

# DIRECTORS' REPORT

for the financial year ended 31 December 2002

The Directors submit herewith their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2002.

## Principal activities

The principal activities of the Bank during the financial year are banking and related financial services which also include Islamic Banking services. The principal activities of the subsidiary companies are factoring of credit facilities, property management services, nominee and trustee services. There were no significant changes in the nature of these activities during the financial year.

Affin Futures Sdn Bhd, a 100% owned subsidiary company of the Bank, ceased its operations during the financial year and remained dormant as at the balance sheet date.

## Financial results

	The Group	The Bank
	RM'000	RM'000
Profit before taxation and zakat	29,389	20,088
Taxation and zakat	1,009	1,252
Profit after taxation and zakat	30,398	21,340
Accumulated losses brought forward	(59,475)	(61,953)
Accumulated losses carried forward	(29,077)	(40,613)

## Dividends

No dividend have been paid since the end of the Bank's previous financial year.

The Directors do not recommend the payment of any dividend for the current financial year.

## Reserves and provisions

All material transfers to or from reserves or provisions during the financial year are shown in the financial statements.

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### Issue of shares

During the financial year, the following new ordinary shares of RM1 each were issued by the Bank to the holding company:

Date of issue	Number of shares	Terms of issue	Issue price per share	Purpose
26 December 2002	7,650,000	In satisfaction of debt	RM1.25	Acquisition of BSN Merchant Bank Berhad
30 December 2002	100,000,000	Cash	RM1.00	Additional working capital

### Bad and doubtful debts and financing

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and financing and the making of allowance for bad and doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing, in the financial statements of the Group and of the Bank inadequate to any substantial extent.

### Current assets

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Bank, have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

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## Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Bank's financial statements misleading or inappropriate.

## Contingent and other liabilities

At the date of this report there does not exist:

- (a) any charge on the assets of the Group or the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group or the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business or activities of the Group.

No contingent or other liability of the Group or the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or the Bank to meet their obligations as and when they fall due.

## Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and the Bank that would render any amount stated in the financial statements misleading.

## Items of an unusual nature

The results of the operations of the Group and the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect substantially the results of the operations of the Group or the Bank for the current financial year in which this report is made.

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### Directors of the Bank

The name of the Directors of the Bank in office since the date of the last report are as follows:

YBhg. Jen (B) Tan Sri Dato' Seri Ismail Haji Omar (Chairman)	(Appointed on 21 May 2002)
YM Raja Dato' Seri Aman Ahmad (President/Chief Executive Officer)	
YBhg. Dato' Haji Lodin Wok Kamaruddin	
YM Dr. Raja Abdul Malek Raja Jallaludin	
YBhg. Dato' Dr. Megat Abdul Rahman Megat Ahmad	
YBhg. Dato' Dr. Lee Chee Kuon	(Appointed on 21 May 2002)
YBhg. Laksamana Madya (B) Dato' Seri Ahmad Ramli Mohd Nor	(Appointed on 21 May 2002)
YBhg. Dato' Razman Md. Hashim Che Din Md. Hashim	(Appointed on 21 May 2002)
YBhg. Dato' Abdul Aziz Abdul Rahman	(Appointed on 28 January 2003)
YBhg. Jen (B) Tan Sri Dato' Zain Hashim	(Resigned on 21 May 2002)
YBhg. Tan Sri Dato' Haji Yahya Abdul Wahab	(Resigned on 21 May 2002)
YBhg. Lt. Jen (B) Dato' Mohd Yusof Din	(Resigned on 21 May 2002)
YBhg. Dato' Abdul Malik Mohd Salleh	(Resigned on 21 May 2002)

### Directors' interests

According to the Register of Directors' Shareholdings, the interest of Directors in office at the end of the financial year in shares, warrants and options of related corporations were as follows:

	Ordinary shares of RM1 each			
	As at 1.1.2002	Bought	Sold	As at 31.12.2002
<b>Affin Holdings Berhad</b>				
YM Raja Dato' Seri Aman Ahmad	55,500	-	-	55,500
YBhg. Dato' Haji Lodin Wok Kamaruddin	8,714	-	-	8,714

	Ordinary shares of RM10 each; RM5 uncalled			
	As at 1.1.2002	Bought	Sold	As at 31.12.2002
<b>PAB Trustee Berhad*</b>				
YM Raja Dato' Seri Aman Ahmad	20,000	-	-	20,000
YM Dr. Raja Abdul Malek Raja Jallaludin	20,000	-	-	20,000

\* Shares held in trust for the Bank

	Number of warrants 2000/2005				
	As at 1.1.2002	Adjusted	Bought	Sold	As at 31.12.2002
<b>Affin Holdings Berhad</b>					
YM Raja Dato' Seri Aman Ahmad	9,250	-	-	-	9,250
YBhg. Dato' Haji Lodin Wok Kamaruddin	1,500	-	-	-	1,500

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Each warrant ('Affin Warrants 2000/2005') entitles the registered holder to subscribe one new ordinary share of RM1.00 each in Affin Holdings Berhad at any time from the date of issue of 8 July 2000 at the exercise price of RM3.10 per share. The exercise period of the Affin Warrants 2000/2005 will expire on 7 July 2005.

	Number of warrants 1995/2005				As at 31.12.2002
	As at 1.1.2002	Adjusted	Bought	Sold	
<b>Affin Holdings Berhad</b>					
YM Raja Dato' Seri Aman Ahmad	3,378	-	-	-	3,378

Each warrant ('Affin Warrants 1995/2005') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Affin Holdings Berhad at any time from the date of issue of 16 May 1995 at the exercise price of RM3.38 per share. The exercise period of the Affin Warrants 1995/2005 will expire on 15 May 2005.

	Options over ordinary shares of RM1 each				As at 31.12.2002
	As at 1.1.2002	Granted	Exercised	Expired	
<b>Affin Holdings Berhad</b>					
YM Raja Dato' Seri Aman Ahmad	9,500,000	-	-	-	9,500,000*

\* This is a five-year option granted by Lembaga Tabung Angkatan Tentera ('LTAT') to acquire Affin Holdings Berhad's shares from LTAT at RM2.10 per share and will expire on 22 November 2003.

	Options over ordinary shares of 50 sen each				As at 31.12.2002
	As at 1.1.2002	Granted	Exercised	Expired	
<b>Boustead Holdings Berhad</b>					
YBhg. Dato' Haji Lodin Wok Kamaruddin	9,500,000#	-	-	-	9,500,000
	500,000##	-	-	-	500,000

# This is a five year option granted by LTAT to acquire 9,500,000 Boustead Holdings Berhad shares from LTAT at RM2.41 per share and will expire on 22 November 2003.

## This option was granted by Boustead Holdings Berhad under its Employees' Share Option Scheme at the option price of RM1.88 per share and will expire on 22 July 2006.

### Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in the notes to the financial statements) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest except that certain Directors received remuneration as directors/executives of related corporations.

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Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Bank or any of its subsidiary companies is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

### Overall business strategies for the financial year ended 31 December 2002

Programs for business and cost rationalisations were followed through with further reductions of headcount and branch closures. In defining itself as a niche player which, in the foreseeable future, will likely remain mid-sized, the Bank commenced to implement a strategy which leverages on IT and automation for the maintenance and expansion of customer deliveries and reach while at the same time enabling it to reduce its physical channels and workforce. A key feature of this strategy involves the centralisation and automation of back room processes.

A large part of the development work was ongoing during the financial year. Quite appropriately given the still slow economic environment and the constraints on its capital ratio, the Bank chose not to focus on asset growth but to consolidate and redefine its customer base. At the same time greater efforts were made on the work-out and recovery of its non performing assets.

### Business plan and outlook for the financial year ending 31 December 2003

Recoveries on non-performing loans are expected to significantly contribute to earnings during the coming financial year. With the expected completion and rollout of several strategic projects, the Bank will also see the emergence of new delivery channels and services together with technology-driven platforms for increased productivity. The issue of capital and balance sheet improvements will be addressed and resolved through appropriate solutions.

### Rating by external agencies

The Bank has been rated by the following external rating agency:

Name of rating agency	: RATING AGENCY MALAYSIA BERHAD (RAM)
Date of rating	: September 2001
Rating classifications	
- Long term	: BBB2
- Short term	: P2

A BBB rating is defined by RAM as being able to offer moderate safety for timely repayment of interest and principal, and lacking in certain protective elements. The subscript 2 in this category indicates a mid-ranking in the BBB category. A P2 rating is defined by RAM as obligations which are supported by a strong ability to repay debt obligations.

### Holding company and ultimate holding corporation

The holding company of the Bank is Affin Holdings Berhad, a public listed company incorporated in Malaysia and the ultimate holding corporation is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

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## Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 26 February 2003.



**Jen (B) Tan Sri Dato' Seri Ismail Haji Omar**  
Chairman



**Raja Dato' Seri Aman Ahmad**  
President/Chief Executive Officer