

*Annual*  *Report*  
2010

The logo for the 50th anniversary of Malaysia, featuring a large '50' with the Malaysian flag's colors (blue, white, red, and yellow) and the word 'st' in red. Below the '50' is the motto 'Bersekutu Bertambah Mutu' in small text.



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### Introduction

Sabah Credit Corporation ("SCC" or "The Corporation") was incorporated on 15 June 1955 under the Credit Corporation Ordinance No. 1 of 1955. The Ordinance was later repealed and replaced by the Credit Corporation Enactment No. 22 of 1981, which re-enacts the law relating to the establishment of Sabah Credit Corporation. SCC was established as a statutory body under the purview of the Ministry of Finance. Headquartered in Kota Kinabalu, SCC operates throughout the State of Sabah with local area networking of eleven(11) District Client Centres and five (5) Collection Centres.

### The Symbol of Development and Progress

The logo is derived from the Corporation's acronym, PPS. The currency symbol of \$, which forms the base of the logo, represents the "lifeblood" upon which the corporation's activities revolve.

(one P being reversed), which hornlike effect to the logo. Horns branching out of the Corporation's ensuring the Corporation's



The twin stylised alphabets of 'P' sits on the symbol \$, adds a that signify the sprouting and activities; a far reaching vision continuous growth and vitality.

In essence, the Corporation's logo embodies a commitment based on wisdom and foresight coupled with financial strength. A philosophy that has been able to ensure the turmoil of yesteryears, to leapfrog the obstacles of today and to battle the challenges of the future.

### Vision

To become a leading Corporate Citizen in Malaysia  
and to contribute to the State Social Agenda with  
the intention "To make a Difference".

### Objective

To help and contribute towards the socio-economy development of the State. In its capacity as a financial institution, the Sabah Credit Corporation complements the State Government's efforts by providing or facilitating the grant of financial credits to promote and encourage private investments involving agriculture, light industry, development of rural and urban housing, shophouses and particularly public utilities and amenities.

 ~Enactment No. 22 of 1981~

### Mission

Sabah Credit Corporation gives assurance and strives to balance its roles in social and financial responsibility as stated in its objectives of incorporation by emphasising the following strategies:-

- 1.Improving **Asset Quality** through controlling Non-Performing Loans and managing investment risks.
- 2.Implanting **Leadership and Accountability** within the organisation by rejuvenating human capital via development programmes.
- 3.Contributing to **Environmental Improvement** via providing financial credits to organic farmers in order to promote organic farming practices.
- 4.Providing **Easy Loans to Small Businesses** by introducing community loans to curb out the rising phenomena of unlicensed money lenders.
- 5.**Helping the Less Fortunate** through allocating annual funds for community projects.



Chairman

Datin Linda Tsen



Secretary / CEO

Datuk Vincent Pung



Deputy Chairman

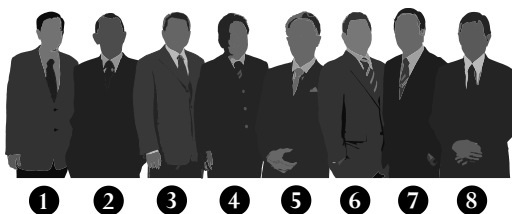
Datuk Mohamad Bin Jafry



Ex-Officio

Members

- ① Datuk Pg Hassanel Bin Datuk Pg Hj Mohd. Tahir
- ② Encik M.C Ismail Salam
- ③ Datuk Osman bin Jamal @ Jamar



- Datuk Peter Athanasius ④
- Encik Marzuki Hj Spawi, JP ⑤
- Ir. Shahelmey Bin Yahya ⑥
- Encik Zamani Hj Basri ⑦
- Encik Raskan Asing ⑧



Chief Executive Officer

Datuk Vincent Pung

Chief Operating  
Officer

Lee Shu Men



Consultant

Datuk Hj. Abdullah Bin Hj. Sibil



Heads Of Departments



①

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③

④

⑤

⑥

⑦

⑧

George Taitim Tulas ①  
**Corporate & Training**Charles Mojuntin ②  
**Internal Audit**Henry Chu ③  
**Administration & Property**Fatimah Kahar ④  
**Human Resource**Fiona Kau ⑤  
**Finance**Nelson Chan ⑥  
**Information Technology**Arius Jipiu ⑦  
**Credit Control**Victor Monsibol ⑧  
**Credit**

**KUDAT**

Lot 8F, Bangunan SEDCO, Tingkat 1  
Peti Surat No.224, 89058 Kudat  
Tel:(088)622 676 Fax:(088)629 036

**KOTA BELUD**

Blok B, Lot 9, Kompleks Sri-Rangan  
Beg Berkunci No.1, 89159 Kota Belud  
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**RANAU**

Lot D, Bangunan SEDCO  
Beg Berkunci No.1, 89309 Ranau  
Tel:(088)875 200 Fax:(088)875 489

**ALAMESRA**

Lot 25 1F, Block E, Fasa 2,  
Jalan Sulaman, Kuala Menggatal,  
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Tel:(088)448900/ 918 Fax:(088)448 916

**SANDAKAN**

Blok 15A, Lot 156, Phase 2,  
Bandar Prima Square,  
Beg Berkunci 37, 90009, Sandakan  
Tel:(089)215 509 Fax:(089)215 508

**LAHAD DATU**

MLDB, 0834 A, Lot A & B Jalan Teratai,  
Peti Surat 61264, 91121 Lahad Datu  
Tel:(089)881 779/889 771 Fax:(089)881 779

**(SABAH CREDIT CORPORATION)**

Wisma Perbadanan Pinjaman Sabah, Pekan Baru Donggongan, Peti Surat No.10451 Kota Kinabalu.  
Tel:(088)323 888 Fax:(088)718 181 Website:www.sabahcredit.com.my Email:pps\_scc@sabahcredit.com.my

**PAPAR**

Lot 10, Taman OKK Mahali  
Peti Surat 104, 89608 Papar  
Tel:(088)913 076 Fax:(088)915 921

**BEAUFORT**

Lot 69, Blok J, Tingkat 1  
Peti Surat No. 620, 89809 Beaufort  
Tel:(087)211 751 Fax:(087)212 124

**KENINGAU**

Tingkat 1, Lot No.5, Taman Birawa  
Industrial Area, Peti Surat 451, 89009 Keningau  
Tel:(087)331 567 Fax:(087)331 610

**TENOM**

New Township Extension Tenom  
Lot 34, Peti Surat 272, 89908 Tenom  
Tel:(087)735 655 Fax:(087)734 655

**TAWAU**

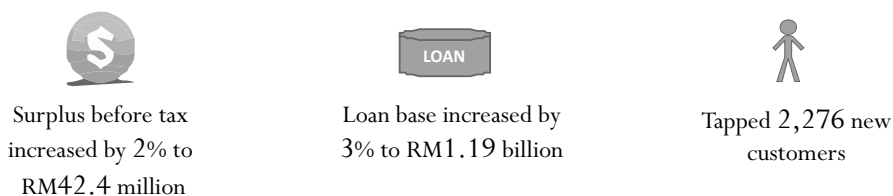
TB 491, Blok Q, Lot 1  
Beg Berkunci No.24, 91009 Tawau  
Tel:(089)777 807 Fax:(089)775 336



As a newly appointed Chairman of 5 months since 1 Jan 2011, I am delighted to present our accomplishments for the financial year ended 31 December 2010.

The Corporation continued with its excellent performance in the year 2010 in the face of stiff competition in the industry, where key players raced to introduce new innovative indebtedness strategies and cutting interest rates as a means of survival.

Despite of the continuous movement of the goal posts and having to balance with the playing field, we managed the followings:



The core business of the Corporation has slightly improved with the launching of Shariah-compliant product i-Executive in Nov 2010. Although the growth may not be overwhelming as the years before, the ability to maintain our market share with new untapped markets exposure in such an aggressive and highly competitive industry is hugely commendable. This upward trend reflects the commitment of the Corporation in its continuous drive to enhance its delivery system via the provision of quality and efficient services. It also marks the growing confidence of stakeholders in the Corporation's pursuit of quality, credibility and sustainability.

The introduction of i-Executive has further synchronised our vision towards the Malaysian Government's desire, through the National Economic Transformation Program, to make Malaysia a regional Islamic Finance hub for the Asian Region. We are indeed at the right track and moving in tandem with the global development towards Islamic Banking and Financing.

With this achievement, the Corporation declared a gross dividend of RM13.0 million to the State Government for the year 2010. The Corporation will continue its contribution back to the State Government by way of dividend payments and at the same time to realise our mandated objectives not only in term of providing easier access to financial credits but to the community at large through our Corporate Social Responsibility program.

#### Appreciation

On behalf of the Corporation, I take this opportunity to record my appreciation for the firm support, assistance and guidance of the Ministry of Finance, Government Agencies, stakeholders and all the relevant authorities.

My sincere thanks are extended to the past Members of the Corporation, led by YB Datuk Teo Chee Kang, the Management and Warga PPS. Their professionalism, diligence and unwavering commitment and contribution have resulted in yet another year of remarkable financial performance. Finally, I thank our valued customers for their continuous support.

Thank you.



(YB DATIN LINDATSEN)  
Chairman  
Sabah Credit Corporation



“Creative destruction involves strong invocation for mindsets change”

### “Creative Destruction - The Rebirth of SCC”

Year 2010 has been unusual and most challenging as SCC continued its journey to lay strong foundations for organisational sustainability. The focus remained on developing quality leadership, growth and customer satisfaction. A new strategy, Creative Destruction Strategy, was deployed to review, revise and enhance existing processes creating a much effective and resilient processes as the pillars for the foundations.

#### Creative Destruction Strategies

Creative destruction involves strong invocation for mindsets change; creatively dismantling existing structures and systems in order to build a more powerful and resilient replacement for the sustainability of the organisation in the face of continuous global changes affecting the way things are being done and indeed, the ever increasing competition. We went through this process by flattening the human resource structure and impressing the value of meritocracy via the implementation of a New Remuneration Scheme in 2010. We laid out a solid Information Technology platform with the implementation of the Financial & Loans Integrated System (FLIS) project in the same year. 2010 also saw the launching of our Islamic product, “i-Executive”, which serves as a fulcrum for our next level of business opportunities. This new product line necessitated us to embark into a RM1 billion SUKUK programme that further strengthens our funding base. However, laying good foundations is only one part of the equation for a successful organisation.

#### Business Opportunities

The Corporation has persisted its focus on the public service market in Sabah as its potential remains enormous. As the competition stiffened through interest rate cuts and extension of repayment periods, the goal posts were continuously shifted by key players in the market. To remain competitive, we subsequently cut rates. This was a temporary measure until the introduction of “i-Executive”, our very own Islamic financing products, in December 2010 that brought about a new dimension to our business platform and strategies. SCC reported a loan base expansion of 3% to RM1.27 billion for the year 2010.

Being a locally-owned financial institution, with front offices all around the State and having gone through creative destruction strategies, we now have the advantage and are better poised to reach out to the rural areas of Sabah for untapped markets that has further enhanced SCC's continued existence.

#### Brand

Over the years, we have been evolving our processes to serve our internal and external customer better. The evolution is continual, aiming at instilling further and deeper commitments to quality services for the stakeholders and the clients. The cultivation of 'customer first' mentality was further emphasised and elevated through the birth of the u1st slogan in November 2010.

#### Outlook

2010 was indeed a year of traumatic precision surgeries that has transformed SCC with a new vibe. We will not be complacent and we will enter a new year with renewed vigour and momentum of “cross-breeding” where the offsprings of new partnerships and processes often creates a better gene pool of quality, expertise and leadership in order to remain relevant in our ever-changing dynamic world.

#### Appreciation

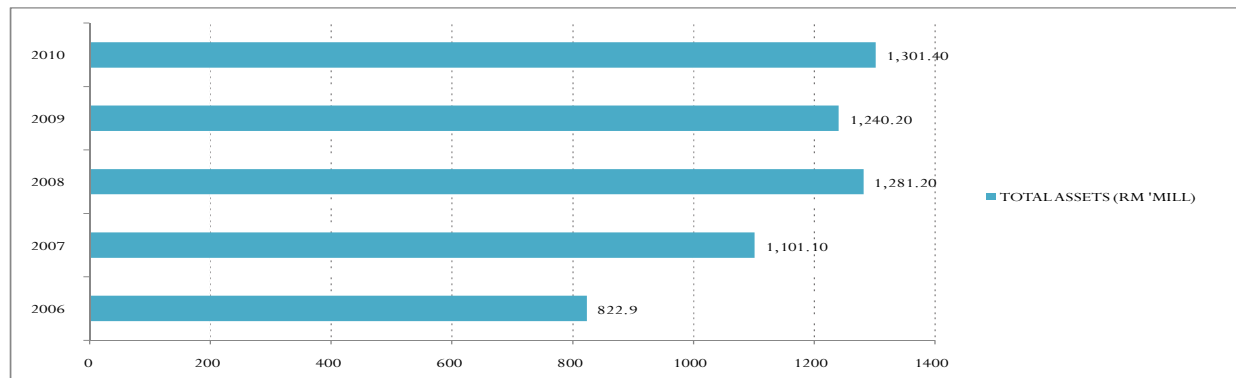
I really have to give full credit to my Warga PPS for such a feat as they accepted and faced the challenges head on with professionalism, resilience and positive vibes. I am also most grateful for a very understanding and supportive Members of the Corporation and a very responsive Ministry of Finance. It is indeed very encouraging and empowering to have such good working relationships.



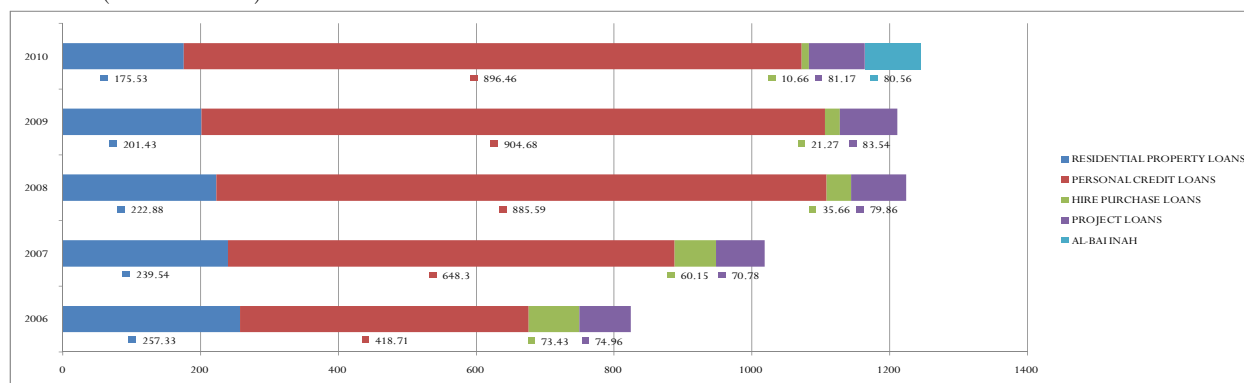
Datuk Vincent Pung  
CEO

**TOTAL ASSETS**

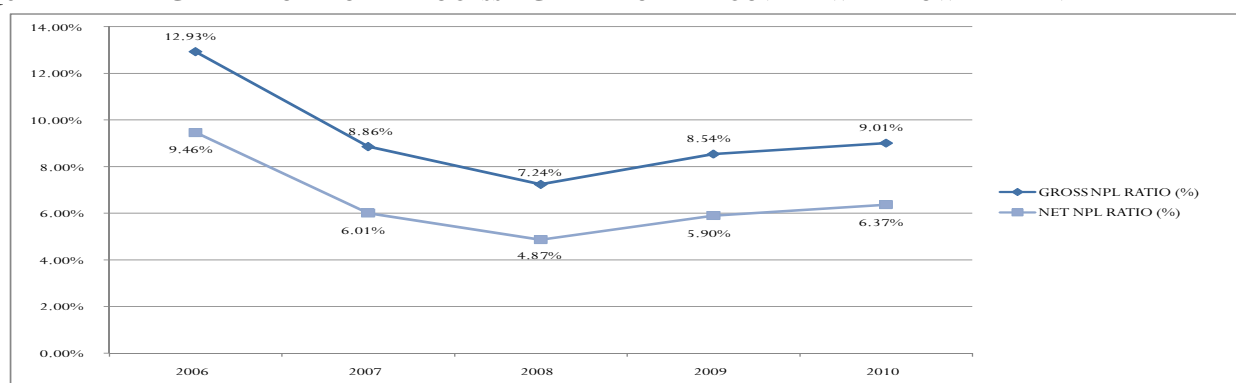
MAINTAINING STRONG FOUNDATION BACKED UP WITH STRONG AND ROBUST FUNDING STRUCTURE AND HIGH EQUITY CONTENT CAPITAL STRUCTURE

**PORTFOLIO SIZE**

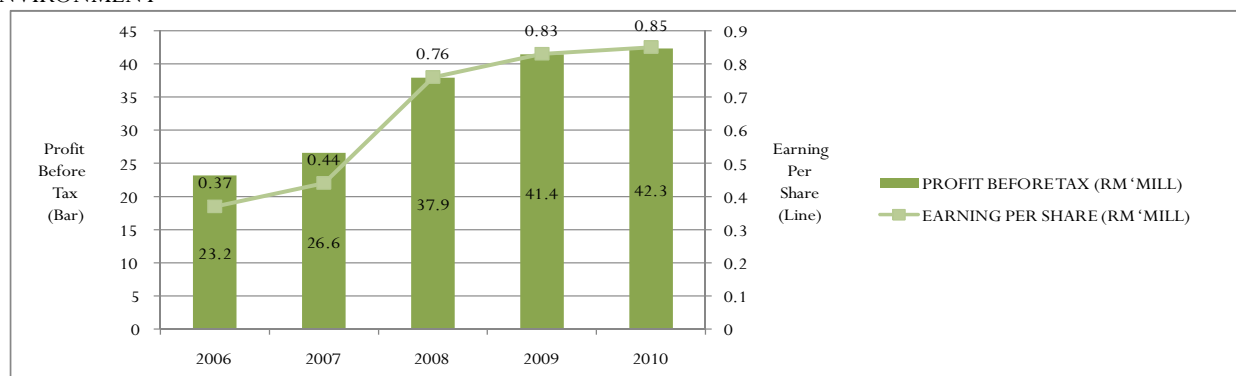
2.76% INCREASE IN PORTFOLIO SIZE WITH JUST ONE MONTH OF IMPLEMENTATION ON ISLAMIC PERSONAL LENDING (AL-BAI INAH)

**GROSS NPL AND NET NPL RATIO**

QUALITY MANAGEMENT ON LOAN PROCESSING AND LOAN RECOVERY WITH LOW NPL LEVEL

**PROFIT BEFORE TAX**

MAINTAINING HEALTHY GROWTH WITH HIGH PROFITABILITY INDEX IN THE CHALLENGING OPERATING ENVIRONMENT



The Board of Directors of Sabah Credit Corporation is pleased to present a summary report regarding its Audit & Examination Committee for the year ended 31 December 2010.

The Audit & Examination Committee (the "AEC" or the "Committee") ensures the Corporation continues to employ high and appropriate standards of governance. This mandate is performed mainly via the auditing activities of the Corporation's internal audit function and if necessary, by direct consultation with members of top management. The AEC is composed of non-executive members of the Board and ably assisted by an Internal Audit Department, which reports directly to the Committee.

The formation of an Audit & Examination Committee was first mooted and established in the Corporation's 2/87 board meeting dated 23 May 1987.

## Composition of the Committee and Frequency of Meetings

Members of the Committee consist of non-executive directors and have held three (3) meetings during the year ended 31 December 2010 and their appointment expired on 30 September 2010 and were re-appointed to their position on 1 January 2011. The members of the Committee and their meeting attendance records are set out below:

| Name                      | Role in the Committee | Directorship          |
|---------------------------|-----------------------|-----------------------|
| En. Marzuki Hj. Spawi, JP | Chairman              | Non-Executive Members |
| Datuk Mohamad Bin Jafry   | Member                |                       |
| En. M. C. Ismail Salam    | Member                |                       |
| En. Raskan Asing          | Member                |                       |

The Head of Department (Internal Audit) holds the role of Secretary to the Committee.

## Terms of Reference of the Committee

The Committee's terms of reference is stipulated in guidelines issued by the State's Ministry of Finance. Pertinent stipulations are as follows:

### A. Membership

- a) To maintain absolute independence, the AEC shall substantially comprise of Non-Executive Directors. The membership shall include:
 

|                   |   |                                                                            |
|-------------------|---|----------------------------------------------------------------------------|
| Chairman          | - | Non-Executive                                                              |
| Directors Members | - | (i) Non-Executive Directors (3)                                            |
|                   |   | (ii) Optionally, an independent Outsider (Non-Director and Non-Management) |
| Secretary         | - | Head of Department (IA) / Company Secretary                                |
- b) The number of the membership shall not be less than three (3) or more than five (5).
- c) At least one member of the Committee other than the Secretary shall have adequate auditing / accounting knowledge.
- d) At least one member of the Committee shall have adequate technical knowledge relating to the activities of the organisation.
- e) The Board may appoint an independent outsider as a member of the AEC. The independent outsider must possess specialised skill / knowledge / experience so that the organisation may benefit from his or her expertise. For effective contribution, the independent outsider should not be a member of more than two AECs and not a member of the Management of a holding company or subsidiary or associated company.
- f) Members of the management staff may not be a member of the AEC. However, they may be invited to attend the AEC's meetings to give clarifications on matters that relate to their portfolio.
- g) The Internal Audit Department is responsible functionally to the AEC and administratively to the Management.
- h) The Board of Directors shall appoint the Chairman of the AEC. To avoid potential conflict of interest and maintain independence, the Chairman of Board or the Deputy Chairman shall not be appointed as the Chairman or member of the AEC.
- i) The role of Secretary of the AEC shall be held by the Head of Department (Internal Audit).

**B. Objectives and Responsibilities****Objectives**

- a) To ensure corporate accountability in respect of the management of the State Corporation.
- b) To serve as a "check and balance" mechanism for the Corporation.
- c) To assist the Board in carrying out their responsibilities as they relate to accounting policies and internal controls, financial reporting practices and business ethics policies.
- d) To monitor the Internal Audit Department and its activities.

**Responsibilities**

- a) To evaluate the professional background and experience of applicants for the Internal Audit Department and recommend the appointment of selected staff to the Board.
- b) To review the objectives, scope and manpower requirements and the effectiveness of the Internal Audit Department and recommend remedial measures to the Board of Directors for approval.
- c) To initiate special audits or investigations as may be necessary.
- d) To provide free access to the Internal Audit Department, if requested, for discussion on sensitive audit findings or other matters of major importance.
- e) To support and strengthen the independence of the internal audit function.
- f) To review and monitor the Corporation's internal controls with emphasis on internal check and financial controls.
- g) To review with the Internal and External Auditors on the scope of their respective audit programmes in order to ensure adequate audit coverage and adherence to work schedules.
- h) To review budget, management reports and financial statements of the Corporation in order to ensure objectivity and accuracy before submission to the Board of Directors for approval.
- i) To review and discuss with the Management and, if necessary, with the Board of Directors, reports and comments submitted by the External Auditor.
- j) To ensure the prompt publication of annual accounts and that the accounts are timely and accurate with frequent reviews.
- k) To review and ensure that the Corporation is managed in accordance with Statutory Enactment, Government directives and general policies of the Corporation.
- l) To review the performance of the External Auditor and recommend to the Board the appointment and remuneration of the External Auditor for the ensuing year.
- m) To review and examine the financial statements of the holding entity as well as their subsidiaries and associates to their respective Boards for approval.
- n) To assess the performance of the internal audit staff including the Internal Auditor and be represented in the panel assessing the staff of the Division for the purpose of promotion, bonuses and salary increment.
- o) To present on a regular basis to the Board of Directors the independent reports of the AEC, and the External and Internal Auditors, together with recommended actions taken or to be taken.

**C. Authority and Powers of the Committee**

In performing its duties, the Committee shall have the following authority and powers:

- i) Unlimited access to both the Internal and External Auditors and to Senior Management of the Corporation.
- ii) The liberty to consult independent experts where they consider it necessary to carry out their duties.
- iii) Enables the Internal Audit Department to have access to all of the Corporation's files and documents for the purpose of conducting internal audits.
- iv) Obliges Management to provide the necessary co-operation to the Internal Audit Department in the interest of the Corporation.

**D. Meetings**

- a) The Committee is required to meet at least once every three months and as and when required by its Chairman.
- b) For a committee of either three (3) or five (5), the quorum shall be two (2) or three (3) members respectively.
- c) Invitations to members of management to attend AEC meetings is allowed with the purpose of providing explanations / clarifications to the AEC.
- d) The Secretary shall keep minutes of the meetings, which are circulated, to all members of the AEC and depending on the wishes of the Board, to all directors.

The objective and terms of reference of the Committee above were prescribed by the State Ministry of Finance in their Circular reference FC.118/8/2/Pt.II/(418) dated 23 September 1996. The Corporation from then onwards adopted the requirements of the Circular.

**Internal Audit Function**

The Internal Audit Department in the Corporation was first formed by a Board resolution in the year 1981. This Department has carried out the internal auditing function ever since. From the very outset, the Internal Audit Department has always been required to report directly to the AEC. In this way, it is able to maintain its impartiality, proficiency and due professional care.

The Corporation is adequately manned by a qualified Head of Department and staffs with relevant background. The main functions of the Internal Audit Department are to check compliance to set procedures, rules and policies of the Corporation. In its work, the Department reviews the adequacy of the Corporation's system of internal controls and the overall governance of the Corporation. In addition, it also provides consultative advice and recommendations whenever required by Management.

The direction and emphasis of its audits and reviews are determined in an annual audit plan, which is then elaborated on and endorsed by the Audit & Examination Committee at the start of a new financial year. The auditable areas in the audit plan are selected based on an assessment of degree of risk and probability of exposure to those risks.

Audit findings are enclosed in audit reports, which require responses from auditees and management alike. Before presentation of audit reports to the Audit & Examination Committee, an audit exit conference is first conducted, which is attended by auditees, senior management as well as relevant personnel. In this conference, latest updates of remedial action are known and final resolutions are made. After these audit reports are discussed in the AEC meetings, all confirmed minutes and corresponding reports are submitted to the Ministry of Finance as procedural requirement by the Corporation's stakeholders.

The conduct of the Internal Audit Department's activities is administered according to its Internal Audit Charter, which is approved by the Audit & Examination Committee. Its scope of authorities and responsibilities are vested in the same State Ministry of Finance Circular requirements that the Audit & Examination Committee is governed under.

### New Remuneration Scheme (NRS)

In January 2010, Sabah Credit Corporation (SCC) shifted from the Skim Saraan Malaysia (SSM) into the New Remuneration Scheme (NRS) as a means to increase the quality of staffs and to further enhance the corporate structure by creating more managerial level. This provides more opportunities for clerical and support level employees to advance into more managerial-based roles. This also allows better growth of SCC's Human Capital structure and the mindset of the Warga SCC.

By implementing the NRS, staffs are now more highly motivated, re-energised and geared up towards better performance at work leading to better productivity. Aside from an increase in payroll entitlement and posts, the staffs also enjoy better health and medical benefits. In addition to these benefits, this new scheme has also boosted SCC's efforts towards creating and nurturing better leadership amongst its staff.



### Staff Welfare

SCC has continuously maintained and emphasised on the importance of health among its staff. SCC considers the health of its employees as an important factor in its efforts to forge ahead. Management believes that health problems will have a direct effect on staffs' performance. Thus, a full medical check-up is obligatory on all of its employees to ensure that they are mindful of maintaining a healthy lifestyle and enables early detection of serious illnesses. In addition, Management has made a proactive move to setup a new gymnasium especially for the staff with an objective to encourage them to exercise regularly. This good intention has been reciprocated by a good turnout of staff in the gymnasium after office hours.

Employees also enjoy Surgical & Hospitalisation insurance protection as well as a Personal Accident insurance cover, which are renewed annually by the Corporation. The Corporation sees its workforce as a 'family' and has provided reasonable assurance to the staffs' family members as much as possible in the event of any tragedy.

### Staff Recognition

SCC continues to appreciate the contributions of employees via its monthly Chief Executive Officer's (CEO) Appreciation Awards and Long Service Awards as forms of motivation. The monthly recognition of good performance stems from Management's view that excellence in work performance or any other beneficial contribution by employees should be immediately recognised in order to further motivate and stimulate future efforts of the same. Motivation levels go up and down throughout the year.

Hence, immediate appreciation is vital to maintain positive performances or contributions. The CEO Appreciation Awards has so far been granted to a total of 61 staffs and another 7 staffs, who have worked up to 30 years in the Corporation, have been honoured with the auspicious Long Service Awards.



### “Majlis Bersama Jabatan” (MBJ)



The Corporation's MJB Council was officially formed on 9 May 2002 with the purpose of improving staff welfare. The MJB concept has provided an avenue for employees to communicate or address issues that concern them directly to Management. Issues brought forward usually centre on work process, staff welfare, staff benefits and so forth. The MJB process involves the taking place of a conference between employee representatives and representatives from the Management. The Council itself consists of 10 management representatives (the management team; headed by the Chief Executive Officer plus one officer appointed as secretary) and 20 employee representatives composed of one representative from each department and client centres of the Corporation. The chairmanship of the employee representation is determined via a democratic process of voting amongst the employee members. The employee members also appoint a secretary amongst themselves. The elected chairperson is responsible for chairing their meetings and is usually the main spokesperson to convey issues and matters to Management during the management meeting part of the MJB process.



### Sports and Recreation Club (KSR)

SCC's Sports and Recreation Club “KSR” continue to bloom in organising various sporting events and activities in order to keep the staff well-being through exercise and closer interaction. These recreational activities act as a quick relief from daily office chores and tedium as well as teach employees to appreciate the wonders of Mother Nature. Events conducted and activities involved in 2010 are:

- Blood Donation Campaign
- Football Tournament
- Ministry of Finance Sports
- Ministry of Finance 7<sup>th</sup> sport Carnival Meeting
- Cross Country
- Ping Pong Friendly Match

Activities in the planning stages are:

- White water rafting at Kiulu River



### Creating Opportunities for the Less Fortunate & Practical attachment for Students/Trainees

SCC has continued to create work opportunities to the less fortunate by employing hearing-impaired individuals as data entry clerks. As for the year 2010, a total of 4 such employees are attached in SCC. The engagement of these handicapped workforces also gives an opportunity for other employees to acquire sign language skills as well as a sense of caring for their 'special' fellow beings.

In addition to that, SCC believes that it is in a position to provide a jump-start for fresh graduates embarking into the working world by sharing experiences and inculcating good working culture in their young minds. In 2010, we have accepted a total of 165 students (83 in HQ and the remaining 82 in the district client centres) for work-attachment periods of between one to six months. Besides these, SCC has also conducted added-value activities for these practical students such as internal talks by each of the head of departments and selected skilled staffs on their experiences and to have them involved in visits organised by SCC for staffs. Through this scheme, the management of SCC has an option or reliable platform to select and absorb potential trainees based on their performances, skills and attitudes.



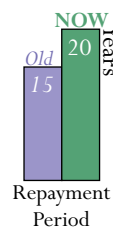


ICT (FLIS System)

The year 2010 saw SCC reaching yet another milestone in IT technology as it equipped itself with its newly acquired **Financial & Loans Integrated System**. This new system, which replaced the previous Informix system, was meant to ease and enhance the Corporation's finance and loans processing. This in turn reduced previous workload when the Informix system was still used. After months of training undergone by key process owners and users, and subsequent improvements made, the **FLIS** system finally went live and operational on **18 January 2010**. As a result of this migration, SCC's finance and loans interface entered a new era in the Information Technology arena where it operates under two core systems linked to each other making processes performed more precisely, surgically and automated.

## RAISING THE BAR OF QUALITY SERVICE DELIVERY

As the financing and loans market became more and more competitive, SCC became one of the first to extend its loan and financing repayment period from a maximum allowed of **15 years to 20 years** in order to provide higher entitlements for customers. Subsequently, its interest rate was also cut from **10% to 9.3%** on a reducing balance basis for all new customers. However, these interest rate cuts were only a temporary business measure until the introduction of SCC's first Islamic Financing product, the **i-Executive**.



### Extension of Loan Repayment Period & Revised Interest Rate



With the completion of the newly renovated SCC Headquarters and the opening of its Alamesra branch, the upgrading of infrastructures remains continuous. Many of SCC's premises have undergone rejuvenations, namely the District Client Centres. In 2010, the renovation of the Papar District Client Centre was completed with its new modern and executive outlook. The Keningau District Client Centre also started its renovation works, and Sandakan District Client Centre's new office construction arrived at its final completion stage. Both are scheduled to be completed in early 2011.

### Corporate Image



### i-Executive<sub>SCC</sub>

To maintain its competitive edge in the public service market, on **24 November 2010**, SCC continued on its journey towards sustainability by launching its first Islamic Financing product, the **i-Executive Bai-Inah** portfolio. This portfolio, which was launched by Sabah's Chief Minister, Datuk Sri Musa Haji Aman, is aimed at providing a Syariah compliant product to the public. This new product line is funded by a RM1 billion Sukuk programme and other Islamic Financing facilities to further strengthen SCC's funding base. After obtaining its certification from the Islamic Banking & Finance Institute Malaysia (IBFIM), on 1 December 2010, SCC opened this new financing facility to its customers with a given profit rate of **4.85%** and repayment period of up to **20 years**. This in turn has provided an increase in customer financing entitlements as well as lower repayment amounts enjoyed by the customers.

### Launching of Islamic Financing

### Call Centre



088-323800

To provide more towards customer service satisfaction, SCC has set up a Call Centre to cater to all telephony customer assistance ranging from information pertaining to its products and existing accounts. The new Call Centre has taken over all customer calls with a contact number of **088-323800**.

### Customer Service

In the first quarter of 2010, the management of SCC strengthened its journey towards sustainability when it deployed four of its Warga into the Research & Marketing team. These individuals are to perform a direct customer approach, surgically and precisely by not only delivering SCC's services direct to the customer's doorstep, but to provide better financial consultation towards its customers. Although this team is officially only manned by four main officers, they are supported by all of Warga PPS in performing marketing throughout the State of Sabah regardless of during or after working hours, in effect making SCC's marketing team 200 strong.



Over the years, SCC has been evolving its customer service themes to better serve its internal and external customers. Alongside the launching of the new i-Executive portfolio, Sabah's Chief Minister also launched SCC's brand new slogan and customer service theme; "1st" or "Anda Diutamakan". This slogan is a calling card of SCC's commitment towards its customers. This unique slogan, which incorporates a combination of the 1Malaysia symbol merged with the Sabah flag and SCC logo is meant to further emphasise SCC's commitment of service-before-self to provide better quality services towards customer satisfaction.

The practice of Corporate Governance is critical to SCC's strategic positioning plan as SCC moves from a government-support organisation to a self-sustaining organisation. SCC believes that it is important to set global principles that guide the Members in streamlining and govern the affairs of the Corporation, with a view to maximising long term value for the State Government and the interest of the stakeholders.

Good Corporate Governance ensures that there is a proper organisational system in place, which provides adequate internal controls with check and balance of authority mechanisms. Over the years, SCC has evolved processes and systems that enhance good corporate governance through the conduct of regular review for Continual Improvements.

#### BOARD COMMITTEES

The Members has appointed a number of committees consisting of certain Members, as well as representatives from the Management as Secretary to the Committee to assist Members in streamlining and governing the affairs of the Corporation. The following are the principal committees:

##### Audit Examination Committee (AEC)

The AEC is accountable to the Members and assists the Members in meeting its responsibilities for maintaining an effective internal control system.

This Committee reviews the compliance of procedures, policies, laws and regulations which could have a significant impact on the operations of the organisation. Besides, analysis and monitoring on the adequacy of internal controls, the emphasis on internal check and financial controls is also exercised.

Recently, its role has also been expanded to cover a review of the Corporation's Risk Management System.

AEC meets regularly with the Members to present independent reports of the AEC, and the External and Internal Auditors, to update and inform them on any material findings together with recommended actions taken or to be taken.

The Audit Examination Committee meets as and when required and at least 4 times a year.

##### Loan Application Appraisal Committee

The Loan Application Appraisal Committee was established with a purpose to evaluate thoroughly the feasibility of business loan applications, where the application amount is above RM100,000, prior to seeking for Members' approval.

Its function also includes reviewing and close monitoring on the development progress of all business loans, which was approved by the Members to ensure continuous viability and profitability.

The Loan Application Appraisal Committee meets as and when required, and at least once a year.

##### Property Investment Committee

The Property Investment Committee serves as a to manage SCC's landed properties as well as to evaluate any other potential property/land investments in terms of feasibility and maximising returns to the benefit of SCC prior to seeking Member's approval. Any matters relating to acquisition and disposal of landed properties falls under the purview of this Committee.

The Property Investment Committee meets as and when required, and at least once a year.

##### Bad Debts Write Off Committee

The Bad Debts Write-Off Committee is set up to vet, evaluate and approve recommendations of non-performing loans to be written off by the Management prior to submission and endorsement by members of the Board. It is also under the jurisdiction of the Committee to ensure that proper criteria and procedures of bad-debts write off are complied in accordance with the guidelines approved by the State Cabinet.

The Committee also has the duty to assist Legal & Enforcement section in improvising their processes for effective and efficient enforcement.

The Bad Debts Write-Off Committee meets at least once in 3 or 4 months.

**Audit Examination Committee**  
Marzuki Hj. Spawi, J.P. (Chairman)  
Datuk Mohamad Bin Jafry  
M.C. Ismail Salam  
Raskan Bin Asing  
Charles Peter Mojuntin (Secretary)

**Loan Application Appraisal Committee**  
Zamani Hj. Basri (Chairman)  
Datuk Peter Athanasius  
Ir. Shahelmey Bin Yahya  
Marzuki Hj. Spawi, JP  
Victor Monsibol @ Partama  
(Secretary)

**Property Investment Committee**  
Raskan Asing (Chairman)  
Marzuki Hj. Spawi, JP  
Zamani Hj. Basri  
Henry Chu (Secretary)

**Bad Debts Write Off Committee**  
Datuk Mohamad Bin Jafry  
(Chairman)  
Elmin Hj. Mohd. Kassim  
Zamani Hj. Basri  
Ir. Shahelmey Bin Yahya  
Raskan Bin Asing  
Arius Jipiu (Secretary)

**Small Loan Scheme (SLS) & Loan Review Committee**

This Committee is established with an intention to assist Management in carrying out their responsibilities of managing and monitoring Non-Performing Loans (NPLs).

Meetings are held regularly to review loans which are four months and above in arrears together with effective recommendations on actions to be taken in mitigating NPL risks. It is also the concern of the Committee to ensure that the Corporation is managed in compliance to the Enactment, Government directives, procedures and policies of the Corporation.

Independent reports compiled under the SLS and Loan Review Committee are brought to the attention of the Members of the Corporation on a frequent basis for discussion purposes.

The Small Loan Scheme & Loan Review Committee meets as and when required, and at least once a year.

**Small Loan Scheme & Loan Review Committee**

Ir. Shahelmey Bin Yahya (Chairman)  
Marzuki Hj. Spawi, JP  
Datuk Peter Athanasius  
Zamani Hj. Basri  
Raskan Bin Asing  
Jeffrey Molison (Secretary)

**Special Task Force Committee**

The Special Task Force Committee is established with the same purpose as the Small Loan Scheme & Loan Review Committee. However, the level of authority of this Committee is limited to only non-performing low cost housing accounts, which was formerly held by Lembaga Pembangunan Perumahan dan Bandar.

The Special Task Force Committee meets as and when required, and at least once a year.

**Special Task Force Committee**

Datuk Peter Athanasius (Chairman)  
Zamani Hj. Basri  
Ir. Shahelmey Bin Yahya  
Marzuki Hj. Spawi, JP  
Raskan Bin Asing  
Joseph Gambud (Secretary)

In addition to the above committees, numerous management committees have also been established to assist the Members' of the Corporation to govern the day-to-day affairs of the Corporation from managing business risks, assessing adequacy of controls in processes to reviewing welfare of the staff and customers feedback for continual improvement purposes.

The following are the appointed committees with its functions:-

**OPERATIONAL COMMITTEES****Risk Management Committee**

In order to assist Members of the Corporation in its risk management duties, Management has set up a central hub for risk management by establishing a Risk Management Committee (RMC) with an intention to manage and resolve with effectiveness on the risk associated with all aspects of the Corporation's business.

The Risk Management System would be independently reviewed under the Internal Audit function. Reports of the review by the Internal Audit would be communicated to the Members via Audit & Examination Committee.

Meetings are held once a month to evaluate the current status of risk parameters set and propose new improvement for the system.

**Risk Management Committee**

Datuk Vincent Pung Yee Kiong (Chairman)  
Datuk Hj. Abdullah Hj. Sibil  
Lee Shu Men  
George Taitim Tulas  
Arius Jipiu  
Charles Peter Mojuntin  
Henry Chu Wing Siew  
Nelson Chan Kin Ren  
Victor Monsibol @ Partama  
Fatimah Kahar  
Fiona Kau Shuk Fang  
In attendance  
Janeta Anthony (Secretary)

**Financial Management Committee**

Financial Management Committee, best known as Jawatan Kuasa Pengurusan Kewangan, was established on 23 Mac 1998 in accordance with the State Government Circular No. 1 of 1998.

Its objective is to ensure the financial reporting management of the government agencies are standardised for ease of monitoring and controls. In addition, State Government will be continuously informed on the Corporation's latest operation development and financial performance on a quarterly basis.

The reports would be prepared based on the stipulated template forwarded to Ministry of Finance for their review.

**Financial Management Committee**

Datuk Vincent Pung Yee Kiong (Chairman)  
Datuk Hj. Abdullah Hj. Sibil  
Lee Shu Men  
George Taitim Tulas  
Arius Jipiu  
Charles Peter Mojuntin  
Henry Chu Wing Siew  
Nelson Chan Kin Ren  
Victor Monsibol @ Partama  
Fatimah Kahar  
Fiona Kau Shuk Fang (Secretary)

**Management Review Committee**  
[Majlis Kajian Semula Pengurusan (MKSP)]

Management Review Committee is one of the requirements of MS ISO 9000:2000 certification, which was obtained by SCC on 13 January 2004. This Committee was formed consisting of the senior management team, the appointed Management Representative, Document Control Officer and Head of the Internal Quality Auditor of MS ISO 9000:2000.

The purpose of the Committee is to evaluate the overall performance of SCC's quality management system and to identify continuous improvement opportunities.

These reviews are carried out at least twice a year.

**Management Review Committee**  
Datuk Vincent Pung Yee Kiong  
(Chairman)  
Datuk Hj. Abdullah Hj. Sibil  
Lee Shu Men  
George Taitim Tulas  
Arius Jipiu  
Charles Peter Mojuntin  
Henry Chu Wing Siew  
Nelson Chan Kin Ren  
Victor Monsibol @ Partama  
Fatimah Kahar  
Fiona Kau Shuk Fang  
Secretariat  
Janeta Anthony (Secretary)  
Eligius Samuel (Document  
Controller)  
Salina Salimi (Head of Internal  
Quality Auditor)

**Customer Feedback & Complaint Committee**  
[Jawatankuasa Maklumbalas & Aduan Pelanggan (JMAP)]

The Committee was established since 21 January 2003 for the HeadQuarter and September 2003 for each of the District Client Centres to ensure speedy actions on all customer feedback and complaints effectively throughout Sabah.

The main functions of the Committee are to channel customers comments or to measure customer satisfaction particularly in customer delivery system for the management attention and to be reported in the Management Review (Majlis Kajian Semula Pengurusan) for further action.

The Customer Feedback & Complaint Committee meets at least once a month.

**Customer Feedback & Complaint Committee**  
Datuk Hj. Abdullah Hj. Sibil  
(Chairman)  
Lee Shu Men  
Henry Chu Wing Siew  
George Taitim Tulas  
Rachellyinna Tanggau  
Salina Salimi (Secretary)  
JMAP Client Centres

**Corrective Action Team (CATs)**

CATs was established in 1997, comprising of all SCC's district client centre (DCC) managers to discuss and resolved any issues relating to district client centre's operations. This Committee also acts as a communication tool between the Headquarters and DCC in standardisation of policies, procedures, processes and business practices across the state.

The CATs meets at least twice a year.

**Correction Action Team (CATs)**  
Richard Chiew (Chairman)  
Dalimin Raphael  
Lamba Amit  
Sepitah Subeh  
Chin Lee Kan  
Hanif Ghafar  
Madin Gottir  
Callistina Anthony  
Patricia Chow  
Primus Koh (Secretary)

**Syariah Monitoring Unit (SMU)**

SMU was established in early 2007 as a research and development committee for syariah compliance product. This committee facilitates the necessary infrastructures in terms of formulating strategies and policies on the proposed implementation of syariah compliance product.

The SMU meets on a required basis.

**Syariah Monitoring Unit (SMU)**  
Lee Shu Men (Chairman)  
George Taitim Tulas  
Arius Bin Jipiu  
Nelson Chan Kin Ren  
Victor Monsibol @ Partama  
Fiona Kau Shuk Fang  
Fiona V. Gom  
Fatimah Kahar  
Ismail Benjamin (Secretary)

WELFARE COMMITTEES**Management Establishment Committee (MEC)**

MEC meets regularly to consider human resource issues, especially in disciplinary actions taken or to be taken, terms and conditions of employment, remuneration, development of high potential employees and key succession planning. MEC also reviews the incentive plans on an ongoing basis to ensure that they remain effective and appropriate to SCC's circumstances and prospects.

As with most businesses, SCC's performance depends on the quality and commitment of its people. Henceforth, one of the strategies of success is to attract, retain and motivate the very best people. The Management Establishment Committee meets at least once a month.

**Management Establishment Committee**

Datuk Hj. Abdullah Hj. Sibil  
(Chairman)  
Lee Shu Men  
Henry Chu Wing Siew  
Geroge Taitim Tulas  
Fiona Kau Shuk Fang  
Fatimah Kahar

In attendance  
Doreen Lajuat (Secretary)

**Majlis Bersama Jabatan (MBJ)**

MBJ is a compulsory requirement for all government agencies throughout Malaysia to have a conference between employee representatives and representatives from the Management under the Federal Government Circular No. 3 of 2002.

The conference consists of 13 management representatives (the management team; headed by the general manager plus one officer appointed as secretary) and 20 employee representatives comprise of one representative from each section and district client centres.

The objective of conference is to gauge a better understanding of the employee welfare and needs from time to time in order to enhance the working relationship between the employee and employer. In addition, this conference also creates an avenue for the management to update the employee representatives on the current development of the Corporation's affairs.

Meetings are held on a quarterly basis in accordance with the stipulated timetable issued by the Jabatan Perkhidmatan Awam Malaysia.

**Majlis Bersama Jabatan (MBJ)**

Management Representative  
Datuk Vincent Pung Yee Kiong  
(Chairman)  
Datuk Hj. Abdullah Hj. Sibil  
Lee Shu Men  
George Taitim Tulas  
Arius Jipiu  
Charles Peter Mojuntin  
Henry Chu Wing Siew  
Nelson Chan Kin Ren  
Victor Monsibol @ Partama  
Fatimah Kahar  
Fiona Kau Shuk Fang  
Salina Salimi (Secretary)

Employee Representative  
Jenson Jemudah (Chairman)  
Representatives of each sections and  
DCC  
Charles Robert (Secretary)

**Medical Review Board (MRB)**

This committee was established on 22 May 2003 with the intention to review normal and abnormal medical claims against available budget prior to management's approval. In addition, MRB assists the management to address issues that are not covered under the medical policies 6/2003.

There is no specific requirement on the frequency of meetings. Hence, the Medical Review Board meets only when required.

**Medical Review Board**

Henry Chu Wing Siew (Chairman)  
Eligius Samuel  
Ismail Benjamin  
Alice Liew (Secretary)

**Medical Benefit Review Committee**

This committee was established on 2 April 2003 with the intention to review and monitor the implementation of the approved medical benefit policies. This is to ensure that medical benefit policies are continuously improved for better staff welfare benefit and standardised policies and procedures are carried out across all levels of the organisations

There is no specific requirement on the frequency of meetings. Hence, the Medical Review Board meets only when required.

**Medical Benefit Review Committee**

Charles P. Mojuntin (Chairman)  
Fiona Kau Shuk Fang  
Arius Bin Jipiu  
Fatimah Kahar  
Doreen Lajuat  
Eligius Samuel (Secretary)

2010

APRIL

14 April



Chief Minister visit to SCC and received dividend payment

28 September

4 Star Award - Financial Management  
Excellence Based On Accountability Index

SEPTEMBER



Sabah State Government Best Website 2010

NOVEMBER

24 November



Launching of SCC Islamic Product "i-Executive"

DECEMBER

3 December



SCC received Best Financial Management Award



Launching of Quality Slogan "U 1st"



Signing Ceremony between SCC and IBFIM

Signing Ceremony between SCC and  
AMIslamic Bank Berhad

## WEST COAST



PRIDE project: Refurbish "Tadika Komuniti" at Kg. Kibunut, Moyog, Penampang



PRIDE Rural Hostel for Smk Tamparuli, Tuaran



PRIDE Hall for Sabah Girls Guide Assoc, Kota Kinabalu



PRIDE Medical Equipments for Likas Hospital, Likas



PRIDE Youth-Prep Centre, Alanesra



PRIDE JV Project: Asrama Donni for SMK Tun Fuad Stephen, Kiulu



PRIDE Rural Hostel for St Peter, Telipok



PRIDE Project: Donation for pupils of SK Rungus Nahaba, Tamparuli



PRIDE Building for Chesire Disability Resource Centre, Likas, Kota Kinabalu



PRIDE project: Canteen space and assembly ground for SK Lady of Fatimah, Papar

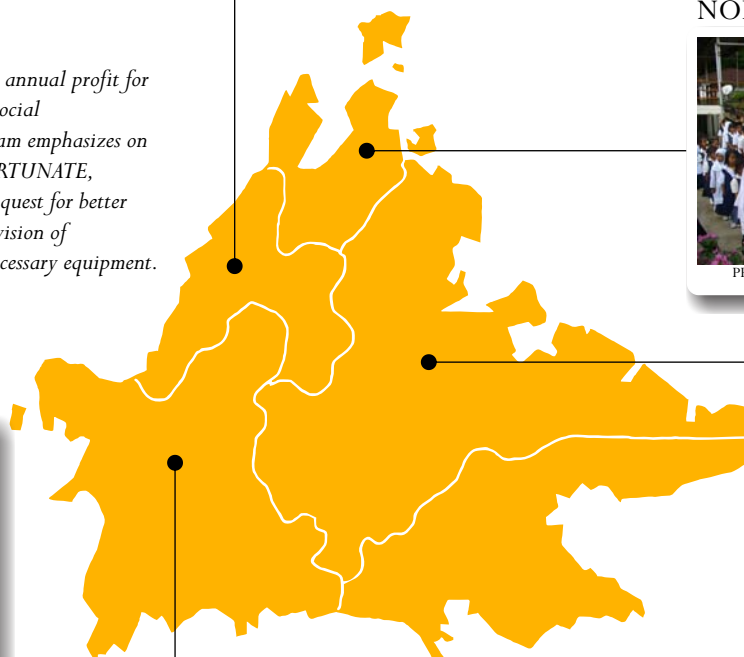


PRIDE Educational Hall for SK Kauluan, Tuaran



PRIDE Rural Hostel for St. James, Tenghilan

Since 2005, SCC has put aside 5% of its annual profit for community projects under its Corporate Social Responsibility (CSR) Program. This program emphasizes on WOMEN, CHILDREN and the LESS FORTUNATE, empowering them to move ahead in their quest for better opportunities and living through the provision of infrastructure and the contributions of necessary equipment.



## NORTH COAST



PRIDE Assembly ground for SK Bangau, Kudat

## INTERIOR



PRIDE project: Dinning Hall "Rancangan Makanan Tambahan", SK Merapong, Keningau



PRIDE project: Dinning Hall "Rancangan Makanan Tambahan", St. Pius Pamalaan, Tenom

## EAST COAST



PRIDE Rural Hostel for St. Martin, Telupid Sandakan



**SABAH CREDIT CORPORATION  
FINANCIAL STATEMENT  
FOR YEAR ENDED  
31 DECEMBER 2010**





**SIJIL KETUA AUDIT NEGARA  
MENGENAI PENYATA KEWANGAN  
PERBADANAN PINJAMAN SABAH  
BAGI TAHUN BERAKHIR 31 DISEMBER 2010**

Penyata Kewangan Perbadanan Pinjaman Sabah bagi tahun berakhir 31 Disember 2010 telah diaudit oleh wakil saya. Pihak pengurusan bertanggungjawab terhadap Penyata Kewangan ini. Tanggungjawab saya adalah mengaudit dan memberi pendapat terhadap Penyata Kewangan tersebut.

Pengauditan telah dilaksanakan mengikut Akta Audit 1957 dan berpandukan piawaian pengauditan yang diluluskan. Piawaian tersebut menghendaki pengauditan dirancang dan dilaksanakan untuk mendapat kepastian yang munasabah sama ada Penyata Kewangan adalah bebas daripada kesilapan atau ketinggalan yang ketara. Pengauditan ini termasuk memeriksa rekod dan dokumen secara semak uji dan bagi memastikan ketepatan angka dan pendedahan yang mencukupi dalam Penyata Kewangan. Penilaian juga dibuat terhadap prinsip perakaunan yang digunakan, unjuran signifikan oleh pengurusan dan persembahan Penyata Kewangan secara keseluruhan. Saya percaya pengauditan yang dilaksanakan memberi asas yang munasabah terhadap pendapat saya.

Pada pendapat saya, Penyata Kewangan ini memberi gambaran yang benar dan saksama terhadap kedudukan kewangan Perbadanan Pinjaman Sabah pada 31 Disember 2010 serta hasil operasi dan aliran tunainya untuk tahun tersebut adalah selaras dengan piawaian perakaunan yang diluluskan.

( JUHARI BIN HARON )  
b.p KETUA AUDIT NEGARA  
MALAYSIA

KOTA KINABALU  
30 JUN 2011



In our opinion, the financial statements set out on pages 23 to 47 are properly drawn up in accordance with the provisions of the Credit Corporation Ordinance, 1955 as amended and generally accepted accounting principles in Malaysia so as to give a true and fair view of the state of affairs of the Corporation as at 31 December 2010 and of the results of its operations and cash flow for the year ended on that date.

Signed on behalf of the Corporation,



YB Datin Linda Tsen Thau Lin  
Chairman



Datuk Vincent Pung Yee Kiong  
Member

Date : 23 MAY 2011

I, FIONA KAU SHUK FANG, being the officer primarily for the financial management of SABAH CREDIT CORPORATION, do solemnly and sincerely declare that the financial statements set out on pages 23 to 47 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared

By the abovenamed Fiona Kau Shuk Fang at

Kota Kinabalu in the State of Sabah

On 12.3.MAY 2011



Before me:

FIONA KAU SHUK FANG



7B Wisma Pendidikan  
Bandaran Berjaya  
88000 Kota Kinabalu

| ASSETS                                            | Note | 2010<br>RM           | 2009<br>RM           |
|---------------------------------------------------|------|----------------------|----------------------|
| Cash and bank balance                             |      | 36,853,120           | 27,547,196           |
| Investments                                       | 5    | 3,310,167            | 3,155,171            |
| Deposits                                          | 6    | 18,800,755           | 2,054,618            |
| Investment in joint venture                       | 7    | 125,000              | 125,000              |
| Amount owing from joint venture                   |      | 7,834,594            | 3,418,046            |
| Loans, advances and financing                     | 8    | 1,189,701,232        | 1,157,168,568        |
| Current tax asset                                 |      | 2,543,405            | -                    |
| Other receivables                                 | 9    | 2,737,873            | 5,809,582            |
| Property, plant and equipment                     | 10   | 43,262,655           | 40,966,609           |
| <b>TOTAL ASSETS</b>                               |      | <b>1,305,168,801</b> | <b>1,240,244,790</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |      |                      |                      |
| Borrowings                                        | 11   | 1,060,217,639        | 1,029,301,541        |
| Other payables and accruals                       | 12   | 60,568,167           | 47,574,415           |
| Current tax liabilities                           |      | -                    | 438,049              |
| <b>TOTAL LIABILITIES</b>                          |      | <b>1,120,785,806</b> | <b>1,077,314,005</b> |
| Share capital                                     | 13   | 50,000,000           | 50,000,000           |
| Non-distributable reserves                        | 14   | 266,817              | 196,664              |
| Accumulated funds                                 | 15   | 134,116,178          | 112,734,121          |
| <b>SHAREHOLDERS' EQUITY</b>                       |      | <b>184,382,995</b>   | <b>162,930,785</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |      | <b>1,305,168,801</b> | <b>1,240,244,790</b> |

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|                                 | Note | 2010<br>RM        | 2009<br>RM        |
|---------------------------------|------|-------------------|-------------------|
| Interest income                 | 16   | 104,274,048       | 111,387,672       |
| Interest expense                | 17   | (41,302,703)      | (42,926,574)      |
| <b>NET INTEREST INCOME</b>      |      | <b>62,971,345</b> | <b>68,461,098</b> |
| Non-interest income             | 18   | 6,845,842         | 4,964,381         |
| Non-interest expense            | 19   | (2,700,924)       | (8,720,981)       |
| <b>NET INCOME</b>               |      | <b>67,116,263</b> | <b>64,704,498</b> |
| Operating expenses              | 20   | (24,837,775)      | (23,291,904)      |
| <b>SURPLUS BEFORE TAX</b>       |      | <b>42,278,488</b> | <b>41,412,594</b> |
| Tax expense                     | 21   | (11,076,278)      | (10,284,128)      |
| <b>NET SURPLUS FOR THE YEAR</b> |      | <b>31,202,210</b> | <b>31,128,466</b> |

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STATEMENT OF CHANGES  
IN EQUITY

|                                  | Share<br>Capital<br>RM | Non-distributable<br>Reserves<br>RM | Accumulated<br>funds<br>RM | Total<br>RM |
|----------------------------------|------------------------|-------------------------------------|----------------------------|-------------|
| <b>At 1 JANUARY 2010</b>         | 50,000,000             | 196,664                             | 112,734,121                | 162,930,785 |
| Net surplus for the current year | -                      | -                                   | 31,202,210                 | 31,202,210  |
| Transfer to reserves             | -                      | 70,153                              | (70,153)                   | -           |
| Dividend (Note 22)               | -                      | -                                   | (9,750,000)                | (9,750,000) |
| <b>At 31 DECEMBER 2010</b>       | 50,000,000             | 266,817                             | 134,116,178                | 184,382,995 |
| <b>At 1 JANUARY 2009</b>         | 50,000,000             | 114,497                             | 91,437,822                 | 141,552,319 |
| Net surplus for the current year | -                      | -                                   | 31,128,466                 | 31,128,466  |
| Transfer to reserves             | -                      | 82,167                              | (82,167)                   | -           |
| Dividend (Note 22)               | -                      | -                                   | (9,750,000)                | (9,750,000) |
| <b>At 31 DECEMBER 2009</b>       | 50,000,000             | 196,664                             | 112,734,121                | 162,930,785 |

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|                                                                                  | 2010<br>RM          | 2009<br>RM          |
|----------------------------------------------------------------------------------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                     |                     |
| Surplus before tax                                                               | 42,278,488          | 41,412,594          |
| <i>Adjustments for: -</i>                                                        |                     |                     |
| Amortisation of CP/MTN expenses                                                  | -                   | 289,983             |
| Depreciation of property, plant and equipment                                    | 3,572,180           | 1,913,580           |
| Allowance for bad and doubtful loans and financing                               | 2,700,924           | 8,720,981           |
| Bad loans and financing written off                                              | (2,477,855)         | (439,430)           |
| Net interest income suspended                                                    | (6,022,910)         | 132,792             |
| Net gain on disposal of property, plant and equipment                            | (55,296)            | (80,201)            |
| Net loss/(gain) on disposal of foreclosed properties                             | (31,470)            | (71,040)            |
| Allowance for diminution in value of investment securities written back (62,463) | (269,454)           |                     |
| Gross dividend income                                                            | (239,287)           | (93,038)            |
| <b>Operating Surplus Before Working Capital Changes</b>                          | <b>39,662,311</b>   | <b>51,516,767</b>   |
| <i>(Increase)/decrease in operating assets/liabilities:-</i>                     |                     |                     |
| Loans, advances and financing                                                    | (26,732,823)        | 13,357,513          |
| Other receivables                                                                | 3,068,879           | (394,208)           |
| Other payables and accruals                                                      | 11,993,752          | 5,019,008           |
| <b>Cash Generated From Operating Activities</b>                                  | <b>27,992,119</b>   | <b>69,499,080</b>   |
| Tax paid                                                                         | (13,057,732)        | (14,044,442)        |
| <b>Net Cash Generated From Operating Activities</b>                              | <b>14,934,387</b>   | <b>55,454,638</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                     |                     |
| Purchase of property, plant and equipment                                        | (5,871,422)         | (10,138,698)        |
| Investment in trust funds                                                        | (92,533)            | (90,107)            |
| Investment in Islamic Banking Funds                                              | (43,326,000)        | -                   |
| Investment from Islamic Banking Funds                                            | 43,326,000          | -                   |
| Advances to joint venture                                                        | (4,416,548)         | (1,572,144)         |
| Proceeds from disposal of property, plant and equipment                          | 58,492              | 86,089              |
| Proceeds from disposal of foreclosed properties                                  | 34,300              | 226,000             |
| Dividends received from investment securities                                    | 239,287             | 93,038              |
| <b>Net Cash Used In Investing Activities</b>                                     | <b>(10,048,424)</b> | <b>(11,395,822)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                     |                     |
| Net issuance / (repayment) of loan and financing                                 | 17,732,846          | 68,095,080          |
| Dividends paid                                                                   | (9,750,000)         | (5,698,000)         |
| <b>Net Cash Generated From / (Used In) Financing Activities</b>                  | <b>7,982,846</b>    | <b>(73,793,080)</b> |
| Changes in cash and cash equivalents                                             | 12,868,809          | (29,734,264)        |
| Cash and cash equivalents at beginning of the year                               | 29,147,872          | 58,882,136          |
| <b>Cash And Cash Equivalents At End Of The Year</b>                              | <b>42,016,681</b>   | <b>29,147,872</b>   |
| <b>Cash and cash equivalents consist of the followings: -</b>                    |                     |                     |
| Cash and bank balances                                                           | 36,853,120          | 27,547,196          |
| Bank overdraft                                                                   | (13,637,194)        | (453,942)           |
| Deposits                                                                         | 18,800,755          | 2,054,618           |
|                                                                                  | <b>42,016,681</b>   | <b>29,147,872</b>   |

**1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

Sabah Credit Corporation was incorporated on 15 June 1955 under Credit Corporation Ordinance, 1955 which was later repealed and replaced by Credit Corporation Enactment, 1981.

The Corporation is principally engaged to promote the economic development of Sabah through financing and facilitating the grant of financial credits to small and medium scaled agricultural, industrial, housing, rural and/or urban developments and to stimulate and facilitate private investments in Sabah by local and external capital funds.

All business activities and transactions are carried out at Wisma PPS situated in Donggongan Township, Penampang and its branches located at major towns of Sabah.

There were no significant changes to the principal activities during the financial year.

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Corporation is exposed to the to various financial risks which includes interest rate risks, credit risks and liquidity risks that arise in the conduct of the business activities.

The overall management objectives of the Corporation is to maximise the returns of the stakeholders' investments by minimising potential adverse impact of the risks onto the financial performance and cash flows of the Corporation.

**a) Interest rate risk**

The Corporation finances its operation through internal and external sources of funds. External sources of funds consist of borrowings from Sabah State Government and other financial institutions which carries different fixed interest rates. The policy of the Corporation is to maximise the returns of the interests and at the same time able to service the interest costs of various loan portfolios.

**b) Credit risks**

Credit risks is the potential loss of revenue and principal losses in the form of specific allowances as a result of defaults by the borrowers or counter parties through its lending and investing activities.

The primary exposure to credit risks arises through its loans, advances and financing. The amount of credit exposure is represented by the carrying amounts of the assets in the balance sheet.

The main objective of credit risk management is to minimise the Corporation's credit risk exposure by ensuring the existence of capability and financial ability to meet potential financial loss that may arise as a result of default in payments by the borrowers.

The Corporation had established a comprehensive credit policy that integrates the internal grading system to ensure creditworthiness of potential borrowers, and formation of Loan Application Appraisal Committee to analyse loan application for Board members' approval.

**c) Liquidity risk**

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The Corporation practices a prudence concept in managing liquidity risks by maintaining sufficient cash and the availability of funding through certain committed credit facilities.

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**3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements of the Corporation have been prepared on the historical cost basis and are in accordance with the generally accepted accounting principles approved by Malaysian Accounting Standard Board (MASB) and comply with the provisions of the Credit Corporation Ordinance, 1955 as amended by the Credit Corporation Enactment, 1981.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Investment securities**

Investment in unit trust is stated at cost less allowance for diminution in value when such diminution in value is other than temporary.

On derecognition or disposal of an investment the difference between net disposal proceeds, if any, and its carrying amount is charged or credited to the income statements.

**b) Jointly controlled entity**

Jointly controlled entity is a corporation or entity over which there is contractually agreed sharing of control by the Corporation with another party. The investment in jointly controlled entity is stated at cost less impairment loss, if any.

**c) Allowance for bad and doubtful loans and financing**

Loans and advances are stated at cost less any allowance for bad and doubtful debts.

The allowance for bad and doubtful debts and financing are computed in conformity with the BNM/GP3. Consistent with previous years, the Corporation has adopted a more stringent classification policy on non-performing loans, whereby loans are classified as non-performing and sub-standard when repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

Accordingly, the Corporation has also adopted a more stringent basis for specific allowances on non-performing loans by making a twenty percent (20%) specific allowance on non-performing loans which are three (3) months to less than six (6) months-in-arrears where such treatment will reflect a more prudent provisioning policy for loans, advances and financing.

Allowance for bad and doubtful loans and financing are made with regard to specific risks and relate to those loans or receivables that have been individually reviewed and specifically identified as sub-standard, doubtful or bad.

A general allowance based on a percentage of total outstanding loans, net of interest in suspense and specific allowance for bad and doubtful debts, is maintained by the Corporation against risks which are not specifically identified.

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 opinion of management, there is no prospect of recovery.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****d) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation.

Freehold land with an unlimited useful life and work-in-progress which are not yet available for use are not depreciated. Land where the estimated leasing lives exceed 50 years is classified as long-term leasehold land.

*Depreciation*

Depreciation property, plant and equipment is provided on a straight line basis calculated to write off the cost of each asset over the term of its estimated useful lives at the following annual rates:-

|                                |                 |
|--------------------------------|-----------------|
| Leasehold land                 | 0.11% to 2.326% |
| Buildings                      | 2% - 10%        |
| Motor Vehicles                 | 20%             |
| Office furniture and equipment | 20%             |
| Computer equipment             | 20%             |

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

**e) Income recognition***Interest income*

Interest income on loans, other than hire purchase loans is accounted for on an accrual basis by reference to rest periods as stipulated in the loan agreements, either monthly or daily. Interest income on hire purchase is recognised using the sum-of-digits method. Income from Islamic banking financing is recognised on an accrual basis in accordance with the principles of Shariah.

When an account becomes non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing is reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Thereafter, interest on the non-performing loan shall be recognised as income on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for 3 months or more.

*Dividend income*

Dividend income is recognised as and when it is received.

*Rental income*

Rental income is recognised on an accrual basis based on the rental agreements.

**f) Borrowings from Cagamas**

Borrowings from Cagamas Berhad through financial intermediaries (banks or financial institutions) are based on a sale and repurchase of receivables method. This facility is on a full recourse basis. The Corporation is required to repurchase defaulted loans sold and replace it with performing loans. The terms and conditions of sale and repurchase of loan portfolios are stated on the signed agreements. The interest rates and repayment amounts are based on the loan repayment schedules provided by the financial intermediaries. Interest charged on borrowings is recognised under Interest Expense in the Income Statement in the year it is incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) **Income tax**

Tax on surplus or deficit for the financial year comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable surplus will be available against which the deductible temporary differences and unutilised tax losses can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

h) **Cash and cash equivalents**

The Corporation reports the cash flows from operating activities using indirect method.

Cash and cash equivalents consist of cash in hand and bank balances, bank overdraft, and deposits with a licensed bank with maturities of less than one month.

i) **Impairment of assets**

The carrying amount of the Corporation's assets, other than financial assets and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

j) **Employee Benefits**

*Short term benefits*

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Corporation. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

*Defined contribution plans*

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

## 5. INVESTMENT

|                                                         | 2010<br>RM  | 2009<br>RM  |
|---------------------------------------------------------|-------------|-------------|
| Investment quoted within Malaysia                       | 4,687,137   | 4,594,604   |
| Less: Allowance for diminution of investment securities | (1,376,970) | (1,439,433) |
| Total investment                                        | 3,310,167   | 3,155,171   |
| Market value of quoted trust fund                       | 3,310,167   | 3,155,171   |

## 6. DEPOSITS

|                                                               | 2010<br>RM | 2009<br>RM |
|---------------------------------------------------------------|------------|------------|
| <i>Fixed Deposits,</i><br>Licensed Banks                      | 18,800,755 | 2,054,618  |
| <i>Short term deposits,</i><br>Licensed Financial institution | -          | -          |
|                                                               | 18,800,755 | 2,054,618  |

## 7. INVESTMENT IN JOINT VENTURE

|                           | 2010<br>RM | 2009<br>RM |
|---------------------------|------------|------------|
| Unquoted shares - at cost | 125,000    | 125,000    |

| Name of company            | Effective interest |      | Principal activity | Place of incorporation |
|----------------------------|--------------------|------|--------------------|------------------------|
|                            | 2010               | 2009 |                    |                        |
| Bayview Properties Sdn Bhd | 50%                | 50%  | Property developer | Malaysia               |

If the equity method of accounting had been applied, the carrying amount of investment in joint venture would have been as follows:

|                                                 | 2010<br>RM | 2009<br>RM |
|-------------------------------------------------|------------|------------|
| Unquoted shares - at cost                       | 125,000    | 125,000    |
| Share of post-acquisition of accumulated profit |            | (12,182)   |
| Share of net assets of associated company       | 125,000    | 112,818    |

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7. INVESTMENT IN JOINT VENTURE (CONTINUED)

If the equity method of accounting had been applied, the income statement of the corporation would have been as follows:

|                                           | 2010<br>RM   | 2009<br>RM   |
|-------------------------------------------|--------------|--------------|
| Surplus of the Corporation                | 42,278,468   | 41,412,594   |
| Share of loss in associated company       | -            | (9,269)      |
| Net surplus before taxation               | 42,278,468   | 41,403,325   |
| Taxation - Corporation                    | (11,076,278) | (10,284,128) |
| - Share of taxation in associated company | -            | -            |
| Net surplus after taxation                | 31,202,190   | 31,119,197   |
| Surplus for the current year              | 31,202,190   | 31,119,197   |
| Accumulated funds brought forward         |              | 103,873,985  |
| Accumulated funds carried forward         | 31,202,190   | 134,993,182  |

8. LOANS, ADVANCES AND FINANCING

|                                                          | 2010<br>RM                   | 2009<br>RM                 |
|----------------------------------------------------------|------------------------------|----------------------------|
| Housing and project loans                                | 1,222,061,419                | 1,172,327,596              |
| Hire-purchase loans                                      | 14,354,706                   | 21,271,979                 |
| Other loans                                              | 30,845,979                   | 34,185,208                 |
| Gross loans                                              | 1,267,262,104                | 1,227,784,783              |
| Less: Allowance for bad and doubtful loans and financing |                              |                            |
| - specific                                               | (35,177,855)                 | (35,460,847)               |
| - general                                                | (18,138,018)                 | (17,631,957)               |
| Interest/income-in-suspense                              | (22,883,035)                 | (16,860,125)               |
| Less: Unknown slips                                      | 1,191,063,196<br>(1,361,964) | 1,157,831,854<br>(663,286) |
| Net loans, advances and financing                        | 1,189,701,232                | 1,157,168,568              |

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## 8. LOANS, ADVANCES AND FINANCING (CONTINUED)

Analysis of housing and project loans by economic sector are as follows:-

|                                              | 2010<br>RM           | 2009<br>RM           |
|----------------------------------------------|----------------------|----------------------|
| Government staff housing loans               | 104,307,415          | 120,094,458          |
| Federal staff housing loans                  | 575,211              | 803,085              |
| Urban housing loans                          | 37,109,895           | 41,654,772           |
| Rural housing loans                          | 327,395              | 238,229              |
| Industrial, animal husbandry and agriculture | 67,538,650           | 66,634,135           |
| Refinancing loans                            | 10,238,466           | 13,277,300           |
| Executive loans                              | 899,856,304          | 906,319,269          |
| i-Executive financing                        | 80,564,312           | -                    |
| Staff loans                                  | 2,186,765            | 2,368,410            |
| Community loans                              | 713,468              | 753,557              |
| Mortgage loans                               | 18,542,764           | 20,085,640           |
| Organic farming loans                        | 100,773              | 98,741               |
|                                              | <u>1,222,061,419</u> | <u>1,172,327,596</u> |

Other loans refers to three low cost housing schemes which was taken over by the Corporation from Lembaga Pembangunan Perumahan dan Bandar (LPPB) on 1 January 1995, 17 November 1999 and 1 January 2005 respectively. Consequently, the Corporation also bear the liability of LPPB owed to the Sabah State Government in relation to the two schemes.

The first scheme comprised of 42 projects in the State of Sabah with an aggregate carrying value of RM38,156,069. The Corporation took over 2,750 tenancy accounts under this scheme.

The second scheme comprised of 6 projects in the State of Sabah with an aggregate carrying value of RM20,772,146. The Corporation took over 593 tenancy accounts under this scheme.

The third scheme comprised of 5 projects in the State of Sabah with an aggregate carrying value of RM15,302,017. The Corporation took over 599 tenancy accounts under this scheme.

Movements in the allowance for bad and doubtful loans and financing and interest/income-in-suspense are as follows:-

|                                              | 2010<br>RM        | 2009<br>RM        |
|----------------------------------------------|-------------------|-------------------|
| <b>Specific allowance</b>                    |                   |                   |
| At 1 January                                 | 35,460,847        | 30,489,000        |
| Allowance made during the year               | 11,499,550        | 11,901,446        |
| Amount written back in respect of recoveries | (9,304,687)       | (6,490,169)       |
| Amount written off                           | (2,477,855)       | (439,430)         |
|                                              | <u>35,177,855</u> | <u>35,460,847</u> |
| At 31 December                               |                   |                   |

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8. LOANS, ADVANCES AND FINANCING (CONTINUED)

|                                                                                                 | 2010<br>RM  | 2009<br>RM  |
|-------------------------------------------------------------------------------------------------|-------------|-------------|
| <b>General allowance</b>                                                                        |             |             |
| At 1 January                                                                                    | 17,631,957  | 14,322,252  |
| Allowance made during the year                                                                  | 506,061     | 3,309,705   |
| At 31 December                                                                                  | 18,138,018  | 17,631,957  |
| At % of gross loans, advances and financing<br>less specific allowance and interest-in-suspense | 1.5%        | 1.5%        |
| <b>Interest/income-in-suspense</b>                                                              |             |             |
| At 1 January                                                                                    | 16,860,125  | 16,992,917  |
| Interest/income suspended during the year                                                       | 10,701,867  | 6,127,759   |
| Amount written back in respect of recoveries                                                    | (3,569,909) | (6,106,828) |
| Amount written off                                                                              | (1,109,049) | (153,723)   |
| At 31 December                                                                                  | 22,883,035  | 16,860,125  |

9. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

|                                             | 2010<br>RM | 2009<br>RM |
|---------------------------------------------|------------|------------|
| Other receivables, deposits and prepayments | 1,950,686  | 5,020,915  |
| Foreclosed properties                       | 787,187    | 788,667    |
|                                             | 2,737,873  | 5,809,582  |

10. PROPERTY, PLANT AND EQUIPMENT

| 2010<br>Cost                         | Capital<br>work-in-progress<br>RM | Leasehold<br>land<br>RM | Buildings<br>RM | Office furniture<br>& equipment<br>RM | Motor<br>vehicle<br>RM | Computer<br>equipment<br>RM | Low value<br>assets<br>RM | Total<br>RM |
|--------------------------------------|-----------------------------------|-------------------------|-----------------|---------------------------------------|------------------------|-----------------------------|---------------------------|-------------|
| At 1 January                         | 7,298,810                         | 10,491,400              | 26,224,171      | 3,411,125                             | 3,089,938              | 4,364,619                   | -                         | 54,880,063  |
| Reallocation                         | (6,809,010)                       | -                       | 1,201,269       | -                                     | -                      | 5,607,741                   | -                         | -           |
| Additions                            | 1,546,389                         | -                       | 287,786         | 195,730                               | 576,497                | 3,264,083                   | 1,528                     | 5,871,422   |
| Disposal                             | -                                 | -                       | -               | (38,376)                              | -                      | (155)                       | -                         | (38,531)    |
| Scrapped                             | -                                 | -                       | -               | (2,136)                               | -                      | -                           | -                         | (2,136)     |
| At 31 December                       | 2,036,198                         | 10,491,400              | 27,712,626      | 3,566,343                             | 3,666,435              | 13,236,288                  | 1,528                     | 60,710,818  |
| <b>Accumulated Depreciation</b>      |                                   |                         |                 |                                       |                        |                             |                           |             |
| At 1 January                         | -                                 | 862,897                 | 6,119,053       | 2,268,450                             | 2,220,044              | 2,443,010                   | -                         | 13,913,454  |
| Charge for the year                  | -                                 | 105,974                 | 534,168         | 344,642                               | 297,294                | 2,288,574                   | 1,528                     | 3,572,179   |
| Disposal                             | -                                 | -                       | -               | (35,378)                              | -                      | (111)                       | -                         | (35,489)    |
| Scrapped                             | -                                 | -                       | -               | (1,982)                               | -                      | -                           | -                         | (1,982)     |
| At 31 December                       | -                                 | 968,871                 | 6,653,221       | 2,575,732                             | 2,517,338              | 4,731,473                   | 1,528                     | 17,448,163  |
| <b>Net Book Value</b>                |                                   |                         |                 |                                       |                        |                             |                           |             |
| At 31 December 2010                  | 2,036,198                         | 9,522,529               | 21,059,405      | 990,611                               | 1,149,097              | 8,504,815                   | -                         | 43,262,655  |
| At 31 December 2009                  | 7,298,810                         | 9,628,503               | 20,105,118      | 1,142,675                             | 869,894                | 1,921,609                   | -                         | 40,966,609  |
| Depreciation charge for<br>year 2009 | -                                 | 144,030                 | 761,175         | 253,656                               | 283,388                | 471,332                     | -                         | 1,913,581   |

**10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Net book value of the leasehold land comprised of the followings:-

|                           | 2010<br>RM       | 2009<br>RM       |
|---------------------------|------------------|------------------|
| Long term leasehold land  | 9,497,065        | 9,602,534        |
| Short term leasehold land | 25,464           | 25,969           |
|                           | <u>9,522,529</u> | <u>9,628,503</u> |

The land titles for leasehold land and buildings amounted to RM1,270,780 (2009: RM1,270,780) are yet to be registered under the name of the Corporation.

The cost of fully depreciated assets but are still use amounting to RM6,306,719 (2009: RM5,820,602)

The entire assets have been pledged to banks for credit facilities granted to the Corporation.

**11. BORROWINGS**

|                                                                 | 2010<br>RM           | 2009<br>RM           |
|-----------------------------------------------------------------|----------------------|----------------------|
| <i>Secured,</i>                                                 |                      |                      |
| Borrowings from Cagamas Berhad through financial intermediaries | 110,297,052          |                      |
| Borrowings from licensed banks                                  | 122,700,370          | 115,387,437          |
| Bank overdraft                                                  | 156,523,601          | 453,942              |
|                                                                 | <u>13,637,194</u>    |                      |
|                                                                 | <u>280,457,847</u>   | <u>238,541,749</u>   |
| <i>Unsecured,</i>                                               |                      |                      |
| Borrowings from Sabah State Government                          | 343,759,792          | 343,759,792          |
| Commercial Papers                                               | 11,000,000           | 197,000,000          |
| Medium term Notes                                               | 425,000,000          | 250,000,000          |
|                                                                 | <u>779,759,792</u>   | <u>790,759,792</u>   |
| Total borrowings                                                | <u>1,060,217,639</u> | <u>1,029,301,541</u> |

*Cagamas Berhad*

Borrowings from Cagamas Berhad through financial intermediaries are secured by partial State government housing loans portfolio and partial hire purchase portfolio in aggregate amount of RM110,297,052 (2009: RM122,699,744) with interest-bearing ranges between 4.75% to 6.00% (2009 : 4.75% to 6.00%) per annum.

*Licensed Bank*

Borrowings from licensed banks are secured by partial Executive loans amounting RM156,523,601 (2009: RM164,069,805) with interest-bearing ranges between 4.69% to 6.37% (2009 : 4.69% to 6.37%) per annum.

Bank overdraft facility is held on negative pledge over all the assets of the Corporation at an interest rate of 6.55% (2009 : 6.55%) per annum.

# 11. BORROWINGS (CONTINUED)

Borrowings from Sabah State Government are repayable as follows:-

| 2009                      | Interest-free<br>RM | Interest-bearing<br>RM | Total<br>RM |
|---------------------------|---------------------|------------------------|-------------|
| Repayable within one year | -                   | 146,655,982            | 146,655,982 |
| One to five years         | -                   | 6,376,207              | 6,376,207   |
| Over five years           | 1,000,000           | 189,727,603            | 190,727,603 |
| Total                     | 1,000,000           | 342,759,792            | 343,759,792 |

| 2010                      | Interest-free<br>RM | Interest-bearing<br>RM | Total<br>RM |
|---------------------------|---------------------|------------------------|-------------|
| Repayable within one year | -                   | 150,655,327            | 150,655,327 |
| One to five years         | -                   | 4,410,409              | 4,410,409   |
| Over five years           | 1,000,000           | 187,694,056            | 188,694,056 |
| Total                     | 1,000,000           | 342,759,792            | 343,759,792 |

Borrowings from Sabah State Government which are repayable within one year, are only payable upon demand by the Sabah State Government.

The interest rate for Sabah State Government ranges between 0% to 7% per annum (2009 : 0% to 7% per annum).

## Commercial Papers

| No    | Issue date | Maturity date | Tenure<br>(month) | Interest rate<br>(per annum) | Nominal amount<br>RM |
|-------|------------|---------------|-------------------|------------------------------|----------------------|
| 1     | 29-Jan-10  | 28-Jan-11     | 12 month          | 4.05%                        | 10,000,000           |
| 2     | 01-Mar-10  | 01-Mar-11     | 12 month          | 4.00%                        | 1,000,000            |
| Total |            |               |                   |                              | 11,000,000           |

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## 11. BORROWINGS (CONTINUED)

*Medium term Notes*

| No           | Issue date | Maturity date | Tenure<br>(months) | Issue<br>price | Rate (per annum) |       | Nominal amount<br>RM |
|--------------|------------|---------------|--------------------|----------------|------------------|-------|----------------------|
|              |            |               |                    |                | Coupon           | Yield |                      |
| 1.           | 04-Jul-08  | 04-Jul-11     | 36                 | 99.322         | 5.70%            | 5.95% | 20,000,000           |
| 2.           | 04-Jul-08  | 04-Jul-13     | 60                 | 99.149         | 5.90%            | 6.10% | 10,000,000           |
| 3.           | 26-Aug-08  | 26-Aug-11     | 36                 | 99.185         | 5.50%            | 5.80% | 15,000,000           |
| 4.           | 22-Oct-08  | 21-Oct-11     | 36                 | 99.049         | 5.40%            | 5.75% | 5,000,000            |
| 5.           | 22-Oct-08  | 22-Oct-13     | 60                 | 98.932         | 5.70%            | 5.95% | 10,000,000           |
| 6.           | 16-Jan-09  | 16-Jan-12     | 36                 | 98.643         | 5.40%            | 5.90% | 10,000,000           |
| 7.           | 05-Feb-09  | 02-Feb-11     | 24                 | 99.162         | 5.10%            | 5.55% | 30,000,000           |
| 8.           | 24-Sep-09  | 24-Sep-12     | 36                 | 99.450         | 4.90%            | 5.10% | 20,000,000           |
| 9.           | 02-Nov-09  | 02-Nov-12     | 36                 | 99.449         | 4.75%            | 4.95% | 30,000,000           |
| 10.          | 30-Dec-09  | 28-Dec-12     | 36                 | 99.449         | 4.75%            | 4.95% | 10,000,000           |
| 11.          | 08-Jan-10  | 08-Jan-13     | 36                 | 99.449         | 4.75%            | 4.95% | 10,000,000           |
| 12.          | 22-Jan-10  | 22-Jan-13     | 36                 | 99.449         | 4.75%            | 4.95% | 30,000,000           |
| 13.          | 29-Mar-10  | 29-Mar-13     | 36                 | 99.451         | 5.00%            | 5.20% | 25,000,000           |
| 14.          | 16-Apr-10  | 18-Apr-11     | 12                 | 100.000        | 4.35%            | 4.35% | 15,000,000           |
| 15.          | 26-Apr-10  | 26-Apr-13     | 36                 | 99.314         | 5.00%            | 5.25% | 30,000,000           |
| 16.          | 07-May-10  | 07-May-13     | 36                 | 100.000        | 5.20%            | 5.20% | 10,000,000           |
| 17.          | 07-May-10  | 07-May-14     | 48                 | 100.000        | 5.30%            | 5.30% | 5,000,000            |
| 18.          | 25-May-10  | 24-May-13     | 36                 | 99.315         | 5.00%            | 5.25% | 25,000,000           |
| 19.          | 25-May-10  | 23-May-14     | 48                 | 98.937         | 5.20%            | 5.50% | 20,000,000           |
| 20.          | 07-Sep-10  | 07-Sep-12     | 24                 | 99.528         | 4.50%            | 4.75% | 25,000,000           |
| 21.          | 07-Sep-10  | 07-Sep-13     | 36                 | 100.000        | 5.00%            | 5.00% | 10,000,000           |
| 22.          | 04-Nov-10  | 04-Nov-13     | 36                 | 99.306         | 4.30%            | 4.55% | 30,000,000           |
| 23.          | 14-Dec-10  | 13-Dec-13     | 36                 | 99.500         | 4.30%            | 4.48% | 30,000,000           |
| <b>Total</b> |            |               |                    |                |                  |       | <b>425,000,000</b>   |

## 12. OTHER PAYABLES AND ACCRUALS

|                             | 2010<br>RM        | 2009<br>RM        |
|-----------------------------|-------------------|-------------------|
| Interest payable            | 31,178,623        | 27,582,608        |
| Other payables and accruals | 19,639,544        | 10,241,807        |
| Dividend payable            | 9,750,000         | 9,750,000         |
|                             | <b>60,568,167</b> | <b>47,574,415</b> |

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13. SHARE CAPITAL

|                              | 2010<br>RM  | 2009<br>RM  |
|------------------------------|-------------|-------------|
| Ordinary shares of RM1 each  |             |             |
| <i>Authorised</i>            | 200,000,000 | 200,000,000 |
| <i>Issued and fully paid</i> |             |             |
| At 1 January                 | 50,000,000  | 50,000,000  |
| Issued during the year       | -           | -           |
| At 31 December               | 50,000,000  | 50,000,000  |

14. NON - DISTRIBUTABLE RESERVES

The non-distributable reserve was derived from net dividend on trust fund investment in Amanah Raya Berhad. The reserve is to be utilised solely to meet medical expenditures for retired staff subject to the approved terms.

15. ACCUMULATED FUNDS

Pursuant to the Finance Act, 2007, the single tier system was introduced and took effect from the year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 after adjusting for any tax deductions for the purpose of dividend distribution, until 31 December 2013.

The Corporation did not elect for the irrevocable option to disregard the available Section 108 balance accumulated until 31 December 2007. Therefore, the Bank is allowed to continue utilising its available Section 108 balance for the purpose of dividend distribution until the credit balances are fully utilised or upon expiry of the six year transitional period on 31 December 2013, whichever is earlier.

Subject to the agreement by the Inland Revenue Board, the Corporation has sufficient tax credit under Section 108 (6) of the Income Tax Act, 1967 and tax exempt income under Section 12 of Income Tax Act (amended), 1999 to frank the payment of dividends out of the Corporation's accumulated funds as at 31 December 2010.

16. INTEREST INCOME

|                                       | 2010<br>RM  | 2009<br>RM  |
|---------------------------------------|-------------|-------------|
| Loans, advances and financing         | 103,987,011 | 110,829,080 |
| Interest received from licensed banks | 287,037     | 558,592     |
|                                       | 104,274,048 | 111,387,672 |

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## 17. INTEREST EXPENSE

|                                                                 | 2010<br>RM | 2009<br>RM |
|-----------------------------------------------------------------|------------|------------|
| Borrowings from Sabah State Government                          | 3,596,015  | 3,641,173  |
| Borrowings from Cagamas Berhad through financial intermediaries | 6,317,465  |            |
| Borrowings from licensed banks                                  | 7,441,486  | 8,658,831  |
| Bank overdraft                                                  | 92,556     | 11,750     |
| Borrowings from Commercial Paper/Medium Term Notes              | 23,855,181 |            |
|                                                                 | 23,584,383 |            |
|                                                                 | 41,302,703 | 42,926,574 |

## 18. NON-INTEREST INCOME

|                                                                         | 2010<br>RM | 2009<br>RM |
|-------------------------------------------------------------------------|------------|------------|
| Dividend income from investment securities                              | 239,287    | 93,038     |
| Allowance for diminution in value of investment securities written back | 62,463     | 269,454    |
| Insurance commission                                                    | 4,476,984  | 3,792,219  |
| Other income                                                            | 9,178      | 7,015      |
| Rental income                                                           | 211,100    | 181,500    |
| Income from early redemption                                            | 214,106    | -          |
| Gain on disposal of property, plant and equipment                       | 55,296     | 80,201     |
| Gain on disposal of foreclosed properties                               | 31,470     | 71,040     |
| Administrative fee                                                      | 33,897     | 93,683     |
| Processing fee                                                          | 1,508,407  | 278,647    |
| Documentation and registration fee                                      | 3,654      | 97,584     |
|                                                                         | 6,845,842  | 4,964,381  |

## 19. NON-INTEREST EXPENSE

|                                                            | 2010<br>RM | 2009<br>RM |
|------------------------------------------------------------|------------|------------|
| Allowance for bad and doubtful loans and financing         | 2,700,924  | 8,720,981  |
| Allowance for diminution in value of investment securities | -          | -          |
| Loss on disposal of foreclosed properties                  | -          | -          |
| Provision for legal claim                                  | -          | -          |
|                                                            | 2,700,924  | 8,720,981  |

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20. OPERATING EXPENSES

|                                      | 2010<br>RM        | 2009<br>RM        |
|--------------------------------------|-------------------|-------------------|
| Advertisement                        | 67,260            | 55,681            |
| Amanah Raya service fee              | 3,009             | 2,931             |
| Commercial Paper / Medium Term Notes |                   |                   |
| Programme expenses                   | 634,008           | 1,228,978         |
| Accounting fees                      | 9,157             | 17,058            |
| Audit remuneration                   | 36,000            | 32,000            |
| Bank charges                         | 11,789            | 5,744             |
| Boards members expenses              | 385,597           | 250,565           |
| Computer expenses                    | 609,336           | 208,824           |
| Computer software                    | 280,094           | 376,609           |
| Corporation members allowance        | 18,790            | 15,345            |
| Depreciation                         | 3,572,180         | 1,913,580         |
| Employees' Provident Fund            | 1,397,827         | 275,548           |
| Entertainment                        | 47,866            | 52,888            |
| General expenses                     | 230,484           | 208,853           |
| Government Training Programme        | 20,697            | -                 |
| Legal fees                           | 71,399            | 8,198             |
| Management fees - ANGKASA            | 1,209,528         | 1,324,789         |
| Motor vehicle expenses               | 440,750           | 400,646           |
| Marketing Expenses                   | 303,643           | 123,887           |
| Outsource expenses                   | 190,457           | 203,297           |
| Pension contributions                | 34,767            | 711,878           |
| Postage, telephone and telex         | 398,744           | 403,765           |
| Printing and stationeries            | 368,310           | 310,146           |
| Rental of premises                   | 51,233            | 44,533            |
| Salary, bonus and allowances         | 9,908,203         | 9,887,171         |
| Social community services expenses   | 1,488,340         | 2,179,921         |
| Staff insurance expenses             | 103,173           | 98,005            |
| Staff medical expenses               | 167,675           | 137,058           |
| Staff training expenses              | 437,574           | 410,271           |
| Staff traveling expenses             | 291,940           | 269,282           |
| Staff welfare expenses               | 543,252           | 404,939           |
| Sukuk fees                           | 15,000            | -                 |
| Syariah Advisory fees                | 57,578            | -                 |
| Tax penalty                          | -                 | 162,973           |
| Trainee allowances                   | 158,245           | 153,025           |
| Upkeep of office                     | 933,369           | 1,084,918         |
| Water and electricity                | 340,501           | 328,598           |
|                                      | <u>24,837,775</u> | <u>23,291,904</u> |

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## 21. TAX EXPENSE

|                                                            | 2010<br>RM        | 2009<br>RM        |
|------------------------------------------------------------|-------------------|-------------------|
| Current tax expense                                        | 10,185,214        | 11,000,000        |
| Under/(Over) provision of tax for previous year assessment | 891,064           | (715,872)         |
|                                                            | <u>11,076,278</u> | <u>10,284,128</u> |

A reconciliation of income tax expense applicable to surplus before tax expense at the statutory tax rate to income tax expense at the effective income tax rate of the Corporation is as follows:-

|                                      | 2010<br>RM         | 2009<br>RM        |
|--------------------------------------|--------------------|-------------------|
| Surplus before tax                   | <u>42,278,488</u>  | <u>41,412,594</u> |
| Income tax using tax rate of 26%/27% | 10,569,622         | 10,390,879        |
| Income not subject to tax            | (33,907)           | (86,802)          |
| Non-deductible expenses              | 1,230,811          | 844,071           |
| Taxes in respect of prior years      | 891,064            | (715,872)         |
| Unrecognised deferred tax assets     | <u>(1,581,312)</u> | <u>(148,148)</u>  |
|                                      | <u>11,076,278</u>  | <u>10,284,128</u> |

Deferred tax benefits which are unutilised in respect of the followings:-

|                                                                                                                                                         | 2010<br>RM       | 2009<br>RM         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|
| Timing differences arising from allowance for bad and doubtful loans and financing which have been recognised on a different tax basis for tax purposes | (506,061)        | (3,309,705)        |
| Timing differences arising from property, plant and equipment                                                                                           | <u>6,831,312</u> | <u>169,878</u>     |
| At 31 December                                                                                                                                          | <u>6,325,251</u> | <u>(3,139,827)</u> |

The deferred tax liabilities and assets are offset as:-

- ~the Corporation has a legally enforceable right to set off current tax assets against current tax liabilities; and
- ~they relate to taxes levied by the same tax authority on the Corporation

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**22. DIVIDEND**

|                                                          | <b>2010<br/>RM</b> | <b>2009<br/>RM</b> |
|----------------------------------------------------------|--------------------|--------------------|
| <i>Paid,</i>                                             |                    |                    |
| Gross interim dividend of zero cents (2009 : zero cents) |                    |                    |
| less tax for year 2009/2008                              | -                  | -                  |
| Gross final dividend of 26.00 cents (2009 : 8.00 cents)  |                    |                    |
| less tax for year 2009/2008                              | 9,750,000          | 5,698,000          |
|                                                          | <b>9,750,000</b>   | <b>5,698,000</b>   |
| <i>Approved,</i>                                         |                    |                    |
| Gross interim dividend of zero cents (2009 : zero cents) |                    |                    |
| less tax for year 2010/2009.                             | -                  | -                  |
| Gross final dividend of 26.00 cents (2009 : 26.00 cents) |                    |                    |
| less tax for year 2010/2009                              | 9,750,000          | 9,750,000          |
|                                                          | <b>9,750,000</b>   | <b>9,750,000</b>   |

**23. CAPITAL COMMITMENT**

|                                        | <b>2010<br/>RM</b> | <b>2009<br/>RM</b> |
|----------------------------------------|--------------------|--------------------|
| <i>Property, plant &amp; equipment</i> |                    |                    |
| Authorised but not contracted for      | 8,990,000          | 9,170,000          |
| Contracted but not provided for        | 3,265,566          | 3,969,705          |

**24. FINANCIAL INSTRUMENTS**

Financial instrument comprises of financial assets, financial liabilities and off-balance sheet instruments. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of the non-financial assets and liabilities are excluded because it is not a requirement under MASB 24 to disclose its fair value.

The carrying amounts are a reasonable estimate of their fair values as of the date of the balance sheet.

**25. EMPLOYEES INFORMATION**

|                                                                           | <b>2010<br/>RM</b> | <b>2009<br/>RM</b> |
|---------------------------------------------------------------------------|--------------------|--------------------|
| Staff costs                                                               | 12,884,411         | 12,194,152         |
| Number of employees at year end<br>(excluding Members of the Corporation) | 193                | 198                |

**26. SOCIAL COMMUNITY SERVICES**

The Corporation has obtained approval from Ministry of Finance to utilise not more than 5% of the net surplus in each financial year for financing community projects in the State.

**27. ISLAMIC BANKING BUSINESS**

The state of affairs as at 31 December 2010 and results for the financial year ended on this date under the Islamic banking business of the Corporation are summarised as follows:

**Balance Sheet as at 31 December 2010**

|                                                   | Note | 2010<br>RM        | 2009<br>RM |
|---------------------------------------------------|------|-------------------|------------|
| <b>ASSETS</b>                                     |      |                   |            |
| Cash and bank balance                             |      | 5,747,790         | -          |
| Fixed Deposits                                    | c    | 300,000           | -          |
| Financing and advances                            | d    | 79,361,127        | -          |
| <b>TOTAL ASSETS</b>                               |      | <b>85,408,917</b> | <b>-</b>   |
| <b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>      |      |                   |            |
| Borrowings                                        |      | -                 | -          |
| Other payables and accruals                       | e    | 42,131,411        | -          |
| <b>TOTAL LIABILITIES</b>                          |      | <b>42,131,411</b> | <b>-</b>   |
| Islamic Banking Fund                              |      | 43,326,000        | -          |
| Accumulated funds                                 |      | (48,494)          | -          |
| <b>ISLAMIC BANKING FUND</b>                       |      | <b>43,277,506</b> | <b>-</b>   |
| <b>TOTAL LIABILITIES AND ISLAMIC BANKING FUND</b> |      | <b>85,408,917</b> | <b>-</b>   |

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27. ISLAMIC BANKING BUSINESS (CONTINUED)

Income statement for the year ended 31 December 2010

|                                                | Note | 2010<br>RM      | 2009<br>RM |
|------------------------------------------------|------|-----------------|------------|
| Income derived from financing and advances     | f    | 1,169,873       | -          |
| Allowance for losses on financing and advances | g    | (1,203,186)     | -          |
| <b>TOTAL NET INCOME</b>                        |      | <b>(33,313)</b> | <b>-</b>   |
| Operating expenses                             | h    | (15,181)        | -          |
| <b>LOSESE BEFORE TAX</b>                       |      | <b>(48,494)</b> | <b>-</b>   |
| Tax expense                                    |      | -               | -          |
| <b>NET LOSSES FOR THE YEAR</b>                 |      | <b>(48,494)</b> | <b>-</b>   |

Statement of changes in equity for the year ended 31 December 2010

|                                  | Share<br>Capital<br>RM | Reserves<br>RM  | Total<br>RM     |
|----------------------------------|------------------------|-----------------|-----------------|
| <b>AT 1 JANUARY 2010</b>         | -                      | -               | -               |
| Net losses for the current year  | -                      | (48,494)        | (48,494)        |
| <b>AT 31 DECEMBER 2010</b>       | <b>-</b>               | <b>(48,494)</b> | <b>(48,494)</b> |
| <b>AT 1 JANUARY 2009</b>         | -                      | -               | -               |
| Net surplus for the current year | -                      | -               | -               |
| <b>AT 31 DECEMBER 2009</b>       | <b>-</b>               | <b>-</b>        | <b>-</b>        |

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## 27. ISLAMIC BANKING BUSINESS (CONTINUED)

## Cash Flow Statement for the year ended 31 December 2010

|                                                               | 2010<br>RM       | 2009<br>RM |
|---------------------------------------------------------------|------------------|------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                  |            |
| Losses before tax                                             | (48,494)         | -          |
| <i>Adjustments for: -</i>                                     |                  |            |
| Allowance for bad and doubtful financing and advances         | 1,203,186        | -          |
| <b>Operating Surplus Before Working Capital Changes</b>       | 1,154,692        | -          |
| <i>(Increase)/decrease in operating assets/liabilities:-</i>  |                  |            |
| Loans, advances and financing                                 | (80,564,313)     | -          |
| Other payables and accruals                                   | 42,131,411       | -          |
| <b>Cash Generated From Operating Activities</b>               | (37,278,210)     | -          |
| Tax paid                                                      | -                | -          |
| <b>Net Cash Generated From Operating Activities</b>           | (41,228,033)     | -          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                  |            |
| Investment on Islamic Banking Fund                            | 43,326,000       | -          |
| <b>Net Cash Generated From Investing Activities</b>           | 43,326,000       | -          |
| Changes in cash and cash equivalents                          | 6,047,790        | -          |
| Cash and cash equivalents at beginning of the year            | -                | -          |
| <b>Cash And Cash Equivalents At End Of The Year</b>           | <b>6,047,790</b> | <b>-</b>   |
| <b>Cash and cash equivalents consist of the followings: -</b> |                  |            |
|                                                               | 2010<br>RM       | 2009<br>RM |
| Cash and bank balances                                        | 5,747,790        | -          |
| Deposits                                                      | 300,000          | -          |
|                                                               | <b>6,047,790</b> | <b>-</b>   |

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27. ISLAMIC BANKING BUSINESS (CONTINUED)

Notes to the financial statements for the year ended 31 December 2010

a) Significant accounting policies

The accounting policies adopted by the islamic banking business are consistent with those adopted by the Corporation as disclosed in note 2 to the financial statements of the Corporation.

b) Basis of accounting

The financial statements of the islamic banking business have been prepared on a basis consistent with that of the Corporation as disclosed in note 2 to the financial statements of Corporation, and have been prepared under the accrual basis of accounting.

c) Fixed Deposits

|                                    | 2010<br>RM | 2009<br>RM |
|------------------------------------|------------|------------|
| <i>Fixed Deposits (Mudharabah)</i> |            |            |
| Licensed Islamic Banks             | 300,000    | -          |

d) Financing and advances

|                                                                | 2010<br>RM  | 2009<br>RM |
|----------------------------------------------------------------|-------------|------------|
| Bai Al Inah Financing                                          | 80,564,313  | -          |
| Gross financing and advances                                   | 80,564,313  | -          |
| Less: Allowance for bad and doubtful financing<br>and advances |             |            |
| - General allowance                                            | (1,203,186) | -          |
| - Interest-in-suspense                                         | -           | -          |
| Net financing and advances                                     | 79,361,127  | -          |

e) Other payables and accruals

|                             | 2010<br>RM | 2009<br>RM |
|-----------------------------|------------|------------|
| Other payables and accruals | 42,131,411 | -          |

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## 27. ISLAMIC BANKING BUSINESS (CONTINUED)

Notes to the financial statements for the year ended 31 December 2010

## f) Income derived from financing and advances

|                                             | 2010<br>RM      | 2009<br>RM |
|---------------------------------------------|-----------------|------------|
| Income from financing and advances          | -               | -          |
| Profit received from licensed Islamic banks | 773             | -          |
| Income from management fee                  | 1,063,475       | -          |
| Commission received from Takaful Operator   | 105,625         | -          |
|                                             | <hr/> 1,169,873 | <hr/> -    |

## g) Allowance for losses on financing and advances

|                                                 | 2010<br>RM      | 2009<br>RM |
|-------------------------------------------------|-----------------|------------|
| Allowances for losses on financing and advances |                 |            |
| - general allowance                             | 1,203,186       | -          |
|                                                 | <hr/> 1,203,186 | <hr/> -    |

## h) Operating expenses

|                                             | 2010<br>RM   | 2009<br>RM |
|---------------------------------------------|--------------|------------|
| Bank fees                                   | 181          | -          |
| Profit received from licensed Islamic banks | 15,000       | -          |
|                                             | <hr/> 15,181 | <hr/> -    |

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