

# DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

The Directors submit herewith their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The principal activities of the Bank during the financial year are banking and related financial services which also include Islamic Banking business. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the Syariah principles. The principal activities of the subsidiary companies are factoring of credit facilities, property management services, nominee and trustee services. There were no significant changes in the nature of these activities during the financial year.

## FINANCIAL RESULTS

	The Group RM'000	The Bank RM'000
Profit before taxation and zakat	15,116	13,353
Taxation and zakat	63,936	65,225
Net profit for the financial year	79,052	78,578

## DIVIDENDS

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

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

## RESERVES AND PROVISIONS

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

## BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

### CURRENT ASSETS

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

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

### VALUATION METHODS

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

### CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

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

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

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

# DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

## DIRECTORS OF THE BANK

The Directors of the Bank who have held office during the period since the date of the last report are:

Jen (B) Tan Sri Dato' Seri Ismail Haji Omar (Chairman)	
Dato' Abdul Hamidy Abdul Hafiz (President/CEO)	(Appointed on 1 June 2003)
Tan Sri Dato' Lodin Wok Kamaruddin	
Dr. Raja Abdul Malek Raja Jallaludin	
Dato' Dr. Lee Chee Kuon	
Laksamana Madya (B) Dato' Seri Ahmad Ramli Mohd Nor	
Datuk Razman Md. Hashim Che Din Md. Hashim	
Dato' Abdul Aziz Abdul Rahman	
Dato' Megat Abdul Rahman Megat Ahmad	(Resigned on 26 February 2003)
Raja Dato' Seri Aman Raja Haji Ahmad	(Resigned on 1 June 2003)

In accordance with Article 91(a) of the Bank's Articles of Association, Dr. Raja Abdul Malek Raja Jallaludin and Tan Sri Dato' Lodin Wok Kamaruddin retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 91(c) of the Bank's Articles of Association, Dato' Abdul Hamidy Abdul Hafiz retires at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

## DIRECTORS' INTERESTS

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

	Ordinary shares of RM1 each				
	As at 1.1.2003	Bought	Sold	Transfer	As at 31.12.2003
<b>Affin Holdings Berhad</b>					
Tan Sri Dato' Lodin Wok Kamaruddin	8,714	—	—	—	8,714
Dato' Dr. Lee Chee Kuon	7,000	—	—	—	7,000

	Ordinary shares of RM10 each; RM5 uncalled				
	As at 1.1.2003	Bought	Sold	Transfer	As at 31.12.2003
<b>PAB Trustee Berhad*</b>					
Jen (B) Tan Sri Dato' Seri Ismail Haji Omar	—	—	—	20,000	20,000
Dr. Raja Abdul Malek Raja Jallaludin	20,000	—	—	—	20,000
Laksamana Madya (B) Dato' Seri Ahmad Ramli Mohd Nor	20,000	—	—	—	20,000
Datuk Razman Md. Hashim Che Din Md. Hashim	—	—	—	20,000	20,000

\* Shares held in trust for the Bank

**DIRECTORS' REPORT** FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**DIRECTORS' INTERESTS (CONTINUED)****Number of warrants 2000/2005**

	<b>As at 1.1.2003</b>	<b>Bought</b>	<b>Sold</b>	<b>As at 31.12.2003</b>
<b>Affin Holdings Berhad</b>				
Tan Sri Dato' Lodin Wok Kamaruddin	1,500	—	—	1,500
Dato' Dr. Lee Chee Kuon	1,214	—	—	1,214

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

**Options over ordinary shares of 50 sen each**

	<b>As at 1.1.2003</b>	<b>Granted</b>	<b>Exercised</b>	<b>Expired</b>	<b>As at 31.12.2003</b>
<b>Boustead Holdings Berhad</b>					
Tan Sri Dato' Lodin Wok Kamaruddin	9,500,000	—	—	—	9,500,000#
	500,000	500,000	—	—	1,000,000##

# This is a five year option granted by LTAT to acquire 9,500,000 Boustead Holdings Berhad shares from LTAT at RM2.41 per share and has expired on 22 November 2003. During the year, the option was extended for another two years at an exercise price of RM1.61 per share and will expire on 22 November 2005.

## This option was granted by Boustead Holdings Berhad under its Employees' Share Option Scheme. During the year, the option price of RM1.88 per share was revised to RM0.94 per share due to bonus and rights issue and will expire on 22 July 2006.

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in the notes to the financial statements) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest except that certain Directors received remuneration as directors/executives of related corporations, share options granted to Directors of the Bank pursuant to the holding company's Employee Share Option Scheme and share options granted by the ultimate holding corporate body and Boustead Holdings Berhad.

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

# DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

## DISCLOSURE OF COMMITTEES

### Nomination Committee

A Nomination Committee was established on 30 June 2003 but no meetings were held during the financial year ended 31 December 2003. The Nomination Committee comprises the following members:

1. [Laksamana Madya \(B\) Dato' Seri Ahmad Ramli Mohd Nor](#)  
(Chairman/Independent Non-Executive Director)
2. [Tan Sri Dato' Lodin Wok Kamaruddin](#)  
(Member/Non-Independent Non-Executive Director)
3. [Datuk Razman Md. Hashim Che Din Md. Hashim](#)  
(Member/Independent Non-Executive Director)
4. [Dr. Raja Abdul Malek Raja Jallaludin](#)  
(Member/Independent Non-Executive Director)
5. [Dato' Abdul Aziz Abdul Rahman](#)  
(Member/Independent Non-Executive Director)

The primary responsibility of the Nomination Committee is to provide a formal and transparent procedure for the appointment of directors and President/CEO. The committee also assesses the effectiveness of the Board as a whole, contribution of each director, contribution of the board's various committees and the performance of President/CEO and key senior management officers.

### Remuneration Committee

A Remuneration Committee was established on 30 June 2003 but no meetings were held during the financial year ended 31 December 2003. The Remuneration Committee comprises the following members:

1. [Dato' Dr. Lee Chee Kuon](#)  
(Chairman/Independent Non-Executive Director)
2. [Tan Sri Dato' Lodin Wok Kamaruddin](#)  
(Member/Non-Independent Non-Executive Director)
3. [Datuk Razman Md. Hashim Che Din Md. Hashim](#)  
(Member/Independent Non-Executive Director)

The primary responsibility of the Remuneration Committee is to evaluate and recommend a framework of remuneration for directors, the chief executive officer and key senior management officers that is competitive and consistent with the Bank's culture, objectives and strategy.

**DIRECTORS' REPORT** FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**DISCLOSURE OF COMMITTEES (CONTINUED)****Risk Management Committee**

A Risk Management Committee was established on 18 June 2002. During the financial year ended 31 December 2003, a total of twelve meetings were held. The Risk Management Committee comprises the following members and the details of attendance of each member at the Risk Management Committee meetings held during the financial year are as follows:

<b>Composition of the Risk Management Committee</b>	<b>Attendance at the Committee meetings</b>
<b>Current members:</b>	
1. <a href="#">Laksamana Madya (B) Dato' Seri Ahmad Ramli Mohd Nor</a> (Chairman/Independent Non-Executive Director)	10 out of 12
2. <a href="#">Datuk Razman Md. Hashim Che Din Md. Hashim</a> (Member/Independent Non-Executive Director)	12 out of 12
3. <a href="#">Dr. Raja Abdul Malek Raja Jallaludin</a> (Member/Independent Non-Executive Director)	10 out of 12
<b>Previous member:</b>	
4. <a href="#">Dato' Abdul Aziz Abdul Rahman</a> (Member/Independent Non-Executive Director) – Resigned on 18 March 2003	2 out of 3

The primary responsibility of the Risk Management Committee is to provide oversight and management of all risks in the Bank. The committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively. The Bank's risk management framework is set out in Note 2 to the financial statements.

**OVERALL BUSINESS STRATEGIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

The Bank has established a strategic aim of becoming a mid size bank of prominence and throughout the year 2003, various initiatives and projects have been launched towards meeting this goal. These initiatives center around building on the Bank's traditional areas of strength whilst at the same time addressing key strategic areas which are seen to curtail growth and profitability.

A key strategy involves the introduction of the Bank's new business model that is designed to radically transform the manner in which the Bank undertakes its marketing and service delivery operations. This involves the centralisation and automation of back room processes, streamlining of the Bank's marketing efforts into specialised teams or units and redefining the role of branches into mainly service delivery centres.

In addition, to address capital adequacy, the Bank has also restructured its Tier 2 Capital through the refinancing of its subordinated debts of RM500 million with the Employees Provident Fund (EPF). This has resulted in an improvement in the Bank's Risk Weighted Capital Ratio (RWCR) and Core Capital Ratio (CCR) to 12.32% and 7.40% respectively for the financial year ending 31 December 2003, thus providing the Bank with substantial capital to fund its growth in financial year 2004.

# DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

## BUSINESS PLAN AND OUTLOOK FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2004

2004 is a crucial year for the Bank as it will see the fruition of the various strategies and initiatives that were launched earlier in 2003. With the successful implementation of the new business model and a relatively healthy level of capitalisation, the Bank could then focus on its efforts to aggressively market for loans in the targeted segments that have been identified.

At the same time, focus will be given towards resolution of the non-performing loan assets to generate additional recoveries that would significantly contribute towards bolstering the earnings during the coming financial year.

## RATING BY EXTERNAL AGENCIES

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

Name of rating agency	:	RATING AGENCY MALAYSIA BERHAD (RAM)
Date of rating	:	25 October 2003 (Affirmed)
Rating classifications		
– Long term	:	BBB <sub>2</sub>
– Short term	:	P2

A BBB rating is defined by RAM as being able to offer moderate safety for timely payment of interest and principal, and lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity to pay interest and principal than debts in higher rated categories. The subscript 2 in this category indicates a mid-ranking in the BBB category. A P2 rating is defined by RAM as obligations which are supported by a strong ability with regards to timely payment of obligations.

## HOLDING COMPANY AND ULTIMATE HOLDING CORPORATE BODY

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

## AUDITORS

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

In accordance with a resolution of the Board of Directors dated 27 February 2004.

## JEN (B) TAN SRI DATO' SERI ISMAIL HAJI OMAR

Chairman

## DATO' ABDUL HAMIDY ABDUL HAFIZ

President/CEO