

13. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



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27 November 2002

PwC/SHKY/nm/0917j

**CIMB BERHAD
ACCOUNTANTS' REPORT**

Dear Sirs,

1 INTRODUCTION

This report has been prepared by an approved company auditor for the purposes of inclusion in the Prospectus in connection with the Restructuring and Listing of CIMB Berhad ('CIMB'), on the Main Board of the Kuala Lumpur Stock Exchange ('KLSE'), which entails the following:

- (i) Restricted offer for sale by Commerce Asset-Holding Berhad ('CAHB') of 128,785,000 ordinary shares of RM1.00 each in CIMB, representing approximately 15.15% of the enlarged share capital of CIMB, to the Public Shareholders* at an offer price RM1.75;
- (ii) Restricted offer for sale by CAHB of 1,150,000 CIMB shares, representing approximately 0.14% of the enlarged share capital of CIMB, to the Non-Executive Directors and Company Secretary* at an offer price RM1.75; and
- (iii) Offer for sale by CAHB of 41,300,000 CIMB shares, representing approximately 4.86% of the enlarged share capital of CIMB, to CIMB Group Employees* via the Employee Equity Scheme* at an offer price RM1.75.

* As defined in the Prospectus in connection with the Restructuring and Listing of CIMB on the Main Board of the KLSE.

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2 GENERAL INFORMATION

2.1 Background

As an integral part of the following proposals, CIMB was incorporated on 11 June 2002 in Malaysia, under the Companies Act, 1965, as a public company.

Subsequent to the incorporation of CIMB, the following are the steps for the Restructuring and Listing of CIMB on the Main Board of the KLSE:

(i) UFJ Bank Limited ('UFJ') Acquisition

CAHB entered into a share sale agreement with UFJ for the acquisition of 24,288,000 Commerce International Merchant Bankers Berhad ('Commerce International') shares representing approximately 7.61% equity interest therein from UFJ for a cash purchase consideration of RM102,252,480 or RM4.21 per Commerce International share.

In addition, in view of the Restructuring and Listing Scheme, an additional payment may be payable by CAHB to UFJ in cash based on a prescribed formula*.

(ii) Bank Pertanian Malaysia ('BPM') Acquisition

CAHB entered into a share sale agreement with BPM for the acquisition of 37,342,800 Commerce International shares representing approximately 11.70% equity interest therein from BPM for a purchase consideration of RM157,213,188 or RM4.21 per Commerce International share.

The total consideration of RM157,213,188 was satisfied by a combination of cash and new shares in CIMB representing approximately 4.99% of the enlarged issued and paid up share capital of CIMB.

In addition, in view of the Restructuring and Listing Scheme, an additional payment may be payable by CAHB to BPM in cash based on a prescribed formula*.

Upon completion of the BPM Acquisition, Commerce International became a wholly-owned subsidiary of CAHB.

* As defined in the Prospectus in connection with the Restructuring and Listing of CIMB on the Main Board of the KLSE.

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2 GENERAL INFORMATION (CONTINUED)

2.1 Background (continued)

(iii) Acquisition of Commerce International

CAHB entered into a share sale agreement with its wholly-owned subsidiary, CIMB, for the disposal of CAHB's entire equity interest in Commerce International comprising 319,242,000 Commerce International shares to CIMB upon completion of the BPM Acquisition for a total purchase consideration of RM1,343,703,288 which was satisfied wholly by the issuance of 849,999,998 new CIMB shares, credited as fully paid-up, at an issue price of approximately RM1.58 per new CIMB share.

The purchase consideration was arrived at based on the audited net assets of the Commerce International Group (Commerce International and its subsidiaries) as at 31 December 2001 of RM1,343,703,288.

Upon completion of the Acquisition of Commerce International, the issued and paid up share capital of CIMB increased from RM2 comprising 2 CIMB shares to RM850,000,000 comprising 850,000,000 CIMB shares.

Subsequent to the UFJ Acquisition, the BPM Acquisition and the Acquisition of Commerce International, Commerce International became a wholly-owned subsidiary of CIMB, which in turn is 95.01% owned by CAHB. The balance of the 4.99% equity interest in CIMB is held by BPM.

(iv) Restricted Offer for Sale

Following the Acquisition of Commerce International and in conjunction with the Restructuring and Listing Scheme, CAHB proposes to undertake a restricted offer for sale of 128,785,000 CIMB shares to the Public Shareholders* and 1,150,000 CIMB shares to the Non-Executive Directors and Company Secretary* at an offer price of RM1.75.

(v) Employee Equity Scheme ('EES')

Concurrent with the Restructuring and Listing Scheme and to facilitate the CIMB Group Employees'* equity participation in the CIMB Group (CIMB and its subsidiaries), CAHB will establish an employee equity scheme for the CIMB Group Employees* to reward their contribution to the CIMB Group.

* As defined in the Prospectus in connection with the Restructuring and Listing of CIMB on the Main Board of the KLSE.

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2 GENERAL INFORMATION (CONTINUED)

2.1 Background (continued)

(vi) Executive Employee Share Option Scheme ('ESOS')

In conjunction with the Restructuring and Listing Scheme, CIMB had obtained the approval of the Securities Commission and the existing shareholders of CIMB to establish an executive employee share option scheme.

The number of Executive ESOS Options* to be offered under the Executive ESOS shall not exceed 10% of the issued and paid-up share capital of CIMB at any one time. Based on the enlarged issued and paid-up share capital of CIMB of RM850,000,000 comprising 850,000,000 CIMB shares, the number of new CIMB shares to be issued pursuant to the Executive ESOS is 85,000,000.

(vii) Listing and Quotation

Pursuant to step (i) to (vi) above, the Restructuring and Listing Scheme entails the listing of and quotation for the entire enlarged issued and paid-up share capital of CIMB of RM850,000,000 comprising 850,000,000 ordinary shares of RM1.00 each and the new CIMB shares that may be issued upon exercise of the Executive ESOS Options* on the Main Board of the KLSE.

In conjunction with the Restructuring and Listing Scheme, the Board of CAHB granted a share option to the Chief Executive of Commerce International to purchase 42,000,000 CIMB shares held by CAHB representing approximately 4.94% of the enlarged issued and paid-up share capital of CIMB as at the date of the listing of CIMB.

* As defined in the Prospectus in connection with the Restructuring and Listing of CIMB on the Main Board of the KLSE.

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2 GENERAL INFORMATION (CONTINUED)

2.2 Principal activities

The principal activity of CIMB is that of investment holding. The principal activities of its subsidiaries are described below.

All subsidiaries of CIMB are incorporated in Malaysia, unless otherwise stated. The information on the subsidiaries is set out below:

<u>Company</u>	<u>Principal activities</u>	<u>Percentage of equity held (%)</u>	<u>Date of incorporation</u>	<u>Issued and paid-up share capital as at 30.6.2002 (RM unless stated otherwise)</u>
Commerce International Merchant Bankers Berhad	Merchant banking and provision of related financial services	100	24.04.1974	319,242,000
- CIMB Holdings Sdn. Bhd.	Investment holding	100	05.05.1984	10,370,000
- CIMB Securities Sdn. Bhd.	Stock and share broking	100	22.08.1987	40,000,000
- CIMSEC Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	27.05.1993	10,000
- CIMSEC Nominees (Asing) Sdn. Bhd.	Nominee services	100	27.05.1993	10,000
- CIMSEC Nominees Sdn. Bhd.	Nominee services	100	09.01.1988	10,000
- CIMB ShareTech Sdn. Bhd. (formerly known as ShareTech Securities Sdn. Bhd.)	Trading in securities	100	07.05.1992	40,003,120 (ordinary shares) 300 (preference shares)
- ShareTech Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	19.01.2001	10,002
- ShareTech Nominees (Asing) Sdn. Bhd.	Nominee services	100	19.01.2001	10,002
- CIMB Securities (Hong Kong) Limited*	Trading in securities	100	06.02.1996	HKD 5,000,000
- CIMB Futures Sdn. Bhd.	Futures broking	100	05.02.1993	9,000,000
- CIMB Nominees (Tempatan) Sdn. Bhd.	Nominee services	100	31.01.1977	10,000
- CIMB Nominees (Asing) Sdn. Bhd.	Nominee services	100	27.05.1993	10,000
- CIMB Discount House Berhad	Discount house	100	22.11.1975	62,900,000
- CIMB (L) Limited	Offshore banking	100	23.05.2001	USD 25,000,000
- Halyconia Asia Fund Limited**	Open-ended investment fund	100	07.12.1998	USD 100 (ordinary shares) USD 2 (preference shares)
- iCIMB Sdn. Bhd.	Dormant	100	21.09.2001	2

* Incorporated in Hong Kong

** Incorporated in the British Virgin Islands

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2 GENERAL INFORMATION (CONTINUED)

2.3 Share capital

2.3.1 Authorised capital

CIMB was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. On 26 November 2002, the authorised share capital was increased from RM100,000 to RM2,000,000,000 by the creation of 1,999,900,000 ordinary shares of RM1.00 each.

2.3.2 Issued and paid-up capital

The movements in the issued and paid-up share capital of CIMB since its incorporation are as follows:

<u>Date of allotment</u>	<u>Number of ordinary shares issued at RM1.00 each</u>	<u>Purpose</u>	<u>Cumulative issued and fully paid up ordinary share capital</u> RM
11.6.2002	2	Subscribers' shares	2
27.11.2002	849,999,998	Issued as consideration for the acquisition of Commerce International	<u>850,000,000</u>

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3 BASIS OF PREPARATION OF FINANCIAL INFORMATION

3.1 Historical financial information

The historical financial information of CIMB, Commerce International, CIMB Securities Sdn. Bhd. and CIMB Discount House Berhad in Section 6 of this report are based on the audited financial statements of these companies for the respective financial years as adjusted for as described in the accompanying notes in Section 6.

The historical financial information included in this report have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies in Section 4, and in accordance with applicable approved accounting standards in Malaysia and Bank Negara Malaysia ('BNM') Guidelines.

3.2 Proforma CIMB Berhad Group

CIMB was incorporated on 11 June 2002 pursuant to the Restructuring and Listing Scheme of CIMB on the Main Board of the KLSE to assume the listing status of Commerce International.

The proforma financial information has been compiled by the management of Commerce International in accordance with the bases set out by the Directors of CIMB. The proforma financial information of the Proforma CIMB Group has been prepared solely for illustrative purposes based on the audited financial statements of Commerce International Group for the respective years. It should be read in conjunction with the accompanying notes in Section 5. The proforma financial information is deemed appropriate by the Directors of CIMB to give effect to the hypothetical assumption that the Proforma CIMB Group was in existence since 1 January 1997.

The proforma financial information does not purport to project the financial position at any future date or the results of operations for any future period. Prospective financial results for the CIMB Group are set out in Section 12.2 of the Prospectus.

3.3 Financial statements and auditors

The financial statements of CIMB for the period commencing from the date of incorporation, 11 June 2002 to 30 June 2002 was audited by PricewaterhouseCoopers and reported on without any qualification.

The financial statements of Commerce International Group for the two (2) financial years ended 31 December 1998 were audited by the legacy firm, Coopers & Lybrand while the financial statements of Commerce International Group for the three (3) financial years ended 31 December 2001 and six (6) months financial period ended 30 June 2002 were audited by PricewaterhouseCoopers. The financial statements of Commerce International Group for all the financial years/period under review were audited and reported on without any qualification.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP

The following accounting policies are consistent with those adopted by CIMB's subsidiary, Commerce International. These accounting policies have been used consistently in dealing with items which are considered material in relation to the historical financial information.

A Basis of preparation of the financial statements

The historical financial information included in this report have been prepared under historical cost convention unless otherwise indicated in the summary of significant accounting policies in this section, and in accordance with applicable approved accounting standards in Malaysia and BNM Guidelines. The financial statements incorporate those activities relating to the Skim Perbankan Islam ('SPI') which have been undertaken by the CIMB Group. SPI refers generally to the acceptance of deposits and dealing in Islamic Securities under Syariah Principles.

B Basis of consolidation

The consolidated financial statements include the financial statements of CIMB and all its subsidiaries made up to the end of the period. Subsidiaries are those companies in which the CIMB Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the CIMB Group and are no longer consolidated from the date that control ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill on consolidation.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the CIMB Group. Separate disclosure is made of minority interests.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the CIMB Group's share of its net assets together with any unamortised balance of goodwill on acquisition.

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP
(CONTINUED)**

C Goodwill

Goodwill represents the excess of the fair value of purchase consideration of subsidiaries and associates acquired over the CIMB Group's share of the fair values of their separable net assets at the date of acquisition.

Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is amortised using the straight line method over its estimated useful life or 25 years, whichever is shorter.

The carrying amount of goodwill is reviewed annually and written down for impairment where it is considered necessary.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

D Recognition of fees and other income

Loan and debt securities arrangement, management and participation fees, acceptance, underwriting commissions and placement fees are recognised as income when all conditions precedent are fulfilled.

Portfolio management fees, commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

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

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

Dividends from subsidiaries are recognised when the right to receive payment is established. Dividends from dealing securities and investment securities are recognised when received.

Income from Islamic Banking is recognised on an accrual basis in accordance with the principles of Syariah and BNM's "Guidelines on the Specimen Financial Statements for the Banking Industry, BNM/GP8".

E Recognition of interest income

Interest income is recognised on an accrual basis by reference to rest periods which are either monthly or yearly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on cash basis. Customers' accounts are classified as non-performing when repayments are in arrears for 6 months or more from first day of default for loans and after 3 months from maturity date for bankers' acceptances.

The policy on suspension of interest is in conformity with BNM's "Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP
(CONTINUED)**

F Loans, advances and other receivables

Loans, advances and other receivables include term loans, acceptances credit, staff loans and subordinated debts. They are carried at the recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts, unearned income and interest-in-suspense.

G Provision for bad and doubtful debts

Specific provisions are made for doubtful debts which have been individually reviewed and specifically identified as bad or doubtful.

A general provision based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified, at the balance sheet date.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The policy on provision for non-performing loans is in conformity with the minimum requirements of BNM "Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

With regards to provisioning for subordinated debt subscribed by Commerce International arising from its collateralised bond obligation, the subordinated debt is held at cost and provision is made for any diminution based on the position of the special purpose vehicle and its underlying assets.

H Sale and repurchase agreements

Securities purchased under resale agreements are securities which the CIMB Group had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet. Securities purchased are not recognised in the financial statements.

Conversely, obligations on securities sold under repurchase agreements are securities which the CIMB Group had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet. Securities sold are retained in the financial statements.

The difference between sale and repurchase price as well as purchase and resell price is treated as interest and accrued over the life of repo agreement using effective yield method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the borrowed securities is recorded as trading liability. Unrealised gains and losses from revaluation are recognised in the income statement.

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP
(CONTINUED)**

I Dealing securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value. All related realised gains and losses and unrealised losses are included in the net trading income. Interest earned while holding dealing securities are reported as interest income. Dividends received are included in dividend income.

Transfers, if any, between dealing and investment securities are made at the lower of cost value and market value.

J Investment securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment certificates, Cagamas bonds, other Government securities, and bank guaranteed private debt securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other private debt securities are valued at lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Amortisation of premium or accretion of discount is recognised using effective yield method. Interest earned while holding investment securities are reported as interest income. Dividends received are included in dividend income.

Transfers, if any, between investment and dealing securities are made at the lower of cost carrying value and market value.

K Investment in subsidiaries

Subsidiaries are those companies in which the CIMB Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Investments in subsidiaries are stated at cost and written down when the Directors consider that there is a permanent diminution in the value of such investments.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP (CONTINUED)

L Investment in associates

Investment in associates are accounted for in the consolidated financial statements by the equity method of accounting. Associates are companies in which the CIMB Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies.

Equity accounting involves recognising in the income statement the CIMB Group's share of the results of associates for the period. The CIMB Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the CIMB Group has incurred obligations or guaranteed obligations in respect of the associate.

Investments in associates are stated in the financial statements of CIMB and its subsidiaries at cost less provision for diminution in value of investments of a permanent nature, if any.

M Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated to write off the cost of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:

	%
Office equipment and furniture	20 - 33 1/3
Computer equipment and software	33 1/3
Motor vehicles	20

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP
(CONTINUED)**

N Derivative financial instruments

Trading

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently remeasured at their fair value. The fair value of trading derivative financial instruments are included in the balance sheet and gains and losses on these instruments are taken directly to the income statement.

Foreign exchange and interest rate forwards, futures and forward purchases and sales of securities entered into for trading purposes are valued at prevailing market rates based on quoted and observable market prices. Interest rate and currency swap agreements are valued at their net present value based on discounted cash flow models. Interest rate and equity option contracts are valued using options pricing models.

Hedging

Foreign exchange and interest rate forwards, futures, swaps and options entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item. To qualify as a hedge, the forwards, futures and swaps position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment, or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated.

Where the hedged item ceases to exist, the corresponding derivative hedge contract is restated at fair value and any resulting unrecognised gains and losses are taken to the income statement.

O Collateralised Bond Obligations

The CIMB Group through its collateralised bond obligation ('CBO') programme, packages and sell private debt securities to a special purpose vehicle ('SPV'). The SPV will in turn issue bonds to raise funds for the purchase of assets.

The CIMB Group receives fee income for the various services provided to the SPV. These fees are determined on an arms length basis and are recognised on an accrual basis. The CIMB Group is also counterparty to the SPV for certain interest rate swaps contracted on arms length basis. Correspondingly, the CIMB Group significantly offsets the positions held with the SPV by entering into interest rate swap and futures contracts with external parties to ensure no material gain or loss is incurred by the CIMB Group from the interest rate swap contracts transacted with the SPV. The interest rate swaps are being measured at their fair values.

Any subordinated debt or bond obtained under this programme is held at cost and a provision is made for any diminution in value based on the position of the SPV and its underlying assets. The interest earned by the CIMB Group on the subordinated debt or bond is recognised on an accrual basis.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP (CONTINUED)

P Long term debt

Long term debts comprise negotiable certificate of deposits issued by the CIMB Group with remaining maturity of more than one year. These long term debts are recognised at cost, being the issue proceeds. The CIMB Group issues long term debts for the purpose of hedging its interest rate and liquidity position. The interest incurred is recognised on an accrual basis.

Q Amounts recoverable from Danaharta

The total consideration from loans sold to Pengurusan Danaharta Nasional Berhad ('Danaharta') is received in two portions; upon the sale of the loans ('initial consideration') and upon the recovery of the loans ('final consideration'). The final consideration amount represents Commerce International's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as 'Amounts Recoverable from Danaharta' within the 'Other Assets' component of the balance sheet. Provision against these amounts are made to reflect the Directors' assessment of the realisable value of the final consideration as at the balance sheet date.

R Currency translations

Individual foreign currency assets and liabilities are stated in the balance sheet at spot rates of exchange which closely approximate to those ruling at the balance sheet date. Income statement items are converted at rates prevailing on transaction dates. Exchange gains and losses are recognised as income or expense in the period they arise. Financial statements of foreign subsidiary that are integral to the operations of CIMB are translated with the similar treatment as if the transactions of the foreign subsidiary had been those of CIMB.

In respect of foreign subsidiary which operations are not integral to the operation of CIMB, the balance sheet is translated at the rates of exchange ruling at the balance date. The results of the entity is translated at the average rates of exchange for the financial period. Exchange differences arising from this translation are dealt with through exchange fluctuation reserve account in shareholders' equity.

The principal closing rates used in translation of foreign currency amounts were as follows:

<u>Foreign currency</u>	<u>30.6.2002</u>
1 US Dollar	3.8000
1 Euro	3.7909
1 Japanese Yen	0.0321
1 Hong Kong Dollar	0.4872
1 Singapore Dollar	2.1549

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**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CIMB BERHAD GROUP
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S Deferred taxation

Provision is made using the liability method for deferred taxation in respect of all material timing differences except where the tax effects of such timing differences are expected to be deferred indefinitely.

T Provision

Provisions are recognised when the CIMB Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligations, and when a reliable estimate of the amount can be made.

U Cash and cash equivalents

Cash and cash equivalents comprises of cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

V Segment reporting

A segment is a distinguishable component of the CIMB Group that is engaged in providing product or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segment with a majority of operating income earned from providing product or services to external clients and whose operating income, results or assets are 10 percent or more of all the segments are reported separately.

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5 PROFORMA CIMB BERHAD GROUP

5.1 Summary of proforma consolidated financial results

The proforma consolidated financial results of the CIMB Group for the past five (5) financial years ended 31 December 2001 and six (6) months financial period ended 30 June 2002 have been compiled by the management of Commerce International, in accordance with the bases set out by the Directors of CIMB in the notes to the proforma consolidated financial results, for illustrative purposes only, on the assumption that Commerce International Group had been a wholly owned subsidiary of CIMB throughout the financial years/period under review.

Proforma consolidated financial results

	Financial year ended 31 Dec					6 months ended 30 Jun
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Financial advisory, underwriting and other fees	94,123	45,985	84,136	104,687	107,666	52,863
Interest income	258,003	317,250	198,279	196,957	388,845	185,663
Interest expense	(187,795)	(230,294)	(150,864)	(134,523)	(278,537)	(127,880)
Net (loss)/gain from investment securities – debt	-	(1,993)	8,507	273	12,254	4,810
Net trading income – debt	8,835	18,893	87,860	60,582	228,056	6,861
Net income from debt	79,043	103,856	143,782	123,289	350,618	69,454
Dividend income	303	550	222	328	765	1,132
Brokerage income	171,576	44,037	61,170	69,646	18,545	19,216
Net gain/(loss) from investment securities – equity	15,259	-	2,178	-	(4,806)	368
Net trading (loss)/income – equity	(124,665)	18,424	11,133	2,397	(16,122)	116
Net income/(loss) from equity	62,473	63,011	74,703	72,371	(1,618)	20,832
Income from Islamic Banking operations	-	-	-	-	2,199	1,587
Other non-interest income	345	410	1,477	4,498	4,217	9,150
Total income	235,984	213,262	304,098	304,845	463,082	153,886
Specific (provision)/reversal for:						
Loans and advances	(9,926)	(58,455)	(27,456)	(1,176)	(33,559)	(3,137)
Share margin debtors	(12,976)	(25,673)	12,910	511	(377)	(13)
Commitments & contingencies	-	(10,100)	-	-	-	-
Other receivables	(90,749)	(143,966)	6,834	(709)	(40,101)	(4,264)
	(113,651)	(238,194)	(7,712)	(1,374)	(74,037)	(7,414)
General provision	(3,600)	-	(35,400)	(1)	(128)	-
Net income/(loss)	118,733	(24,932)	260,986	303,470	388,917	146,472
Overhead expenses	(61,648)	(61,656)	(71,780)	(93,106)	(136,312)	(67,890)
	57,085	(86,588)	189,206	210,364	252,605	78,582
Share of profit/(loss) of associates	2,330	(280)	220	145	(424)	182

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.1 Summary of proforma consolidated financial results (continued)

Proforma consolidated financial results (continued)

	Financial year ended 31 Dec					6 months ended 30 Jun
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Profit/(loss) before taxation and zakat	59,415	(86,868)	189,426	210,509	252,181	78,764
Taxation	(21,916)	(531)	(268)	(65,892)	(73,955)	(25,880)
Zakat	-	-	-	-	(21)	-
Share of taxation of associates	(1,398)	43	-	(2)	-	(78)
Profit/(loss) after taxation and zakat	36,101	(87,356)	189,158	144,615	178,205	52,806
Minority interests	137	291	65	(550)	-	-
Net profit/(loss) for the financial year/period	36,238	(87,065)	189,223	144,065	178,205	52,806

Notes to summary of proforma consolidated financial results as set out by the Directors

(1) Basis of consolidation

The proforma consolidated financial results are prepared for illustrative purposes only based on the audited financial statements of Commerce International Group as CIMB, the holding company has been dormant since the date of incorporation.

All intercompany transactions have been eliminated on consolidation.

The proforma consolidated financial results commencing from the financial year ended 31 December 2001 include the results of CIMB Discount House Berhad under acquisition method of accounting whereby the results are included from the acquisition date to the aforementioned financial year/period ended.

- (2) For illustration purposes, the Directors assume that goodwill amount arising from the acquisition is similar irrespective of the dates of acquisition.
- (3) For explanation of material items on the proforma consolidated financial results, reference is to be made to the financial position and performance of Commerce International Group and its respective entities as shown in Section 6.2 to Section 6.6.

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.2 Proforma consolidated statement of assets and liabilities

The proforma consolidated statement of assets and liabilities has been compiled by the management of Commerce International based on the audited financial statements of the CIMB Group, in accordance with the bases set out by Directors of CIMB in the notes to the proforma consolidated statement of assets and liabilities, for illustrative purposes only, to illustrate the financial position of the CIMB Group as at 30 June 2002 had the Restructuring and Listing Scheme been affected on that date.

	<u>Note</u>	<u>30.6.2002</u> RM'000
Assets		
Cash and short-term funds	5.3.2	620,217
Securities purchased under resale agreements		67,083
Deposits and placements with financial institutions	5.3.3	103,622
Dealing securities	5.3.4	6,095,619
Investment securities	5.3.5	966,759
Loans and advances	5.3.6	974,747
Other assets	5.3.7	561,146
Statutory deposits with BNM	5.3.8	134,400
Investment in associates	5.3.9	1,865
Fixed assets	5.3.10	27,600
Goodwill on consolidation	5.3.11	31,898
Total assets		<u>9,584,956</u>
Liabilities, shareholders' funds and minority interests		
Deposits from customers	5.3.12	2,185,385
Deposits and placements of banks and other financial institutions	5.3.13	2,664,501
Obligations on securities sold under repurchase agreements		1,526,940
Long term debt	5.3.14	1,063,000
Other liabilities	5.3.15	508,424
Provision for taxation and zakat	5.3.16	103,323
Amount owing to holding company		394
Total liabilities		<u>8,051,967</u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.2 Proforma consolidated statement of assets and liabilities (continued)

	Note	30.6.2002 RM'000
Share capital	5.3.18	935,000
Reserves	5.3.19	597,989
Shareholders' funds		1,532,989
Minority interests		*
Total liabilities, shareholders' funds and minority interests		9,584,956
Commitments and contingencies		
Principal	5.3.20	52,705,328
Credit equivalent	5.3.20	846,775

* denotes RM300

Notes to the CIMB Group's proforma consolidated statement of assets and liabilities as set out by the Directors

(1) Basis of consolidation

The consolidated balance sheet of the Commerce International Group has been consolidated into the proforma consolidated balance sheet of the CIMB Group using acquisition accounting. The consolidated balance sheet of the Commerce International Group is based on the audited financial statements of the Commerce International Group for the financial period ended 30 June 2002[^].

(2) The proforma consolidated statement of assets and liabilities incorporates on a proforma basis the effects of:

- (a) the acquisition of Commerce International under the Restructuring and Listing Scheme as described respectively in Section 2.1. The acquisition of Commerce International assumes a total purchase consideration of RM1,343,703,288 based on 100% interest of the audited net assets of the Commerce International Group as at 31 December 2001 of RM1,343,703,288. The share issue expenses amounting to approximately RM2,500,000 is set off against the share premium.
- (b) the establishment of Executive ESOS under the Restructuring and Listing Scheme, assuming exercise of all outstanding Executive ESOS giving rise to the issue of 85,000,000 new ordinary shares of CIMB at the exercise price of RM1.75.

[^] The audited financial statements of Commerce International Group for the financial period ended 30 June 2002 is derived after taking into account Commerce International's interim dividend of 4.25% less income tax on its paid up capital of 319,242,000 shares amounting to RM9,768,805 for the financial period ended 30 June 2002. The dividend has been declared out of the pre-acquisition retained profit of Commerce International.

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3 Notes to the proforma consolidated statements of assets and liabilities

5.3.1 Use of financial instruments

A Financial risk management objectives and policies

Market risk

Market risk is defined as any fluctuations in value of the portfolio resulting from changes in market prices and market parameters, such as interest rates, exchange rates and share prices.

Market risk within the CIMB Group as a result of the CIMB Group's trading activities can arise either from customer-related business or from proprietary positions. The bank, with the discount house, make markets in debt securities as well as interest rate and currency derivative instruments; while equity proprietary activities are carried out by Commerce International, broking arm and offshore subsidiary. In general, the CIMB Group manage its trading positions by employing a variety of hedging strategies, including the use of derivative instruments.

The CIMB Group manages market risk through risk limits set by the Risk Committee. The Market Risk Committee whose role, amongst others, is to oversee the CIMB Group's exposure to interest rate and equity risks and to consider and determine trading, investment and underwriting proposals within defined limits, assists the Risk Committee.

The utilisation of interest rate and equity risk limits is reviewed on a daily basis, by the Risk Management Unit ('RMU') who employs statistical methods to measure and monitor the risks associated with the CIMB Group's trading activities. The RMU also provides independent valuation of portfolios and generates daily and weekly risk position reports for the information of senior management.

The CIMB Group has adopted a value-at-risk ('VAR') approach in the measurement of interest rate and equity risks. VAR is a statistical measure of the potential losses that could occur due to movements in market rates and prices over a specified time horizon within a given confidence level.

Credit risk

Credit and counterparty risk is defined as the possibility of losses due to an unexpected default or due to a deterioration of a business partner's credit-worthiness.

Credit risk arises in many of our business activities. In lending activities, it occurs primarily through loans as well as commitments to support clients' obligations to third parties, i.e. guarantees. In sales and trading activities, credit risk arises because of the possibility that the CIMB Group's counterparties will not be able or willing to fulfil their obligation on transactions on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as interest rate swaps, are obligated to pay the CIMB Group the positive fair value or receivable resulting from the execution of contract terms.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

A Financial risk management objectives and policies (continued)

Credit risk (continued)

The Credit Risk Committee ensures that the risk exposures undertaken match the risk appetite of the CIMB Group, and that proper authorisation procedures are adhered to. Problematic exposures identified by the business units and management are carefully monitored and proactive measures taken, where possible, to minimise financial loss to the CIMB Group. All exposures are proactively assessed for potential risk and those identified as potentially problematic are managed centrally by the Credit & Special Assets Unit, a dedicated and specialised team within the risk management function.

All credit exposures are given an internal rating, based on a combination of ratios and qualitative criteria. Adherence to set credit limits is monitored on a daily basis by the RMU who combine all exposures for each counterparty, including off-balance sheet and potential exposures, and ensure that limits are not exceeded. The CIMB Group also has in place credit guidelines that limit its exposure to any one counterparty or group, industry sector and rating classification.

Netting arrangements

The CIMB Group also enters into master agreements that provide for close-out 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. In effect, it enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

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

Liquidity risk

Liquidity risk is defined as the risk of the CIMB Group being unable to fulfil its current or future payment obligations in full and at the due date.

There is a Liquidity Risk Committee whose main role is to oversee the overall liquidity management of the CIMB Group, ensure compliance with the liquidity framework prescribed by BNM, and review periodically the assumptions underlying the liquidity risk management framework.

The CIMB Group's liquidity risk management focuses on avoiding over dependence on volatile sources of funding, diversification of funding maturity structure and of sources of funds, and maintenance of sufficient liquid assets. To ensure the CIMB Group are able to cover all payment obligations on due dates as part of the liquidity management process, the RMU prepares liquidity analyses for Commerce International and the discount house in line with Bank Negara's liquidity framework. In addition, management action triggers are set to provide timely warning on emerging liquidity pressures. The CIMB Group has also developed a contingency funding plan to deal with extreme liquidity crisis situations.

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

A Financial risk management objectives and policies (continued)

Operational risk

Operational risk includes risks that arise from internal processes of an organisation. These 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.

Operational risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In order to reduce or mitigate these risks, the CIMB Group has established and maintained an effective internal control environment, which incorporates various control mechanisms at different levels throughout the organisation. These control mechanisms are designed to better ensure that operational policies and procedures are being followed and that the CIMB Group's various businesses are operating within established corporate policies and limits.

The CIMB Group has an Operational Risk Committee with oversight responsibility for all operational and other matters that affect the CIMB Group's day-to-day activities. The committee also reviews the operating policies and procedures for new products/businesses to ensure that the supporting infrastructure is in place prior to doing business.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

B Interest rate risk

The table below summarises the CIMB Group's exposure to interest rate risks. Included in the table are the CIMB Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the CIMB Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000
Assets								30.6.2002
Cash and short-term funds	554,377	-	-	-	-	58,150	7,690	620,217
Securities purchased under resale agreements	11,148	-	-	55,935	-	-	-	67,083
Deposits and placements with financial institutions	39,772	61,550	2,300	-	-	-	-	103,622
Dealing securities	490,660	729,459	1,234,017	1,929,637	1,457,685	80,177	173,984	6,095,619
Investment securities	102,689	-	-	211,764	436,141	216,165	-	966,739
Loans and advances	484,469	265,946	128,621	73,795	151,980	(130,064) [^]	-	974,747
Statutory deposits with BNM	-	-	-	-	-	134,400	-	134,400
Other assets	238,829	-	-	-	-	382,996	684	622,509
Total assets	1,921,944	1,056,955	1,364,938	2,271,131	2,045,806	741,824	182,358	9,584,936

[^] The negative balance represents specific provisions, interest-in-suspense and general provision for loans and advances in accordance with the CIMB Group's accounting policy on provision for bad and doubtful debts.

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

B Interest rate risk (continued)

	Up to 1 month RM'000	1-3 months RM'000	3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000	30.6.2002
Liabilities									
Deposits from customers	1,450,656	514,729	220,000	-	-	-	-	2,185,385	
Deposits and placements of banks and other financial institutions	1,445,905	441,563	517,383	200,000	-	-	59,650	2,664,501	
Obligations on securities sold under repurchase agreements	1,385,544	50,650	-	-	-	9,248	81,498	1,526,940	
Long term debts	-	-	-	463,000	600,000	-	-	1,063,000	
Other liabilities	158,223	14	-	-	-	444,355	9,549	612,141	
Total liabilities	4,440,328	1,006,956	737,383	663,000	600,000	453,603	150,697	8,051,967	
On balance sheet - interest rate gap	(2,518,384)	49,999	627,555	1,608,131	1,445,806				
Off balance sheet - interest rate gap	(669,000)	1,820,119	(245,649)	(238,270)	(667,200)				
Net interest rate gap	(3,187,384)	1,870,118	381,906	1,369,861	778,606				

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

B Interest rate risk (continued)

The table below summarises the effective average interest rates by major currencies for each class of financial asset and financial liability:

	30.6.2002		
	MYR	USD	EURO
	%	%	%
<u>Financial assets</u>			
Cash and short-term funds	2.82	1.96	-
Securities purchased under resale agreements	12.30	2.35	-
Deposits and placements with financial institutions	2.82	-	-
Dealing securities	3.49	6.35	6.30
Investment securities	5.88	-	-
Loans and advances	6.15	2.58	-
Other assets - clients and brokers' balances	9.72	-	-
<u>Financial liabilities</u>			
Deposits from customers	2.81	1.70	-
Deposits and placements of banks and other financial institutions	3.34	2.29	-
Obligations on securities sold under repurchase agreements	2.68	-	-
Long term debt	5.67	-	-
Other liabilities - clients and brokers' balances	2.45	-	-

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.1 Use of financial instruments (continued)

C Credit risk

The following table set out the credit risk concentrations of the CIMB Group:

	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Due from brokers and clients, other debtors, deposits and prepayments RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	-	-	29,058	-	43,088	-	72,146	917
Manufacturing	-	-	94,098	69,709	39,558	-	203,365	29,628
Electricity, gas and water	-	-	839,241	138,028	-	1,362	978,631	50,000
Construction	-	-	148,691	120,176	229,039	58,712	556,618	99,963
Real estate	-	-	-	-	96,284	652	96,936	22,979
General commerce	-	-	-	14,000	2,251	231	16,482	114,520
Transport, storage and communication	-	-	766,906	140,633	30,709	3,046	941,294	179,851
Finance, insurance and business services	723,839	67,083	1,579,669	97,975	400,649	127,600	2,996,815	251,601
Government and government agencies	-	-	2,538,469	229,186	-	-	2,767,655	-
Purchase of residential, landed property, securities and transport vehicles	-	-	-	-	170,857	293,147	464,004	25,189
Hotel	-	-	-	107,438	-	83	107,521	-
Others	-	-	868	22,405	6,572	5,054	34,899	72,127
	723,839	67,083	5,997,000#	939,550#	1,019,007^	489,887	9,236,366	846,775

^ Excludes general provision amounting to RM44,260,000.

Excludes equity instruments amounting to RM98,618,447 and RM27,209,617 of dealing securities and investment securities respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 5.3.20.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.2 Cash and short-term funds

30.6.2002
RM'000

Cash and balances with banks and other financial institutions	195,290
Money at call and deposit placements maturing within one month	424,927

620,217

5.3.3 Deposits and placements with financial institutions

Licensed banks	96,637
Other financial institutions	6,985

103,622

5.3.4 Dealing securities

Money market instruments:

Malaysian Government treasury bills	473,692
Malaysian Government securities	877,198
BNM bills	558,654
Cagamas bonds	10,188
Cagamas notes	286,650
Danaharta bonds	233,050
Danamodal bonds	14,220
Khazanah bonds	84,661
Negotiable instruments of deposits	401,801
Bankers' acceptances	535,724
Commercial papers	33,707

3,509,545

Quoted securities:**In Malaysia**

Shares	73,883
Warrants	9,868
Loan stocks	355
Private debt securities	9,101

Outside Malaysia

Shares	14,867
Private debt securities	41,159

149,233

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.4	Dealing securities (continued)	30.6.2002 RM'000
	Unquoted securities:	
	In Malaysia	
	Private and Islamic debt securities	2,093,302
	Outside Malaysia	
	Private debt securities	343,539
		<u>2,436,841</u>
	Total dealing securities	<u>6,095,619</u>
	Market value of money market instruments and quoted securities:	
	Malaysian Government treasury bills	477,421
	Malaysian Government securities	878,374
	BNM bills	560,589
	Cagamas bonds	10,188
	Cagamas notes	288,773
	Danaharta bonds	236,490
	Danamodal bonds	14,220
	Khazanah bond	85,853
	Warrants in Malaysia	9,868
	Loan stocks in Malaysia	355
	Private debt securities in Malaysia	9,914
	Shares in Malaysia	75,986
	Shares outside Malaysia	14,867
	Private debt securities outside Malaysia	42,169

Included above is an amount of RM60,934,119 securities invested by Commerce Asset Fund Managers Sdn. Bhd., HLG Asset Management Sdn. Bhd., CMS Dresdner Asset Management Sdn. Bhd. and SBB Asset Management Sdn. Bhd. on behalf of the CIMB Group.

Included in unquoted private and Islamic debt securities in Malaysia is an amount of RM15,000,000 being pledged as credit support assets for certain over the counter derivative contracts.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.5 Investment securities

	30.6.2002 RM'000
Money market instruments:	
Malaysian Government securities	52,290
Danaharta bonds	23,536
	<u>75,826</u>
Quoted securities:	
In Malaysia	
Shares	24,443*
Loan stocks	14,065
Outside Malaysia	
Private debt securities	38,230
	<u>76,738</u>
Unquoted securities:	
In Malaysia	
Shares	2,767
Loan stocks	5,250
Private debt securities	778,467
Others	3,040
Outside Malaysia	
Private debt securities	72,852
	<u>862,376</u>
	1,014,940
Accretion of discount less amortisation of premium	30,431
Provision for diminution in value:	
- Malaysian Government securities	(63)
- Quoted private debt securities outside Malaysia	(1,867)
- Unquoted private debt securities in Malaysia	(76,682)
	<u>966,759</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.5 Investment securities (continued)

Included in unquoted private debt securities in Malaysia is an amount of RM19,000,000 being pledged as credit support assets for certain over the counter derivative contracts.

	<u>30.6.2002</u> RM'000
Market value of money market instruments and quoted securities:	
Malaysian Government securities	52,177
Danaharta bonds	24,387
Shares in Malaysia	23,282*
Loan stocks in Malaysia	14,065
Private debt securities outside Malaysia	<u>38,087</u>
The maturity structure of money market instruments held for investments is as follows:	
One year to three years	<u>75,826</u>

* The carrying value is higher than the market value. The Directors are of the opinion that no permanent diminution in value exists as the daily average closing price of the shares during the holding period were higher than that of the carrying value. As such, the Directors concluded that no provision for diminution in value should be made.

5.3.6 Loan and advances

	<u>30.6.2002</u> RM'000
Term loans	
- Fixed rate	116,464
- Floating rate	824,551
Claims on customers under acceptance credits	8,052
Subordinated debt	130,441
Staff loans of which RM290,653 is to Directors	<u>25,339</u>
	<u>1,104,847</u>
Unearned income	(36)
	<u>1,104,811</u>
Gross loans and advances	
Provision for bad and doubtful debts:	
- General	(44,260)
- Specific	(69,911)
Interest-in-suspense	<u>(15,893)</u>
Net loans and advances	<u>974,747</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.6 Loan and advances (continued)

(i) The maturity structure of loans and advances is as follows:

	30.6.2002 RM'000
Maturing within one year	483,144
One year to three years	250,246
Three years to five years	55,341
Over five years	316,080
	<u>1,104,811</u>

(ii) The loans and advances analysed by their economic purposes are as follows:

Agricultural	43,088
Manufacturing	44,494
Construction	244,585
Real estate	98,431
Purchase of residential landed property	18,558
General commerce	7,135
Transport, storage and communication	38,209
Finance, insurance and business services	437,211
Purchase of securities	161,495
Purchase of transport vehicles	6,653
Others	4,952
	<u>1,104,811</u>

(iii) Movements in the non-performing loans are as follows:

At 1 January	187,343
Classified as non-performing during the financial period	35,896
Reclassified as performing during the financial period	(486)
Recoveries/reclassification	(20,639)
Amount written off	(146)
	<u>201,968</u>
At 30 June	<u>201,968</u>
Net non-performing loans	<u>116,164</u>
Ratio of net non-performing loans to total loans (net of specific provision and interest-in-suspense)	<u>11.40%</u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.6 Loan and advances (continued)

	<u>30.6.2002</u> RM'000
(iv) Movements in the provision for bad and doubtful debts and interest-in-suspense are as follows:	
General provision	
At 1 January	44,260
Net provision made during the financial period	-
At 30 June	<u>44,260</u>
(as % of total loans less specific provision and interest-in-suspense)	4.34%
Specific provision	
At 1 January	67,364
Provision made during the financial period	6,889
Amount written back in respect of recoveries/reclassification	(3,891)
Amount written back to income statement	(442)
Amount written off	(9)
At 30 June	<u>69,911</u>
Interest-in-suspense	
At 1 January	14,834
Provisions made during the financial period	7,254
Amount written back in respect of recoveries/reclassification	(6,058)
Amount written off	(137)
At 30 June	<u>15,893</u>

On 12 December 2001, the CIMB Group had securitised private debt securities via a collateralised bond obligations programme amounting to RM485 million. These private debt securities were acquired from the CIMB Group by a special purpose vehicle, CBO One Berhad ('CBO One'), which is funded through the issuance of bonds and subordinated debt. The scheme and the issuance of bonds is in compliance with the Securities Commission's "Guidelines on the Offering of Asset-Backed Debt Securities" dated 11 April 2001. CBO One is a company owned by an unrelated party.

CIMB and the CIMB Group do not in any way stands behind the capital value and/or performance of the securities or the assets of CBO One except to the limited extent provided in the transaction documents through the provision of arms-length services. Neither CIMB nor the CIMB Group guarantees the payment of interest or the repayment of principal due on the securities. However, CIMB does hold the subordinated debt whose terms stipulate that losses up to the nominal value of the debt and bonds issued by CBO One, would be absorbed first by CIMB and then by the bondholders, in the event of a loss by the CBO One. In addition, the CIMB Group also holds some of the bonds issued by CBO One for trading purposes.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.6 Loan and advances (continued)

The CIMB Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The CIMB Group has no right to repurchase any of the securitised private debt securities and no obligation to do so.

With regards to the subordinated debt subscribed by Commerce International arising from its collateralised bond obligation, the following are the details as at 30 June 2002:

<u>Principal</u> RM	<u>Issuer</u>	<u>Issue date</u>	<u>Maturity date</u>
126,929,072	CBO One Berhad	11 December 2001	11 December 2008

The interest rates for subordinated debt consist of a periodical rate up to 5% per annum and a final rate of up to 15% per annum. Interest is payable semi-annually on 11 June and 11 December commencing 11 June 2002. The amount of interest due and payable is subject to the availability of funds based on certain prescribed criteria. The principal amount will be settled in full upon maturity date.

5.3.7 Other assets

	<u>30.6.2002</u> RM'000
Interest receivable	66,172
Due from brokers and clients net of provision for doubtful debts of RM56,945,694	289,890
Other debtors, deposits and prepayments net of provision for doubtful debts of RM45,423,106	199,996
Deferred tax asset (Note 5.3.17)	4,500
Amounts recoverable from Danaharta	588
	<u>561,146</u>
Amounts recoverable from Danaharta	
At 1 January	1,176
Provision made during the financial period	(588)
	<u>588</u>
At 30 June	<u>588</u>

5.3.8 Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.9 Investment in associates

30.6.2002
 RM'000

Share of net assets other than goodwill of associates 1,865

The following amounts represent the CIMB Group's share of the assets, liabilities, revenue and expenses of the associates:

30.6.2002
 RM'000

Fixed assets	584
Current assets	1,662
Current liabilities	(373)
Long term liabilities	(8)
Net assets	<u>1,865</u>
Revenue	729
Expenses	(547)
Profit from ordinary activities before taxation	182
Taxation	(78)
Profit after taxation	<u>104</u>

Details of the associates held by Commerce International are as follows:

<u>Name of company</u>	<u>Principal activities</u>	<u>Place of incorporation</u>	<u>Percentage of equity held 30.6.2002</u>
Malaysian Issuing House Sdn. Bhd.	Share issues administrator	Malaysia	25.5
Banyan Ventures Sdn. Bhd.	Fund management and investment holding	Malaysia	26.3

Details of the associated company held by CIMB (L) Limited are as follows:

<u>Name of company</u>	<u>Principal activities</u>	<u>Place of incorporation</u>	<u>Percentage of equity held 30.6.2002</u>
Navis-CIMB General Partner Ltd	Fund management	Malaysia	25.0

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.10 Fixed assets

	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<u>Cost</u>				
At 1 January	20,899	23,932	11,383	56,214
Additions	2,114	4,011	2,151	8,276
Disposals	(2)	-	(369)	(371)
Written off	(13,429)	(4,850)	(585)	(18,864)
Reclassification	7,438	(7,438)	-	-
At 30 June	<u>17,020</u>	<u>15,655</u>	<u>12,580</u>	<u>45,255</u>
<u>Depreciation</u>				
At 1 January	11,769	15,243	5,008	32,020
Charge for the period	1,383	2,364	978	4,725
Disposals	*	-	(361)	(361)
Written off	(13,428)	(4,853)	(448)	(18,729)
Reclassification	7,065	(7,065)	-	-
At 30 June	<u>6,789</u>	<u>5,689</u>	<u>5,177</u>	<u>17,655</u>
Net book value as at 30.6.2002	<u><u>10,231</u></u>	<u><u>9,966</u></u>	<u><u>7,403</u></u>	<u><u>27,600</u></u>

* denotes RM476

5.3.11 Goodwill on consolidation

	<u>30.6.2002</u> RM'000
As at 1 January	32,591
Amortisation charge	(693)
As at 30 June	<u>31,898</u>
Cost	34,685
Accumulated amortisation	(2,787)
	<u><u>31,898</u></u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.12 Deposits from customers

30.6.2002
 RM'000

Demand deposits	40,810
Fixed deposits	2,144,575
	<u>2,185,385</u>

(i) Maturity structure of fixed deposits and negotiable certificates of deposits are as follows:

- Due within six months	2,144,575
	<u>2,144,575</u>

(ii) The deposits are sourced from the following customers:

- Business enterprises	2,074,073
- Others	111,312
	<u>2,185,385</u>

5.3.13 Deposits and placements of banks and other financial institutions

Licensed banks	1,377,451
Licensed finance companies	415,593
Other financial institutions	871,457
	<u>2,664,501</u>

5.3.14 Long term debt

Negotiable certificates of deposits	<u>1,063,000</u>
-------------------------------------	------------------

(i) Maturity structure of long term negotiable certificates of deposits are as follows:

- One year to two years	243,000
- Two years to five years	220,000
- Five years to ten years	600,000
	<u>1,063,000</u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.14 Long term debt (continued)

The negotiable certificates of deposits issued are unsecured with interest payable semi-annually. The details of the negotiable certificates of deposits are as follows:

Principal segregated by maturity year	Range of fixed interest rate per annum (%)	<u>30.6.2002</u> RM'000
Year 2003 183,000	4.20 - 11.30	143,000
Year 2004 100,000	3.75	100,000
Year 2005 120,000	3.70 - 6.10	120,000
Year 2006 100,000	5.00	100,000
Year 2011 600,000	6.50	600,000
<u>1,103,000</u>		<u>1,063,000</u>

5.3.15 Other liabilities

	<u>30.6.2002</u> RM'000
Interest payable	41,187
Deferred taxation (Note 5.3.17)	819
Due to brokers and clients	254,956
Short term borrowings	413
Other liabilities	211,049
	<u>508,424</u>

5.3.16 Provision for taxation and zakat

Taxation	103,323
Zakat	-
	<u>103,323</u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.17 Deferred taxation

	6 months ended 30.6.2002 RM'000
Deferred taxation asset (Note 5.3.7):	
At 1 January	-
Transfer to income statement	4,500
At 30 June	<u>4,500</u>
Deferred taxation liability (Note 5.3.15):	
At 1 January	8,772
Transfer to income statement	(7,953)
At 30 June	<u>819</u>
The deferred taxation asset is in respect of the following timing differences:	
	<u>30.6.2002</u> RM'000
Excess of capital allowance over depreciation	(1,680)
Timing differences on provisions	22,914
Others	(17,553)
Deferred tax asset at 28%	<u>3,681</u>

All timing differences of the CIMB Group have been accounted for except where it is considered reasonably probable that the tax effects of such deferrals will continue in the foreseeable future.

5.3.18 Share capital

	30.6.2002 RM'000
Ordinary shares of RM1 each:	
Authorised	<u>2,000,000</u>
Issued and fully paid	<u>935,000</u>

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5 PROFORMA CIMB BERHAD GROUP (CONTINUED)

5.3.19 Reserves

	<u>30.6.2002</u> RM'000
Share premium	554,953
Accumulated loss	(2)
Reserve on consolidation	43,038
	<u>597,989</u>

5.3.20 Commitments and contingencies

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

These commitments and contingencies are not secured over the assets of the CIMB Group, except for certain investment and dealing securities being pledged as credit support assets for certain over the counter derivative contracts.

The commitments and contingencies constitute the following:

	<u>Principal</u> RM'000	<u>Credit equivalent</u> RM'000
Direct credit substitutes	72,932	72,932
Certain transaction related contingent items	41,790	20,895
Obligations under underwriting agreements	940,793	470,397
Irrevocable commitments to extend credit:		
- Maturity exceeding one year	97,740	48,870
- Maturity not exceeding one year	4,850	-
Foreign exchange related contracts:		
<u>Forwards</u>		
- Less than one year	50,479	1,306
<u>Foreign exchange swap</u>		
- Less than one year	19,179	-
<u>Cross currency swaps</u>		
- Less than one year	703,600	13,683
- One year to less than five years	306,241	21,949
Interest rate related contracts:		
- Less than one year	13,914,859	6,077
- One year to less than five years	27,914,651	139,520
- Five years to less than ten years	8,631,600	51,146
Equity related contracts:		
- Less than one year	6,614	-
	<u>52,705,328</u>	<u>846,775</u>

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5.3.20 Commitments and contingencies (continued)

Direct credit substitutes comprise of guarantees undertaken by the CIMB Group to support the financial obligations of its customers to third parties.

Certain transaction related contingent items represent financial products whose crystallisations are dependent on specific events other than default in payment by the customers. They include performance related contingents, bid bonds and standby letters of credit.

Short term self-liquidating trade related contingencies relate to bills of exchange which have been endorsed by the CIMB Group and represent liabilities in the event of default by the acceptor and the drawer of the bill.

Obligations under underwriting agreements arise from underwriting agreements relating to the issue of securities, where the CIMB Group is obliged to subscribe or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the CIMB Group to provide funding facilities.

The CIMB Group utilises the following financial instruments for both trading and hedging purposes:

Foreign exchange related contracts

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Foreign exchange swaps are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies.

Cross currency swap involve the exchange of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Interest rate related contracts

Interest rate futures are agreements to buy or sell standard quantity of placements at an agreed rates of interest on a standard future date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without exchanging the underlying principal.

Interest rate caps and floors give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds, instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively.

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5.3.20 Commitments and contingencies (continued)

Equity contracts

Equity futures are exchange-traded agreements to buy or sell a standard quantity of a basket of equities in the form of published indices, at an agreed price on a standard future date.

Equity contracts - others refer to agreements between two parties, whereby one party manages a portfolio of stocks while the other one absorbs the results based on the actual return of the pool of stocks.

Others

Credit derivatives are off-balance sheet instruments that allow for the isolation and transfer of credit risk from one party to another without necessarily effecting an upfront exchange of physical assets. The pay-off under a credit derivative contract is linked to the credit performance of an underlying reference credit.

Commerce International has also given a continuing guarantee to Labuan Offshore Financial Services Authority to meet the liabilities and financial obligations and requirements of its subsidiary, CIMB (L) Limited, arising from its offshore banking business in the Federal Territory of Labuan.

Breakdown of foreign exchange, interest rate and equity contracts are as follows:

	<u>30.6.2002</u>
	<u>Principal</u>
	RM'000
Foreign exchange contracts:	
- Forwards	50,479
- Foreign exchange swap	19,179
- Cross-currency swaps	1,009,841
Interest rate contracts:	
- Futures	44,741,145
- Swaps	5,709,965
- Option	10,000#
Equity contracts:	
- Futures	6,614

The exposure arising from this transaction has been set-off by a corresponding option of the opposite position.

Foreign exchange and interest rate related contracts are subject to market risk and credit risk. The CIMB Group's computation of the credit equivalent exposure for foreign exchange and interest rate related contracts is the "replacement cost" method with an "add-on" factor for potential exposure.