

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 1 General information

The Bank is principally engaged in all aspects of banking and related financial services which also include Islamic Banking Business. The principal activities of the Bank's subsidiary companies are factoring of credit facilities, property management services, nominee and trustee services. There have been no significant changes in these principal 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.

The number of employees at the end of the financial year was 3,687 (2001: 4,086) employees in the Group and 3,666 (2001: 4,053) employees in the Bank.

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.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

## 2 Financial risk management objectives and policies

### Market Risk

The Bank is mainly exposed to risk on interest rates and foreign exchange rates. The interest rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk, when the pricing characteristics of two instruments change at different times or by different amounts. Foreign exchange rate risk arises from unhedged positions arising from customers' requirements and proprietary positions.

For the trading portfolios, market risk is measured and managed daily by the Market Risk Management Department, which is part of the Bank's Risk Management Division.

Market Risk is primarily controlled via a series of cut-loss limits and potential loss limits, Value-at-Risk (VaR) approved by the Asset Liability Committee (ALCO) in accordance with the Bank's risk appetite. These limits are set and reviewed regularly according to a number of factors, including the market trading liquidity of the instruments and the Bank's business strategy. In addition, the Bank also conducts periodic stress testing analysis of its respective portfolios to ascertain market risk under abnormal market conditions.

For the asset liability mismatch position in the Balance Sheet, the Bank employs a software to measure the risk. The risk is measured monthly through Net Interest Income simulations against various interest rate scenarios and managed through compliance with an Overall Risk Tolerance Limit approved by ALCO.

For the trading portfolios, daily VaR and Performance Reports (incorporating compliance to limits) are generated and forwarded to the Chief Risk Officer, Head of Treasury and trading managers. Weekly reports summarising the risk profile, performance and market risk department's assessment of the risk are forwarded to ALCO. A monthly report is also tabled in the respective ALCO and Board Risk Management Committee (BRMC) meetings for deliberation. The BRMC is also briefed annually on all products, significant variation features and the notional outstanding risk exposures.

The market risk management infrastructure in place is adequate for the Bank's present scale of operations, exposures and business range.

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for the financial year ended 31 December 2002

## Credit risk

Credit Risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to the Bank. Credit risk arises mainly from our lending activities.

The management of credit in the Bank is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to the Board Credit Approval Committee and Management Loan Committee to approve large and higher risk loans in order to ensure sound credit granting standards.

A credit risk grading system is implemented for corporate and business loans. The grading is based on credit worthiness of the borrower, i.e. the ability to service and repay debt obligations based on the borrower's current condition, with regard to its management capacity and its market position.

Portfolio management is put in place to evaluate the credit risk exposures, the portfolio's risk profiles, and to identify any adverse trends or risk concentration patterns. The focus of portfolio management is to ensure that the risk concentration areas and unacceptable risk factors are managed and mitigated early.

## Liquidity risk

Liquidity risk is the risk of loss due to failure to access funds at reasonable cost to fund the Bank's operations and meet its liabilities as and when they fall due. Liquidity risk arises from the Bank's general funding activities on an on-going basis and the management of its assets.

The Board is responsible for the Bank's liquidity performance although the strategic management of liquidity has been delegated to the ALCO. The Board is however, informed regularly of the liquidity situation in the Bank.

ALCO executes the Bank's liquidity strategy including ensuring that appropriate policies and procedures are established to control and limit liquidity risk. It is also responsible for ensuring that the Bank has adequate information systems for measuring, monitoring, controlling and reporting liquidity risk.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework (NLF). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The Bank has been in compliance with the NLF throughout the current financial year.

As a matter of prudence, the Bank has in place a Contingency Funding Plan.

## Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. As such, operational risk is inherent in each of the Bank's business and operational activities. Such risks may result in breakdowns, errors and can potentially result in financial loss or other losses (e.g. reputation loss) to the Bank.

The Bank monitors and controls such risk through policies and procedures at individual business or operational activities level. These were designed taking into consideration the individual unit's business activities, the market in which it is operating and any regulatory requirement in force.

The Bank's Operational Risk Management team will embark in year 2003, on the development of:

- (i) The Corporate Operational Risk Management Policy and procedures.

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## 2 Financial risk management objectives and policies (continued)

### Operational Risk Management (continued)

- (ii) A corporate operational risk management methodology comprising bottom-up approaches to measurement of such risks. This also includes the tools and techniques required to support the measurement framework.
- (iii) An evolving loss event database and management information system that would support an enhanced understanding of the processes and the risk awareness.
- (iv) A risk reporting and management process.

At the operational level, Internal Audit Division conducts annual audits and limited reviews on selected branches. The selection of branches is determined through a risk-based assessment process. Audits/reviews are also conducted on Head Office Divisions/Departments as well as the Bank's own subsidiaries. The focus of the audits is to provide assurance to management on the compliance with statutory requirements, laws, company policies and internal guidelines.

Two key committees have been established to assist in overseeing the operational risk management and they are:

### Audit and Examination Committee (AEC)

The AEC comprises members of the Bank's Board of Directors whose primary function is to assist the Board of Directors in its supervision over:

- (i) The reliability and integrity of accounting policies and financial reporting and disclosure practices,
- (ii) The provision of advice to the Board with regards to the financial statements and business risks to enable the Board to fulfill its fiduciary duties and obligations, and
- (iii) The establishment and maintenance of processes to ensure that they:
  - are in compliance with all applicable laws, regulations and company policies; and
  - have adequately addressed the risk relating to internal controls and systems, management of inherent and business risks, and ensuring that the assets are properly managed and safeguarded.

The AEC is made up of at least three (3) but not more than five (5) members appointed by the Board of Directors from among its non-executive directors.

### The Compliance and Investigation Committee (CIC)

The CIC ensures that all branches are in full compliance with the internal controls, policies and procedures that have been established in the Bank. The committee, presently headed by the Executive Vice President, Corporate Services Sector, is assisted by members of the senior management team.

The CIC deliberates on the audit reports on branches and makes specific operational decisions to rectify the shortcomings highlighted in the reports. The specific recommendations and decisions taken are then forwarded for review and notation by the Audit and Examination Committee.

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## 3 Cash and short-term funds

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash and balances with banks and other financial institutions	217,215	240,044	217,215	238,157
Money at call and deposit placements maturing within one month	1,280,883	1,036,595	1,280,883	1,036,595
	<b>1,498,098</b>	<b>1,276,639</b>	<b>1,498,098</b>	<b>1,274,752</b>

## 4 Deposits and placements with financial institutions

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Licensed banks	270,600	324,201	270,600	324,201
Licensed finance companies	20,000	–	20,000	–
Other financial institutions	1,500	1,500	–	–
	<b>292,100</b>	<b>325,701</b>	<b>290,600</b>	<b>324,201</b>

## 5 Dealing securities

	The Group and The Bank	
	2002 RM'000	2001 RM'000
<b>Money market instruments:</b>		
Malaysian Government securities	28,182	22,206
Danamodal bonds	–	14,190
	<b>28,182</b>	<b>36,396</b>
<b>Unquoted securities:</b>		
Private debt securities in Malaysia	370,000	21,399
	<b>398,182</b>	<b>57,795</b>
<b>Market value of quoted securities:</b>		
Malaysian Government securities	28,182	22,206
Danamodal bonds	–	14,190

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## 6 Investment securities

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<b>Money market instruments:</b>				
Malaysian Government securities	1,001,538	197,298	1,001,538	197,298
Malaysian Government investment certificates	585,274	572,800	585,274	572,800
Bank Negara Malaysia bills	–	230,000	–	230,000
Cagamas bonds	668,826	366,508	668,826	366,508
Cagamas notes	–	100,000	–	100,000
Danaharta bonds	114,628	18,909	114,628	18,909
Danamodal bonds	472,340	3,782	472,340	3,782
Negotiable instruments of deposits	101,978	150,000	101,978	150,000
Negotiable Islamic debt certificates	–	113,358	–	113,358
Bankers' acceptances and Islamic accepted bills	114,914	767,048	114,914	767,048
Floating rate notes	76,000	76,000	76,000	76,000
Khazanah bonds	295,571	4,406	295,571	4,406
Islamic corporate notes	29,363	79,140	29,363	79,140
	<b>3,460,432</b>	<b>2,679,249</b>	<b>3,460,432</b>	<b>2,679,249</b>
<b>Quoted securities</b>				
Shares in Malaysia	57,327	50,647	48,479	50,647
Private debt securities in Malaysia	110,487	86,288	107,105	86,288
<b>Unquoted securities</b>				
Shares in Malaysia	48,053	47,728	48,053	47,728
Private debt securities in Malaysia	1,110,332	894,064	1,091,354	892,055
	<b>4,786,631</b>	<b>3,757,976</b>	<b>4,755,423</b>	<b>3,755,967</b>
Accretion of discount less amortisation of premium	3,475	20,526	3,475	20,526
Provision for diminution in value of investment securities	(169,994)	(139,420)	(157,931)	(137,638)
	<b>4,620,112</b>	<b>3,639,082</b>	<b>4,600,967</b>	<b>3,638,855</b>

## NOTES TO THE FINANCIAL STATEMENTS

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(i) Market value of quoted securities:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Malaysian Government securities	<b>997,889</b>	199,984	<b>997,889</b>	199,984
Malaysian Government investment certificates	<b>587,815</b>	574,404	<b>587,815</b>	574,404
Cagamas bonds	<b>669,479</b>	369,654	<b>669,479</b>	369,654
Danaharta bonds	<b>119,787</b>	21,823	<b>119,787</b>	21,823
Danamodal bonds	<b>478,925</b>	5,108	<b>478,925</b>	5,108
Shares quoted in Malaysia	<b>29,361</b>	38,028	<b>25,294</b>	38,028
Private debt securities in Malaysia	<b>47,035</b>	37,052	<b>44,461</b>	37,052

(ii) The maturity structure of money market instruments held for investment are as follows:

	The Group and The Bank	
	2002 RM'000	2001 RM'000
Maturing within one year	<b>1,260,163</b>	2,158,385
One to three years	<b>1,762,184</b>	386,728
Three to five years	<b>362,085</b>	56,393
Over five years	<b>76,000</b>	77,743
	<b>3,460,432</b>	2,679,249

(iii) Included in investment securities is an amount of RM363,000,000 (2001: RM369,000,000) being pledged to third parties in relation to securities sold under repurchase agreements.

(iv) The Bank has also pledged investment securities amounting to RM120,000,000 (2001: RM Nil) in accordance with the Trust Deed of the subordinated bonds (Note 18).

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 7 Loans, advances and financing

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Overdrafts	3,146,556	3,213,158	3,146,556	3,213,158
Term loans	8,070,732	8,878,841	8,006,842	8,811,709
Revolving credits	1,325,069	2,152,050	1,301,002	2,099,481
Credit cards	174,611	29,807	174,611	29,807
Bills receivables	260,005	300,716	260,005	300,716
Trust receipts	407,904	568,507	407,904	568,507
Claims on customers under acceptances credits	1,323,533	1,537,271	1,323,533	1,537,271
Staff loans (of which RM Nil to Directors)	143,437	151,871	143,437	151,871
Factoring	55,504	52,496	-	-
	<b>14,907,351</b>	<b>16,884,717</b>	<b>14,763,890</b>	<b>16,712,520</b>
Less:				
Unearned interest and income	(328,341)	(381,361)	(328,341)	(381,361)
Gross loans, advances and financing	<b>14,579,010</b>	<b>16,503,356</b>	<b>14,435,549</b>	<b>16,331,159</b>
Provision for bad and doubtful debts and financing:				
- general	(208,861)	(208,226)	(207,703)	(207,703)
- specific	(1,184,413)	(1,760,914)	(1,116,181)	(1,676,655)
Interest-in-suspense/income-in- suspense	(779,625)	(844,724)	(746,574)	(807,604)
Net loans, advances and financing	<b>12,406,111</b>	<b>13,689,492</b>	<b>12,365,091</b>	<b>13,639,197</b>

Included in term loans are housing loans sold to Cagamas with recourse amounting to RM460,770,000 (2001: RM325,008,000).

## NOTES TO THE FINANCIAL STATEMENTS

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(i) The maturity structure of loans, advances and financing are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Maturing within one year	7,826,500	11,803,147	7,683,039	11,630,951
One to three years	252,912	1,056,721	252,912	1,056,721
Three to five years	1,203,145	1,057,999	1,203,145	1,057,999
Over five years	5,296,453	2,585,489	5,296,453	2,585,488
	<b>14,579,010</b>	<b>16,503,356</b>	<b>14,435,549</b>	<b>16,331,159</b>

(ii) Loans, advances and financing analysed by their economic purposes are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Agriculture	404,925	377,871	404,925	377,871
Mining and quarrying	22,660	69,477	22,660	69,477
Manufacturing	2,810,850	3,402,271	2,797,811	3,395,621
Electricity, gas and water	115,675	217,863	115,675	217,863
Construction	1,883,242	2,343,983	1,865,432	2,327,923
Real estate	617,377	836,015	565,298	771,383
Purchase of landed property of which:				
I. Residential	2,621,012	2,342,072	2,621,012	2,342,072
II. Non-residential	1,074,209	1,336,435	1,074,209	1,336,435
General commerce	1,727,070	1,909,948	1,678,485	1,909,948
Transport, storage and communication	514,541	830,886	514,541	830,886
Finance, insurance and business services	581,456	639,506	589,208	628,388
Purchase of securities	510,990	596,589	491,290	553,349
Purchase of transport vehicles	34,793	35,995	34,793	35,995
Consumption credit	573,481	580,664	573,481	580,664
Others	1,086,729	983,781	1,086,729	953,284
	<b>14,579,010</b>	<b>16,503,356</b>	<b>14,435,549</b>	<b>16,331,159</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 7 Loans, advances and financing (continued)

(iii) Movements in the Non-Performing Loans and financing (including interest and income receivable) are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
As at beginning of the year	5,555,026	1,402,188	5,405,336	1,402,188
Acquired from BSNC	-	1,489,893	-	1,489,893
Acquired from BSNM and Affin Factors	-	150,167	-	-
Non-performing during the year (gross)	1,912,021	3,393,220	1,906,692	3,381,895
Amount reclassified to performing	(282,105)	(134,710)	(282,105)	(134,710)
Amount recovered	(653,382)	(536,607)	(650,755)	(532,650)
Transfer on debt conversion	(347,049)	(194,141)	(311,628)	(187,856)
Amount written-off	(976,734)	(14,984)	(976,733)	(13,424)
As at end of the year	5,207,777	5,555,026	5,090,807	5,405,336
<b>Net non-performing loans</b>	<b>3,243,739</b>	<b>2,949,388</b>	<b>3,228,052</b>	<b>2,921,077</b>
% of net non-performing loans to total loans (less SP and IIS)	25.71%	21.22%	25.67%	21.10%

(iv) Movements in the General Provision, Specific Provision and Interest/Income-in-Suspense Accounts are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<b>General provision</b>				
As at beginning of the year	208,226	216,125	207,703	216,125
Acquired from BSNC and BSNM	-	79,752	-	79,752
Acquired from Affin Factors	-	666	-	-
Provision/(write back) made during the year	635	(88,317)	-	(88,174)
As at end of the year	208,861	208,226	207,703	207,703
(As % of total loans less SP and IIS)	1.66%	1.50%	1.65%	1.50%

## NOTES TO THE FINANCIAL STATEMENTS

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(iv) Movements in the General Provision, Specific Provision and Interest/Income-in-Suspense Accounts are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<b>Specific provision</b>				
As at beginning of the year	1,760,914	248,701	1,676,655	248,701
Acquired from BSNC	-	496,212	-	496,212
Acquired from BSNM and Affin Factors	-	89,618	-	-
Provisions made during the year	284,104	993,609	283,332	992,876
Amount written back in respect of recoveries	(48,816)	(57,294)	(48,178)	(56,202)
Transfer to provision for diminution in value of investment securities	(27,952)	(5,000)	(16,617)	-
Amount written-off	(783,837)	(4,932)	(779,011)	(4,932)
As at end of the year	1,184,413	1,760,914	1,116,181	1,676,655
<b>Interest/income-in-suspense</b>				
As at beginning of the year	844,724	215,978	807,604	215,978
Acquired from BSNC	-	251,607	-	251,607
Acquired from BSNM and Affin Factors	-	32,217	-	-
Provision made during the year	512,329	540,772	502,043	529,628
Transfer to provision for diminution in value of investment securities	(82,073)	(3,771)	(70,157)	(2,486)
Amount written back in respect of recoveries	(233,655)	(178,493)	(231,216)	(175,096)
Amount written-off	(261,700)	(13,586)	(261,700)	(12,027)
As at end of the year	779,625	844,724	746,574	807,604

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## 8 Other assets

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Other debtors, deposits and prepayments	234,434	25,893	225,579	13,814
Stocks and stationery	1,295	2,543	1,295	2,543
Money order and postal order purchased	4,138	5,085	4,138	5,085
Accrued income receivable	48,373	30,144	48,373	30,144
Amount recoverable from Danaharta	12,658	42,921	10,992	39,586
Foreclosed properties	8,846	8,500	8,846	8,500
	<b>309,744</b>	<b>115,086</b>	<b>299,223</b>	<b>99,672</b>

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Amount recoverable from Danaharta:				
As at beginning of the year	42,921	29,197	39,586	29,197
Amount acquired from BSNC and BSNM	-	43,169	-	38,165
Provision made during the year	(29,082)	(29,407)	(27,413)	(27,738)
Amount converted to debt/recovered	(1,181)	(38)	(1,181)	(38)
As at end of the year	<b>12,658</b>	<b>42,921</b>	<b>10,992</b>	<b>39,586</b>

## 9 Statutory deposit with Bank Negara Malaysia

A non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with requirements of Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amount of which is determined as a set percentage of total eligible liabilities.

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### 10 Investment in subsidiary companies

	The Bank	
	2002 RM'000	2001 RM'000
Unquoted shares, at cost	59,567	59,567
Less: Provision for permanent diminution in value	(20,264)	(14,888)
	39,303	44,679
Amounts due from subsidiary companies	26,949	30,681
	66,252	75,360

Amounts due from subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

The subsidiary companies of the Bank, all of which are incorporated in Malaysia, are as follows:

Name	Principal activities	Percentage of equity held	
		2002	2001
Affin Futures Sdn Bhd*	Dormant	100	100
PAB Properties Sdn Bhd	Property management services	100	100
PAB Nominee (Tempatan) Sdn Bhd	Share nominee services	100	100
PAB Nominee (Asing) Sdn Bhd	Share nominee services	100	100
PAB Trustee Berhad**	Trustee management services	100	100
Affin Factors Sdn Bhd	Factoring credit facilities	100	100
PAB Property Management Services Sdn Bhd	Dormant	100	100
PAB Property Development Sdn Bhd	Dormant	100	100
PAB Venture Capital Sdn Bhd	Dormant	100	100
PAB Property Trust Management Berhad	Dormant	100	100

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## 10 Investment in subsidiary companies (continued)

Name	Principal activities	Percentage of equity held	
		2002	2001
BSN Information Technologies & Services Sdn Bhd	Dormant	100	100
BSNCB Nominees (Tempatan) Sdn Bhd	Dormant	100	100
BSNC Nominees (Tempatan) Sdn Bhd	Dormant	100	100
BSNC Nominees (Asing) Sdn Bhd	Dormant	100	100
BSNC Venture Capital Sdn Bhd	Dormant	100	100
BSNC Asset Management (M) Bhd	Dormant	100	100
Barakah Corporation Sdn Bhd	Dormant	100	100
BSN Merchant Bank Berhad	Dormant	100	100
BSN Merchant Nominees (Tempatan) Sdn Bhd	Dormant	100	100
BSN Merchant Nominees (Asing) Sdn Bhd	Dormant	100	100

\* Ceased operations during the year.

\*\* 40% held by Directors of the Bank, in trust for the Bank.

## 11 Investment in associated company

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Unquoted shares, at cost	30	30

The associated company of the Bank, which is incorporated in Malaysia, is as follows:

Name	Principal activity	Percentage of equity held	
		2002	2001
BSNC Trustee Berhad	Dormant	20	20

The results of the associated company was not equity accounted for by the Group as the associate company is dormant.

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## 12 Fixed assets

	Long term leasehold land		Short term leasehold land		Buildings on freehold land		Buildings on leasehold land		Renovation		Office equipment and furniture		Computer equipment and software		Motor vehicles		Capital work-in-progress		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>The Group</b>																			
<b>2002</b>																			
<b>Cost</b>																			
As at beginning of the year	20,219	4,123	1,297	69,456	107,894	87,419	52,259	153,834	11,516	15,328	523,345								
- Additions	-	-	-	-	70	3,559	4,269	34,543	464	19,285	62,190								
- Disposals	-	-	-	-	(2,460)	(7)	(1,334)	(78)	(6,810)	-	(10,689)								
- Write-off	-	-	-	-	-	(5,822)	(728)	(475)	(120)	-	(7,145)								
- Reclassification	-	-	-	-	-	594	-	4,233	-	(4,827)	-								
As at end of the year	20,219	4,123	1,297	69,456	105,504	85,743	54,466	192,057	5,050	29,786	567,701								
<b>Accumulated depreciation</b>																			
As at the beginning of the year	-	337	612	7,347	5,514	54,065	24,464	89,980	9,497	-	191,816								
- Charge for the year	-	30	32	1,389	2,062	11,429	4,945	35,876	528	-	56,291								
- Disposals	-	-	-	-	-	(7)	(1,064)	(53)	(6,266)	-	(7,390)								
- Write-off	-	-	-	-	-	(4,717)	(391)	(417)	(120)	-	(5,645)								
- Reclassification	-	43	(43)	-	-	-	(2)	2	-	-	-								
As at end of the year	-	410	601	8,736	7,576	60,770	27,952	125,388	3,639	-	235,072								
<b>Net book value as at end of the year</b>	20,219	3,713	696	60,720	97,928	24,973	26,514	66,669	1,411	29,786	332,629								



# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 12 Fixed assets

	Freehold land RM'000	Long term leasehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
<b>The Bank</b>										
<b>2002</b>										
<b>Cost</b>										
As at beginning of the year	17,222	2,233	67,820	106,703	86,135	51,528	151,097	11,230	15,327	509,295
- Additions	-	-	-	70	3,482	4,147	33,795	373	19,285	61,152
- Disposals	-	-	-	(2,460)	(7)	(1,333)	(28)	(6,602)	-	(10,430)
- Write-off	-	-	-	-	(5,750)	(303)	(7)	(3)	-	(6,063)
- Reclassification	-	-	-	-	594	-	4,233	-	(4,827)	-
As at end of the year	17,222	2,233	67,820	104,313	84,454	54,039	189,090	4,998	29,785	553,954
<b>Accumulated depreciation</b>										
As at beginning of the year	-	233	6,752	5,092	52,927	23,978	87,433	9,236	-	185,651
- Charge for the year	-	23	1,356	2,038	11,271	4,880	35,643	509	-	55,720
- Disposals	-	-	-	-	(7)	(1,062)	(23)	(6,072)	-	(7,164)
- Write-off	-	-	-	-	(4,702)	(170)	(4)	(3)	-	(4,879)
As at end of the year	-	256	8,108	7,130	59,489	27,626	123,049	3,670	-	229,328
<b>Net book value as at end of the year</b>	17,222	1,977	59,712	97,183	24,965	26,413	66,041	1,328	29,785	324,626

## 12 Fixed assets (continued)

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

	Freehold land RM'000	Long term leasehold land RM'000	Buildings		Buildings on leasehold land RM'000	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
			freehold land RM'000	on leasehold land RM'000							
<b>The Bank</b>											
<b>2001</b>											
<b>Cost</b>											
As at beginning of the year	17,222	2,233	58,378	31,462	66,375	41,743	98,970	9,465	74,330	400,178	
- Acquired from BSNC	-	-	7,227	18,705	4,961	2,662	21,540	495	-	55,590	
- Acquired from BSNM	-	-	-	-	360	327	280	44	-	1,011	
- Additions	-	-	-	1,010	3,115	7,652	19,984	1,444	24,735	57,940	
- Disposals	-	-	-	-	-	(27)	-	(213)	-	(240)	
- Write-off	-	-	-	-	(4,245)	(829)	(105)	(5)	-	(5,184)	
- Reclassification	-	-	2,215	55,526	15,569	-	10,428	-	(83,738)	-	
As at end of the year	17,222	2,233	67,820	106,703	86,135	51,528	151,097	11,230	15,327	509,295	
<b>Accumulated depreciation</b>											
As at beginning of the year	-	210	5,437	2,958	38,305	19,824	54,844	8,035	-	129,613	
- Charge for the year	-	23	1,315	2,134	17,097	4,747	32,591	1,405	-	59,312	
- Disposals	-	-	-	-	-	-	-	(200)	-	(200)	
- Write-off	-	-	-	-	(2,475)	(593)	(2)	(4)	-	(3,074)	
As at end of the year	-	233	6,752	5,092	52,927	23,978	87,433	9,236	-	185,651	
<b>Net book value as at end of the year</b>	17,222	2,000	61,068	101,611	33,208	27,550	63,664	1,994	15,327	323,644	

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 13 Goodwill

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<b>Cost</b>				
As at beginning of the year	179,205	-	183,098	-
Arising during the year	-	246,320	-	250,213
Written off during the year	-	(67,115)	-	(67,115)
As at end of the year	179,205	179,205	183,098	183,098
<b>Less: Accumulated amortisation</b>				
As at beginning of the year	(9,155)	-	(9,155)	-
Amortised during the year	(9,155)	(9,155)	(9,155)	(9,155)
As at end of the year	(18,310)	(9,155)	(18,310)	(9,155)
Net book value as at end of the year	160,895	170,050	164,788	173,943

### 14 Deposits from customers

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Demand deposits	2,894,423	2,472,960	2,910,055	2,483,701
Savings deposits	1,543,606	1,566,539	1,543,606	1,566,539
Fixed deposits	9,649,393	10,118,981	9,651,670	10,124,675
Negotiable instrument of deposits	1,285,762	914,336	1,285,762	914,335
	15,373,184	15,072,816	15,391,093	15,089,250

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 14 Deposits from customers (continued)

(i) The maturity structure of fixed deposits and negotiable instrument of deposits are as follows:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Due within six months	9,330,678	7,087,427	9,332,903	7,093,121
Six months to one year	1,492,801	3,173,193	1,492,854	3,173,193
One to three years	108,075	767,072	108,075	767,072
Three to five years	3,601	5,625	3,600	5,624
	<b>10,935,155</b>	<b>11,033,317</b>	<b>10,937,432</b>	<b>11,039,010</b>

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

Business enterprises	3,507,219	4,525,492	3,507,219	4,541,926
Individuals	2,724,953	2,765,481	2,724,953	2,765,481
Others	9,141,012	7,781,843	9,158,921	7,781,843
	<b>15,373,184</b>	<b>15,072,816</b>	<b>15,391,093</b>	<b>15,089,250</b>

## 15 Deposits and placements of banks and other financial institutions

	The Group and The Bank	
	2002 RM'000	2001 RM'000
Licensed banks	982,658	784,592
Licensed finance companies	110,000	210,000
Other financial institutions	35,710	111,496
	<b>1,128,368</b>	<b>1,106,088</b>

## 16 Amount due to Cagamas

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad with recourse to the Bank at values equivalent to the unpaid principal balances of loans and advances due from the borrowers.

The Bank is liable in respect of housing loans sold directly to Cagamas Berhad, under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on agreed prudential criteria. Such financing transactions and the obligations to buy back the loans are reflected as a liability on the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 17 Other liabilities

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding Programmes	125,197	175,141	125,197	175,141
Margin and Collateral deposits	16,981	23,450	16,981	23,450
Accrued interest payable	117,106	119,584	117,106	119,584
Sundry creditors	291,883	412,552	275,442	399,640
Amount due to holding company	-	10,112	-	10,112
Profit equalisation reserve	6,645	-	6,645	-
	<b>557,812</b>	<b>740,839</b>	<b>541,371</b>	<b>727,927</b>

### 18 Subordinated bonds

The subordinated Bonds 2002/2006 ('The Bonds') were issued at a nominal value of RM600 million in multiples of RM1,000,000, which is subordinated to all other liabilities. The Bonds were constituted by Trust Deeds dated 28 December 2001 and was issued on 31 December 2001. The Bonds are unsecured and redeemable in full on 31 December 2006, five (5) years from the issue date. The nominal value and coupon rate of the Bonds, payable semi-annually, are as follows:

Class A bonds		Class B bonds	
Value:	RM500 million	Value:	RM100 million
Coupon rate:	8% per annum for the period eighteen months from the issue date and 7.3% per annum for the remaining period till maturity.	Coupon rate:	8.5% per annum

In respect of the Class A Bonds, the Bank has undertaken to pledge the Bank's securities of RM10,000,000 every month beginning from one month after the issue date till the maturity date. These securities may only be used to fund the payment of any monies under the Trust Deed and/or the Class A Bonds which is due and unpaid.

### 19 Share capital

	The Group and The Bank	
	2002 RM'000	2001 RM'000
<b>Authorised Ordinary shares of RM1 each:</b>		
At beginning of the year	1,000,000	1,000,000
Created during the year	1,000,000	-
At end of year	<b>2,000,000</b>	<b>1,000,000</b>
<b>Issued and fully paid:</b>		
Balance as at beginning of the year	909,631	650,000
Issued during the year	107,650	259,631
Balance as at end of the year	<b>1,017,281</b>	<b>909,631</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 20 Reserves

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Share premium	190,735	188,823	190,735	188,823
Accumulated losses	(29,077)	(59,475)	(40,613)	(61,953)
	<b>161,658</b>	<b>129,348</b>	<b>150,122</b>	<b>126,870</b>

### Statutory reserve

Balance as at beginning of the year	-	424,565	-	424,565
Transfer to retained earnings	-	(424,565)	-	(424,565)
Balance as at end of the year	-	-	-	-

## 21 Interest income

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Loans, advances and financing	1,041,258	1,130,929	1,030,972	1,119,785
Money at call and deposit placements				
with financial institutions	45,375	52,913	45,374	52,913
Investment securities	78,629	42,194	78,629	42,194
Dealing securities	4,163	3,012	4,163	3,012
	<b>1,169,425</b>	<b>1,229,048</b>	<b>1,159,138</b>	<b>1,217,904</b>
Accretion of discounts less amortisation of premium	26,621	30,673	26,621	30,673
Net interest suspended	(262,316)	(339,354)	(254,468)	(331,607)
	<b>933,730</b>	<b>920,367</b>	<b>931,291</b>	<b>916,970</b>

## 22 Interest expense

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Deposits and placements of banks and other financial institutions	16,044	18,776	16,044	18,776
Deposits from other customers	368,475	460,761	368,666	460,992
Subordinated bonds	48,500	-	48,500	-
Others	51,077	38,478	51,077	38,397
	<b>484,096</b>	<b>518,015</b>	<b>484,287</b>	<b>518,165</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 23 Loan and financing loss and provision

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Provision/(write back) for bad and doubtful debts:				
- specific provision (net of recoveries)	235,288	936,315	235,154	936,674
- general provision	635	(88,317)	-	(88,174)
Bad debts and financing:				
- written-off	10,702	16,210	10,702	16,210
- recovered	(31,164)	(66,147)	(31,164)	(66,147)
Provision on amounts recoverable from Danaharta:				
- charge for the year	29,082	29,407	27,413	27,738
	<b>244,543</b>	<b>827,468</b>	<b>242,105</b>	<b>826,301</b>

### 24 Non-interest income

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
<b>Fee income</b>				
Commission	19,231	17,837	19,231	17,837
Service charges and fees	50,522	29,392	50,522	29,392
Guarantee fees	14,991	20,765	14,991	20,765
Other fee income	329	4	329	4
	<b>85,073</b>	<b>67,998</b>	<b>85,073</b>	<b>67,998</b>
<b>Investment income</b>				
Gains from sale of investment securities	26,604	19,426	26,604	19,426
Net profit from dealing securities	1,639	4,098	1,639	4,098
Write back/(provision) for diminution in value of investment securities	10,785	(35,013)	4,203	(35,013)
Gross dividends from Malaysia:				
- investment securities	2,108	1,264	2,108	1,264
	<b>41,136</b>	<b>(10,225)</b>	<b>34,554</b>	<b>(10,225)</b>
<b>Other income</b>				
Foreign exchange profit:				
- realised	1,955	8,394	1,955	8,394
- unrealised	42,239	14,618	42,239	14,618
Rental income	1,141	5,665	1,141	5,665
Gain on sale of fixed assets	2,337	151	2,292	151
Other non-operating income	17,519	10,261	11,841	8,539
	<b>65,191</b>	<b>39,089</b>	<b>59,468</b>	<b>37,367</b>
	<b>191,400</b>	<b>96,862</b>	<b>179,095</b>	<b>95,140</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 25 Overhead expense

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Personnel costs	182,309	180,231	180,014	178,328
Establishment costs	137,860	143,416	136,769	141,585
Marketing expenses	17,205	15,738	17,025	15,658
Administration and general expenses	75,315	96,028	75,685	96,054
	<b>412,689</b>	<b>435,413</b>	<b>409,493</b>	<b>431,625</b>

The above expenditure includes the following statutory disclosure:

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Directors' remuneration (Note 27)	1,149	1,128	955	915
Rental of premises	18,465	25,740	18,110	26,134
Hire of equipment	2,964	2,362	3,636	2,358
Lease rental	58	28	-	-
Retirement benefits charge	-	4,025	-	4,025
Auditors' remuneration				
- statutory audit fees	455	427	396	369
- other fees	-	230	-	230
Depreciation of fixed assets	56,291	60,866	55,720	59,312
Fixed assets written-off	1,500	5,574	1,184	2,110
Provision for diminution in value of investment in subsidiaries	-	-	5,376	5,075
Goodwill amortisation	9,155	9,155	9,155	9,155

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 26 Significant related party transactions and balances

Related parties and their relationship with the Bank are as follows:

Lembaga Tabung Angkatan Tentera	Ultimate holding corporation
Affin Holdings Berhad	Holding company
Affin-ACF Holdings Bhd	Subsidiary of holding company
Affin Discount Berhad	Subsidiary of holding company
Affin Merchant Bank Berhad	Subsidiary of holding company
Affin-UOB Holdings Sdn Bhd	Subsidiary of holding company
Affin Moneybrokers Sdn Bhd	Subsidiary of holding company
Affin Corporate Services Sdn Bhd	Subsidiary of holding company
Affin Fund Management Sdn Bhd	Subsidiary of holding company
Indolight Sdn Bhd	Subsidiary of holding company
AXA-Affin Assurance Bhd	Associate company of holding company

The subsidiary companies of the Bank are those as disclosed in Note 10 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 26 Significant related party transactions and balances (continued)

	Ultimate holding corporation RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<b>2002</b>				
<b>Income</b>				
Interest on placements	-	-	-	3,117
Other income	-	-	270	40
	-	-	270	3,157
<b>Expenditure</b>				
Rental	469	-	688	-
Interest on advances and deposits	63	107	191	2,107
Interest on bankers' acceptances	3,916	-	-	681
Interest on repo	626	-	-	-
Interest on subordinated bond	8,500	-	-	-
Brokerage fee	-	-	-	320
Other	-	-	-	122
	13,574	107	879	3,230
<b>Amount due to</b>				
Short term advances	29,100	-	281	1,146
Negotiable instruments of deposit	-	-	-	20,250
Demand and fixed deposits	29,830	70,250	17,909	74,483
Banker's acceptance	-	-	-	38,390
Subordinated bond	100,000	-	-	-
Accrued interest payable on subordinated bond	23	-	-	23
	158,953	70,250	18,190	134,292
<b>Amount due from</b>				
Short term advances	-	-	27,230	1,020
Rental deposit	102	-	-	102
	102	-	27,230	1,122

The significant related party transactions and balances described above were carried out on terms and conditions obtainable on transactions with unrelated parties except for amount due from subsidiaries of RM26.9 million (2001: RM19.4 million) which is interest free. All short term advances have no fixed terms for repayments.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

	Ultimate holding corporation RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
<b>2001</b>				
<b>Income</b>				
Interest on placements	-	-	747	1,784
<b>Expenditure</b>				
Rental	-	-	766	-
Interest on advances and deposits	5,437	286	150	2,558
Interest on bankers' acceptances	-	-	-	388
Brokerage fee	-	-	-	400
	5,437	286	916	3,346
<b>Amount due to</b>				
Short term advances	-	10,112	261	291
Term placements	-	-	-	60
Negotiable instruments of deposit	-	-	-	20,129
Demand and fixed deposits	3,830	169,422	16,435	75,762
Banker's acceptance	-	-	-	1,045
Securities purchased under repo	-	-	-	655
Subordinated bond	100,000	-	-	-
	103,830	179,534	16,696	97,942
<b>Amount due from</b>				
Short term advances	-	-	28,284	3,171
Term placements	-	-	-	113,757
	-	-	28,284	116,928

## 27 Directors' remuneration

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Fees	283	330	277	314
Other remuneration (other than benefits-in-kind)	866	798	678	601
	1,149	1,128	955	915

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 27 Directors' remuneration (continued)

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Analysis of Directors' remuneration:				
Executive Directors:				
- salary and other remuneration	826	778	638	581
- bonuses	40	20	40	20
- benefits-in-kind	28	28	18	17
	894	826	696	618
Non-Executive Directors:				
- fees	283	330	277	314
- benefits-in-kind	13	13	13	13
	296	343	290	327
Directors' remuneration	1,190	1,169	986	945

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM696,142 (2001: RM617,675).

## 28 Taxation

	The Group		The Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Malaysian income tax	243	132	-	-
Overprovision in respect of prior year	(1,395)	(607)	(1,395)	-
	(1,152)	(475)	(1,395)	-

No provision for taxation is required in respect of the Bank's earnings for the current financial year due to the offset of its taxable profits with its unutilised capital allowances brought forward from the previous financial year of RM28,291,000.

Subject to agreement of the Inland Revenue Board, the Bank has unabsorbed tax losses of approximately RM803,492,000 (2001: RM803,492,000) and unutilised capital allowances of RM92,715,000 (2001: RM72,901,000) available for set-off against future taxable income.

## 29 Earnings per share

The earnings per share for the financial year have been calculated based on the net profit after taxation and zakat of the Group of RM30,398,000 (2001: Net loss of RM746,716,000), and of the Bank of RM21,340,000 (2001: Net loss of RM747,505,000) divided by the weighted average number of ordinary shares of RM1 each in issue during the financial year of 910,304,000 (2001: 785,567,000).

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 30 Commitments and contingencies

- (i) In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies consist of:

	The Group 2002		The Group 2001	
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
Direct credit substitutes	478,576	478,576	795,906	795,906
Transaction-related contingent items	2,607,065	1,303,533	1,546,829	773,415
Short-term self-liquidating trade-related contingencies	5,596,010	1,119,202	3,330,700	666,140
Obligations under underwriting agreement	289,000	144,500	323,493	161,747
Irrevocable commitments to extend credit:	9,133,645	1,558,826	8,183,093	915,747
- maturity more than one year	3,117,652	1,558,826	1,831,494	915,747
- maturity less than one year	6,015,993	-	6,351,599	-
Foreign exchange related contracts:	1,500,131	7,395	1,005,376	11,430
- less than one year	1,500,131	7,395	1,005,376	11,430
- one year to less than five years	-	-	-	-
Interest rate related contracts:	17,430,950	63,677	4,085,950	60,602
- less than one year	5,850,000	6,731	1,409,600	651
- one year to less than five years	11,580,950	56,946	2,664,950	59,381
- five years and above	-	-	11,400	570
	37,035,377	4,675,709	19,271,347	3,384,987

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 30 Commitments and contingencies (continued)

	The Bank 2002		The Bank 2001	
	Principal amount	Credit equivalent amount*	Principal amount	Credit equivalent amount*
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	478,576	478,576	795,906	795,906
Transaction-related contingent items	2,607,065	1,303,533	1,546,829	773,415
Short-term self-liquidating trade-related contingencies	5,596,010	1,119,202	3,330,700	666,140
Obligations under underwriting agreement	289,000	144,500	323,493	161,747
Irrevocable commitments to extend credit:	8,983,395	1,558,826	8,183,093	915,747
- maturity more than one year	3,117,652	1,558,826	1,831,494	915,747
- maturity less than one year	5,865,743	-	6,351,599	-
Foreign exchange related contracts:	1,500,131	7,395	1,005,376	11,430
- less than one year	1,500,131	7,395	1,005,376	11,430
- one year to less than five years	-	-	-	-
Interest rate related contracts:	17,430,950	63,677	4,085,950	60,602
- less than one year	5,850,000	6,731	1,409,600	651
- one year to less than five years	11,580,950	56,946	2,664,950	59,381
- five years and above	-	-	11,400	570
	<b>36,885,127</b>	<b>4,675,709</b>	<b>19,271,347</b>	<b>3,384,987</b>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## Financial Derivatives

Financial derivatives are financial instruments whose characteristics are derived from the underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The following outlines the nature and terms of the most common types of derivatives used by the Bank:

### Exchange rate contracts

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

**Cross currency swaps** are agreements to exchange, and on termination of the swap, re-exchange principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

**Currency futures** are typically exchange-traded agreements to buy or sell standard amounts of a specified currency at an agreed exchange rate on a standard future date.

**Currency options** give the buyer on payment of a premium the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

### Interest rate contracts

**Interest rate swaps** involve the exchange of interest obligations with counterparties for a specified period without exchanging the underlying (or notional principal).

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

**Forward rate agreements** give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contracted rate and the market rate prevailing on the settlement date.

**Swaptions** give the buyer the right, but not the obligation, to enter an interest rate swap as either the payer or receiver of the fixed side of the swap.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 30 Commitments and contingencies (continued)

The table below analyses the contractual or underlying principal amounts of derivative financial instruments held or issued. In addition, they also set out the corresponding gross positive credit equivalent of the derivative financial instruments.

	The Group and The Bank 2002		The Group and The Bank 2001	
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
<b>Foreign exchange contracts</b>				
- forward contracts	1,500,131	7,395	1,005,376	11,430
<b>Interest rate contracts</b>				
- futures contracts	14,512,000	-	1,856,000	-
- swaps	2,918,950	63,677	2,229,950	60,602

Foreign exchange related contracts and interest rate related contracts are subject to market risk and credit risk.

### Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2002, the notional amount of foreign exchange exposure which were not hedged and hence, exposed to market risk was RM37.2 million (2001: RM3.9 million), while the notional amount of interest rate exposures in KLIBOR futures equivalent terms was RM123.1 million (2001: RM208.4 million).

### Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2002, the amounts of foreign exchange and interest rate credit risk, measured in terms of the cost to replace the profitable contracts, were RM7.4 million (2001: RM11.4 million) and RM63.7 million (2001: RM60.6 million) respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

- (ii) Pursuant to clause 2.1.5. of the Acquisition of Business Agreement dated 30 August 2000 between the Bank, the holding company, BSN Commercial Bank (Malaysia) Berhad ('BSNC') and Bank Simpanan Nasional ('BSN') in respect of the acquisition of certain assets and liabilities of BSNC by the Bank, BSNC and BSN undertakes to the Bank that debts other than those reflected as bad or doubtful debts in the audited financial statements of BSNC will be recoverable in the ordinary course of business.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## Credit risk

For the debts not recoverable, BSNC undertakes to pay the Bank within 30 days from the date of receipt of the Bank's letter of demand, the amounts claimed subject to a limit of 30% of the purchase price.

On 6 April 2001, the Bank exercised the warranty and issued a letter of demand for RM101,694,000, equivalent to 30% of the original purchase price of RM338,980,000 as a result of doubtful or bad debts arising during the year. Arising from the above, the Bank is now required to reassign all the rights and benefits of the said bad or doubtful debts to BSNC or its nominee.

As at the date of the financial statements, the Bank has yet to comply with this requirement. As the bad or doubtful debts would have been fully provided or written-off, the Directors are of the opinion that there would not be any material financial impact on the Bank.

- (iii) On 18 November 2002, the Bank had entered into a primary collateralised loan obligations ('Primary CLO') programme amounting to RM1 billion. The Primary CLO involved the sale, transfer and assignment of a loan portfolio facility to a special purpose vehicle, Aegis One Bhd ('Aegis'), an unrelated party, which is funded through the issuance of RM900 million AAA rated asset backed senior fixed rate bonds maturing in 2007 and 100 million BB rated asset backed subordinated variable rate bonds maturing in 2007 (the 'Bonds').

The terms of the Bonds stipulate that in the event of a loss by Aegis, losses would be absorbed first by the subordinated bondholders and then by the senior bondholders. The principal amount will be settled in full upon maturity depending on the repayment of the loans by the borrowers. The Bank also holds RM370 million of the senior bonds and RM1.5 million of the subordinated bonds issued by Aegis which is recorded under 'Dealing securities' and 'Investment securities' in Notes 5 and 6 respectively.

The Bank does not guarantee the payment of interest nor the repayment of principal due on the Bonds. The Bank has no obligation to repurchase any of the loans except to the extent of any warranties given as provided in the sale and purchase agreement between the Bank and Aegis. This includes not having any knowledge that would cause the Bank to expect any payments in respect of the loans sold to Aegis not to be paid in full when due.

At the date of these financial statements, there is no indication of any losses incurred by Aegis and the Directors are of the opinion that there has not been any breach of the warranties provided for by the Bank.

## 31 Interest rate risk

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at 31 December 2002.

## 31 Interest rate risk (continued)

The Group  
31.12.2002

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 6 months RM'000	6 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000
<b>Assets</b>									
Cash and short-term funds	256,750	-	-	-	-	-	228,456	1,012,892	1,498,098
Deposits and placements with financial institutions	1,500	140,600	100,000	-	-	-	-	50,000	292,100
Dealing securities	-	-	-	-	398,182	-	-	-	398,182
Investment securities	90,106	148,285	184,900	790,867	1,948,516	365,904	67,652	1,023,882	4,620,112
Loans, advances and financing	12,107,223	720,342	154,968	21,238	92,788	88,300	*(2,096,448)	1,317,700	12,406,111
Others (1)	-	-	-	-	-	-	550,305	788,110	1,338,415
<b>Total assets</b>	<b>12,455,579</b>	<b>1,009,227</b>	<b>439,868</b>	<b>812,105</b>	<b>2,439,486</b>	<b>454,204</b>	<b>(1,250,035)</b>	<b>4,192,584</b>	<b>20,553,018</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 31 Interest rate risk

The Group  
31.12.2002

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000
<b>Liabilities</b>									
Deposits from customers	5,370,224	1,969,921	2,779,766	1,290,205	88,658	-	-	3,874,410	15,373,184
Deposits and placements of banks and other financial institutions	708,710	347,600	25,800	-	-	-	-	46,258	1,128,368
Obligations on securities sold under repurchase agreements	362,810	-	-	-	-	-	-	-	362,810
Bills and acceptances payable	268,328	377,399	121,822	936	-	-	85,177	37,473	891,135
Amount due to Cagamas	-	38,780	36,724	137,156	248,110	-	-	-	460,770
Subordinated bonds	-	-	-	-	600,000	-	-	-	600,000
Other liabilities	-	-	-	-	-	-	531,235	26,578	557,812
<b>Total liabilities</b>	<b>6,710,072</b>	<b>2,733,700</b>	<b>2,964,112</b>	<b>1,428,297</b>	<b>936,768</b>	<b>-</b>	<b>616,412</b>	<b>3,984,719</b>	<b>19,374,079</b>
On balance sheet - interest rate gap	5,745,507	(1,724,473)	(2,524,244)	(616,192)	1,502,718	454,204	-	-	-
Off-balance sheet - interest rate gap(2)	141	22	(41)	(23)	(99)	-	-	-	-
<b>Net interest rate gap</b>	<b>5,745,648</b>	<b>(1,724,451)</b>	<b>(2,524,285)</b>	<b>(616,215)</b>	<b>1,502,619</b>	<b>454,204</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

1. Others include fixed assets, statutory deposits with BNM, investment in associated company, goodwill, tax recoverable and other assets.
2. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

## 31 Interest rate risk (continued)

The Bank  
31.12.2002

	Up to 1 month RM'000	1 – 3 months RM'000	3 – 6 months RM'000	6 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000
<b>Assets</b>									
Cash and short-term funds	256,750	-	-	-	-	-	228,456	1,012,892	1,498,098
Deposits and placements with financial institutions	-	140,600	100,000	-	-	-	-	50,000	290,600
Dealing securities	-	-	-	-	398,182	-	-	-	398,182
Investment securities	90,106	148,285	184,900	790,867	1,948,456	365,904	48,567	1,023,882	4,600,967
Loans, advances and financing	11,963,761	720,342	154,968	21,238	92,788	88,300	*(1,994,006)	1,317,700	12,365,091
Others (1)	-	-	-	-	-	-	601,902	788,110	1,390,012
<b>Total assets</b>	<b>12,310,617</b>	<b>1,009,227</b>	<b>439,868</b>	<b>812,105</b>	<b>2,439,426</b>	<b>454,204</b>	<b>(1,115,081)</b>	<b>4,192,584</b>	<b>20,542,950</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 31 Interest rate risk

The Bank  
31.12.2002

	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest bearing RM'000	SPI related items RM'000	Total RM'000
<b>Liabilities</b>									
Deposits from customers	5,387,730	1,969,921	2,779,766	1,290,608	88,658	-	-	3,874,410	15,391,093
Deposits and placements of banks and other financial institutions	708,710	347,600	25,800	-	-	-	-	46,258	1,128,368
Obligations on securities sold under repurchase agreements	362,810	-	-	-	-	-	-	-	362,810
Bills and acceptances payable	268,328	377,399	121,822	936	-	-	85,177	37,473	891,135
Amount due to Cagamas	-	38,780	36,724	137,156	248,110	-	-	-	460,770
Subordinated bonds	-	-	-	-	600,000	-	-	-	600,000
Other liabilities	-	-	-	-	-	-	514,793	26,578	541,371
<b>Total liabilities</b>	<b>6,727,578</b>	<b>2,733,700</b>	<b>2,964,112</b>	<b>1,428,700</b>	<b>936,768</b>	<b>-</b>	<b>599,970</b>	<b>3,984,719</b>	<b>19,375,547</b>
On balance sheet - interest rate gap	5,583,039	(1,724,473)	(2,524,244)	(616,595)	1,502,658	454,204	-	-	-
Off-balance sheet - interest rate gap(2)	141	22	(41)	(23)	(99)	-	-	-	-
<b>Net interest rate gap</b>	<b>5,583,180</b>	<b>(1,724,451)</b>	<b>(2,524,285)</b>	<b>(616,618)</b>	<b>1,502,559</b>	<b>454,204</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

1. Others include fixed assets, statutory deposits with BNM, investment in subsidiary and associated companies, goodwill, tax recoverable and other assets.
2. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 31 Interest rate risk (continued)

The tables below summarises the effective average interest rate by major currencies for each class of financial assets and financial liabilities:

	The Group and The Bank 31.12.2002	
	RM %	USD %
<b>Financial Assets</b>		
Cash and short-term funds	2.96	2.02
Deposits and placements with financial institutions	4.35	6.21
Dealing securities	5.07	-
Investment securities	3.54	6.54
Loans, advances and financing	8.06	-
<b>Financial Liabilities</b>		
Deposits from customers	2.75	-
Deposits and placements of banks and other financial institutions	2.94	2.52
Obligations on securities sold under repurchase agreements	2.78	-
Bills and acceptances payable	3.08	-
Amount due to Cagamas	3.87	-
Subordinated bonds	7.68	-

Pursuant to the transitional provisions of MASB 24, the information on the interest rate risk and the effective average interest rate of financial assets, financial liabilities and off-balance sheet items as at 31 December 2001 is not presented.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 32 Liquidity risk

The maturities of on-balance sheets assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Group. The table below provides analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile:-

Maturities of assets and liabilities of the Group and the Bank by behavioural maturity profile are as follows:

	Group						Total
	31.12.2002						
	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	1,498,098	-	-	-	-	-	1,498,098
Deposits and placements with financial institutions	192,100	100,000	-	-	-	-	292,100
Dealing securities	398,182	-	-	-	-	-	398,182
Investment securities	202,670	184,900	873,744	2,152,914	728,717	477,167	4,620,112
Loans, advances and financing	3,142,377	572,520	280,147	1,585,478	733,357	6,092,232	12,406,111
Other assets	-	-	-	-	309,744	-	309,744
Tax recoverable	-	-	-	-	72,117	-	72,117
Statutory deposits with Bank Negara Malaysia	-	-	-	-	463,000	-	463,000
Investment in associated company	-	-	-	-	-	30	30
Fixed assets	-	-	-	-	-	332,629	332,629
Goodwill	-	-	-	-	-	160,895	160,895
<b>Total assets</b>	<b>5,433,427</b>	<b>857,420</b>	<b>1,153,891</b>	<b>3,738,392</b>	<b>2,306,935</b>	<b>7,062,953</b>	<b>20,553,018</b>

## 32 Liquidity risk (continued)

	Group						Total
	Up to 3 months	>3 - 6 months	>6 - 12 months	>1 - 3 years	>3 - 5 years	Over 5 years	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Liabilities</b>							
Deposits from customers	2,310,418	467,758	9,597	12,585,411	-	-	15,373,184
Deposits and placements of banks and other financial institutions	1,102,568	25,800	-	-	-	-	1,128,368
Obligations on securities sold under repurchase agreements	362,810	--	-	-	-	-	362,810
Bills and acceptances payable	768,333	121,866	936	-	-	-	891,135
Amount due to Cagamas	13,893	36,723	137,156	272,998	-	-	460,770
Subordinated bonds	-	-	-	-	600,000	-	600,000
Other liabilities	-	-	-	-	557,812	-	557,812
<b>Total liabilities</b>	<b>4,558,022</b>	<b>652,147</b>	<b>147,689</b>	<b>12,858,409</b>	<b>1,157,812</b>	<b>-</b>	<b>19,374,079</b>
On balance sheet gap	875,405	205,273	1,006,202	(9,120,017)	1,149,123	7,062,953	1,178,939
Off balance sheet credit commitments	1,427,893	-	-	10,549,288	-	-	11,977,181
Derivatives	(152,352)	14,416	-	-	-	-	(137,936)
<b>Net maturity mismatch</b>	<b>2,150,946</b>	<b>219,689</b>	<b>1,006,202</b>	<b>1,429,271</b>	<b>1,149,123</b>	<b>7,062,953</b>	<b>13,018,184</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 32 Liquidity risk

	Bank						Total
	31.12.2002						
	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	1,498,098	-	-	-	-	-	1,498,098
Deposits and placements with financial institutions	190,600	100,000	-	-	-	-	290,600
Dealing securities	398,182	-	-	-	-	-	398,182
Investment securities	202,670	184,900	873,744	2,152,854	728,717	458,082	4,600,967
Loans, advances and financing	3,117,043	572,520	280,147	1,585,478	733,357	6,076,546	12,365,091
Other assets	-	-	-	-	299,223	-	299,223
Tax recoverable	-	-	-	-	72,093	-	72,093
Statutory deposits with Bank Negara Malaysia	-	-	-	-	463,000	-	463,000
Investment in subsidiary companies	-	-	-	-	-	66,252	66,252
Investment in associated company	-	-	-	-	-	30	30
Fixed assets	-	-	-	-	-	324,626	324,626
Goodwill	-	-	-	-	-	164,788	164,788
<b>Total assets</b>	<b>5,406,593</b>	<b>857,420</b>	<b>1,153,891</b>	<b>3,738,332</b>	<b>2,296,390</b>	<b>7,090,324</b>	<b>20,542,950</b>

## 32 Liquidity risk (continued)

	Bank						Total
	31.12.2002						
	Up to 3 months RM'000	>3 - 6 months RM'000	>6 - 12 months RM'000	>1 - 3 years RM'000	>3 - 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Liabilities</b>							
Deposits from customers	2,327,924	467,758	10,000	12,585,411	-	-	15,391,093
Deposits and placements of banks and other financial institutions	1,102,568	25,800	-	-	-	-	1,128,368
Obligations on securities sold under repurchase agreements	362,810	-	-	-	-	-	362,810
Bills and acceptances payable	768,333	121,866	936	-	-	-	891,135
Amount due to Cagamas	13,893	36,723	137,156	272,998	-	-	460,770
Subordinated bonds	-	-	-	-	600,000	-	600,000
Other liabilities	-	-	-	-	541,371	-	541,371
<b>Total liabilities</b>	<b>4,575,528</b>	<b>652,147</b>	<b>148,092</b>	<b>12,858,409</b>	<b>1,141,371</b>	<b>-</b>	<b>19,375,547</b>
On balance sheet gap	831,065	205,273	1,005,799	(9,120,077)	1,155,019	7,090,324	1,167,403
Off balance sheet credit commitments	1,397,843	-	-	10,429,088	-	-	11,826,931
Derivatives	(152,352)	14,416	-	-	-	-	(137,936)
<b>Net maturity mismatch</b>	<b>2,076,556</b>	<b>219,689</b>	<b>1,005,799</b>	<b>1,309,011</b>	<b>1,155,019</b>	<b>7,090,324</b>	<b>12,856,398</b>

The behavioural assumptions adopted are as per Bank Negara Malaysia guidelines.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 33 Credit Risk concentrations

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Group and the Bank are set out in the following tables:

	Group 31.12.2002											
	Cash and short term funds	Deposits and placements with financial institutions	Dealing securities	Investment securities	Loans and advances	Statutory deposits with BNM	Other assets recoverable	Tax sheet	On balance sheet total contingencies	Commitments and		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	96,936	343,077	-	-	-	440,013	-	-	23,434
Mining and quarrying	-	-	-	-	22,622	-	-	-	22,622	-	-	1,382
Manufacturing	-	-	-	231,540	2,456,309	-	282	-	2,688,131	-	-	212,657
Electricity, gas and water	-	-	-	157,190	113,513	-	3,174	-	273,877	-	-	43,457
Construction	-	-	-	110,076	1,461,061	-	435	-	1,571,572	-	-	400,107
Real estate	-	-	-	152,380	527,504	-	74	-	679,958	-	-	91,928
General commerce	-	-	-	-	1,646,791	-	-	-	1,646,791	-	-	665
Transport, storage and communication	-	-	-	209,719	474,452	-	897	-	685,068	-	-	220,509
Finance, insurance and business services	1,214,558	292,100	370,000	907,327	524,122	-	21,053	-	3,329,160	-	-	199,624
Government and Government Agencies	270,609	-	28,182	2,632,945	-	463,000	21,436	72,117	3,488,289	-	-	-
Purchase of residential, landed property, security and transport vehicle	-	-	-	400	3,970,944	-	-	-	3,971,344	-	-	103,419
Wholesale and retail trade, restaurant and hotel	-	-	-	68,449	466,716	-	-	-	535,165	-	-	138,879
Others	12,931	-	-	23,676	607,860	-	238,167	-	882,634	-	-	3,239,648
<b>Total assets</b>	<b>1,498,098</b>	<b>292,100</b>	<b>398,182</b>	<b>4,590,638#</b>	<b>12,614,971*</b>	<b>463,000</b>	<b>285,518</b>	<b>72,117</b>	<b>20,214,624</b>	<b>463,000</b>	<b>285,518</b>	<b>4,675,709</b>

\* Excludes general provision amounting to RM209 million

# Excludes equity instruments amounting to RM29 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

## 33 Credit risk concentrations (continued)

	Bank									
	31.12.2002									
	Cash and short term funds	Deposits and placements with financial institutions	Dealing securities	Investment securities	Loans and advances	Statutory deposits with BNM	Other assets recoverable	Tax	On balance sheet total contingencies	Commitments and
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	96,936	343,077	-	-	-	440,013	23,434
Mining and quarrying	-	-	-	-	22,622	-	-	-	22,622	1,382
Manufacturing	-	-	-	231,540	2,437,527	-	282	-	2,669,349	212,657
Electricity, gas and water	-	-	-	157,190	113,513	-	3,174	-	273,877	43,457
Construction	-	-	-	110,076	1,460,470	-	435	-	1,570,981	400,107
Real estate	-	-	-	152,380	527,504	-	74	-	679,958	91,928
General commerce	-	-	-	-	1,625,519	-	-	-	1,625,519	665
Transport, storage and communication	-	-	-	209,719	474,452	-	897	-	685,068	220,509
Finance, insurance and business services	1,214,558	290,600	370,000	907,160	523,748	-	21,053	-	3,327,119	199,624
Government and Government Agencies	270,609	-	28,182	2,614,027	-	463,000	21,436	72,093	3,469,347	-
Purchase of residential, landed property, security and transport vehicle	-	-	-	400	3,970,944	-	-	-	3,971,344	103,419
Wholesale and retail trade, restaurant and hotel	-	-	-	68,449	466,716	-	-	-	535,165	138,879
Others	12,931	-	-	23,616	606,702	-	238,167	-	881,416	3,239,648
<b>Total assets</b>	<b>1,498,098</b>	<b>290,600</b>	<b>398,182</b>	<b>4,571,493#</b>	<b>12,572,794*</b>	<b>463,000</b>	<b>285,518</b>	<b>72,093</b>	<b>20,151,778</b>	<b>4,675,709</b>

\* Excludes general provision amounting to RM208 million

# Excludes equity instruments amounting to RM29 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

Pursuant to the transitional provisions of MASB 24, the information on the credit risk concentrations as at 31 December 2001 is not presented.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 34 Lease commitments

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases as at 31 December 2002 is as follows:

Year	The Group and The Bank	
	RM'000	
2003	66,306	
2004	49,730	
2005	33,153	
2006	16,577	

The lease figures represent minimum rentals not adjusted for operating expenses which the Bank is obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future minimum lease commitments will not be less than rental expenses for the year ended 31 December 2002.

### 35 Capital commitments

Capital expenditure approved by Directors but not provided for in the financial statements amounted to approximately:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Authorised and contracted for	48,962	60,965
Authorised but not contracted for	11,850	11,569
	<b>60,812</b>	<b>72,534</b>
Analysed as follows:		
Fixed assets	60,812	72,534

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 36 Capital adequacy

(i) The capital adequacy ratios and components of Tier 1 and Tier 2 capital of the Bank are as follows:

	The Bank	
	2002 RM'000	2001 RM'000
<b>Tier 1 capital</b>		
Paid-up share capital	1,017,281	909,631
Share premium	190,735	188,823
Accumulated losses	(40,613)	(61,953)
Goodwill	(164,788)	(173,943)
<b>Total Tier 1 capital</b>	<b>1,002,615</b>	<b>862,558</b>
<b>Tier 2 capital</b>		
General provisions for bad and doubtful debts	207,703	207,703
Subordinated bonds	360,000	431,279
<b>Total Tier 2 capital</b>	<b>567,703</b>	<b>638,982</b>
<b>Total capital</b>	<b>1,570,318</b>	<b>1,501,540</b>
Less: Investment in subsidiary companies	(39,303)	(44,679)
<b>Capital base</b>	<b>1,531,015</b>	<b>1,456,861</b>
<b>Capital ratios</b>		
Core capital ratio	6.10%	5.04%
Risk-weighted capital ratio	9.31%	8.51%

(ii) Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	The Bank	
	2002 RM'000	2001 RM'000
0%	5,032,410	2,933,780
10%	797,466	608,835
20%	2,084,896	1,921,010
50%	2,767,646	2,568,613
100%	14,565,357	15,388,837
	<b>25,247,775</b>	<b>23,421,075</b>
<b>Risk-weighted assets</b>	<b>16,445,906</b>	<b>17,118,229</b>

## 37 Litigations against the Bank

There are legal suits against the Bank in respect of counter claims of approximately RM26.1 million (2001: RM32.6 million).

Based on legal advice, the Directors are of the opinion that no provision for damages need to be made in the financial statements, as the probability of adverse adjudication against the Bank is remote.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### 38 Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and also off balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instruments could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at balance sheet date.

Quoted market prices, when available, are used as the measure of fair values. For financial instruments, without quoted market prices, fair values are estimated using net present value or other valuation techniques. These techniques involve a certain degree of uncertainty depending on the assumptions used and judgements made regarding risk characteristics of various financial instruments, discounts rates, estimates of future cash flows, future expected loss experience and other factors. Changes in these assumptions could materially affect these estimates and the resulting fair value.

Fair value information for non financial assets and liabilities are excluded as they do not fall within the scope of MASB 24 which requires fair values to be disclosed. This includes fixed assets, investment in subsidiary and associated companies and intangibles.

The following table summarises the fair values of those financial assets and liabilities which were presented at carrying value on the Group's and the Bank's balance sheet.

	The Group 31.12.2002		The Bank 31.12.2002	
	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000
<b>Financial assets</b>				
Cash and short-term funds	1,498,098	1,498,098	1,498,098	1,498,098
Deposit and placements with financial institutions	292,100	292,100	290,600	290,600
Dealing securities	398,182	398,182	398,182	398,182
Investment securities	4,421,431	4,620,112	4,418,903	4,600,967
Loans and advances	12,381,442	12,406,111	12,340,422	12,365,091
Statutory deposits with BNM	463,000	463,000	463,000	463,000
Other assets	309,744	309,744	299,223	299,223
Tax recoverable	72,117	72,117	72,093	72,093
<b>Financial liabilities</b>				
Deposits from customers	15,371,269	15,373,184	15,389,178	15,391,093
Deposits and placements of banks and other financial institutions	1,128,368	1,128,368	1,128,368	1,128,368
Obligation on securities sold under repurchase agreements	362,810	362,810	362,810	362,810
Bills and acceptances payable	891,135	891,135	891,135	891,135
Amount due to Cagamas	460,770	460,770	460,770	460,770
Subordinated Bonds	557,182	600,000	557,182	600,000
Other liabilities	557,812	557,812	541,371	541,371

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 38 Fair value of financial instruments (continued)

The fair values of derivative financial instruments at the balance sheet date are as follows:

	The Group and The Bank 31.12.2002		
	Underlying notional RM'000	Assets RM'000	Liability RM'000
<b>Foreign exchange contracts</b>			
- Forward contracts	1,500,131	95	685
<b>Interest rate contracts</b>	17,430,950	10,307	12,016
- Futures contracts	14,512,000	300	106
- Swaps	2,918,950	10,007	11,910

The derivative financial statements become favourable (assets) or unfavourable (liabilities) as a result of fluctuation in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair value estimates were determined by application of the methods and assumptions described below:

### Deposits and placements with financial institutions

For amounts due from other financial institutions with maturities of six months or more, fair value have been estimated by reference to current rates at which similar advances would be made to banks with a similar credit rating and the same remaining maturities.

Deposit and placement with maturity of less than six month, the carrying amount is a reasonable estimate of fair value.

### Dealing and investment securities

For dealing securities, the estimated fair values, which are also the carrying amounts, are generally based on quoted market prices or dealer quotes. For investment securities, fair values are also based on quoted market prices or dealer quotes, or, where there is no ready market in certain securities, fair values have been assessed by reference to market indicative interest yields.

In respect of the shortfall between the carrying value and fair value of investment securities, the Directors are of the opinion that there is no permanent impairment to the assets and the carrying value of these investments are recoverable. The shortfall was due to the yield on those instruments being lower than the market yield on a similar rated instrument. The bank monitors the repayment of interest and credit risk is mitigated as some of these investments are adequately secured by collateral or guarantees issued by state governments.

### Loans, advances and financing

For performing fixed rate loans, fair values have been estimated by discounting the estimated cash flows using the prevailing market rates of loans and advances with similar credit ratings and maturities.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

For floating-rate loans, the carrying amount is generally a reasonable estimate of fair value. Fair value of credit card receivables is based on the carrying value of receivables outstanding which is generally a reasonable estimate.

The fair value of impaired loans, fixed or floating are based on the carrying value less interest in suspense and specific provision, being the expected recoverable amount. In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by RM209 million (Group) and RM208 million (Bank) respectively, being the carrying value of the general provision for doubtful debts which covers unidentified losses inherent in the portfolio.

### Statutory deposits with Bank Negara Malaysia

The group is required by law, to lodge interest free regulatory deposits with the central bank . As the Group's ability to carry on the business of banking is conditional upon the maintenance of these deposits, their fair value is assumed to be equal to their carrying value, notwithstanding no interest being earned thereon.

### Deposits from customers, banks and financial institutions, obligation on securities sold under repurchase agreements, Bills and Acceptances Payable and Amount due to Cagamas

The fair value of demand deposits is the amounts payable on demand at the reporting date. For other liabilities with maturities of less than 6 months, the carrying amounts is a reasonable estimate of fair value.

For liabilities with maturities of 6 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values are estimated using discounted cash flows based on rates currently offered for similar liabilities of similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, approximates carrying amount which represents the amount repayable on demand.

### Subordinated bonds

The estimate fair value of subordinated bonds is based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

### Derivative financial instruments

The fair value of exchange rate and interest rate contracts is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking

### Balance Sheets as at 31 December 2002

	Note	The Group and The Bank	
		2002 RM'000	2001 RM'000
<b>Assets</b>			
Cash and short-term funds	(a)	1,012,892	351,170
Deposits and placements with financial institutions	(b)	50,000	100,000
Investment securities	(c)	1,023,882	1,304,700
Loans, advances and financing	(d)	1,317,700	1,384,147
Other assets	(e)	788,110	3,775
<b>Total assets</b>		<b>4,192,584</b>	<b>3,143,792</b>
<b>Liabilities and shareholders' equity</b>			
Deposits from customers	(f)	3,874,410	1,955,741
Deposits and placements of banks and other financial institutions	(g)	46,258	431,000
Obligation on securities sold under repurchase agreements		–	368,501
Bills and acceptances payable		37,473	97,005
Accruals and other liabilities	(h)	26,578	175,015
<b>Total liabilities</b>		<b>3,984,719</b>	<b>3,027,262</b>
Islamic Banking funds	(i)	207,865	116,530
<b>Total liabilities and Islamic Banking</b>		<b>4,192,584</b>	<b>3,143,792</b>
<b>Commitments and contingencies</b>	(m)	<b>5,300,792</b>	<b>2,563,750</b>

### Income statements for the financial year ended 31 December 2002

	Note	The Group and The Bank	
		2002 RM'000	2001 RM'000
<b>Income</b>	(j)	52,232	83,658
<b>Loans and financing loss and provision</b>	(k)	(4,701)	(56,884)
<b>Net income</b>		<b>47,531</b>	<b>26,774</b>
<b>Transfer to profit equalisation reserve</b>		<b>(6,645)</b>	<b>–</b>
<b>Overhead expense</b>	(l)	<b>(1,408)</b>	<b>(2,200)</b>
<b>Profit before zakat</b>		<b>39,478</b>	<b>24,574</b>
<b>Zakat</b>		<b>(143)</b>	<b>(67)</b>
<b>Profit after zakat</b>		<b>39,335</b>	<b>24,507</b>
<b>Retained profits brought forward</b>		<b>96,530</b>	<b>72,023</b>
<b>Retained profits carried forward</b>		<b>135,865</b>	<b>96,530</b>

The accompanying notes on pages 107 to 116 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### (a) Cash and short-term funds

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,692	77,005
Money at call and deposit placements maturing within one month	1,011,200	274,165
	<b>1,012,892</b>	<b>351,170</b>

### (b) Deposits and placements with financial institutions

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Licensed bank	50,000	100,000

### (c) Investment securities

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Money market instruments:		
Malaysian Government investment certificates	585,273	572,800
Negotiable Islamic debt certificates	-	113,358
Islamic accepted bills	10,934	488,572
Islamic corporate notes	29,363	79,141
Islamic Khazanah bonds	295,571	4,406
	<b>921,141</b>	<b>1,258,277</b>
<b>Unquoted securities:</b>		
Shares in Malaysia	325	-
Islamic debt securities	97,826	46,818
	<b>1,019,292</b>	<b>1,305,095</b>
Accretion of discount less amortisation of premium	5,060	(395)
Provision for diminution in value of investment securities	(470)	-
	<b>1,023,882</b>	<b>1,304,700</b>
(i) Market value of quoted securities:		
Malaysian Government investment certificates	587,815	574,404

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking (continued)

### (c) Investment securities (continued)

(ii) The maturity structure of money market instruments held for investment are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Maturing within one year	122,227	1,253,871
One year to three years	750,449	4,406
Three years to five years	48,465	-
	<b>921,141</b>	<b>1,258,277</b>

### (d) Loans, advances and financing

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Overdrafts	10,634	7,708
Term financing	1,546,604	1,603,367
Bills financing	2,729	14,384
Trust receipts	51,921	87,508
Interest-free accepted bills	87,616	152,108
Staff financing (of which RM Nil to Directors)	8,924	2,585
	<b>1,708,428</b>	<b>1,867,660</b>
Unearned income	(314,275)	(364,824)
Gross loans, advances and financing	<b>1,394,153</b>	<b>1,502,836</b>
Provision for bad and doubtful debts and financing:		
- general	(23,539)	(21,100)
- specific	(37,307)	(76,274)
Income-in-suspense	(15,607)	(21,315)
Net loans, advances and financing	<b>1,317,700</b>	<b>1,384,147</b>

(i) Loans, advances and financing analysed by concepts are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Al-Bai' Bithaman Ajil	435,609	1,240,331
Al-Murabahah	-	101,892
Other principles	958,544	160,613
	<b>1,394,153</b>	<b>1,502,836</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

(ii) The maturity structure of loans, advances and financing are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Maturing within one year	567,808	422,408
One to three years	154,274	42,393
Three to five years	56,202	85,766
Over five years	615,869	952,269
	<b>1,394,153</b>	<b>1,502,836</b>

(iii) Loans, advances and financing according to economic sector are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Agriculture, mining and quarrying	13,877	9,110
Manufacturing	59,862	146,585
Electricity, gas and water	-	6,567
Construction	125,182	147,134
Real estate	7,623	18,229
Purchase of landed property of which:		
I. Residential	713,316	489,002
II. Non-residential	132,980	115,595
General commerce	145,189	304,551
Transport, storage and communication	120,416	122,299
Finance, insurance and business services	715	1,429
Purchase of securities	12,964	10,090
Purchase of transport vehicles	1,360	50
Consumption credit	8,457	13,158
Others	52,212	119,037
	<b>1,394,153</b>	<b>1,502,836</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking (continued)

### (d) Loans, advances and financing (continued)

(iv) Movements in the Non-Performing Loans and financing (including income receivables) are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
As at beginning of the year	309,856	75,135
Acquired from BSNC	–	111,611
Non-performing during the year (gross)	103,272	207,851
Amount recovered	(31,422)	(40,455)
Amount reclassified to performing	(16,872)	(35,600)
Transfer in respect of debt conversion	(12,285)	–
Amount written-off	(109,571)	(8,686)
As at end of the year	242,978	309,856
Net Non-Performing Loans	190,064	212,267
% of net Non-Performing Loans to total loans (less SP and IIS)	14.17%	15.10%

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

(v) Movements in the General Provision, Specific Provision and Income-in-suspense Accounts are as follows:

	The Group and The Bank	
	2002 RM'000	2001 RM'000
<b>General provision</b>		
As at beginning of the year	21,100	8,955
Acquired from BSNC	–	9,193
Provision made during the year	2,439	2,952
As at end of the year	23,539	21,100
(as % of total loans less SP and IIS)	1.76%	1.50%
<b>Specific provision</b>		
As at beginning of the year	76,274	6,839
Acquired from BSNC	–	18,871
Provisions made during the year	4,518	51,427
Amount written back in respect of recoveries	(2,638)	(863)
Amount written back in respect of debt conversion	(3,303)	–
Transfer to provision for diminution in value of investment securities	(117)	–
Amount written-off	(37,427)	–
As at end of the year	37,307	76,274
<b>Income-in-suspense</b>		
As at beginning of the year	21,315	3,095
Acquired from BSNC	–	3,974
Provisions made during the year	24,862	30,235
Amount written back in respect of recoveries	(8,502)	(7,309)
Amount written-off	(22,068)	(8,680)
As at end of the year	15,607	21,315

### (e) Other assets

	The Group and The Bank	
	2002 RM'000	2001 RM'000
Other debtors, deposits and prepayments	788,110	3,775

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking (continued)

### (f) Deposits from customers

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Demand deposits	1,255,421	702,108
Savings deposits	255,141	277,646
General investment deposits	2,215,086	888,652
Special investment deposits	148,762	87,335
	<b>3,874,410</b>	<b>1,955,741</b>

(i) The maturity structure of investment deposits are as follows:

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Due within six months	1,669,673	625,121
Six months to one year	672,270	331,787
One to three years	16,576	16,215
Three to five years	5,329	2,864
	<b>2,363,848</b>	<b>975,987</b>

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

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Business enterprises	1,151,942	360,899
Individuals	501,973	336,110
Others	2,220,495	1,258,732
	<b>3,874,410</b>	<b>1,955,741</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### (g) Deposits and placements of banks and other financial institutions

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Licensed banks	46,258	301,000
Licensed finance companies	-	70,000
Other financial institutions	-	60,000
	<b>46,258</b>	<b>431,000</b>

### (h) Accruals and other liabilities

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Other liabilities	19,933	175,015
Profit equalisation reserve	6,645	-
	<b>26,578</b>	<b>175,015</b>

### (i) Islamic Banking funds

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Funds allocated from Head Office	72,000	20,000
Retained profit	135,865	96,530
	<b>207,865</b>	<b>116,530</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking (continued)

### (j) Income

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Income derived from investment of depositors' funds	130,932	164,254
Income attributable to depositors:		
- other customers	(58,943)	(51,315)
- banks and financial institutions	(19,757)	(29,281)
Income attributable to Bank	52,232	83,658

Details of income derived from investment of depositors' funds is as follows:

	The Group and The Bank Depositors' Funds	
	2002	2001
	RM'000	RM'000
Income from financing	131,306	159,933
(Loss)/gain from sales of investment securities	(347)	244
	130,959	160,177
Fee income:		
Commission	2,012	2,699
Service charges and fees	451	277
Guarantee fees	558	882
	3,021	3,858
Other income:		
Foreign exchange gain (loss)/gain	(3,093)	202
Other non-operating income	45	17
	(3,048)	219
	130,932	164,254

## NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

### (k) Loans and financing loss and provision

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Provision for bad and doubtful debts and financing:		
- specific provision (net of recoveries)	1,880	50,564
- general provision	2,439	2,952
Bad debts and financing:		
- written-off	382	8,278
- recovered	-	(4,910)
	<b>4,701</b>	<b>56,884</b>

### (l) Overhead expense

	The Group and The Bank	
	2002	2001
	RM'000	RM'000
Personnel costs	884	1,497
Establishment costs	112	143
Marketing expenses	55	114
Administration and general expenses	357	446
	<b>1,408</b>	<b>2,200</b>

### (m) Commitments and contingencies

	The Group and The Bank			
	2002		2001	
	Principal amount	Credit equivalent amount	Principal amount	Credit equivalent amount
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	84,249	84,249	26,258	26,258
Transaction-related contingent items	82,199	41,100	103,490	51,745
Short-term self-liquidating trade-related contingencies	5,049,344	1,009,869	2,309,002	461,800
Obligation under underwriting agreement	85,000	42,500	125,000	62,500
	<b>5,300,792</b>	<b>1,177,718</b>	<b>2,563,750</b>	<b>602,303</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2002

## 39 The operations of Islamic Banking (continued)

### (n) Capital adequacy

(i) The capital adequacy ratios and components of Tier 1 and Tier 2 capital of the Bank are as follows:

	2002 RM'000
<b>Tier 1 capital</b>	
Paid-up share capital	72,000
Retained profit	135,865
<b>Total Tier 1 capital</b>	<b>207,865</b>
<b>Tier 2 capital</b>	
General provision for bad and doubtful debts	23,539
<b>Total Tier 2 capital</b>	<b>23,539</b>
<b>Total capital</b>	<b>231,404</b>
<b>Capital ratios</b>	
Core capital	8.29%
Risk-weighted capital ratio	9.23%

(ii) Breakdown of risk-weighted assets in the various categories of risk weights are as follows:

	2002 RM'000
0%	1,986,111
10%	90,000
20%	1,652,834
50%	775,786
100%	1,779,190
	<b>6,283,921</b>
<b>Risk-weighted assets</b>	<b>2,506,650</b>