channels, CIMBGH aims to continually identify businesses and opportunities to extract revenue synergies on a regional level. Areas of focus include:

*(a) Corporate and Investment Banking and Treasury and Investments*

CIMBGH seeks to reinforce and strengthen its leading position within the Malaysian investment banking and treasury landscape and is utilising this strong foundation to establish a firm base in Indonesia and Thailand.

CIMBGH has achieved various significant cross-border investment banking deals as a result of the enlarged regional offering and this trend is expected to be pursued further going forward as CIMBGH strives to move further up the regional investment banking league tables.

CIMBGH also intends to leverage on the existing regional platform to further enhance its growing treasury operations and offerings through innovative product development to capture increasing growth in foreign exchange flows and demand for interest rate-related products across the region.

*(b)* *Corporate/SME Banking and Transaction Banking*

CIMBGH is placing emphasis on transaction banking as a growth priority with focus on areas like trade finance, cash management and deposit taking with greater emphasis on mid-sized and larger corporates. This also leverages on CIMBGH's reach, product innovation and increased sales force.

*(c)* *Consumer Banking*

While CIMBGH has a well-established consumer banking operation and customer base in Malaysia and Indonesia, there remains upside to be derived across all countries that CIMBGH operates in from further improvements in product offerings and service levels. Latest transformation initiatives at the consumer bank will bring about better operating efficiencies and better customer satisfaction levels, auguring well for CIMBGH's initiatives to drive low-cost deposits and consumer loans. CIMBGH will focus on high growth businesses such as micro and automotive financing in Indonesia, the upper-mass affluent segment in Thailand and strive to attain its rightful share of the Malaysian consumer banking pie over the near to medium term.

***(ii)*** ***Optimisation***

CIMBGH is gradually streamlining its business and operations by bringing together overlapping businesses, capabilities and functions to ensure an efficient operating model and to extract maximum cost synergies from its previous acquisitions. An example is the recent conclusion of the Branch Rationalisation Programme (BRP) in Malaysia which had identified and eliminated the residual duplications between ex-Bumiputra-Commerce Berhad and ex-SBB branches and relocated some of the branches for greater optimisation.

As part of CIMBGH's regionalisation and optimisation exercise, it has also embarked on the second phase of transformation of CIMB Niaga for further improvement in efficiency and profitability, and the transformation of CIMB Thai which includes a restructuring of its assets to focus on its core businesses.

***(iii)*** ***Innovation***

To improve and maintain CIMBGH's leading positions in the businesses that it operates, CIMBGH continue to establish and promote a culture of idea generation among its people. As CIMBGH transformed into a universal bank over the years, it has leveraged on the integration of its consumer banking and capital markets capabilities to be able to offer new and innovative products to cater for its customers' growing and changing needs.

## Key Growth Drivers

### Revenue Synergies

With CIMBGH's current brand position and platform as a comprehensive and leading universal bank in Southeast Asia, CIMBGH believes that there are many opportunities for revenue synergies across the group from the ability to leverage on its cross-border expertise and scale, be it in its consumer or investment banking businesses.

### Improve Market Share

CIMBGH has been moving up the product and market share league tables in recent years and believes that there remains upside to be gained as it leverages on a wider and more diversified distribution network, particularly its non-Malaysian investment banking market shares. This will be underpinned by CIMBGH's continued development of new and innovative products that are suited to customers' needs, coupled with the expanded retail and corporate customer base.

### Cost Synergies

Cost synergies are expected to be extracted once the regional operating initiatives are complete and operational in the near future, with seamless knowledge sharing and minimised duplication driving both operational and cost efficiencies. Cost synergies are also derived from a leaner operational scale with existing teams proliferating their products across a wider footprint and customer base, with the ability to mobilise the existing staff force across a wider geographical spread. It is envisaged that CIMBGH's cost to income ratios will gradually decline.

### Increase Earnings Diversity

Growth opportunities remain ample as CIMBGH moves from being a Malaysia-centric entity in terms of assets and earnings towards a more diversified Southeast Asian conglomerate over the coming years. It is envisaged that CIMBGH's earnings composition would be dominated by its overseas operations by 2015 compared to the current Malaysian-dominated earnings composition in 2009.

## SECTION 6.0 CAPITALISATION AND INDEBTEDNESS

The following table sets out the capitalisation and indebtedness of the Group as at 30 September 2010 and as adjusted to reflect the issuance of the Subordinated Debts. This table is derived from, and should be read in conjunction with, the unaudited consolidated financial statements of the Group as at 30 September 2010. See Appendix 1 of this Information Memorandum.

| | As at 30 September | Adjusted as at 30 September |
|---|---|---|
| | **2010** | **2010** |
| | **(RM '000)** | **(RM '000)** |
| **Indebtedness** | | |
| Deposits from customers | 157,167,717 | 157,167,717 |
| Deposits and placements of banks and other FIs | 12,508,210 | 12,508,210 |
| Repurchase agreements | 132,614 | 132,614 |
| Derivative financial instruments | 5,341,680 | 5,341,680 |
| Bills and acceptances payable | 3,524,600 | 3,524,600 |
| Amount due to Cagamas Berhad[1] | 211,710 | 211,710 |
| Amount due to ultimate holding company | 49,976 | 49,976 |
| Amount due to related companies | 5,281 | 5,281 |
| Other liabilities | 3,802,815 | 3,802,815 |
| Deferred taxation | 46,073 | 46,073 |
| Bonds | 417,950 | 417,950 |
| Other borrowings[2] | 926,250 | 926,250 |
| Subordinated obligations[3] | 4,115,039 | 5,615,039 |
| Redeemable preference shares | 732,755 | 732,755 |
| Liabilities directly associated with non-current assets/disposal groups classified as held for sale | 44,389 | 44,389 |
| **Total Indebtedness** | **189,027,059** | **190,527,059** |
| **Capitalisation** | | |
| Ordinary share capital[4] | 3,764,466 | 3,764,466 |
| Reserves | 14,085,281 | 14,085,281 |
| Perpetual preference shares[5] | 200,000 | 200,000 |
| Redeemable preference shares | 29,740 | 29,740 |
| Minority interest | 259,510 | 259,510 |
| **Total Capitalisation** | **18,338,997** | **18,338,997** |
| **Total Capitalisation and Indebtedness** | **207,366,056** | **208,866,056** |
| **Commitments and contingencies** | 348,156,910 | 348,156,910 |

Notes:

(1) Cagamas Berhad is the Malaysian national mortgage corporation

(2) Consists of U.S.$300 million term loan.

(3) Consists of RM3.5 billion subordinated bonds, USD90 million subordinated notes, THB544 million subordinated notes, THB120 million subordinated notes and RM300 million subordinated sukuk. In addition to the existing subordinated obligations, the adjusted number as at 30 September 2010 has assumed the issuance of RM1.5 billion Subordinated Debts.

(4) The authorised ordinary share capital of the Bank as at 30 September 2010 was RM7,000,000,000 comprising 7,000,000,000 ordinary shares of RM1.00 each while the Bank's issued and paid-up share capital as at 30 September 2010 was 3,764,468,517 comprising RM3,764,468,517 ordinary shares of RM1.00 each.

(5) The authorised perpetual preference shares of the Bank as at 30 September 2010 was RM500,000,000 comprising 500,000,000 preference shares of RM1.00 each while the Bank's issued and paid up preference shares as at 30 September 2010 was RM200,000,000 comprising 200,000,000 preference shares of RM1.00 each.

## SECTION 7.0 FUNDING AND CAPITAL ADEQUACY

### Funding

The Group's primary source of funding is customer deposits, accounting for 82.0 and 83.2 per cent. of the Group's total liabilities as at 31 December 2009 and 30 September 2010, respectively, with other sources of funding including interbank deposits, funding obtained from Cagamas Berhad, borrowings, subordinated obligations and other liabilities comprising the remaining 18.0 and 16.8 per cent., respectively. The Group has established comprehensive funding and liquidity policy guidelines, setting out measures to manage and 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

As at 30 September 2010, the Group's customer deposit structure comprised primarily fixed deposits, demand deposits and savings deposits, representing 40.9 per cent., 20.4 per cent. and 8.4 per cent., respectively, of the Group's total customer deposits. These deposits were mainly sourced by the Group's Treasury, Retail Banking, Commercial Banking, Corporate and Investment Banking divisions or segments amounted to RM66.4 billion, RM48.6 billion, RM17.1 billion and RM13.4 billion respectively.

The customer deposit concentration has been decreasing since year 2000. The top ten customer depositor to total customer deposit ratio was 19.6 per cent. and 14.6 per cent. as at 31 December 2008 and 31 December 2009, respectively, compared to 28.0 per cent. as at 31 December 2000. As at 31 December 2008 and 31 December 2009, approximately 82.2 and 82.0 per cent., respectively, of total customer fixed deposits and negotiable instruments of deposit had maturities of less than six months and a further 12.4 and 13.4 per cent., respectively, of customer fixed deposits and negotiable instruments of deposit were due within the period of six months to a year, respectively. Based on the Group's previous experience, a substantial portion of deposits will be rolled over upon maturity, thereby providing the Group with a stable source of funding.

Based on BNM's statistics, as at 31 December 2009 and 30 September 2010, the Bank and CIMB Islamic Bank collectively had a 12.4 and 12.9 per cent., respectively, share of total customer deposits in the Malaysian market, with a share of approximately 11.5 and 11.0 per cent., 18.0 and 17.0 per cent., and 10.1 and 10.7 per cent., of fixed deposits, demand deposits and savings deposits, respectively, as at the same dates. The Group is focusing on increasing its savings deposits by leveraging on its strong distribution network and bundling of service-offerings.

The following tables illustrate the profile of the Group's customer deposits and the maturity structure of fixed deposits and negotiable instruments of deposit as at 31 December 2008, 31 December 2009 and 30 September 2010.

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RM'000) | (RM'000) | (RM'000) |
| Demand deposits ............................ | 26,043,404 | 30,197,077 | 32,053,449 |
| Saving deposits............................... | 9,264,470 | 12,616,669 | 13,227,625 |
| Fixed deposits................................. | 57,958,370 | 67,011,173 | 64,278,360 |
| Negotiable instruments of deposit......................................... | 2,344,348 | 1,544,632 | 2,177,042 |
| Others ............................................. | 25,480,383 | 35,502,794 | 45,431,241 |
| | 121,090,975 | 146,872,345 | 157,167,717 |

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM'000) |
| Due within six months .................... | 49,551,568 | 56,237,627 | 53,970,228 |
| Six months to less than one year..... | 7,497,358 | 9,212,618 | 9,342,880 |
| One year to less than three years..... | 2,212,588 | 1,714,533 | 1,324,934 |
| Three years to less than five years .. | 1,041,204 | 1,386,256 | 1,744,834 |
| Five years and more ....................... | - | 4,771 | 72,526 |
| | 60,302,718 | 68,555,805 | 66,455,402 |

**Interbank Deposits**

The Group 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 Group 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 31 December 2009 and 30 September 2010, deposits and placements from financial institutions accounted for approximately 7.9 and 6.6 per cent. of the Group's total liabilities, respectively.

**Other Funding Sources**

The Group is also able to obtain funding for three to seven year tenures by selling loans for the purchase of residential properties to Cagamas Berhad (the Malaysian national mortgage corporation, or "**Cagamas**") with recourse to the Group under repurchase arrangements. Housing loans typically have maturities greater than seven years and can be resold to Cagamas at the end of the applicable funding period. The Group continues to service such housing loans, retaining the floating interest collected on the housing loans and pays a fixed or floating rate of interest to Cagamas as selected by the Group at the time of the sale. The housing loans sold by the Group to Cagamas form an alternative source of funding for the Group. As at 31 December 2009 and 30 September 2010, the Group owed RM0.3 billion and RM0.2 billion, respectively, to Cagamas, accounting for 0.2 and 0.1 per cent. of the Group's total liabilities, respectively.

The Group's foreign currency funding and liquidity requirements are managed centrally and are sourced from customer deposits, the interbank market, the bank loan syndications market and the international debt capital markets.

- In 2006, CIMB Bank (L) Limited secured a term loan facility amounting to USD300 million maturing in 2011.
- In 2006, CIMB Thai issued USD50 million unsecured subordinated notes maturing in 2016 but callable with step-up interest in 2011.
- In 2007, CIMB Thai Bank issued USD40 million unsecured subordinated notes maturing in 2017 but callable with step-up interest in 2012.
- In 2009, CIMB Bank (L) Limited issued a senior unsecured bonds amounting to USD140 million maturing in 2011.
- In 2009, BT Securities Company Limited issued THB120 million unsecured subordinated debentures maturing in 2014.
- In 2010, CIMB Bank obtained an untied loan facility of US$300,000,000 from Japan Bank of International Cooperation.

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

***Negotiable Certificates and of Deposits***

The Group has the capacity to obtain funds, comprising short-term and long-term funds by issuing Negotiable Certificates and of Deposits (the "**NCDs"**) in the market. According to BNM guidelines, the Group is permitted to issue NCDs up to five times the value of its approved capital funds (amounting to RM94.5 billion and RM93.4 billion as at 31 December 2009 and 30 September 2010, respectively). As at 31 December 2009 and 30 September 2010, the Group's NCDs amounted to RM4.7 billion and RM4.9 billion respectively.

***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 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. 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 Regional Liquidity Risk Committee (the "**RLRC**") and Group Risk Committee (the "**GRC**") for the purposes of further evaluation and resolution. As at 1 November 2010, 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 1 November 2010, the Bank has conducted 5 tests with the latest test being conducted on 31 December 2009. The assumptions used in these tests and the test results have been submitted to the RLRC, 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, the 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 the Group's management whenever the Group's liquidity position may be at risk. It provides the Group with the analytical framework to detect a likely liquidity problem and to evaluate the Group's funding needs and strategies in advance of a liquidity crisis. The early warning system is made up of a set of indicators (monitored against pre-determined thresholds) that can reliably signal the financial strength and stability of the Group.

The funding crisis management team comprises of the members of the RLRC, senior management and 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 31 December 2009 and 30 September 2010, the Bank's core capital ratios (which are the ratio of Tier-I capital to risk-weighted assets) were 14.8 and 14.0 per cent. (net of proposed dividend), respectively, and its risk-weighted capital ratios (the ratio of capital base to risk-weighted assets) were 15.1 and 14.0 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 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 loan losses, subordinated debts 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.

With effect from 1 July 2010, the Group's capital adequacy ratio was computed in accordance to Internal Rating-Based (IRB) approach for Credit Risk, where Advanced IRB was adopted for retail credit exposure and Foundation IRB for non-retail credit. Operational Risk was computed based on Basic Indicator Approach whist Market Risk continue to use the Standardized Approach.

The comparative capital adequacy ratio for 2008 and 2009 have not been restated for the above change as they represent actual ratios reported for regulatory compliance purposes as of the respecitive dates.

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The following table sets out the capital adequacy ratios of the Bank as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | As at 31 December | | As at 30 Sept |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| **Tier I capital** | | | |
| Paid-up share capital ............................................ | 2,974,009 | 3,764,466 | 3,764,466 |
| Perpetual preference shares................................... | 200,000 | 200,000 | 200,000 |
| Non- innovative Tier-I capital | 1,000,000 | 1,000,000 | 1,000,000 |
| Innovative Tier-I capital........................................ | 1,692,900 | 1,685,000 | 1,617,500 |
| Other reserves....................................................... | 9,468,506 | 12,061,642 | 12,978,523 |
| | 15,335,415 | 18,711,108 | 19,560,489 |
| Less: | | | |
| Deferred tax assets ............................................... | (263,993) | (281,880) | - |
| Deductions in excess of Tier 2 Capital ^^ | - | - | (701,115) |
| Goodwill............................................................... | (3,559,075) | (3,555,075) | (3,555,075) |
| **Total Tier I Capital** ............................................ | **11,512,347** | **14,874,153** | **15,304,299** |
| | | | |
| **Tier II Capital** | | | |
| ICULS issued ....................................................... | 667,000 | - | - |
| Subordinated notes............................................... | 2,539,350 | 1,500,000 | 1,500,000 |
| Redeemable preference shares | 29,740 | 29,740 | 29,740 |
| Regulatory reserve | - | - | 25,689 |
| Portfolio impairment allowance / General allowance .......................................................... | 1,516,749 | 1,338,902 | 208,642 |
| Surplus of total eligible provision over expected loss under IRB approach | - | - | 244,048 |
| Total Eligible Tier II Capital................................. | **4,752,839** | **2,868,642** | **2,008,119** |
| Less: | | | |
| (I) investments in subsidiaries .................... | (717,021) | (2,287,602) | (2,391,154) |
| (II) securitisation exposures subject to deductions^ | - | - | (70,109) |
| (III) investments in joint venture ................ | (51,564) | (72,608) | - |
| (IV) investments in associated companies | (595,814) | (245,034) | (245,134) |
| Holding of other banking inst's capital | (12,579) | (12,887) | (2,837) |
| Total eligible Tier II Capital ^^ | 3,375,861 | 250,511 | - |
| Total Capital Base | **14,888,208** | **15,124,664** | **15,304,299** |
| | | | |
| Core capital ratio | 10.9% | 14.8% | 15.0% |
| Risk-weighted capital ratio | 14.0% | 15.1% | 15.0% |
| Core capital ratio (net of proposed dividend)....... | 10.7% | 14.8% | 14.0% |
| Risk-weighted capital ratio (net of proposed dividend).......................................................... | 13.9% | 15.1% | 14.0% |

^ *In accordance to a circular issued by BNM dated 25 April 2006, the Bank has deducted 50% of its investment in a jointly controlled entity, Proton Commerce Sdn Bhd ("PCSB"), from the capital base as at 31 December 2008 and 31 December 2009 respectively. As at 30 September 2010, PCSB has been accounted for in the following manner in the computation of the Bank's capital adequacy ratio:*

- *Hire Purchase loans and financing of PCSB (excluding those securitized) has been included in the computation of Risk Weighted Assets using the Advanced Internal-Rating Based Approach*
- *Investment in owner's note has been accounted for in accordance to Securitisation Framework under the Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Assets Computation) Guideline dated 31 December 2009*

^^ *Deductions in excess of Tier 2 capital was deducted against Tier I capital*

Breakdown of the notional assets of the Bank in the various categories of risk weights as at 31 December 2008, 31 December 2009 and 30 September 2010 is as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2008 | | 2009 | |
| | (RM '000) | (RM '000) | (RM '000) | (RM '000) |
| | Principal | Risk-weighted | Principal | Risk-weighted |
| 0%................................................................ | 23,692,884 | - | 30,359,481 | - |
| 10%.............................................................. | 147,282 | 14,728 | 24,173 | 2,417 |
| 20%.............................................................. | 22,637,137 | 4,527,427 | 21,909,123 | 4,381,825 |
| 50%.............................................................. | 24,013,412 | 12,006,706 | 22,437,082 | 11,218,541 |
| 100%............................................................ | 85,765,298 | 85,765,298 | 79,804,879 | 79,804,879 |
| Total risk weighted assets for credit risks.... | 156,256,013 | 102,314,159 | 154,534,738 | 95,407,662 |
| Risk weighted assets for market risk ........... | 4,629,925 | 4,629,925 | 4,834,636 | 4,834,636 |
| Risk weighted assets for large exposure risk | 196,983 | 196,983 | 193,983 | 193,983 |
| Total risk weighted assets ............................ | 161,082,921 | 107,141,067 | 159,563,357 | 100,436,281 |

| | As at 30 September |
|---|---|
| | 2010 |
| | (RM '000) |
| | Principal |
| Credit risk | 84,533,710 |
| Market risk | 7,898,194 |
| Operational risk | 9,425,781 |
| Large exposure risk | 46,998 |
| | 101,904,683 |

## SECTION 8.0 ASSET QUALITY

### Loan Portfolio

The Group has a stable and diversified loan portfolio, with loans for purchase of residential property and for working capital purposes being the 2 largest exposures, followed by loans for purchase of transport vehicles. As at 31 December 2009 and 30 September 2010, the Group's total outstanding gross loans were RM117.7 billion and RM126.4 billion, of which 74 and 73 per cent. were loans of the Bank, respectively.

### *Loans and advances by type*

The following table sets out a breakdown of the Group's gross loan portfolio by product type as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM '000) |
| Overdrafts | 7,238,366 | 7,934,860 | 8,721,798 |
| Term loans/financing | | | |
| - Housing loan/financing | 25,110,340 | 35,941,384 | 44,848,957 |
| - Syndicated term loan | 6,670,195 | 7,616,727 | 7,631,084 |
| - Other term loans/financing | 35,010,869 | 46,171,054 | 49,818,093 |
| - Factoring receivables | 48,737 | 39,169 | 19,976 |
| - Lease receivables | 73,227 | 45,355 | 61,182 |
| - Hire purchase receivables | 13,663,402 | 14,276,162 | 15,561,857 |
| Bills receivable | 153,420 | 1,893,087 | 2,112,380 |
| Trust receipts | 795,516 | 810,827 | 1,033,812 |
| Claim on customers under acceptance credit | 5,650,525 | 4,294,096 | 3,859,024 |
| Staff loans | 442,311 | 406,409 | 403,166 |
| Credit card receivables | 2,663,733 | 3,029,562 | 3,903,289 |
| Revolving credit | 7,619,761 | 8,459,959 | 7,439,429 |
| Share margin financing | 172,954 | 430,368 | 434,147 |
| | 105,313,356 | 131,349,019 | 145,848,194 |
| Less: Unearned interest | (4,717,873) | (13,653,593) | (19,473,524) |
| | 100,595,483 | 117,695,426 | 126,374,670 |
| Less: Islamic financing sold to Cagamas | (294,946) | - | - |
| Gross loans, advances and financing | 100,300,537 | 117,695,426 | 126,374,670 |
| Fair value changes arising from fair value hedges | 177,618 | 45,028 | 279,567 |
| | 100,478,155 | 117,740,454 | 126,654,237 |
| Allowance for impairment losses | | | |
| - Individual impairment allowance | - | - | (2,319,654) |
| - Portfolio impairment allowance | - | - | (2,337,338) |
| - General allowance | (1,606,498) | (1,564,540) | - |
| - Specific allowance | (3,184,511) | (2,695,272) | - |
| **Total net loans, advances and financing** | 95,687,146 | 113,480,642 | 121,997,245 |

### *Loans and advances by economic purpose*

The following table illustrates the breakdown of the Group's gross loan portfolio by economic purpose as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| Personal use | 2,953,083 | 4,503,629 | 4,919,484 |
| Credit card | 2,663,733 | 3,030,000 | 3,903,289 |
| Purchase of consumer durables | 19,111 | 3,688 | 880 |
| Construction | 2,759,028 | 3,550,772 | 3,394,515 |
| Residential property (Housing) | 24,657,226 | 29,839,340 | 34,846,158 |
| Non-residential property | 8,593,380 | 9,616,125 | 11,049,215 |
| Purchase of fixed assets other than land and building | 797,611 | 1,340,343 | 1,292,811 |
| Merger and acquisition | 1,563,682 | 1,737,598 | 1,839,538 |
| Purchase of securities | 11,828,362 | 9,104,676 | 7,004,499 |
| Purchase of transport vehicles | 11,415,972 | 11,620,841 | 12,814,877 |
| Working capital | 27,194,826 | 29,508,661 | 32,871,198 |
| Other purpose | 6,149,469 | 13,839,753 | 12,438,206 |
| | 100,595,483 | 117,695,426 | 126,374,670 |
| Less: Islamic financing sold to Cagamas | (294,946) | - | - |
| | 100,300,537 | 117,695,426 | 126,374,670 |

### *Purchase of residential properties*

The Group's largest concentration of loans, as at 31 December 2009 and 30 September 2010, was for the purchase of residential properties. This sector, as at 31 December 2009 and 30 September 2010, accounted for 25.4 and 27.6 per cent. of the Group's total loans, respectively, compared to the Malaysian banking industry average of 26.8 and 27.0 per cent. as at the same dates.

This reflects the Group's strategy of maintaining housing loans as a core product, thus providing the Group with both annual income and product bundling and cross-selling opportunities across various market segments. These loans are principally provided to private individuals for the purchase or construction of residential properties for owner occupation, but will also include loans for commercial housing development. These loans are generally secured by mortgages, thereby minimising the credit loss on impaired loans.

The Group has a policy of setting loan to value ratios for housing loans at a maximum of 90.0 per cent. of the appraised value of the property to be financed. The loan to value ratio is lower for luxurious or high end residential properties and for investment residential properties, where repayments are dependent on receipt of rental income.

### *Working capital*

The Group's second largest concentration of loans, as at 31 December 2009 and 30 September 2010, was for working capital purposes. This sector, as at 31 December 2009 and 30 September 2010, accounted for 25.1 and 26.0 per cent., respectively, of the Group's total loans. The Group 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.

### *Purchase of transport vehicles*

The third largest concentration of the Group's loans as at 31 December 2009 and 30 September 2010 was for the purchase of transport vehicles, which made up 9.9 and 10.1 per cent. of the Group's total loans respectively as at the abovementioned dates. The Group retains a strong market share in this sector, amounting to 9.5 and 9.8 per cent. as at 31 December 2009 and 30 September 2010, respectively. This reflects the Group's strong focus on automobile hire purchase financing.

### Loan maturity profile

As at 31 December 2009 and 30 September 2010, loans maturing in less than one year constituted approximately 15.8 and 17.9 per cent. of the Group's gross loans respectively. 28.1 and 23.6 per cent of gross loans had maturities of one to less than three years respectively, 11.6 and 12.3 had maturities of three to less than five year as at the two reporting dates and 44.5 and 46.2 per cent had maturities of five years and more respectively. The category of loans with maturities of less than one year includes revolving credit and overdraft facilities and trade financing facilities.

The following table sets out the Group's gross loan portfolio as at 31 December 2008, 31 December 2009 and 30 September 2010 by maturity:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| Maturing within one year | 21,501,907 | 18,602,963 | 22,579,443 |
| One year to less than three years | 24,235,265 | 33,085,173 | 29,773,103 |
| Three years to less than five years | 11,080,136 | 13,615,544 | 15,583,267 |
| Five years and more | 43,778,175 | 52,391,746 | 58,438,857 |
| | 100,595,483 | 117,695,426 | 126,374,670 |
| Less: Islamic financing sold to Cagamas | (294,946) | - | - |
| | 100,300,537 | 117,695,426 | 126,374,670 |

### Twenty Largest Borrowers

As at 31 December 2009 and 30 September 2010, the Group's 20 largest borrowers accounted for approximately RM20.8 billion and RM21.6 billion, or 17.6 and 17.1 per cent. of the Group's total gross loans, respectively. These borrowers are involved in diversified activities such as finance, insurance and business services, transport, storage, telecommunications, construction, utilities and general commerce.

**Credit / Financing Approval Procedures**

The Group implements credit/financing authority under the direct purview of the Board of Directors within a hierarchical framework, namely:-

Board Delegated Committees

- Group Executive Committee
- Credit Risk Committee
- Regional Credit Committee
- Business Credit Committee
- Singapore Business Credit Committee

Other Board Delegated Authority:-

- Retail Banking
- Commercial Banking
- Corporate Banking
- Regional Banking (including overseas branches)
- Branch/Consumer Sales and Distribution
- Group Cards and Personal Financing
- Group Special Asset Management

The applicable level of credit/financing approval is guided by the aggregation of all credit/financing lines or facilities of all related companies, their principals and guarantors and consideration on single party exposures.

Authority to approve loans/financing at branch level (**"Branch Delegated Authority**") is premised on the type of application/financing received and the appropriate authorised signatories to approve such proposals. Consideration is primarily based on borrower/customer basis, inclusive of joint borrower(s)/customer(s). There is no singular approval authority. The approval authority in respect of any secured facility must be aggregated with related borrowings/financings of the same borrower/customer at the level of the Retail Credit Centre (RCC), Private Banking (PB) and Group Cards and Personal Financing (GCPF). All low valued consumer loans/financings extended to "Connected Parties" (as defined pursuant to BNM's Guidelines), must be escalated to the joint approval authority for consideration and or approval. The Board of Directors is ultimately responsible to ensure risks associated with credit exposures to Connected Parties are effectively managed. This includes effective implementation of policies and procedures designed to promote sound business practices.

Over and above the Branch Delegated Authority limit, all applications/financings are escalated via a loans originating network to a centralised Retail Loans/Financing Centre. Authority at this Centre is exercised based on a system of check and balances with minimum dual signatories to effect a credit transaction. As a matter of principle, the higher the designation of an authorised signatory will enable a higher credit/financing limit to be considered. For secured loan/financing, approval is capped on the basis of per borrower/customer inclusive of a maximum unsecured limit. This is a combined loan/financing limit applicable within RCC, PB and GCPF. In the case of applications/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 CSD, RCC, PB and GCPF.

Under the Group's Commercial Banking, Corporate Banking and Regional Banking, various authorities within the respective strategic business units (SBUs) may, pursuant to joint authority, approve any loan/financing up to a stipulated limit. There is also an unsecured limit applicable to each SBU. Above the level of SBUs, Business Credit Committee/ Singapore Business Credit Committee may approve up to a set enhanced limit per borrower/customer (subject to total exposure of the Group not exceeding a threshold limit). A higher limit would be applicable if such loans/financing are appropriately collateralised.

The Credit Risk Committee (CRC) /Regional Credit Committee (RCC) may approve loans/financing which are above Singapore Business Credit Committee/Business Credit Committee (SBCC/BCC) authority based on per borrower/customer while the Group's Executive Committee may approve all loan/financing which exceed the CRC's /RCC's approving limit up to the single customer limit. All approved credit facilities exceeding RM500 million per borrower are to be escalated to the Board for its concurrence. Members of the Board are entitled to raise concerns and/or observations on the terms of a credit proposition. In addition, if such loans/financings exceed the regulatory imposed Single Customer Limit, BNM's prior approval would be required. Substantial progress has been achieved on various initiatives to integrate and strengthen the approval process across regional operating platform.

All loans and assets of the Group are vigorously evaluated using an objective and prudential grading system. The risk rating of an obligor forms an integral part of the credit/financing approval and credit/financing review processes. All new and existing customers who satisfy stipulated criteria set are rated through the Group's Internal Credit Rating System (the "**ICRES**"). A key feature of the ICRES involves the rating of obligors and guarantors using the Group's Obligor Risk Rating Framework (**ORR Framework**). In particular, the Corporate and SME Obligor Risk Rating Framework (the "**CSMEORR Framework**") governs the risk exposure in relation to Corporate Banking and SMEs.

**Classification and Allowance for Impairment Losses on Loans, Advances and Financing**

The Group adopted FRS139 Financial Instruments: Recognition and Measurement for the financial year commencing 1 January 2010. This has resulted in a change in the accounting policy relating to the classification of impaired loans and the assessment for impairment of loans and advances.

Prior to the adoption of FRS139, loans were classified as impaired (previously referred to as non-performing) and allowances were computed in accordance to BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. BNM/GP3 classified non-performing loans primary by referring to the months-in-arrears i.e. the number of months the loan's principal or interest or both has been past due. The following table summarises the classification of NPLs and the specific allowances set by the Bank prior to the adoption of FRS139:

| Months in Arrears | Classification | Specific Allowance [Note] |
|---|---|---|
| 3-<9 ......................................................... | Substandard | 20% |
| 9-<12 ...................................................... | Doubtful | 50% |
| ≥12.......................................................... | Bad | 100% |

*Note: The specific allowances were calculated based on the prescribed percentage of the loan outstanding amount less the value of collateral, unearned interest and interest-in-suspense*

With the adoption of FRS139, loans are classified as impaired where the principal or interest or both is past due for 3 months or more (as in the previous BNM/GP3) and in addition to that, loans that are less than 3 months in arrears but exhibit indication of credit weaknesses will also be classified as impaired. In assessing for impairment losses, the Group assess individually whether objective evidence of impairment exists for loans which are individually significant, and collectively for loans which are not individually significant. Loans which have been individually assessed and for which no evidence of loss has been specifically identified, are grouped together with loans with similar credit risk characteristics and collectively assessed for impairment losses.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss for loans individually assessed is measured as the difference between the carrying value of the loan and the present value of its estimated future cash flows. Whilst for loans collectively assessed, the allowance for impairment is estimated on the basis of the Group's historical loss experience for assets with similar credit risk characteristics.

The following tables set out movements in the Group's allowance for impairment losses on loans, advances and financing, as at 31 December 2008, 31 December 2009 and 30 September 2010 (Post adoption of FRS139), respectively:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM '000) |
| **Individual impairment allowance** | | | |
| At 1 January | - | - | - |
| Adoption of FRS139 | - | - | 3,370,235 |
| Adjusted balance at 1 January | - | - | 3,370,235 |
| Allowance written back during the financial year / period | - | - | (31,919) |
| Allowance made and charged to deferred assets | - | - | 1,412 |
| Amount written off | - | - | (615,465) |
| Amount reclassified to non-current assets held for sale | - | - | (318,548) |
| Transferred to portfolio impairment allowance | - | - | - |
| Unwinding income | - | - | (62,223) |
| Exchange fluctuation | - | - | (23,838) |
| | **-** | **-** | **2,319,654** |
| **Portfolio impairment allowance** | | | |
| At 1 January | - | - | - |
| Adoption of FRS139 | - | - | 2,273,849 |
| Adjusted balance at 1 January | - | - | 2,273,849 |
| Net allowance made during the financial year / period | - | - | 427,948 |
| Allowance written back and credited to deferred assets | - | - | (397) |
| Amount written off | - | - | (333,686) |
| Amount reclassified to non-current assets held for sale | - | - | (11,103) |
| Transferred from individual impairment allowance | - | - | - |
| Amount written back in relation to a jointly controlled entity | - | - | 2,081 |
| Unwinding income | - | - | (24,019) |
| Exchange fluctuation | - | - | 2,665 |
| | **-** | **-** | **2,337,338** |

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RM '000) | (RM '000) | (RM '000) |
| **Specific allowance** | | | |
| At 1 January | 3,300,748 | 3,184,511 | 2,695,272 |
| Adoption of FRS139 | - | - | (2,695,272) |
| Adjusted balance at 1 January | 3,300,748 | 3,184,511 | - |
| Allowance made during the financial year / period | 1,508,387 | 1,688,817 | - |
| Allowance made / (written back) and charged to deferred assets | 878 | (2,880) | - |
| Amount written back in respect of recoveries | (718,893) | (537,217) | - |
| Amount written back from sale of impaired loans | (61,099) | - | - |
| Amount written off | (648,042) | (848,198) | - |
| Sale of impaired loans | (194,711) | (1,682,837) | - |
| Acquisition of a subsidiary company | - | 880,800 | - |
| Transferred from general allowance | - | 10,183 | - |
| Allowance for impaired loans purchased from third party | - | 3,440 | - |
| Allowance (written back) / made for loans in relation to a jointly controlled entity | (4,329) | 3,009 | - |
| Exchange fluctuation | 1,572 | (4,356) | - |
| | **3,184,511** | **2,695,272** | **-** |
| **General allowance** | | | |
| At 1 January | 1,377,254 | 1,606,498 | 1,564,540 |
| Adoption of FRS139 | - | - | (1,564,540) |
| Adjusted balance at 1 January | 1,377,254 | 1,606,498 | - |
| Net allowance made/(write back) during the financial year / period | 229,830 | (120,118) | - |
| Transferred to specific allowance | - | (10,183) | - |
| Acquisition of a subsidiary company | - | 88,309 | - |
| Exchange fluctuation | (586) | 34 | - |
| | 1,606,498 | 1,564,540 | - |
| (General allowance as % of gross loans, advances and financing less loans exempted from general allowance by BNM and specific allowance) | 1.7% | 1.5% | - |

The Group seeks to prevent loans from being impaired through early detection and proactive action. The Group maintains a list of accounts with a higher probability of default in order to identify and monitor potential impairment while tracking information such as outstanding loan balances, interest and principal payments, targeted actions and responses and other information about the borrower. Generally, once the Group is concerned about a particular loan or sector, frequent reviews and proactive management of the relevant account is undertaken between the relevant account relationship officer and credit recovery officer.

**Write-Off Policy**

Write-off of all loans must be approved by the Board of Directors of the Bank. The Bank holds impaired loans 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. Prior to writing off a loan, the Bank will begin legal proceedings, which, in the case of collateralised loans, will involve foreclosure proceedings. In the case of collateralised loans, 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 loan. After foreclosure, any uncollected amounts with respect to interest, penalty or principal will be written off.

Partial write-off will be considered where full recovery is not possible taking present value of securities held or where customers have been allowed time to repay on a negotiated settlement basis for an amount lower than the outstanding. The amount is written down to the value of collateral i.e. the shortfall in collateral value over the outstanding balance is written off.

***Profile of Impaired Loans***

The Group's gross impaired loans stood at RM4.1 billion and RM5.8 billion as at 31 December 2009 and 30 September 2010, respectively, representing 3.5 and 4.6 per cent. of total loans as at the above-mentioned dates.

The increase in gross impaired loans as at 30 September 2010 compared to 31 December 2009 was partly due to the more stringent requirement of FRS139, whereby loans previously classified as performing (less than 3 months in arrears) are now classified as impaired if the loans exhibit indication of credit weaknesses.

The table below illustrates the movements of the Group's impaired / non performing loans as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM'000)** | **(RM'000)** |
| Balance as at 1 January | | | |
| - As previously reported | 6,753,711 | 5,473,778 | 4,102,488 |
| - Adoption of FRS139* | - | - | 3,165,839 |
| - As adjusted | 6,753,711 | 5,473,778 | 7,268,327 |
| Classified as impaired / non performing during the year / period | 3,349,374 | 3,700,995 | 2,995,026 |
| Reclassified as non impaired / performing during the year / period | (2,532,285) | (1,954,582) | (2,228,331) |
| Amount written back in respect of recoveries | (1,051,314) | (889,715) | (782,763) |
| Amount written off | (660,640) | (1,025,067) | (862,405) |
| Impaired / non-performing loans arising from acquisition of a subsidiary company | - | 1,398,003 | - |
| Purchase of impaired / non performing loans from third party | - | 3,852 | - |
| Sale of impaired loans | (385,389) | (2,607,193) | (146,171) |
| Amount reclassified to non-current assets held for sale | - | - | (332,199) |
| Exchange fluctuation | 321 | 2,417 | (93,406) |
| | **5,473,778** | **4,102,488** | **5,818,078** |
| Ratio of gross impaired / non-performing loans to total loans, advances and financing | 5.5% | 3.5% | 4.6% |

***** *Arising from the reinstatement of interest suspended and loans previously classified as performing under BNM/GP3 but considered impaired under FRS 139*

### *Non-Performing Loans / Impaired Loans by Economic Purpose*

The Group's largest component of impaired loans was for working capital purposes, accounted for 36.2 and 28.7 per cent. of the Group's total impaired loans as at 31 December 2009 and 30 September 2010 respectively. Following this was loans for construction and other purposes, which constituted 7.3 and 22.4 per cent, and 19.8 and 15.0 per cent respectively, of the Group's impaired loans at the above-mentioned dates.

The table below sets out the Group's NPLs/impaired loans by economic purpose as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | As at 31 December | | | | As at 30 September | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | (RM '000) | % | (RM '000) | % | (RM '000) | % |
| Personal use | 246,826 | 4.5 | 139,234 | 3.4 | 157,898 | 2.7 |
| Credit card | 70,400 | 1.3 | 64,665 | 1.6 | 74,696 | 1.3 |
| Purchase of consumer durables | 950 | - | 223 | - | 248 | - |
| Construction | 329,641 | 6.0 | 298,068 | 7.3 | 1,300,513 | 22.4 |
| Residential property (Housing) | 1,585,234 | 29.0 | 675,363 | 16.5 | 857,854 | 14.7 |
| Non-residential property | 438,087 | 8.0 | 194,018 | 4.7 | 244,939 | 4.2 |
| Purchased of fixed assets other than land and building | 66,745 | 1.2 | 52,666 | 1.3 | 76,714 | 1.3 |
| Purchase of securities | 69,980 | 1.3 | 35,455 | 0.9 | 164,629 | 2.8 |
| Purchase of transport vehicles | 354,539 | 6.5 | 339,556 | 8.3 | 401,998 | 6.9 |
| Working capital | 2,193,798 | 40.1 | 1,486,427 | 36.2 | 1,670,987 | 28.7 |
| Other purpose | 117,578 | 2.1 | 816,813 | 19.8 | 867,602 | 15.0 |
| | 5,473,778 | 100.0 | 4,102,488 | 100.0 | 5,818,078 | 100.0 |

## Financial Assets and Investments Portfolio

### *Financial Assets Held-for-trading*

Financial assets 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. Financial assets 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.

Financial assets held-for-trading constituted 7.0 per cent of the Group total assets as at 31 December 2009 and 30 September 2010 respectively. Included in the Group's financial assets held-for-trading are mainly Government Securities and Issues (52.6 per cent. respectively), negotiable instruments of deposit (21.7 and 17.0 per cent., respectively) and private and Islamic debt securities (15.6 and 20.2 per cent., respectively).

### *Financial Investments Available-for-sale*

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Financial investments available-for-sale 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.

Financial investments available-for-sale made up 4.1 and 4.2 per cent. of the Group's total assets as at 31 December 2009 and 30 September 2010 respectively, in which 71.6 and 71.7 per cent. of the investment portfolio as at the above balance sheet dates respectively, was held in private debt securities.

***Financial Investments Held-to-maturity***

Financial investments held-to-maturity are non-derivative instruments with fixed or determinable payments and fixed maturities to which the Group has the positive intention and ability to hold to maturity. If the Group sells other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale. Financial investments held-to-maturity are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Gain or loss arising from de-recognition or impairment of these financial investments is recognised in the income statement. Financial investments held-to-maturity constituted 6.6 per cent. of the Group's total assets as at 31 December 2009 and 30 September 2010, respectively, and comprised mainly the private debt securities (77.3 and 76.4 per cent., respectively).

The following tables set out the Group's financial assets and investment portfolio as at 31 December 2008, 31 December 2009 and 30 September 2010:

| | **As at 31 December** | | **As at 30 September** |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| **Financial Assets Held For Trading** | | | |
| ***Money market instruments:*** | | | |
| Malaysian government securities | 1,342,488 | 1,018,713 | 537,349 |
| Cagamas bonds | 205,323 | 28,283 | 13,213 |
| Khazanah bonds | 9,791 | - | - |
| Malaysian government treasury bills | 38,262 | 185,033 | 285,487 |
| Other government securities | - | 862,061 | 1,352,170 |
| Bank Negara Malaysia bills | 552,598 | 2,779,851 | 2,954,657 |
| Bank Negara negotiable notes | 46,892 | 1,887,613 | 1,949,728 |
| Bankers' acceptances and Islamic accepted bills | 1,174,286 | 696,623 | 669,815 |
| Negotiable instruments of deposit | 3,529,709 | 3,002,701 | 2,465,955 |
| Credit-linked notes | 172,884 | 158,604 | 123,103 |
| Commercial papers | 332,605 | 29,982 | 114 |
| Government investment issue | 81,376 | 500,213 | 525,086 |
| | 7,486,214 | 11,149,677 | 10,876,677 |
| ***Quoted securities:*** | | | |
| In Malaysia | | | |
| Shares | 137,527 | 457,382 | 575,558 |
| Warrants | 5 | 5 | 5 |
| Loan stocks | 1,272 | - | - |
| | 138,804 | 457,387 | 575,563 |
| Outside Malaysia | | | |
| Shares | 326 | 7,840 | 2,268 |
| Private debt securities | - | 2,696 | 73,965 |

| | | | |
|---|---|---|---|
| Other government bonds | - | 41,500 | 16,969 |
| | 326 | 52,036 | 93,202 |
| ***Unquoted securities:*** | | | |
| In Malaysia | | | |
| Private and Islamic debt securities | 1,416,966 | 1,508,728 | 1,593,062 |
| Shares | 5,001 | 5,001 | 5,896 |
| | 1,421,967 | 1,513,729 | 1,598,958 |
| Outside Malaysia | | | |
| Private and Islamic debt securities | 516,970 | 645,250 | 1,337,508 |
| | 9,564,281 | 13,818,079 | 14,481,908 |

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| **Financial Investments Available-For-Sale** | | | |
| ***Money market instruments:*** | | | |
| Malaysian Government securities | 109,729 | 180,895 | 191,648 |
| Khazanah bonds | 58,376 | 34,975 | - |
| Government investment Issue | 187,714 | 360,354 | 285,722 |
| Commercial papers | 134,040 | 19,539 | - |
| Cagamas bonds | 296,925 | 275,157 | 239,239 |
| | 786,784 | 870,920 | 716,609 |
| ***Quoted securities:*** | | | |
| In Malaysia | | | |
| Unit trust | 703,889 | - | - |
| Outside Malaysia | | | |
| Shares | - | 5,830 | 5,316 |
| Private debt securities | 115,216 | 109,214 | 44,443 |
| Unit trust | - | 266,525 | 268,198 |
| Other government bonds | - | 469,788 | 526,529 |
| | 115,216 | 851,357 | 844,486 |
| ***Unquoted securities:*** | | | |
| In Malaysia | | | |
| Private debt securities | 5,401,347 | 5,900,409 | 6,453,114 |
| Shares | 378,104 | 379,095 | 720,403 |
| Loan stocks | 30,715 | 19,437 | 19,424 |
| Bond funds | - | 4,111 | 4,118 |
| | 5,810,166 | 6,303,052 | 7,197,059 |
| Outside Malaysia | | | |
| Shares | 9,606 | 28,528 | 27,636 |
| Private equity funds | 83,953 | 119,786 | 72,499 |
| Unit trust funds | 136,578 | 196,878 | 175,284 |
| Private debt securities | - | 28,325 | 37,863 |

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **(RM '000)** | **(RM '000)** | **(RM '000)** |
| | 230,137 | 373,517 | 313,282 |
| **Subtotal before allowance** | **7,646,192** | **8,398,846** | **9,071,436** |
| ***Allowance for impairment losses:*** | | | |
| Private debt securities ................................................ | (279,343) | (253,390) | (242,388) |
| Quoted shares ............................................................ | - | (3,026) | (2,534) |
| Unquoted shares ........................................................ | (6,659) | (33,552) | (25,570) |
| Loan stocks | - | (6,905) | (6,892) |
| Unit trusts | - | (21,654) | (21,498) |
| | (286,002) | (318,527) | (298,882) |
| | 7,360,190 | 8,080,319 | 8,772,554 |

## Financial Investments Held-To-Maturity

| | | | |
|---|---|---|---|
| ***Money market instruments*:** | | | |
| Malaysian government securities............................... | 149,967 | 1,123,977 | 1,123,977 |
| Cagamas bonds........................................................... | 294,817 | 294,817 | 254,817 |
| Malaysian government investment issue | - | - | 600,223 |
| | 444,784 | 1,418,794 | 1,979,017 |
| ***Quoted securities:*** | | | |
| Outside Malaysia | | | |
| Structured notes | - | 342,847 | 216,486 |
| Private debt securities | - | 740,754 | 981,742 |
| | - | 1,083,601 | 1,198,228 |
| ***Unquoted securities:*** | | | |
| In Malaysia | | | |
| Shares .......................................................................... | 462 | 270 | - |
| Loans stocks ............................................................... | 32,478 | 31,814 | 31,814 |
| Danaharta Urus Sdn Bhd bonds................................. | 894,807 | 929,639 | 795,335 |
| Private debt securities ................................................ | 7,738,316 | 7,698,001 | 6,544,561 |
| Islamic commercial papers.......................................... | 34,832 | 6,775 | - |
| | 8,700,895 | 8,666,499 | 7,371,710 |
| Outside Malaysia | | | |
| Private debt securities ................................................ | 2,324,723 | 1,518,478 | 2,967,969 |
| **Subtotal** | **11,470,402** | **12,687,372** | **13,516,924** |
| Accretion of discount ................................................. | 231,116 | 242,894 | 272,739 |
| Allowance for impairment losses............................... | (75,548) | (55,015) | (55,143) |
| | 11,625,970 | 12,875,251 | 13,734,520 |

## SECTION 9.0 RISK MANAGEMENT

### Risk Management

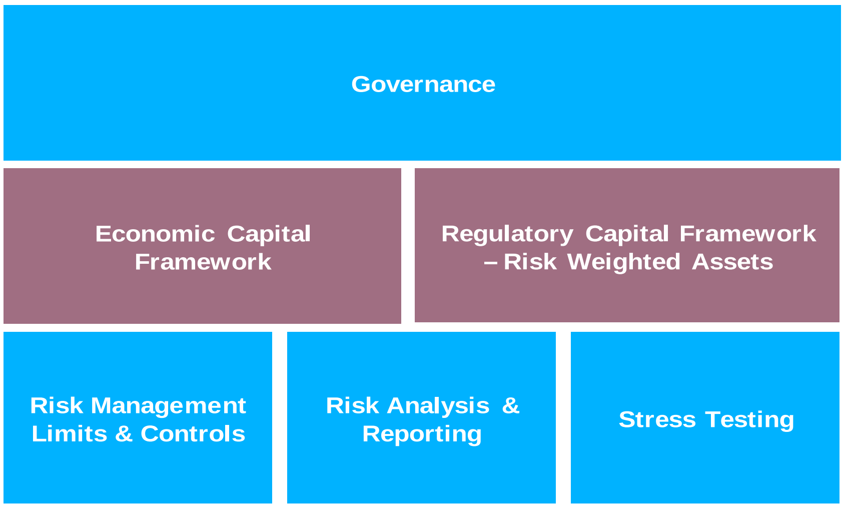
A robust and effective risk management system is critical for our Group to achieve continued profitability and sustainable growth in shareholders' value in today's globalised yet inter-linked financial and economic environment.

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

### Enterprise Risk Management and Control Framework

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

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



Generally, the objectives of our EWRM are to:

(i) identify the various risk exposures and risk capital requirements;

(ii) ensure risk taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and

(iii) help create shareholder value through proper allocation of risk capital and facilitate risk-reward analysis and the development of new businesses.

The EWRM Framework is centred on a resilient risk and capital management which requires our Group to identify, evaluate, measure, manage and control its significant risks and risk appetite, and relate these to our capital requirements, whilst at all times ensuring capital adequacy.

Our Group employs Capital-at-Risk as the common and consistent measurement of risk across our Group. The Capital-at-Risk framework provides the basis of allocating economic capital within our Group. It provides a yardstick to facilitate the comparison of risk across business units and risk types. This enables our Group to consider both the downside risk, for risk protection and upside potential, for earnings growth. Hence, allowing our Group to measure the performance of each business on an absolute basis (economic profit) and relative percentage return basis (RAROC) against our costs of capital.

Our Group acknowledges that strong risk governance is the backbone that holds the EWRM together. Our Board through BRC is ultimately responsible for the implementation of the EWRM, which is administered vide several risk committees. GRD has been principally tasked to assist the various committees and undertakes the performance of the day-to-day risk management functions of the EWRM. The implementation of the EWRM is subjected to the independent assurances and assessment of Group Internal Audit.

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

A group wide stress test is performed on a semi-annual basis to evaluate the financial impact on our Group in the event of projected adverse economic and financial situations. This process enables our 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 our Group can best prepare for and react to them. In addition, our Group performs ad-hoc stress tests on selected portfolio to evaluate its performance under a given stress scenario.

**Risk Management Organisation**

In accordance with our Group's risk management structure, the BRC assumes ultimate responsibility on behalf of the Board for the supervision of risk management. In line with best practices, the BRC determines the risk policy objectives for our Group. The BRC also decides the yearly allocation of risk capital to support all risks taken by our Group.

The day-to-day responsibility for risk management and control is delegated to our GRC comprising senior management of our Group. Our GRC undertakes the oversight function for capital allocation and overall risk limits, in line with the risk appetite determined by the board of directors. Our GRC is supported by five specialised sub-committees, namely our Group Market Risk Committee, the Credit Risk Committee, the Regional Credit Committee, the Regional Liquidity Risk Committee and the ORC, each addressing one of the following:

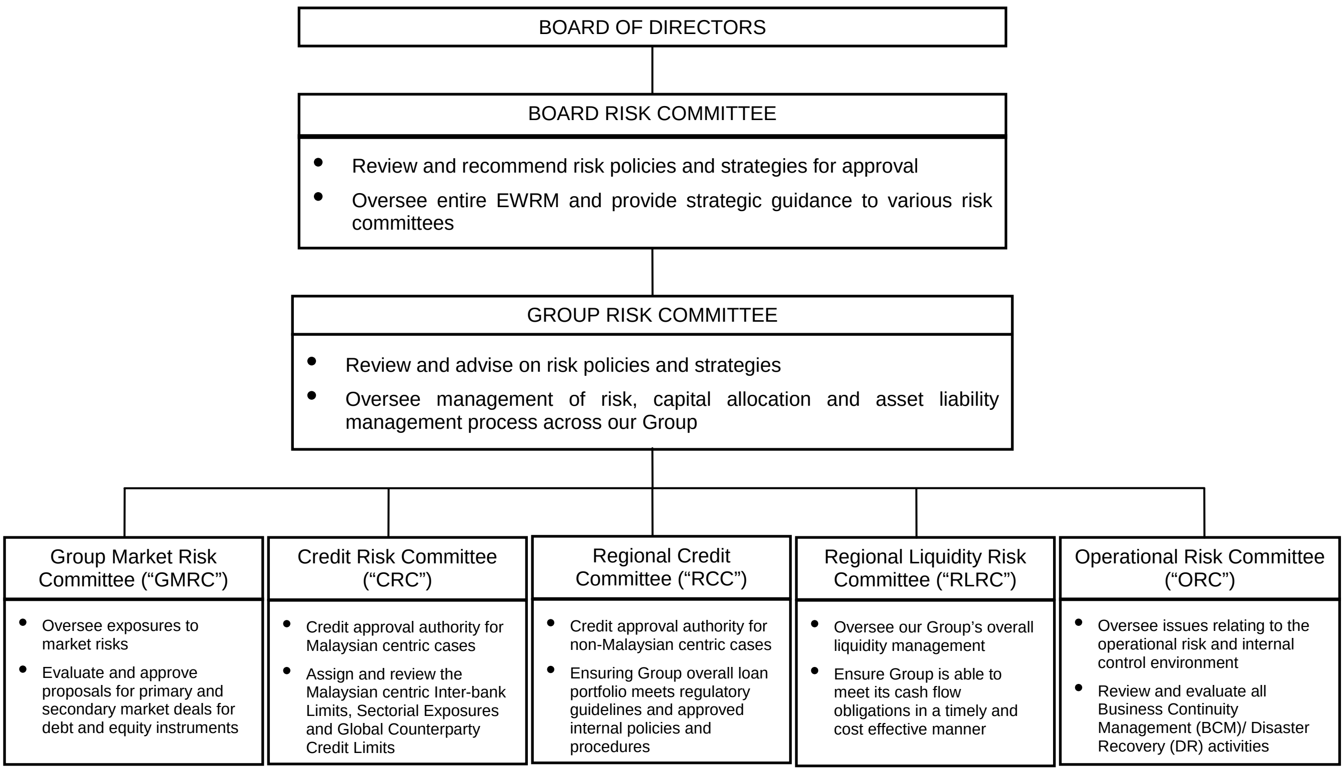
- *Market risk*, arising from fluctuation in the value of the portfolio arising from changes in value of market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility;

- *Credit risk,* arising from losses due to the obligor, market counterparty or issuer of securities or other instruments held, failing to perform its contractual obligations to our Group;

- *Liquidity risk*, arising from a bank's inability to efficiently meet its present and future funding needs or regulatory obligations, when they come due, which may adversely affect its daily operations and incur unacceptable losses; and

- *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.

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




Our overseas subsidiaries' risk committees are set-up in a similar structure in their respective jurisdictions. Whilst recognising the autonomy of the local jurisdiction and compliance to local requirements, our Group strives to ensure a consistent and standardised approach in its risk governance process. As such, the GRC and each of the relevant regional committees have consultative and advisory responsibilities on regional matters across our Group.

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

***The Roles of GRD***

The key responsibilities of GRD are to identify, analyse, monitor, and review and report the principal risks to which our Group is exposed. Further, it provides the management with timely information and analysis of the risk positions in order for our management to exercise control over all exposures. 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.

***The Roles of GRM***

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

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

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

***The Roles of GC***

GC carries out independent assessments and evaluations of all credit risk related proposals originating from the various business units such as loans and advances, fixed income, derivatives, sales and trading, prior to submission to the Business Credit Committee, CRC, the executive committees or the board of directors for approval. GC ensures proper grouping of entities and counterparties under the single customer framework. GC also reviews our Group's holdings of all fixed income assets issued by Malaysian companies and recommends the internal ratings for CRC's approval.

***The Roles of RCM***

A new regional credit platform was established towards the second half of 2009 with a primary objective of enhancing efficiency and effectiveness of the credit oversight as well as credit approval process for all non-Malaysian centric corporate and financial institutions within our Group. The platform includes two credit committees, one for smaller-sized exposures of up to SGD10 million and the other for larger regional exposures.

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

**Key Areas of Risk Management**

***Credit Risk***

Credit and counterparty risk is defined as the possibility of losses due to an obligor or market counterparty or issuer of securities or other instruments held failing to perform its contractual obligations to our Group.

Credit risk arises primarily from lending activities through loans as well as commitments to support clients' obligations to third parties, for example guarantees. In sales and trading activities, credit risk arises from the possibility that our Group's counterparties will not be able or willing to fulfil their obligation on transactions on or before settlement date. In derivatives activities, credit risk arises when counterparties to derivative contracts, such as interest rate swaps, are not able to or willing to fulfil their obligation to pay us 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 our Group's investment in that entity's financial instruments to fall.

Loans remain the most significant credit risk to which our Group is exposed. Without effective credit risk management, the impact of the potential losses can be significant. The purpose of credit risk management is to keep credit risk exposure to an acceptable level vis-à-vis the capital, and to ensure the returns commensurate with risk.

All credit exposures are subjected to an internal rating, based on a combination of quantitative and qualitative criteria. An engine was developed and implemented to standardise and enhance credit underwriting and decision-making process for our Group's retail portfolios

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

Adherence to established credit limits is monitored daily by GRM, which combines all exposures for each counterparty or group, including off balance sheet items and potential exposures. Limits are also monitored based on industry sector and rating classification of the obligor and or counterparty. Further, the loan asset quality is actively monitored, reviewed and reported monthly to the GRC. Any signs of deterioration will be analysed and discussed with the relevant business units for necessary mitigation, including recovery actions, if required.

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

The extent to which our 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 because the exposure is affected by each transaction subject to the agreement.

Following the pro-active measures undertaken by GC to scale down our Group's exposure in several industries, sectors, countries and counterparties that were affected by the 2008 global and the recent Dubai financial crisis, our Group weathered the market challenges in 2009 well with asset quality remaining intact.

***Market Risk***

Market risk is defined as any fluctuation in the value of the portfolio arising from changes in value of market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices and their associated volatility.

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

Our Group adopts various measures in our risk management process to manage market risk. An accurate and timely valuation of position is critical to providing our Group with its current market exposure. GRM values the exposure using market price or a pricing model where appropriate.

Our Group also adopts a VAR approach in the measurement of market risk. 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. In formulating stress scenarios, consideration is given to various aspects of the market; for example identification of areas where unexpected losses can occur and areas where historical correlation may no longer hold true.

Risk Middle Office within GRM undertakes monitoring and oversight process at Group Treasury and Investments and Equity Market and Derivatives trading floor, which includes reviewing and analysing treasury trading strategy, positions and activities vis-à-vis changes in the financial market, monitoring limit usage, assessing limit adequacy, and verifying transaction prices.

***Liquidity Risk***

Liquidity risk is defined as the current and prospective risk to earnings, shareholders' funds or our reputation arising from our Group's inability to efficiently meet our present and future (both anticipated and unanticipated) funding needs or regulatory obligations when they are due, which may adversely affect our daily operations and incur unacceptable losses.

Our Group's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Liquidity risk undertaken by our Group is governed by a set of established risk tolerance levels. Management action triggers have been established to alert management to potential and emerging liquidity pressures. Our Group's early warning system and contingency funding plans are in place to alert and enable management to act effectively and efficiently during a liquidity crisis and under adverse market conditions.

The Regional Liquidity Risk Committee meets at least once a month to discuss the liquidity risk and funding profile and is chaired by the Head of GRD. The Asset Liability Management function, which is responsible for the independent monitoring of our Group's liquidity risk profile, works closely with Group Treasury and Investments in its surveillance on market conditions and performs frequent stress testing on liquidity positions. Liquidity positions are monitored on a daily basis and complied with internal risk thresholds and regulatory requirements for liquidity risk. Our Group maintains large buffers of liquidity throughout the year to ensure safe and sound operations from a strategic, structural and tactical perspective.

***Operational Risk***

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

The existing Operational Risk Management Framework, which is revised periodically to cater for changing business conditions, is designed to monitor and control operational risk effectively leading to a sound and stable operational environment within our Group. All operational risks, both inherent and anticipated, are properly identified, captured, monitored, mitigated, and reported in a systematic and consistent manner. Our ORC has oversight responsibility for all Group operational activities conducted on a day-to-day basis. In anticipation of the occurrence of potential operational risks which may impact our Group, ORC is entrusted with the added role to discuss and provide recommendations on forward looking operations matters affecting the banking and financial services industry.

The adoption of the Control Risk Self Assessment and the Self Assessment Review Project are part of our initiatives to ensure that operational risks within the processes in each business unit are properly identified, analysed and mitigated on a periodic basis. Relevant key risk indicators are continuously being developed and used to track changes that may highlight new risk concerns and potential areas of weaknesses in operational control.

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 and relevant areas of risk are being appropriately identified and assessed independently from the risk takers or product owners. Our Group New Product Development Policy Manual also safeguards and protects the interest of customers through proper regulatory disclosure requirements, the availability of options or choices when the products and services are offered to the public.

We have established our Group Escalation and Exception Management Procedures to handle escalation of any exceptions, including regulatory non-compliances, limit breaches, fraud and other non-adherence to internal processes. Under the Exception Management Procedures, reports on the incidents are required to be submitted within 24 hours of discovery or first notification of such incident. Each exception will then be managed based on the severity and impact of the case to our Group's business, operations and brand reputation.

We continue to stress the importance of adhering to internal controls and established procedures to deter fraud and to minimise losses due to staff negligence. In order to demonstrate the seriousness of such offences, strict disciplinary actions are instituted against staff concerned. The promotion of a culture within our Group whereby the demand for integrity and honesty is non-negotiable remains the core theme in our operational risk awareness programme.

***Basel II Implementation***

BNM has announced a two-phase approach for implementing the standards recommended by the Bank of 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 are required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions are allowed to migrate directly to the Internal Rating-Based approach (IRB Approach) beginning from 2010.

Our Group had in May 2007 applied for direct migration to IRB Approach. The approach adopted by our Group for credit risk will be Advance IRB for retail exposure and Foundation IRB for corporate exposure. Operational risk will be based on the Basic Indicator Approach. Over the last few years, our Group has implemented various initiatives to enhance our risk management standards to meet Basel II requirements.

BNM has approved for our Group to fully migrate to IRB for credit risk in July 2010 and required our Group to continue demonstrating steady progress towards compliance with the requirements under the transition period by the end of 2012.

The Basel II Steering Committee chaired by our Group CEO which was set up to oversee the implementation initiatives across our Group with the assistance of various sub-committees shall continue to oversee our initiatives towards complying with the requirements within the stipulated timeframe.

Our Group employs an economic capital allocation framework, whereby capital is allocated to all business units for risk-taking purposes. All major categories of risk are measured. This is in line with the Pillar 2 of the 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 to assess the adequacy of its internal economic capital in relation to the risk profile. The initiatives that were implemented under Basel II further enhanced the use of risk management parameters in our Group's internal economic capital framework.

The Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the general state of the domestic and global economies and market interest rates. The Bank believes that its risk management strategies have, among others, enabled it to be unscathed from the ongoing economic uncertainty caused by, among others, the sub-prime residential lending market by virtue of its lack of any direct or indirect exposure to the sub-prime residential lending market, collateralised debt obligations or special investment vehicles in the U.S. or elsewhere.

**Business Continuity Management**

Business Continuity Management ("**BCM**") is a holistic management process focusing on building resiliency and response mechanism in safeguarding stakeholders and key aspects of the business. It includes a systematic and comprehensive framework of understanding the organisation, developing, testing, maintaining strategy and resiliency plans followed by building and embedding BCM culture in the organisation. In short, BCM enables management to effectively deal with and response to uncertainty and associated risk and opportunity, thus enhancing the organisation's capacity to build value for its stakeholders.

The Group embarked on the BCM Programme to develop, implement and enhance its business continuity plan to meet the business and regulatory requirements in the relevant jurisdictions. This programme covers three areas, namely the Emergency Response Plan (ERP) will help us fix problems; the Crisis Management Plan (CMP) will help us deal with issues and the Business Recovery Plan (BRP) will help us recover the business quickly. This involves identifying critical activities and resources as well as the management of risks (through mitigation, reduction and transfer strategies) that may interrupt organisation's operations/normal functioning in the event of a crisis.

The BCM department which was established in 2005, conducts and manages the activities from initiating a plan through plan development, and testing for local and overseas operations, foreign subsidiaries and overseas branches. The department is supported by experienced, qualified and BCM certified personnel. In ensuring our Group has the right foundation in managing the BCM Programme, BCM policies and procedures were established, approved and applied throughout our Group (except for CIMB Thai) since 2006. CIMB Thai has its own BCM committee and team responsible to ensure effective BCM implementation. CIMB Thai adopts the Group's BCM policy and procedure, framework and template as reference and make certain customization to meet Bank of Thailand's requirement. Such policies and procedures are disseminated to all levels of personnel through CIMBnet, The Group's intranet platform.

The ownership of the Business Continuity Plans (BCP) shall be with Head of Division/Department enterprise wide where they are accountable for business continuity preparedness who assess and declare their state of readiness to Crisis Management Committee (CMC) periodically. Therefore good BCM practice is build into our existing process supported by the Group's comprehensive BCM framework.

As a testament to the Group's achievement in BCM, we were awarded the SGAM ICT Award for Best Human Resource Management for Private Sector – Excellence in Business Continuity Management. This award was in recognition of our outstanding achievements in recovering our business operations during a landslide incident on 4 December 2008.

## SECTION 10.0 OTHER INFORMATION

### 10.1 Material Litigation

Saved as disclosed below, as at 1 November 2010, the Issuer and its Principal Subsidiaries are not involved in any legal or arbitration proceedings (including proceedings which, as far as the Issuer and its Principal Subsidiaries are aware, are pending or threatened) outside the ordinary course of business which management of the Issuer and the Principal Subsidiaries believe would, individually or taken as a whole, have a material adverse impact on their business, financial condition, results of operations or prospects of any of them:

***(i) Civil Suit No. S1(S5) – 22 – 218 – 1997***

*Astron Limited ("**Astron**") v Dato' Matshah Safuan and 20 Ors*

CIMB Bank has been named as Defendant 11A in the Suit

The claim arose out of a failed attempt by Astron to restructure various development projects undertaken by various companies alleged to be controlled by Dato' Matshah Safuan. CIMB Bank had advanced various sums to Safuan Group Berhad, 1 of the defendants in the suit. Astron alleges that it has beneficial interest in the various development projects arising or pursuant to various agreements entered into between various defendant companies with various other defendant companies.

Astron has alleged that CIMB Bank had participated in a scheme with the other defendants to defeat Astron's alleged interest in the projects.

Astron's principal claim is for various declarations and specific relief orders against some defendants, not including CIMB Bank, for specific performance of various agreements which Astron is not a party to, but is alleged to have acquired an interest in.

Astron has an alternative claim for damages in lieu of specific relief and prays for judgment in the sum of no less than Australian Dollar 51,000,000 together with interest thereon at such rate and for such period as the Court may deem just in the circumstances.

Astron's further alternative claim is for taking of accounts and payment of profits alleged to have been received by the defendants from the projects

On 13 March 2009, the Court fixed 22 April 2009 as the hearing date for 2 applications, namely Astron's appeal in chambers and security for costs by Danaharta Urus Sdn Bhd (Defendant 11B). On 22 April 2009, both applications were dismissed by the Court.

The case is now at the case management stage and the next case management date has not been fixed by the Court.

The solicitors of CIMB Bank are of the view that there is a high likelihood of successfully opposing Astron's claim on the basis that CIMB Bank was not a party to any alleged scheme to defeat Astron's alleged interest in the projects, if any.

### *(ii) Kota Bharu High Court Civil Suit No.: 22 – 91 – 08*

*Zima Properties Sdn Bhd (Plaintiff) vs CIMB Bank (Defendant)*

The Plaintiff is a Bumiputra contractor. On 26 July 2005, CIMB Bank granted a term loan facility of RM2 million ("Term Loan") to finance the construction of 308 residential lots and 9 shop lots on a piece of land at Mukim Apam, Pasir Mas, Kelantan ("Land") ("Project"). A bridging loan of RM9 million ("Bridging Loan") was also granted to finance the Project.

CIMB Bank disbursed the Term Loan in full, which was utilised by the Plaintiff to purchase the Land. CIMB Bank also disbursed the first tranche of the Bridging Loan in the sum of RM2,293,125.60 in October 2005.

One of the terms of the banking facilities granted to the Plaintiff was that drawdown of the Bridging Loan is conditional upon 70% of the proposed Project being sold as effected by a Sale and Purchase Agreement and confirmed by solicitors.

The first tranche of the Bridging Loan was released although the Plaintiff did not comply with this condition.

In January 2008 the Plaintiff made a request for the second drawdown of the Bridging Loan for the sum of RM548,110.75. This request was not met by CIMB Bank as the Plaintiff had failed to furnish any sales report, development progress report and documentation evidencing that the Project has been 70% sold.

The Plaintiff commenced an action against CIMB Bank for breach of contract arising from CIMB Bank's refusal to allow the Plaintiff to further utilise the Bridging Loan.

The Plaintiff also alleged that CIMB Bank had in bad faith restructured the banking facilities granted. This is a non-issue as CIMB Bank's letter proposing the restructuring was never accepted and has lapsed.

The Plaintiff claims for the following:

(a) RM7,885,126 as special damages for loss of profit;

(b) RM6,642,152.24 as special damages for costs and expenses incurred in the Project;

(c) RM957,343.38 as special damages for interests paid under the banking facilities granted;

(d) RM100 million as general damages for loss of reputation, goodwill and potential businesses; and

(e) exemplary damages, interests and costs.

The Summons and Statement of Claim was served on CIMB Bank on 26 June 2008. Under the impression that the Summons and Statement of Claim was served on CIMB Bank on 1 July 2008, CIMB Bank entered its appearance on 3 July 2008 and served its Defence by fax and courier on 24 July 2008.

Despite there being a Defence, judgment in default of defence against CIMB Bank was obtained on 6 August 2008 (”Judgment”). In execution of the Judgment, a Writ of Seizure and Sale was obtained on 1 September 2008 (“WSS”).

The Plaintiff acted on the WSS and sealed CIMB Bank’s premises in Jalan Sultan Ismail, Kuala Terengganu on 15 September 2008. CIMB Bank had on the same day, at 3.45 p.m. obtained an ex-parte stay order of the Judgment pending the disposal of its application to set aside the Judgment (“Stay Order”).

The Plaintiff appealed to the Judge against the Stay Order (“First Appeal”) and also filed a Notice of Motion to set aside the Stay Order (“Motion”). The First Appeal was dismissed on 13 November 2008.

CIMB Bank’s application to set aside the Judgment was heard on 3 November 2008 and was allowed on 22 December 2008. The Plaintiff has appealed to the Judge against this decision (“Second Appeal”). The Second Appeal was dismissed with costs in the cause on 24 June 2009.

Immediately after the dismissal of the First Appeal, the Plaintiff applied to set aside the Stay Order. As Stay Order was no longer in effect, this application was withdrawn with no order as to costs on 19 January 2009.

For the same reasons, the Motion was also withdrawn with no order as to costs on 8 January 2009.

CIMB Bank had also filed an application for an extension of time to file its Defence and the Court has on 16 February 2009 allowed the application with costs to be paid by CIMB Bank.

The Plaintiff appealed to the Judge against the granting of the extension of time (“Third Appeal”).

CIMB Bank had in March 2009 filed an application to strike out the Plaintiff’s claim CIMB Bank’s striking out application was allowed with costs on 29 December 2009.

In view of this, the Third Appeal is now academic and was withdrawn with no order as to cost on 29 December 2009.

The Plaintiff had on 10 January 2010 appealed to the Court of Appeal against the decision of the Judge dated 29 December 2009 striking out its claim. The next hearing date has yet to be fixed by the Court.

The solicitors of CIMB Bank are of the opinion that CIMB Bank has a good chance of successfully resisting the Plaintiff’s appeal to the Court of Appeal.

***(iii) Kuala Lumpur High Court Civil Suit No.: D5-22-1810-2005***

CIMB Bank (then known as Bumiputra-Commerce Bank Berhad) (Plaintiffs) & 9 Ors v *Pesaka Astana (M) Sdn Bhd & 11 Ors (Defendants)*

The Plaintiffs are Bondholders of the bonds issued by Pesaka Astana (M) Sdn Bhd (1st Defendant) (the "Bonds"). On 16 December 2005, the Plaintiffs filed this suit against the Defendants for, amongst others, breach of contract, breach of trust and negligence when the 1st Defendant failed to redeem the Bonds. The Plaintiffs claim an amount of RM149,315,000.00 and interest on the said principal sum at 8% per annum from 1 October 2005.

On 7 July 2008, Consent Judgment was entered against the 1st Defendant, Dato' Mohamed Rafie Bin Sain (4th Defendant), Amdac Automotive (M) Sdn Bhd (6th Defendant), Amdac Holdings Sdn Bhd (7th Defendant), Amdac Capital Sdn Bhd (8th Defendant), Amdac Technologies Sdn Bhd (9th Defendant), Amdac Resources Sdn Bhd (10th Defendant), Amdac Engine Sdn Bhd (11th Defendant) and Amdac Daesung Sdn Bhd (12th Defendant).

Mayban Trustees Bhd (2nd Defendant) filed a counterclaim against CIMB Bank seeking an indemnity for any amount that the 2nd Defendant may be found liable.

The trial for this matter was completed before the Judge at the Kuala Lumpur High Court on 4 December 2009. The Judge had fixed 29 January 2010 to deliver her decision on this case. However, it was adjourned. The Judge has now delivered her decision on 30 June 2010.

Having heard the evidence of the witnesses and the submissions by Counsel on the facts and the law, and having read the voluminous documents, Dato' Mary Lim J. found that the Plaintiffs/Bondholders have succeeded in proving their case on a balance of probabilities against both Maybank Trustees and KAF Discounts, the 2nd and 3rd Defendants, and entered Judgment in favour of the Plaintiffs against the 2nd and 3rd Defendant's as follows:-

1. Judgment for the principal sum of RM149,315,000-00;

2. Interest at the rate of 8% per annum on the abovementioned Judgment sum from 30-6-2010 to the date of realization;

3. Costs of RM800,000-00 with a Certificate for 2 Counsel;

4. The 2nd Defendant's Counterclaim against the 2nd Plaintiff is dismissed, with costs of RM300,000-00 to the 2nd Plaintiff;

5. Costs of RM400,000 to be paid by the 1st Defendant to the Plaintiffs pursuant to the Consent Judgment dated 7-7-2008;

6. The 2nd Defendant's Counterclaim against the 3rd Defendant and the 3rd Defendant's Counterclaim against the 2nd Defendant is allowed to the extent that :-

   (a) that the liability of the 2nd and 3rd Defendants to the abovementioned Judgment in the sum and costs in Paragraph (1) above be apportioned at 40% to the 2nd Defendant and 60% to the 3rd Defendant;

   (b) with the 2nd and 3rd Defendants to bear their own costs on their respective Counterclaims against each other;

7. The 2nd Defendant's Counterclaim against the 1st Defendant, 4th to 12th Defendants is dismissed, with costs of RM50,000-00 collectively to the 1st Defendant and the 4th to the 12th Defendants;

8. The 2nd Defendant's Counterclaim against the 5th Defendant is dismissed, with costs of RM30,000-00 to the 5th Defendant;

9. The 2nd Defendant's claim for contribution against the Third Party is dismissed, with costs of RM100,000-00 to the Third Party; and

10. The 3rd Defendant's Counterclaim against the 1st Defendant is dismissed, with costs of RM50,000-00 to the 1st Defendant.

Counsel for KAF made an oral application for a stay of execution of the Judgment, pending the outcome of its appeal to the Court of Appeal against the Judgment. The Judge dismissed the stay application with no Order as to costs. Counsel for Mayban Trustees informed the Judge that they reserved their position on the stay application.

Mayban Trustees and KAF have appealed to the Court of Appeal against the Judge's decision but no date has been fixed for the hearing of the Appeal.

Despite the appeals, Mayban Trustees and KAF have paid the Judgment sums in the absence of an Order staying the Judgment.

***(iv) Thai Civil Court Black Case No. 1215/2550 (Red Case No. 2463/2551)***

Between

*Thai Melon Polyester Public Company Limited ("**Plaintiff**")*

*And*

*Thai Asset Management ("**TAMC**"), Mr. Somjet Moosirilert, Thai Bank Public Company Limited (currently CIMB Thai) ("**CIMB Thai**"), Bangkok Bank Public Company Limited ("**BBL**") and Siam Commercial Bank Public Company Limited ("**SCB**") (called "**Defendants**")*

The Plaintiff claimed that, under Thai law, during the period of receivership order, all parties are prohibited to transfer any assets of the debtor. However, during the period that the Plaintiff received the receivership order by the Bankruptcy Court, CIMB Thai, BBL and SCB illegally transferred the debts and the mortgaged assets of the Plaintiff to TAMC, and breached the Asset Transfer Contract dated 12 October 2001, causing damages to the Plaintiff. Therefore, the Plaintiff requested the Court to revoke the transfer of debt and the mortgaged assets of the Plaintiff and claim Baht 24,500 million including interest at the rate of 7.5% per annum on the principal starting from the date of claim to the payment date, on the ground of tort, from the Defendants.

The Defendants denied the Plaintiff's claim. CIMB Thai answered to the Court that the transfer of the debts and the mortgaged assets was in accordance with the Asset Transfer Contract, and CIMB Thai lawfully transferred the debts and the mortgaged assets under the Thai Asset Management Corporation Act B.E. 2544. Moreover, at the time of the transfer, the Plaintiff was released from the receivership order of the

Bankruptcy Court. CIMB Thai had duty by the law to transfer the debts and mortgaged assets to TAMC; therefore, CIMB Thai did not cause any damages to the Plaintiff, and the Plaintiff did not suffer the damages as claimed.

The Court of First Instance viewed that the Bankruptcy Court allowed the creditor of the Plaintiff to withdraw the bankruptcy case. Therefore, the receivership order to the Plaintiff was also withdrawn with the bankruptcy case. The Plaintiff was not under the receivership order and the Defendants were able to transfer the debts and the mortgaged assets. The case was dismissed by the Court of First Instance on 30 May 2008.

The Plaintiff was not satisfied with the judgment and appealed the judgment of the Court of First Instance to the Court of Appeal on 10 September 2008. The Defendants answered the appeal of the Plaintiff to the Court of Appeal on 10 November 2008.

At present, the case is under the consideration of the Court of Appeal.

***(v) Thai Civil Court Black Case No. 3287/44 (Red Case No. 10159/46)***

*Between*

*IFCT Finance and Securities Public Company Limited*
*(CIMB Thai as successor) ("**Plaintiff**")*

*And*

*Mrs.Wanna Hewsiri ("**Defendant**")*

The Defendant was an executive of a finance co. merged with the CIMB Thai. CIMB Thai claimed that the Defendant granted loan to a customer to buy securities against the regulations. The lower court saw that the granting of loan was in accordance with authority regulations and resolution of the board. The Defendant shall not liable personally.

The Court of Appeals concurred. The case now is in the Supreme Court.

The amount of claim involved is Thai Baht1,758,902,650.68

## 10.2 Material Contracts outside the Ordinary Course of Business

Save as those disclosed in this Information Memorandum and the announcements made by CIMBGH to Bursa Malaysia Securities Berhad, the Issuer and the Principal Subsidiaries have not entered into any material contracts which are outside their 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 Issuer's audited financial statements ended 31 December 2009 and the unaudited financial results for the 9 months period ended 30 September 2010, 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.

## 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 Subordinated Debts 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 therefrom 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 Subordinated Debts are issued by a person carrying on the business of banking in Malaysia and licensed under BAFIA, interest payable under the Subordinated Debts to person not resident in Malaysia 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

Malaysia does not tax capital gains from sale of investments or capital assets other than those from disposal of real property located in Malaysia and shares in closely controlled companies with substantial real property interests.

### Gift or Inheritance Tax

There is neither gift nor inheritance tax in Malaysia.

### Stamp duty

The Stamp Duty (Exemption) (No. 23) Order 2000 provides that all instruments relating to the issuance 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.

# Appendix I

a) **Audited financial statements for the financial year ended 31 December 2009**

b) **Unaudited financial results for the 9 months period ended 30 September 2010**

**ISSUER**

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**TRUSTEE**

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**CENTRAL DEPOSITORY AND PAYING AGENT**

**Bank Negara Malaysia**
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