

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

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.

The number of employees at the end of the financial year was 3,120 (2002: 3,687) employees in the Group and 3,100 (2002: 3,666) 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 corporate body 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.

The Bank's management, ALCO and Board Risk Management Committee are regularly kept informed of the risk profile, performance and risk assessment of the trading portfolios.

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

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 Management Loan Committee to approve large and higher risk loans in order to ensure sound credit granting standards.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

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.

In 2003, the Bank's Operational Risk Management team embarked on gathering and reporting of operational loss and "near misses" events to the Board Risk Management Committee.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 but not more than five members appointed by the Board of Directors from among its non-executive directors.

3 CASH AND SHORT-TERM FUNDS

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash and balances with banks and other financial institutions	274,561	217,215	274,553	217,215
Money at call and deposit placements maturing within one month	3,426,586	1,280,883	3,426,586	1,280,883
	3,701,147	1,498,098	3,701,139	1,498,098

4 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Licensed banks	163,000	270,600	163,000	270,600
Licensed finance companies	100,000	20,000	100,000	20,000
Other financial institutions	20,000	1,500	20,000	—
	283,000	292,100	283,000	290,600

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

5 DEALING SECURITIES

The Group and The Bank

	2003 RM'000	2002 RM'000
Money market instruments		
Malaysian Government securities	—	28,182
Unquoted securities		
Private debt securities in Malaysia	330,000	370,000
	330,000	398,182
Market value of quoted securities:		
Malaysian Government securities	—	28,182

6 INVESTMENT SECURITIES

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Money market instruments				
Malaysian Government securities	1,429,035	1,001,538	1,429,035	1,001,538
Malaysian Government investment certificates	710,300	585,274	710,300	585,274
Cagamas bonds	563,002	668,826	563,002	668,826
Danaharta bonds	18,908	114,628	18,908	114,628
Danamodal bonds	—	472,340	—	472,340
Negotiable instruments of deposits	10,000	101,978	10,000	101,978
Bankers' acceptances and Islamic accepted bills	118,323	114,914	118,323	114,914
Floating rate notes	76,000	76,000	76,000	76,000
Khazanah bonds	368,369	295,571	368,369	295,571
Islamic corporate notes	—	29,363	—	29,363
	3,293,937	3,460,432	3,293,937	3,460,432
Quoted securities				
Shares in Malaysia	125,106	57,327	119,651	48,479
Private debt securities in Malaysia	168,022	110,487	161,327	107,105
Unquoted securities				
Shares in Malaysia	54,193	48,053	54,193	48,053
Private debt securities in Malaysia	1,216,832	1,110,332	1,197,854	1,091,354
	4,858,090	4,786,631	4,826,962	4,755,423
Accretion of discount less amortisation of premium	8,621	3,475	8,621	3,475
Provision for diminution in value of investment securities	(244,520)	(169,994)	(232,537)	(157,931)
	4,622,191	4,620,112	4,603,046	4,600,967

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

6 INVESTMENT SECURITIES (CONTINUED)

(i) Market value of quoted money market instruments and quoted securities:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Malaysian Government securities	1,388,845	997,889	1,388,845	997,889
Malaysian Government investment certificates	726,020	587,815	726,020	587,815
Cagamas bonds	556,508	669,479	556,508	669,479
Danaharta bonds	23,505	119,787	23,505	119,787
Danamodal bonds	—	478,925	—	478,925
Shares in Malaysia	78,561	29,361	74,868	25,294
Private debt securities in Malaysia	90,899	47,035	87,353	44,461

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Maturing within one year	1,132,596	1,260,163
One to three years	1,647,015	1,762,184
Three to five years	514,326	362,085
Over five years	—	76,000
	3,293,937	3,460,432

(iii) Included in investment securities is an amount of RM492,954,000 (2002: RM362,810,000) being pledged to third parties in relation to securities sold under repurchase agreements.

(iv) The Bank has also pledged investment securities amounting to RM240,000,000 (2002: RM120,000,000) in accordance with the Trust Deed of the Class A subordinated bonds/subordinated term loan (Note 19).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

7 LOANS, ADVANCES AND FINANCING

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Overdrafts	2,753,904	3,146,556	2,753,904	3,146,556
Term loans	7,413,468	8,070,732	7,347,123	8,006,842
Revolving credits	808,360	1,325,069	786,029	1,301,002
Credit cards	195,673	174,611	195,673	174,611
Bills receivables	49,233	260,005	49,233	260,005
Trust receipts	416,710	407,904	416,710	407,904
Claims on customers under acceptances credits	960,668	1,323,533	960,668	1,323,533
Staff loans (of which RM Nil to Directors)	146,407	143,437	146,407	143,437
Factoring	52,600	55,504	—	—
	12,797,023	14,907,351	12,655,747	14,763,890
Less:				
Unearned interest and income	(250,897)	(328,341)	(250,897)	(328,341)
Gross loans, advances and financing	12,546,126	14,579,010	12,404,850	14,435,549
Provision for bad and doubtful debts and financing:				
– general	(208,159)	(208,861)	(207,703)	(207,703)
– specific	(1,015,578)	(1,184,413)	(954,114)	(1,116,181)
Interest-in-suspense/income-in-suspense	(578,357)	(779,625)	(544,182)	(746,574)
Net loans, advances and financing	10,744,032	12,406,111	10,698,851	12,365,091

Included in term loans are housing loans sold to Cagamas with recourse amounting to RM405,440,000 (2002: RM460,770,000).

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

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturing within one year	6,949,168	7,826,500	6,807,892	7,683,039
One to three years	747,048	252,912	747,048	252,912
Three to five years	846,932	1,203,145	846,932	1,203,145
Over five years	4,002,978	5,296,453	4,002,978	5,296,453
	12,546,126	14,579,010	12,404,850	14,435,549



NOTES TO THE FINANCIAL STATEMENTS

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7 LOANS, ADVANCES AND FINANCING (CONTINUED)

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

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Agriculture	150,555	404,925	150,555	404,925
Mining and quarrying	20,903	22,660	20,903	22,660
Manufacturing	2,024,765	2,810,850	2,008,557	2,797,811
Electricity, gas and water	19,532	115,675	19,532	115,675
Construction	1,702,358	1,883,242	1,689,633	1,865,432
Real estate	748,354	617,377	692,849	565,298
Purchase of landed property of which:				
I. Residential	2,850,889	2,621,012	2,850,889	2,621,012
II. Non-residential	865,918	1,074,209	865,918	1,074,209
General commerce	1,106,592	1,727,070	1,085,647	1,678,485
Transport, storage and communication	507,622	514,541	507,622	514,541
Finance, insurance and business services	121,926	581,456	106,241	589,208
Purchase of securities	531,631	510,990	511,423	491,290
Purchase of transport vehicles	30,977	34,793	30,977	34,793
Consumption credit	641,577	573,481	641,577	573,481
Others	1,222,527	1,086,729	1,222,527	1,086,729
	12,546,126	14,579,010	12,404,850	14,435,549

(iii) Movements in the non-performing loans and financing (including interest and income receivable) are as follows:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
As at beginning of the financial year	5,207,777	5,555,026	5,090,807	5,405,336
Non-performing during the year (gross)	1,207,109	1,912,021	1,198,778	1,906,692
Amount reclassified to performing	(529,059)	(282,105)	(529,059)	(282,105)
Amount recovered	(582,259)	(653,382)	(580,453)	(650,755)
Transfer on debt conversion	(283,555)	(347,049)	(283,555)	(311,628)
Amount written off	(732,016)	(976,734)	(719,740)	(976,733)
As at end of the financial year	4,287,997	5,207,777	4,176,778	5,090,807
Net non-performing loans	2,694,062	3,243,739	2,678,482	3,228,052
% of net non-performing loans to total loans (less SP and IIS)	24.60%	25.71%	24.56%	25.67%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

7 LOANS, ADVANCES AND FINANCING (CONTINUED)

(iv) Movements in the general provision, specific provision and interest/income-in-suspense are as follows:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
General provision				
As at beginning of the financial year	208,861	208,226	207,703	207,703
(Write back of)/provision made during the financial year	(702)	635	—	—
As at end of the financial year	208,159	208,861	207,703	207,703
(As % of total loans less SP and IIS)	1.90%	1.66%	1.90%	1.65%
Specific provision				
As at beginning of the financial year	1,184,413	1,760,914	1,116,181	1,676,655
Provisions made during the financial year	426,332	284,104	425,805	283,332
Amount written back in respect of recoveries	(90,832)	(48,816)	(90,439)	(48,178)
Transfer to provision for diminution in value of investment securities	(48,857)	(27,952)	(48,857)	(16,617)
Amount written off	(455,478)	(783,837)	(448,576)	(779,011)
As at end of the financial year	1,015,578	1,184,413	954,114	1,116,181
Interest/income-in-suspense				
As at beginning of the financial year	779,625	844,724	746,574	807,604
Provision made during the financial year	379,843	512,329	371,554	502,043
Amount written back in respect of recoveries	(216,780)	(233,655)	(214,988)	(231,216)
Transfer to provision for diminution in value of investment securities	(22,282)	(82,073)	(22,282)	(70,157)
Amount written off	(342,049)	(261,700)	(336,676)	(261,700)
As at end of the financial year	578,357	779,625	544,182	746,574

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

8 OTHER ASSETS

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Other debtors, deposits and prepayments	43,464	27,342	42,631	18,487
Clearing accounts	211,648	207,092	211,648	207,092
Stocks and stationery	749	1,295	749	1,295
Money order and postal order purchased	1,748	4,138	1,748	4,138
Accrued income receivable	44,056	48,373	44,056	48,373
Amount recoverable from Danaharta (Note a)	—	12,658	—	10,992
Foreclosed properties (Note b)	19,385	8,846	19,385	8,846
	321,050	309,744	320,217	299,223
(a) Amount recoverable from Danaharta				
As at beginning of the financial year	12,658	42,921	10,992	39,586
Provision made during the financial year	(11,601)	(29,082)	(9,935)	(27,413)
Amount converted to debt/recovered	(1,057)	(1,181)	(1,057)	(1,181)
As at end of the financial year	—	12,658	—	10,992
(b) Foreclosed properties				
As at beginning of the financial year	8,846	8,500	8,846	8,500
Amount arising during the financial year	12,490	1,321	12,490	1,321
Provision for impairment losses	21,336 (1,951)	9,821 (975)	21,336 (1,951)	9,821 (975)
As at end of the financial year	19,385	8,846	19,385	8,846

9 DEFERRED TAXATION ASSETS (NET)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Deferred tax assets	232,539	169,957	238,083	175,303
Deferred tax liabilities	(31,104)	(33,614)	(30,960)	(33,505)
	201,435	136,343	207,123	141,798

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9 DEFERRED TAXATION ASSET (NET) (CONTINUED)

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January				
– as previously reported	—	—	—	—
– prior year adjustment	136,343	90,424	141,798	94,501
As restated	136,343	90,424	141,798	94,501
Transfer from income statement	65,092	45,919	65,325	47,297
At 31 December	201,435	136,343	207,123	141,798

The movements in deferred tax assets and liabilities during the financial year are as follows:

	Excess of capital allowances over depreciation RM'000	General provision on loans, advances and financing RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets/(liabilities)					
Group					
2003					
Balance as at beginning of the financial year					
– as previously reported	—	—	—	—	—
– prior year adjustment	(4,553)	58,481	87,978	(5,563)	136,343
As restated	(4,553)	58,481	87,978	(5,563)	136,343
Credited/(charged) to income statement	(5,472)	(196)	73,489	(2,729)	65,092
Balance as at end of financial year	(10,025)	58,285	161,467	(8,292)	201,435
2002					
Balance as at beginning of the financial year					
– as previously reported	—	—	—	—	—
– prior year adjustment	(515)	58,303	31,095	1,541	90,424
As restated	(515)	58,303	31,095	1,541	90,424
Credited/(charged) to income statement	(4,038)	178	56,883	(7,104)	45,919
Balance as at end of financial year	(4,553)	58,481	87,978	(5,563)	136,343

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9 DEFERRED TAXATION ASSET (NET) (CONTINUED)

	Excess of capital allowances over depreciation RM'000	General provision on loans, advances and financing RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets/(liabilities)					
Bank					
2003					
Balance as at beginning of the financial year					
- as previously reported	—	—	—	—	—
- prior year adjustment	(4,448)	58,157	87,978	111	141,798
As restated	(4,448)	58,157	87,978	111	141,798
Credited/(charged) to income statement	(5,435)	—	73,489	(2,729)	65,325
Balance as at end of financial year	(9,883)	58,157	161,467	(2,618)	207,123
2002					
Balance as at beginning of the financial year					
- as previously reported	—	—	—	—	—
- prior year adjustment	(461)	58,157	31,095	5,710	94,501
As restated	(461)	58,157	31,095	5,710	94,501
Credited/(charged) to income statement	(3,987)	—	56,883	(5,599)	47,297
Balance as at end of financial year	(4,448)	58,157	87,978	111	141,798

10 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.

11 SUBSIDIARY COMPANIES

	The Bank	
	2003 RM'000	2002 RM'000
Unquoted shares, at cost	59,557	59,567
Less: Provision for impairment losses	(20,263)	(20,264)
Amounts due from subsidiary companies	39,294	39,303
	13,556	26,949
	52,850	66,252

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

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11 SUBSIDIARY COMPANIES (CONTINUED)

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

Name	Principal activities	Percentage of equity held	
		2003	2002
Affin Factors Sdn Bhd	Factoring credit facilities	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 Futures Sdn Bhd	Dormant	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
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
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

* 80% held by Directors of the Bank, in trust for the Bank.

** This subsidiary was struck-off from the Register of the Companies Commission of Malaysia on 11 December 2003. As such, it is no longer consolidated in the Group's financial statements.

12 ASSOCIATED COMPANY

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Unquoted shares, at cost	30	30

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

Name	Principal activities	Percentage of equity held	
		2003	2002
BSNC Trustee Berhad	Dormant	20	20

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

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13 PROPERTY, PLANT AND EQUIPMENT

The Group 2003	Freehold land		Leasehold land		Buildings on freehold land		Buildings on leasehold land		Office equipment and furniture		Computer equipment and software		Motor vehicles		Capital work-in-progress		Total RM'000
	RM'000	RM'000	50 years or more	Less than 50 years	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cost																	
As at beginning of the financial year	20,219	4,123	—	1,297	69,456	105,504	—	85,743	54,466	192,057	—	—	5,050	29,786	—	567,701	
- Additions	—	—	—	—	—	—	952	—	1,817	12,515	—	—	1,557	13,015	—	29,856	
- Disposals	—	—	—	—	—	(42)	—	—	(252)	(44)	—	—	(1,694)	(1)	—	(2,033)	
- Write-off	—	—	—	—	—	—	—	(717)	(544)	(5)	—	—	(6)	—	—	(1,272)	
- Reclassification	638	—	—	—	—	—	1,616	—	—	23,819	—	—	—	(26,073)	—	—	
As at end of the financial year	20,857	4,123	—	1,297	69,456	105,462	87,594	87,594	55,487	228,342	—	—	4,907	16,727	—	594,252	
Accumulated depreciation																	
As at beginning of the financial year	—	410	—	601	8,736	7,576	60,770	27,952	125,388	—	—	—	3,639	—	—	235,072	
- Charge for the financial year	—	32	—	32	1,389	2,108	12,593	4,905	35,389	—	—	—	686	—	—	57,134	
- Disposals	—	—	—	—	—	—	—	(154)	(44)	—	—	—	(1,430)	—	—	(1,628)	
- Write-off	—	—	—	—	—	—	(717)	(514)	(2)	—	—	—	(6)	—	—	(1,239)	
As at end of the financial year	—	442	—	633	10,125	9,684	72,646	32,189	160,731	—	—	—	2,889	—	—	289,339	
Net book value as at end of the financial year	20,857	3,681	—	664	59,331	95,778	14,948	23,298	67,611	—	—	—	2,018	16,727	—	304,913	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group 2002	Freehold land		Leasehold land		Buildings on freehold land		Buildings on leasehold land		Office equipment and furniture		Computer equipment and software		Motor vehicles		Capital work-in-progress		Total RM'000
	RM'000	RM'000	50 years or more	Less than 50 years	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cost																	
As at beginning of the financial year	20,219	4,123	—	1,297	69,456	107,894	—	70	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 financial year	20,219	4,123	—	1,297	69,456	105,504	—	70	54,466	192,057	5,050	29,786	567,701	—	—	—	—
Accumulated depreciation																	
As at beginning of the financial year	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
- Charge for the financial year	—	—	—	32	1,389	2,062	—	—	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)	—	—	—	—	(2)	2	—	—	—	—	—	—	—
As at end of the financial year	—	—	—	601	8,736	7,576	—	—	27,952	125,388	3,639	—	235,072	—	—	—	—
Net book value as at end of the financial year	20,219	3,713	—	696	60,720	97,928	—	70	26,514	66,669	1,411	29,786	332,629	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Bank 2003	Freehold land RM'000	Leasehold land		Buildings on freehold land		Buildings on leasehold land		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
		50 years or more RM'000	land RM'000	land RM'000	land RM'000								
Cost													
As at beginning of the financial year	17,222	2,233	67,820	104,313	84,454	949	—	—	54,039	189,090	4,998	29,785	553,954
- Additions	—	—	—	—	949	—	(42)	—	1,810	12,467	1,557	13,016	29,799
- Disposals	—	—	—	—	—	—	—	—	(252)	(1)	(1,694)	(1)	(1,990)
- Write-off	—	—	—	—	(717)	—	—	—	(544)	(5)	(6)	—	(1,272)
- Reclassification	638	—	—	—	1,616	—	—	—	—	23,819	—	(26,073)	—
As at end of the financial year	17,860	2,233	67,820	104,271	86,302	86,302	104,271	86,302	55,053	225,370	4,855	16,727	580,491
Accumulated depreciation													
As at beginning of the financial year	—	256	8,108	7,130	59,489	—	—	—	27,626	123,049	3,670	—	229,328
- Charge for the financial year	—	22	1,357	2,084	12,590	—	—	—	4,888	35,203	664	—	56,808
- Disposals	—	—	—	—	—	—	—	—	(154)	(1)	(1,430)	—	(1,585)
- Write-off	—	—	—	—	(717)	—	—	(717)	(514)	(2)	(6)	—	(1,239)
As at end of the financial year	—	278	9,465	9,214	71,362	71,362	9,214	71,362	31,846	158,249	2,898	—	283,312
Net book value as at end of the financial year	17,860	1,955	58,355	95,057	14,940	14,940	95,057	14,940	23,207	67,121	1,957	16,727	297,179

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Bank 2002	Freehold land		Leasehold land 50 years or more		Buildings freehold land		Buildings on leasehold land		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	
Cost																	
As at beginning of the financial 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 financial year	17,222	2,233	67,820	104,313	84,454	54,039	189,090	4,998	29,785	553,954							
Accumulated depreciation																	
As at beginning of the financial year	-	233	6,752	5,092	52,927	23,978	87,433	9,236	-	185,651							
- Charge for the financial 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 financial year	-	256	8,108	7,130	59,489	27,626	123,049	3,670	-	229,328							
Net book value as at end of the financial year	17,222	1,977	59,712	97,183	24,965	26,413	66,041	1,328	29,785	324,626							

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

14 GOODWILL

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cost				
As at beginning/end of the financial year	179,205	179,205	183,098	183,098
Less: Accumulated amortisation				
As at beginning of the financial year	(18,310)	(9,155)	(18,310)	(9,155)
Amortised during the financial year	(9,155)	(9,155)	(9,155)	(9,155)
As at end of the financial year	(27,465)	(18,310)	(27,465)	(18,310)
Net book value as at end of the financial year	151,740	160,895	155,633	164,788

15 DEPOSITS FROM CUSTOMERS

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Demand deposits	3,264,533	2,894,423	3,267,624	2,910,055
Savings deposits	1,386,117	1,543,606	1,386,117	1,543,606
Fixed deposits	8,934,145	9,649,393	8,934,940	9,651,670
Negotiable instrument of deposits	1,664,245	1,285,762	1,664,245	1,285,762
	15,249,040	15,373,184	15,252,926	15,391,093

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

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Due within six months	7,960,431	9,330,678	7,961,226	9,332,903
Six months to one year	2,413,187	1,492,801	2,413,187	1,492,854
One to three years	222,452	108,075	222,452	108,075
Three to five years	2,320	3,601	2,320	3,600
	10,598,390	10,935,155	10,599,185	10,937,432

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

15 DEPOSITS FROM CUSTOMERS (CONTINUED)

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

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Business enterprises	4,190,953	3,507,219	4,190,953	3,507,219
Individuals	2,560,699	2,724,953	2,560,699	2,724,953
Others	8,497,388	9,141,012	8,501,274	9,158,921
	15,249,040	15,373,184	15,252,926	15,391,093

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Licensed banks	1,422,843	982,658
Licensed finance companies	140,000	110,000
Other financial institutions	214,304	35,710
	1,777,147	1,128,368

17 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 2003

18 OTHER LIABILITIES

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation				
Funding Programmes	86,877	125,197	86,877	125,197
Margin and Collateral deposits	14,490	16,981	14,490	16,981
Accrued interest payable	111,606	117,106	111,606	117,106
Sundry creditors	117,608	109,162	109,718	92,721
Clearing accounts	203,362	181,199	203,362	181,199
Profit equalisation reserve (Note 42 (i))	—	6,645	—	6,645
Defined contribution plan (Note a)	1,066	1,522	1,066	1,522
Accrued employee benefits (Note b)	1,469	2,334	1,469	2,334
	536,478	560,146	528,588	543,705

- (a) The Group and the Bank contribute to the Employee Provident Fund ('EPF') the national defined contribution plan. Once the contributions have been paid, the Group and the Bank has no further payment obligations.
- (b) This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

19 SUBORDINATED BONDS/SUBORDINATED TERM LOAN

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 which comprise Class A bonds and Class B bonds, are unsecured and redeemable in full on 31 December 2006, five years from the issue date.

On 31 December 2003, the Bank restructured the Class A bonds into a new 10 year subordinated term loan of the same value, with a revised coupon rate. The principal terms and conditions of the subordinated term loan remain similar to the Class A bonds. The new subordinated term loan will have a prepayment option after the end of Year 5, giving the Bank the right, subject to BNM approval, to repay the subordinated term loan after the end of Year 5.

The nominal value and coupon rate of the bonds/subordinated term loan, payable semi-annually, are as follows:

Subordinated term loan		Class B bonds	
Value:	RM500 million	Value:	RM100 million
Coupon rate:	7.3% per annum for a period of thirty six months from the issue date, 6.5% per annum for the next twenty four months and thereafter the higher of 5 year Malaysian Government Securities interest rate plus 300 basis points or	Coupon rate:	8.5% per annum
	Year 6 7.0%		
	Year 7 7.5%		
	Year 8 8.0%		
	Year 9 8.5%		
	Year 10 9.0%		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

19 SUBORDINATED BONDS/SUBORDINATED TERM LOAN (CONTINUED)

In respect of the subordinated term loan, the Bank has undertaken to pledge the Bank's securities of RM10,000,000 every month beginning from one month after the issue date (31 January 2004) till the end of the third year after the issue date. These securities may only be used to fund the payment of any monies under the Trust Deed and/or the subordinated term loan which is due and unpaid.

20 SHARE CAPITAL

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Authorised ordinary shares of RM1 each:		
As at beginning of the financial year	2,000,000	1,000,000
Created during the financial year	—	1,000,000
As at end of financial year	2,000,000	2,000,000
Issued and fully paid:		
As at beginning of the financial year	1,017,281	909,631
Issued during the financial year	—	107,650
As at end of the financial year	1,017,281	1,017,281

21 RESERVES

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Share premium	190,735	190,735	190,735	190,735
Statutory reserve	88,715	49,426	88,715	49,426
Retained profits	95,269	55,506	88,714	49,425
	374,719	295,667	368,164	289,586
Statutory reserve				
As at beginning of the financial year	49,426	14,070	49,426	14,070
Transfer from retained profits	39,289	35,356	39,289	35,356
As at end of the financial year	88,715	49,426	88,715	49,426

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

22 INTEREST INCOME

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Loans, advances and financing	865,683	1,041,258	857,394	1,030,972
Money at call and deposit placements with financial institutions	45,738	45,375	45,738	45,374
Investment securities	116,740	78,629	116,740	78,629
Dealing securities	15,297	4,163	15,297	4,163
	1,043,458	1,169,425	1,035,169	1,159,138
Amortisation of premium less accretion of discount	(10,778)	26,621	(10,778)	26,621
Net interest suspended	(145,857)	(262,316)	(139,360)	(254,468)
	886,823	933,730	885,031	931,291

23 INTEREST EXPENSE

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Deposits and placements of banks and other financial institutions	33,073	16,044	33,073	16,044
Deposits from other customers	311,533	368,475	311,570	368,666
Subordinated bonds	46,726	48,500	46,726	48,500
Others	55,135	51,077	55,135	51,077
	446,467	484,096	446,504	484,287

24 LOAN AND FINANCING LOSS AND PROVISION

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Provision for/(write back of) bad and doubtful debts:				
– specific provision (net of recoveries)	335,500	235,288	335,366	235,154
– general provision	(702)	635	–	–
Bad debts and financing:				
– written off	12,719	10,702	12,717	10,702
– recovered	(97,127)	(31,164)	(97,127)	(31,164)
Provision for amount recoverable from Danaharta:				
– charge for the financial year	11,601	29,082	9,935	27,413
	261,991	244,543	260,891	242,105

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

25 NON-INTEREST INCOME

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Fee income				
Commission	16,850	19,231	16,850	19,231
Service charges and fees	37,753	50,522	37,753	50,522
Guarantee fees	13,223	14,991	13,223	14,991
Other fee income	1,684	329	1,684	329
	69,510	85,073	69,510	85,073
Investment income				
Gains on sale of investment securities	12,863	26,604	12,863	26,604
Net profit from dealing securities	1,148	1,639	1,148	1,639
(Provision for)/write back of diminution in value of investment securities	(9,141)	10,785	(9,212)	4,203
Gross dividends from Malaysia: – investment securities	9,589	2,108	9,399	2,108
	14,459	41,136	14,198	34,554
Other income				
Foreign exchange (loss)/profit – realised	(2,592)	1,955	(2,592)	1,955
– unrealised	34,834	42,239	34,834	42,239
Rental income	885	1,141	837	1,141
Gain on sale of property, plant and equipment	362	2,337	362	2,292
Other non-operating income	19,646	17,519	17,369	11,841
	53,135	65,191	50,810	59,468
	137,104	191,400	134,518	179,095

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

26 OVERHEAD EXPENSE

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Personnel costs	179,919	180,234	178,832	177,939
Establishment costs	138,886	137,860	138,886	136,769
Marketing expenses	8,932	17,205	8,867	17,025
Administration and general expenses	59,204	75,315	58,804	75,685
	386,941	410,614	385,389	407,418

Personnel costs comprise the following:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Wages, salaries and bonus	125,366	129,923	124,459	128,274
Defined contribution plan (EPF)	20,005	20,667	19,862	20,348
Termination benefits (see below)	18,388	14,748	18,388	14,748
Other personnel costs	16,160	14,896	16,123	14,569
	179,919	180,234	178,832	177,939

Termination benefits mainly comprise the payment made for Voluntary Separation Scheme ('VSS'). The VSS is carried out to optimise the resources and remain competitive in the industry.

The above expenditure includes the following statutory disclosure:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Directors' remuneration (Note 28)	1,953	1,149	1,953	955
Rental of premises	16,249	18,465	16,835	18,110
Hire of equipment	3,545	2,964	3,533	3,636
Lease rental	68	58	—	—
Auditors' remuneration				
– statutory audit fees	466	455	417	396
Depreciation of property, plant and equipment	57,134	56,291	56,808	55,720
Property, plant and equipment written off	33	1,500	33	1,184
(Writeback of)/provision for impairment losses in subsidiaries	—	—	(1)	5,376
Provision for impairment losses on foreclosed properties	1,951	975	1,951	975
Goodwill amortisation	9,155	9,155	9,155	9,155

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

Lembaga Tabung Angkatan Tentera	Ultimate holding corporate body
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	Associated company of holding company

The subsidiary companies of the Bank are those as disclosed in Note 11 to the financial statements.

Other related parties comprise of related companies, being subsidiaries of the ultimate holding corporate body.

	Ultimate holding corporate body RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
2003				
Income				
Interest on placements	—	—	—	1,599
Other income	—	—	2,929	3,519
	—	—	2,929	5,118
Expenditure				
Rental	334	—	688	—
Interest on advances and deposits	6,447	1,273	37	1,367
Interest on bankers' acceptances	—	—	—	634
Interest on repo	26	—	—	—
Interest on subordinated bond	8,500	—	—	—
Brokerage fee	—	—	—	294
Others	—	—	—	1,517
	15,307	1,273	725	3,812

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Ultimate holding corporate body RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
Amount due to				
Short term advances	—	—	5,095	39
Term placement	—	—	—	100,351
Negotiable instruments of deposit	—	—	—	20,383
Demand and fixed deposits	243,600	20,970	3,886	85,730
Bankers' acceptances	—	—	—	7,546
Subordinated bond	100,000	—	—	—
Others	—	2	—	—
	343,600	20,972	8,981	214,049

Amount due from				
Short term advances	—	—	37,130	—
Rental deposit	—	—	—	23,612
	—	—	37,130	23,612

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 RM13.6 million (2002: RM26.9 million) which is interest free. All short term advances have no fixed terms for repayments.

	Ultimate holding corporate body RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
2002				
Income				
Interest on placements	—	—	—	3,117
Other income	—	—	270	40
	—	—	270	3,157

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Ultimate holding corporate body RM'000	Holding company RM'000	Subsidiary companies RM'000	Other related companies RM'000
Expenditure				
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
Others	—	—	—	122
	13,574	107	879	3,230
Amount due to				
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
Bankers' acceptances	—	—	—	38,390
Subordinated bond	100,000	—	—	—
Accrued interest payable on subordinated bond	23	—	—	23
	158,953	70,250	18,190	134,292
Amount due from				
Short term advances	—	—	27,230	1,020
Rental deposit	102	—	—	—
	102	—	27,230	1,020

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

28 DIRECTORS' REMUNERATION

The Directors of the Bank in office during the financial year are as follows:

Executive Director

Dato' Abdul Hamidy Abdul Hafiz

Non-Executive Directors

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

Tan Sri Dato' Lodin Wok Kamaruddin

Dr. Raja Abdul Malek Raja Jallaludin

Datuk Razman Md. Hashim Che Din Md. Hashim

Dato' Abdul Aziz Abdul Rahman

Laksamana Madya (B) Dato' Seri Ahmad Ramli Mohd Nor

Dato' Dr. Lee Chee Kuon

Forms of remuneration in aggregate for all Directors charged to the income statement for the financial year are as follows:

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Executive Directors:				
– Salary	977	630	977	480
– Bonuses	178	40	178	40
– Defined contribution plan (EPF)	132	104	132	78
– Other employee benefits	200	92	200	80
– Benefits-in-kind	17	28	17	18
Non Executive Directors:				
– Fees	466	283	466	277
– Benefits-in-kind	22	13	22	13
	1,992	1,190	1,992	986

The remuneration attributable to the current and former President/CEO of the Bank, including benefits-in-kind during the financial year amounted to RM1,504,000 (2002: RM696,000).

29 TAXATION

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
The taxation charge arising in Malaysia for the financial year				
– Current taxation	1,056	243	–	–
– Deferred taxation (Note 9)	(65,092)	(45,919)	(65,325)	(47,297)
	(64,036)	(45,676)	(65,325)	(47,297)
Over provision in prior year	–	(1,395)	–	(1,395)
	(64,036)	(47,071)	(65,325)	(48,692)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

29 TAXATION (CONTINUED)

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 RM23,811,987.

Subject to agreement of the Inland Revenue Board, the Bank has unabsorbed tax losses of approximately RM758,353,225 (2002: RM758,353,225) and unutilised capital allowances of RM36,181,618 (2002: RM59,993,605) available for set-off against future taxable income.

The numerical reconciliation between the applicable statutory income tax rate to the effective income tax rate of the Group and the Bank are as follows:

	The Group		The Bank	
	2003 %	2002 %	2003 %	2002 %
Statutory tax rate in Malaysia	28.00	28.00	28.00	28.00
Tax effect in respect of				
– Non allowable expenses	38.95	16.56	44.04	16.31
– Non taxable income	(3.82)	(3.28)	(10.90)	(1.06)
Utilisation of previously unrecognised				
Tax losses:-				
– current tax	(0.62)	(5.66)	–	–
– deferred tax	(486.14)	(180.79)	(550.36)	(256.66)
Over provision in prior years	–	(4.43)	–	(6.29)
Average effective tax rate	(423.63)	(149.60)	(489.22)	(219.70)

	The Group		The Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Tax savings recognised during the year arising from utilisation of tax losses brought forward from previous year	94	1,781	–	–
Unutilised tax losses for which no deferred tax asset is recognised	294,776	557,571	186,095	448,555

30 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 RM79,052,000 (2002: Net profit of RM78,392,000), and of the Bank of RM78,578,000 (2002: Net profit of RM70,712,000) divided by the weighted average number of ordinary shares of RM1 each in issue during the financial year of 1,017,281,000 (2002: 910,304,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

31 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 2003		The Group 2002	
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
Direct credit substitutes	252,611	252,611	478,576	478,576
Transaction-related contingent items	2,582,820	1,291,410	2,607,065	1,303,533
Short-term self-liquidating trade-related contingencies	6,329,234	1,265,847	5,596,010	1,119,202
Obligations under underwriting agreement	—	—	289,000	144,500
Irrevocable commitments to extend credit:	4,287,071	1,584,580	9,133,645	1,558,826
– maturity more than one year	3,169,159	1,584,580	3,117,652	1,558,826
– maturity less than one year	1,117,912	—	6,015,993	—
Foreign exchange related contracts:	1,240,587	5,972	1,500,131	7,395
– less than one year	1,240,587	5,972	1,500,131	7,395
Interest rate related contracts:	21,022,950	36,853	17,430,950	63,677
– less than one year	9,337,150	2,280	5,850,000	6,731
– one year to less than five years	11,685,800	34,573	11,580,950	56,946
	35,715,273	4,437,273	37,035,377	4,675,709

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	The Bank 2003		The Bank 2002	
	Principal amount RM'000	Credit equivalent amount* RM'000	Principal amount RM'000	Credit equivalent amount* RM'000
Direct credit substitutes	252,611	252,611	478,576	478,576
Transaction-related contingent items	2,582,820	1,291,410	2,607,065	1,303,533
Short-term self-liquidating trade-related contingencies	6,329,234	1,265,847	5,596,010	1,119,202
Obligations under underwriting agreement	—	—	289,000	144,500
Irrevocable commitments to extend credit:	4,113,978	1,584,580	8,983,395	1,558,826
– maturity more than one year	3,169,159	1,584,580	3,117,652	1,558,826
– maturity less than one year	944,819	—	5,865,743	—
Foreign exchange related contracts:	1,240,587	5,972	1,500,131	7,395
– less than one year	1,240,587	5,972	1,500,131	7,395
Interest rate related contracts	21,022,950	36,853	17,430,950	63,677
– less than one year	9,337,150	2,280	5,850,000	6,731
– one year to less than five years	11,685,800	34,573	11,580,950	56,946
	35,542,180	4,437,273	36,885,127	4,675,709

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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 2003		The Group and the Bank 2002	
	Principal amount RM'000	Credit equivalent amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000
Foreign exchange contracts				
– forward contracts	1,240,587	5,972	1,500,131	7,395
Interest rate contracts				
– futures contracts	19,088,000	–	14,512,000	–
– swaps	1,934,950	36,853	2,918,950	63,677

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 2003, the notional amount of foreign exchange exposure which were not hedged and hence, exposed to market risk was RM0.2 million (2002: RM37.2 million), while the notional amount of interest rate exposures in KLIBOR futures equivalent terms was RM297.7 million (2002: RM123.1 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 2003, the amounts of foreign exchange and interest rate credit risk, measured in terms of the cost to replace the profitable contracts, were RM6.0 million (2002: RM7.4 million) and RM36.9 million (2002: RM63.7 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.

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. As at 31 December 2003, the Bank holds RM330 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

32 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 2003.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

32 INTEREST RATE RISK (CONTINUED)

The Group 2003	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 sensitive RM'000	SPI related items RM'000	Total RM'000
Assets									
Cash and short-term funds	2,848,500	—	—	—	—	—	114,947	737,700	3,701,147
Deposits and placements with financial institutions	—	168,000	105,000	—	—	—	—	10,000	283,000
Dealing securities	—	—	—	—	330,000	—	—	—	330,000
Investment securities	45,364	136,285	742,930	29,617	1,834,020	411,867	88,181	1,333,927	4,622,191
Loans, advances and financing	10,281,171	391,876	162,121	71,604	176,445	15,545	(1,676,250)*	1,321,520	10,744,032
Others (1)	—	—	—	—	—	—	1,362,240	105,917	1,468,157
Total assets	13,175,035	696,161	1,010,051	101,221	2,340,465	427,412	(110,882)	3,509,064	21,148,527
Liabilities									
Deposits from customers	6,105,041	2,208,878	1,394,179	2,554,058	220,022	—	—	2,766,862	15,249,040
Deposits and placements of banks and other financial institutions	633,184	392,800	178,000	—	—	—	151,163	422,000	1,777,147
Obligations on securities sold under repurchase agreements	409,218	83,736	—	—	—	—	—	—	492,954
Bills and acceptances payable	201,377	276,323	89,621	—	—	—	86,450	41,697	695,468
Amount due to Cagamas	—	—	—	—	405,440	—	—	—	405,440
Subordinated bonds	—	—	—	—	100,000	—	—	—	100,000
Subordinated term loan	—	—	—	—	500,000	—	—	—	500,000
Other liabilities	—	—	—	—	—	—	508,761	27,717	536,478
Total liabilities	7,348,820	2,961,737	1,661,800	2,554,058	725,462	500,000	746,374	3,258,276	19,756,527
On balance sheet	—	—	—	—	—	—	—	—	—
– interest rate gap	5,826,215	(2,265,576)	(651,749)	(2,452,837)	1,615,003	(72,588)	—	—	(72,588)
Off balance sheet	—	—	—	—	—	—	—	—	—
– interest rate gap(2)	366	294	(470)	116	(287)	(19)	—	—	(19)
Net interest rate gap	5,826,581	(2,265,282)	(652,219)	(2,452,721)	1,614,716	(72,607)	—	—	(72,607)

* 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.

- Others include property, plant and equipment, statutory deposits with BNM, associated company, goodwill, tax recoverable, net deferred taxation and other assets.
- 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 2003

32 INTEREST RATE RISK (CONTINUED)

The Bank 2003	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 sensitive RM'000	SPI related items RM'000	Total RM'000
Assets									
Cash and short-term funds	2,848,500	—	—	—	—	—	114,939	737,700	3,701,139
Deposits and placements with financial institutions	—	168,000	105,000	—	—	—	—	10,000	283,000
Dealing securities	—	—	—	—	330,000	—	—	—	330,000
Investment securities	45,364	136,285	742,930	29,617	1,830,789	396,180	87,954	1,333,927	4,603,046
Loans, advances and financing	10,154,745	391,876	162,121	71,604	161,595	15,545	(1,580,155)*	1,321,520	10,698,851
Others (1)	—	—	—	—	—	—	1,416,015	105,917	1,521,932
Total assets	13,048,609	696,161	1,010,051	101,221	2,322,384	411,725	38,753	3,509,064	21,137,968
Liabilities									
Deposits from customers	6,108,927	2,208,878	1,394,179	2,554,058	220,022	—	—	2,766,862	15,252,926
Deposits and placements of banks and other financial institutions	633,184	392,800	178,000	—	—	—	151,163	422,000	1,777,147
Obligations on securities sold under repurchase agreements	409,218	83,736	—	—	—	—	—	—	492,954
Bills and acceptances payable	201,377	276,323	89,621	—	—	—	86,450	41,697	695,468
Amount due to Cagamas	—	—	—	—	405,440	—	—	—	405,440
Subordinated bonds	—	—	—	—	100,000	—	—	—	100,000
Subordinated term loan	—	—	—	—	—	500,000	—	—	500,000
Other liabilities	—	—	—	—	—	—	500,871	27,717	528,588
Total liabilities	7,352,706	2,961,737	1,661,800	2,554,058	725,462	500,000	738,484	3,258,276	19,752,523
On balance sheet									
– interest rate gap	5,695,903	(2,265,576)	(651,749)	(2,452,837)	1,596,922	(88,275)			
Off balance sheet									
– interest rate gap(2)	366	294	(470)	116	(287)	(19)			
Net interest rate gap	5,696,269	(2,265,282)	(652,219)	(2,452,721)	1,596,635	(88,294)			

* 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.

- Others include property, plant and equipment, statutory deposits with BNM, subsidiary companies, associated company, goodwill, tax recoverable, net deferred taxation and other assets.
- 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 2003

32 INTEREST RATE RISK (CONTINUED)

The Group 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 sensitive RM'000	SPI related items RM'000	Total RM'000
Assets									
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)	—	—	—	—	—	—	686,648	788,110	1,474,758
Total assets	12,455,579	1,009,227	439,868	812,105	2,439,486	454,204	(1,113,692)	4,192,584	20,689,361
Liabilities									
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	—	—	—	—	—	—	533,568	26,578	560,146
Total liabilities	6,710,072	2,733,700	2,964,112	1,428,297	936,768	—	618,745	3,984,719	19,376,413
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)	—			
Net interest rate gap	5,745,648	(1,724,451)	(2,524,285)	(616,215)	1,502,619	454,204			

* 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.

- Others include property, plant and equipment, statutory deposits with BNM, associated company, goodwill, tax recoverable, net deferred taxation and other assets.
- 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 2003

32 INTEREST RATE RISK (CONTINUED)

The Bank 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 sensitive RM'000	SPI related items RM'000	Total RM'000
Assets									
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)	—	—	—	—	—	—	743,700	788,110	1,531,810
Total assets	12,310,617	1,009,227	439,868	812,105	2,439,426	454,204	(973,283)	4,192,584	20,684,748
Liabilities									
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	—	—	—	—	—	—	517,127	26,578	543,705
Total liabilities	6,727,578	2,733,700	2,964,112	1,428,700	936,768	—	602,304	3,984,719	19,377,881
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)	—			
Net interest rate gap	5,583,180	(1,724,451)	(2,524,285)	(616,618)	1,502,559	454,204			

* 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.

- Others include property, plant and equipment, statutory deposits with BNM, subsidiary companies, associated company, goodwill, tax recoverable, net deferred taxation and other assets.
- 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 2003

32 INTEREST RATE RISK (CONTINUED)

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

	The Group and the Bank			
	2003		2002	
	RM %	USD %	RM %	USD %
Financial Assets				
Cash and short-term funds	2.86	1.10	2.96	2.02
Deposits and placements with financial institutions	3.86	7.32	4.35	6.21
Dealing securities	5.18	—	5.07	—
Investment securities	3.48	6.55	3.54	6.54
Loans, advances and financing	7.64	—	8.06	—
Financial Liabilities				
Deposits from customers	2.73	1.15	2.75	—
Deposits and placements of banks and other financial institutions	2.90	3.02	2.94	2.52
Obligations on securities sold under repurchase agreements	2.74	—	2.78	—
Bills and acceptances payable	3.23	—	3.08	—
Amount due to Cagamas	4.15	—	3.87	—
Subordinated bonds	8.50	—	7.68	—
Subordinated term loan	7.30	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

The maturities of on-balance sheet 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 2003	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
Assets							
Cash and short-term funds	3,701,147	—	—	—	—	—	3,701,147
Deposits and placements with financial institutions	168,000	115,000	—	—	—	—	283,000
Dealing securities	330,000	—	—	—	—	—	330,000
Investment securities	122,767	802,864	240,173	2,153,833	847,497	455,057	4,622,191
Loans, advances and financing	1,383,330	380,857	97,991	1,038,720	1,219,345	6,623,789	10,744,032
Other assets	212,397	45,804	42,047	—	—	—	300,248
Total assets	5,917,641	1,344,525	380,211	3,192,553	2,066,842	7,078,846	19,980,618
Liabilities							
Deposits from customers	4,050,295	440,048	39,647	10,719,050	—	—	15,249,040
Deposits and placements of banks and other financial institutions	1,527,147	240,000	10,000	—	—	—	1,777,147
Obligations on securities sold under repurchase agreements	492,954	—	—	—	—	—	492,954
Bills and acceptances payable	604,745	90,723	—	—	—	—	695,468
Amount due to Cagamas	—	—	—	405,440	—	—	405,440
Subordinated bonds	—	—	—	100,000	—	—	100,000
Subordinated term loan	—	—	—	—	—	500,000	500,000
Other liabilities	203,362	111,606	2,535	—	218,975	—	536,478
Total liabilities	6,878,503	882,377	52,182	11,224,490	218,975	500,000	19,756,527
On balance sheet gap	(960,862)	462,148	328,029	(8,031,937)	1,847,867	6,578,846	224,091
Off balance sheet credit commitments	142,998	—	—	6,806,411	—	—	6,949,409
Derivatives	(10,292)	(9,269)	—	—	—	—	(19,561)
Net maturity mismatch	(828,156)	452,879	328,029	(1,225,526)	1,847,867	6,578,846	7,153,939

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

Bank 2003	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
Assets							
Cash and short-term funds	3,701,139	—	—	—	—	—	3,701,139
Deposits and placements with financial institutions	168,000	115,000	—	—	—	—	283,000
Dealing securities	330,000	—	—	—	—	—	330,000
Investment securities	122,767	802,697	240,173	2,153,773	844,266	439,370	4,603,046
Loans, advances and financing	1,353,273	380,857	97,991	1,038,720	1,219,345	6,608,665	10,698,851
Other assets	212,397	45,804	41,214	—	—	—	299,415
Total assets	5,887,576	1,344,358	379,378	3,192,493	2,063,611	7,048,035	19,915,451
Liabilities							
Deposits from customers	4,054,181	440,048	39,647	10,719,050	—	—	15,252,926
Deposits and placements of banks and other financial institutions	1,527,147	240,000	10,000	—	—	—	1,777,147
Obligations on securities sold under repurchase agreements	492,954	—	—	—	—	—	492,954
Bills and acceptances payable	604,745	90,723	—	—	—	—	695,468
Amount due to Cagamas	—	—	—	405,440	—	—	405,440
Subordinated bonds	—	—	—	100,000	—	—	100,000
Subordinated term loan	—	—	—	—	—	500,000	500,000
Other liabilities	203,362	111,606	2,535	—	211,085	—	528,588
Total liabilities	6,882,389	882,377	52,182	11,224,490	211,085	500,000	19,752,523
On balance sheet gap	(994,813)	461,981	327,196	(8,031,997)	1,852,526	6,548,035	162,928
Off balance sheet credit commitments	142,998	—	—	6,806,411	—	—	6,949,409
Derivatives	(10,292)	(9,269)	—	—	—	—	(19,561)
Net maturity mismatch	(862,107)	452,712	327,196	(1,225,586)	1,852,526	6,548,035	7,092,776

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

33 LIQUIDITY RISK (CONTINUED)

Group 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
Assets							
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	208,387	52,511	25,814	—	—	—	286,712
Total assets	5,641,814	909,931	1,179,705	3,738,392	1,462,074	6,569,399	19,501,315
Liabilities							
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	181,199	117,106	3,856	—	257,985	—	560,146
Total liabilities	4,739,221	769,253	151,545	12,858,409	857,985	—	19,376,413
On balance sheet gap	902,593	140,678	1,028,160	(9,120,017)	604,089	6,569,399	124,902
Off balance sheet credit commitments	1,427,893	—	—	10,549,288	—	—	11,977,181
Derivatives	(152,352)	14,416	—	—	—	—	(137,936)
Net maturity mismatch	2,178,134	155,094	1,028,160	1,429,271	604,089	6,569,399	11,964,147

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

Bank 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
Assets							
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	208,387	52,511	16,959	—	—	—	277,857
Total assets	5,614,980	909,931	1,170,850	3,738,332	1,462,074	6,534,628	19,430,795
Liabilities							
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	181,199	117,106	3,856	—	241,544	—	543,705
Total liabilities	4,756,727	769,253	151,948	12,858,409	841,544	—	19,377,881
On balance sheet gap	858,253	140,678	1,018,902	(9,120,077)	620,530	6,534,628	52,914
Off balance sheet credit commitments	1,397,843	—	—	10,429,088	—	—	11,826,931
Derivatives	(152,352)	14,416	—	—	—	—	(137,936)
Net maturity mismatch	2,103,744	155,094	1,018,902	1,309,011	620,530	6,534,628	11,741,909

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

34 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, by industry concentration, are set out in the following tables:

Group 2003	Cash and short term funds		Deposits and placements with financial institutions		Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
	RM'000	RM'000	RM'000	RM'000						
Agricultural	—	—	—	—	—	4,150	117,249	275	121,674	12,846
Mining and quarrying	—	—	—	—	—	—	20,815	—	20,815	3,042
Manufacturing	—	—	—	—	—	443,533	1,645,919	—	2,089,452	334,254
Electricity, gas and water	—	—	—	—	—	153,556	19,039	—	172,595	3,268
Construction	—	—	—	—	—	172,482	1,417,558	—	1,590,040	311,843
Real estate	—	—	—	—	—	207,058	666,244	—	873,302	79,397
General commerce	—	—	—	—	—	—	904,217	—	904,217	919
Transport, storage and communication	—	—	—	—	—	19,285	479,351	—	498,636	95,376
Finance, insurance and business services	1,359,636	283,000	—	—	330,000	751,691	110,941	17,314	2,852,582	130,040
Government and Government Agencies	2,251,110	—	—	—	—	2,675,693	413,709	13,808	5,354,320	—
Purchase of residential, landed property, security and transport vehicle	—	—	—	—	—	—	3,959,380	—	3,959,380	138,083
Wholesale and retail trade, restaurant and hotel	—	—	—	—	—	96,035	525,393	—	621,428	375,675
Others	8,403	—	—	—	—	84,124	672,376	268,851	1,033,754	2,952,530
Total assets	3,619,149	283,000	330,000	4,607,607#	10,952,191*	300,248	20,092,195	4,437,273		

* Excludes general provision amounting to RM208 million

Excludes equity instruments amounting to RM15 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

34 CREDIT RISK CONCENTRATIONS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

Bank 2003	Cash and short term funds RM'000	Deposits and placements with financial institutions RM'000	Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agricultural	—	—	—	4,150	117,249	275	121,674	12,846
Mining and quarrying	—	—	—	—	20,815	—	20,815	3,042
Manufacturing	—	—	—	443,533	1,637,260	—	2,080,793	334,254
Electricity, gas and water	—	—	—	153,556	19,039	—	172,595	3,268
Construction	—	—	—	172,482	1,416,066	—	1,588,548	311,843
Real estate	—	—	—	207,058	651,071	—	858,129	79,397
General commerce	—	—	—	—	902,164	—	902,164	919
Transport, storage and communication	—	—	—	19,285	479,351	—	498,636	95,376
Finance, insurance and business services	1,359,636	283,000	330,000	751,524	93,088	17,314	2,834,562	130,040
Government and Government Agencies	2,251,110	—	—	2,675,693	413,709	13,808	5,354,320	—
Purchase of residential, landed property, security and transport vehicle	—	—	—	—	3,958,973	—	3,958,973	138,083
Wholesale and retail trade, restaurant and hotel	—	—	—	96,035	525,393	—	621,428	375,675
Others	8,395	—	—	65,146	672,376	268,018	1,013,935	2,952,530
Total assets	3,619,141	283,000	330,000	4,588,462#	10,906,554*	299,415	20,026,572	4,437,273

* Excludes general provision amounting to RM208 million

Excludes equity instruments amounting to RM15 million

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

34 CREDIT RISK CONCENTRATIONS (CONTINUED)

Group 2002	Cash and short term funds		Deposits and placements with financial institutions		Dealing securities		Investment securities		Loans and advances		Other assets		On balance sheet total		Commitments and contingencies	
	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
Agricultural	—	—	—	—	—	96,936	—	343,077	—	440,013	—	—	23,434	—	—	—
Mining and quarrying	—	—	—	—	—	—	—	22,622	—	22,622	—	—	1,382	—	—	—
Manufacturing	—	—	—	—	—	231,540	—	2,456,309	—	2,688,131	—	—	212,657	—	—	—
Electricity, gas and water	—	—	—	—	—	157,190	—	113,513	—	273,877	—	—	43,457	—	—	—
Construction	—	—	—	—	—	110,076	—	1,461,061	—	1,571,572	—	—	400,107	—	—	—
Real estate	—	—	—	—	—	152,380	—	527,504	—	679,958	—	—	91,928	—	—	—
General commerce	—	—	—	—	—	—	—	1,646,791	—	1,646,791	—	—	665	—	—	—
Transport, storage and communication	—	—	—	—	—	209,719	—	474,452	—	685,068	—	—	220,509	—	—	—
Finance, insurance and business services	1,070,860	292,100	—	—	370,000	907,327	—	524,122	—	3,185,462	—	—	199,624	—	—	—
Government and Government Agencies	270,609	—	—	—	28,182	2,632,945	—	—	—	2,953,172	—	—	—	—	—	—
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	—	883,828	—	—	3,239,648	—	—	—
Total assets	1,354,400	292,100	398,182	4,590,638#	12,614,971*	286,712	19,537,003	4,675,709								

* 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 31.

34 CREDIT RISK CONCENTRATIONS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

Bank 2002	Cash and short term funds RM'000	Deposits and placements with financial institutions RM'000			Dealing securities RM'000	Investment securities RM'000	Loans and advances RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies 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	1,070,860	290,600	—	370,000	907,160	523,748	21,053	3,183,421	199,624	
Government and Government Agencies	270,609	—	—	28,182	2,614,027	—	21,436	2,934,254	—	
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	230,506	873,755	3,239,648	
Total assets	1,354,400	290,600	398,182	4,571,493#	12,572,794*	277,857	19,465,326	4,675,709		

* 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 31.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

35 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 2003 is as follows:

Year	The Group and The Bank RM'000
2004	65,479
2005	49,109
2006	32,740
2007	16,370

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 2003.

36 CAPITAL COMMITMENTS

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Authorised and contracted for	32,094	48,962
Authorised but not contracted for	—	11,850
	32,094	60,812
Analysed as follows:		
Property, plant and equipment	32,094	60,812

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

37 CAPITAL ADEQUACY

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

	The Bank	
	2003	2002
	RM'000	RM'000
Tier 1 capital		
Paid-up share capital	1,017,281	1,017,281
Share premium	190,735	190,735
Accumulated losses	(29,694)	(42,947)
Goodwill	(155,633)	(164,788)
Total Tier 1 capital	1,022,689	1,000,281
Tier 2 capital		
General provision for bad and doubtful debts	207,703	207,703
Subordinated term loan/bonds	511,345	360,000
Total Tier 2 capital	719,048	567,703
Total capital		
Less: Investment in subsidiary companies	(39,294)	(39,303)
Capital base	1,702,443	1,528,681
Capital ratios		
Core capital ratio	7.40%	6.08%
Risk-weighted capital ratio	12.32%	9.30%

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

	The Bank	
	2003	2002
	RM'000	RM'000
0%	7,521,825	5,032,410
10%	704,338	797,466
20%	2,025,697	2,084,896
50%	2,907,562	2,767,646
100%	11,894,260	14,565,357
	25,053,682	25,247,775
Risk-weighted assets	13,823,614	16,445,906

Pursuant to Bank Negara Malaysia's circular, 'Recognition of Deferred Tax Asset ('DTA') and Treatment of DTA for RWCR Purposes' dated 8 August 2003, deferred tax income/(expenses) is excluded from the calculation of Tier 1 and DTA is excluded from the calculation of risk-weighted assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

38 LITIGATIONS AGAINST THE BANK

There are legal suits against the Bank in respect of counter claims of approximately RM40.1 million (2002: RM26.1 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.

39 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 property, plant and equipment, subsidiary and associated companies, tax recoverable, deferred taxation 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 2003		The Bank 2003	
	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000
Financial assets				
Cash and short-term funds	3,701,147	3,701,147	3,701,139	3,701,139
Deposit and placements with financial institutions	283,000	283,000	283,000	283,000
Dealing securities	330,000	330,000	330,000	330,000
Investment securities	4,497,998	4,622,191	4,480,611	4,603,046
Loans and advances	10,702,300	10,744,032	10,635,659	10,698,851
Other assets	300,248	300,248	299,415	299,415
Financial liabilities				
Deposits from customers	15,254,143	15,249,040	15,258,029	15,252,926
Deposits and placements of banks and other financial institutions	1,777,147	1,777,147	1,777,147	1,777,147
Obligation on securities sold under repurchase agreements	492,954	492,954	492,954	492,954
Bills and acceptances payable	695,468	695,468	695,468	695,468
Amount due to Cagamas	411,120	405,440	411,120	405,440
Subordinated bonds	95,791	100,000	95,791	100,000
Subordinated term loan	341,065	500,000	341,065	500,000
Other liabilities	536,478	536,478	528,588	528,588

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	The Group 2002		The Bank 2002	
	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000
Financial assets				
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
Other assets	286,712	286,712	277,857	277,857
Financial liabilities				
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	465,220	460,770	465,220	460,770
Subordinated Bonds	557,182	600,000	557,182	600,000
Other liabilities	560,146	560,146	543,705	543,705

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

	The Group and the Bank 2003			The Group and the Bank 2002		
	Underlying Notional RM'000	Asset RM'000	Liability RM'000	Underlying Notional RM'000	Asset RM'000	Liability RM'000
Foreign exchange contracts						
- Forward contracts	1,240,587	310	189	1,500,131	95	685
Interest rate contracts						
- Futures contracts	21,022,950	8,097	11,046	17,430,950	10,307	12,016
- Swaps	19,088,000	5,519	1,380	14,512,000	300	106
- Swaps	1,934,950	2,578	9,666	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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 amount 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Subordinated Bonds/Subordinated Term Loan

The estimate fair value of subordinated bonds/subordinated term loan 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.

40 CHANGES IN ACCOUNTING POLICIES

During the year, the Bank has changed its accounting policies to comply with MASB Standard 25 'Income Taxes' and MASB Standard 29 'Employee Benefits'.

(a) Deferred tax

In previous years, deferred tax was recognised for timing differences except where there was reasonable evidence that such timing differences would not reverse in the foreseeable future. The tax effect of timing differences that resulted in a debit balance or a debit to the deferred tax balance was not carried forward unless there was a reasonable expectation of its realisation.

The potential tax savings related to a tax loss carry forward was only recognised if there was assurance beyond reasonable doubt that future taxable income would be sufficient for the benefit of the loss to be realised.

The Group and the Bank has now changed its accounting policy to recognise deferred tax on temporary differences arising between the amounts attributable to assets and liabilities for tax purposes and their carrying values in financial statements. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences or unused tax losses can be utilised.

The change in accounting policy has been accounted for retrospectively.

(b) Employee Benefits

MASB 29 'Employee Benefits' which is operative with effect from the current financial year commencing 1 January 2003 requires the Group and the Bank to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future. Due to the adoption of MASB 29, the Group and the Bank have now recognised accruals for the estimated liability for unutilised annual leave of the employees carried forward to the following accounting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

40 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The change in accounting policy has been accounted for retrospectively.

	Effect of change in accounting policies			
	As previously reported RM'000	Deferred tax RM'000	Employee benefits RM'000	As restated RM'000
Group				
At 31 December 2002				
Balance sheets				
Net deferred taxation assets	—	136,343	—	136,343
Other liabilities	557,812	—	2,334	560,146
Statement of changes in shareholders' equity				
(Accumulated losses)/retained profits	(29,077)	85,750	(1,167)	55,506
Statutory reserve	—	50,593	(1,167)	49,426
Income statements				
Taxation	(1,152)	(45,919)	—*	(47,071)
Net profit for the financial year	30,398	45,919	2,075	78,392
At 1 January 2002				
Balance sheets				
Net deferred taxation assets	—	90,424	—	90,424
Other liabilities	740,839	—	4,409	745,248
Statement of changes in shareholders' equity				
(Accumulated losses)/retained profits	(59,475)	74,150	(2,205)	12,470
Statutory reserve	—	16,274	(2,204)	14,070
Bank				
At 31 December 2002				
Balance sheets				
Net deferred taxation assets	—	141,798	—	141,798
Other liabilities	541,371	—	2,334	543,705
Statement of changes in shareholders' equity				
(Accumulated losses)/retained profits	(40,613)	91,205	(1,167)	49,425
Statutory reserve	—	50,593	(1,167)	49,426
Income statements				
Taxation	(1,395)	(47,297)	—*	(48,692)
Net profit for the financial year	21,340	47,297	2,075	70,712
At 1 January 2002				
Balance sheets				
Net deferred taxation assets	—	94,501	—	94,501
Other liabilities	727,927	—	4,409	732,336
Statement of changes in shareholders' equity				
(Accumulated losses)/retained profits	(61,953)	78,227	(2,205)	14,069
Statutory reserve	—	16,274	(2,204)	14,070

* The taxation impact arising from the recognition of accruals for employee benefits has reduced the unutilised capital allowances brought forward by RM654 thousand. There is no impact to the current taxation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2004.

42 THE OPERATIONS OF ISLAMIC BANKING

BALANCE SHEETS

as at 31 December 2003

		The Group and The Bank	
	Note	2003 RM'000	2002 RM'000
Assets			
Cash and short-term funds	(b)	737,700	1,012,892
Deposits and placements with financial institutions	(c)	10,000	50,000
Investment securities	(d)	1,333,927	1,023,882
Loans, advances and financing	(e)	1,321,520	1,317,700
Statutory deposits with Bank Negara Malaysia		103,386	72,000
Other assets	(f)	2,531	716,110
Total assets		3,509,064	4,192,584
Liabilities and shareholders' equity			
Deposits from customers	(g)	2,766,862	3,874,410
Deposits and placements of banks and other financial institutions	(h)	422,000	46,258
Bills and acceptances payable		41,697	37,473
Accruals and other liabilities	(i)	27,717	26,578
Total liabilities		3,258,276	3,984,719
Islamic Banking funds	(j)	250,788	207,865
Total liabilities and Islamic Banking		3,509,064	4,192,584
Commitments and contingencies	(p)	7,895,016	5,300,792

The accompanying notes on pages 128 to 141 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

INCOME STATEMENTS

for the financial year ended 31 December 2003

The Group and The Bank

	Note	2003 RM'000	2002 RM'000
Income derived from investment of depositors' funds	(k)	144,580	123,678
Financing loss and provision	(l)	(41,868)	(4,701)
Transfer from/(to) profit equalisation reserve	(i)	6,645	(6,645)
		109,357	112,332
Income attributable to depositors	(m)	(75,052)	(78,700)
Income attributable to shareholders		34,305	33,632
Income derived from investment of shareholders' funds	(n)	10,415	7,254
Net income		44,720	40,886
Overhead expense	(o)	(1,697)	(1,408)
Profit before zakat		43,023	39,478
Zakat		(100)	(143)
Profit after zakat		42,923	39,335

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2003

	Non-distributable	Distributable	
	Share capital RM'000	Retained earnings RM'000	Total RM'000
The Group and Bank			
As at 1 January 2002	20,000	96,530	116,530
Increase in allocation of share capital	52,000	—	52,000
Net profit for the financial year	—	39,335	39,335
As at 31 December 2002	72,000	135,865	207,865
Net profit for the financial year	—	42,923	42,923
As at 31 December 2003	72,000	178,788	250,788

The accompanying notes on pages 128 to 141 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

CASH FLOW STATEMENTS

for the financial year ended 31 December 2003

The Group and The Bank

	2003 RM'000	2002 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat	43,023	39,478
Adjustments for items not involving the movement of cash and cash equivalents:		
Income from investment securities	(12,364)	(18,287)
Accretion of discount less amortisation of premium	(37,866)	(18,136)
(Gain)/loss on sale of investment securities	(63)	90
Specific provision for bad and doubtful debts	42,003	1,880
General provision	—	2,439
Income suspended	17,206	16,360
Profit equalisation reserve	(6,645)	6,645
Operating profit before working capital changes	45,294	30,469
Decrease in deposits and placements with financial institutions	40,000	50,000
(Increase)/decrease in loans, advances and financing	(63,029)	45,768
Decrease/(increase) in other assets	713,579	(712,335)
(Increase)/decrease in statutory deposits with Bank Negara Malaysia	(31,386)	(72,000)
(Decrease)/increase in deposits from customers	(1,107,548)	1,918,669
Increase/(decrease) in deposits and placements of banks and other financial institutions	375,742	(384,742)
Decrease in obligation on securities sold under repurchase agreements	—	(368,501)
Increase/(decrease) in bills and acceptances payable	4,224	(59,532)
Increase/(decrease) in other liabilities	7,784	(155,082)
Cash (used in)/generated from operations	(15,340)	292,714
Zakat paid	(100)	(143)
Net cash (used in)/generated from operating activities	(15,440)	292,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investment securities	12,364	18,287
Net (purchase)/sale of investment securities	(272,116)	298,864
Net cash (used in)/generated from investing activities	(259,752)	317,151
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in allocation of share capital	—	52,000
Net cash generated from financing activities	—	52,000
Net (decrease)/increase in cash and cash equivalents	(275,192)	661,722
Cash and cash equivalents at beginning of the year	1,012,892	351,170
Cash and cash equivalents at end of the year	737,700	1,012,892
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds	737,700	1,012,892

The accompanying notes on pages 128 to 141 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(a) Disclosure of Syariah Advisor

The Bank engages the services of the Syariah Advisory Council of Affin Holdings Group for advice with respect to Islamic Banking products, transactions and business dealings involving the Bank. The council members comprise of three qualified Syariah professionals who meet up with the members of the Islamic Banking Unit of each financial institution in the Group.

The roles and responsibilities of the Syariah Advisory Council are as follows:

- (i) Providing advisory services and as well as certifying and approving Islamic banking products and transactions.
- (ii) Reviewing and endorsing the Islamic Banking Annual Report.

(b) Cash and short-term funds

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Cash and balances with banks and other financial institutions	168,010	1,692
Money at call and deposit placements maturing within one month	569,690	1,011,200
	737,700	1,012,892

(c) Deposits and placements with financial institutions

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Licensed bank	10,000	50,000

(d) Investment securities

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Money market instruments		
Malaysian Government investment certificates	686,957	585,273
Islamic accepted bills	17,118	10,934
Islamic corporate notes	—	29,363
Islamic Khazanah bonds	348,929	295,571
	1,053,004	921,141
Unquoted securities		
Shares in Malaysia	575	325
Islamic debt securities	255,056	97,826
	1,308,635	1,019,292
Accretion of discount less amortisation of premium	33,265	5,060
Provision for diminution in value of investment securities	(7,973)	(470)
	1,333,927	1,023,882

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

43 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(d) Investment securities (continued)

	The Group and The Bank	
	2003 RM'000	2002 RM'000
(i) Market value of quoted securities		
Malaysian Government investment certificates	726,020	587,815

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Maturing within one year	244,234	122,227
One year to three years	808,770	750,449
Three years to five years	—	48,465
	1,053,004	921,141

(e) Loans, advances and financing

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Overdrafts	12,929	10,634
Term financing	1,530,726	1,546,604
Bills financing	1,303	2,729
Trust receipts	56,862	51,921
Interest-free accepted bills	73,130	87,616
Staff financing (of which RM Nil to directors)	10,593	8,924
	1,685,543	1,708,428
Unearned income	(238,179)	(314,275)
	1,447,364	1,394,153
Gross loans, advances and financing		
Provision for bad and doubtful debts and financing:		
– general	(23,539)	(23,539)
– specific	(72,106)	(37,307)
Income-in-suspense	(30,199)	(15,607)
	1,321,520	1,317,700

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(e) Loans, advances and financing (continued)

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Al-Bai' Bithaman Ajil	192,488	435,609
Al-Murabahah	1,224	—
Other principles	1,253,652	958,544
	1,447,364	1,394,153

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Maturing within one year	492,101	567,808
One to three years	49,299	154,274
Three to five years	66,956	56,202
Over five years	839,008	615,869
	1,447,364	1,394,153

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Agriculture, mining and quarrying	23,613	13,877
Manufacturing	18,301	59,862
Construction	220,002	125,182
Real estate	1,876	7,623
Purchase of landed property of which:		
I. Residential	749,214	713,316
II. Non-residential	123,442	132,980
General commerce	150,780	145,189
Transport, storage and communication	106,981	120,416
Finance, insurance and business services	1,196	715
Purchase of securities	11,808	12,964
Purchase of transport vehicles	939	1,360
Consumption credit	5,439	8,457
Others	33,773	52,212
	1,447,364	1,394,153

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(e) 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	
	2003 RM'000	2002 RM'000
As at beginning of the financial year	242,978	309,856
Non-performing during the financial year (gross)	276,991	103,272
Amount recovered	(32,394)	(31,422)
Amount reclassified to performing	(95,196)	(16,872)
Transfer in respect of debt conversion	—	(12,285)
Amount written off	(6,545)	(109,571)
As at end of the financial year	385,834	242,978
Net non-performing loans	283,529	190,064
% of net non-performing loans to total loans (less SP and IIS)	21.08%	14.17%

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
General provision		
As at beginning of the financial year	23,539	21,100
Provision made during the financial year	—	2,439
As at end of the financial year	23,539	23,539
(as % of total loans less SP and IIS)	1.75%	1.76%
Specific provision		
As at beginning of the financial year	37,307	76,274
Provisions made during the financial year	47,202	4,518
Amount written back in respect of recoveries	(5,199)	(2,638)
Amount written back in respect of debt conversion	—	(3,303)
Transfer to provision for diminution in value of investment securities	—	(117)
Amount written off	(7,204)	(37,427)
As at end of the financial year	72,106	37,307

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(e) Loans, advances and financing (continued)

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Income-in-suspense		
As at beginning of the financial year	15,607	21,315
Provisions made during the financial year	30,705	24,862
Amount written back in respect of recoveries	(13,499)	(8,502)
Amount written off	(2,614)	(22,068)
As at end of the financial year	30,199	15,607

(f) Other assets

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Other debtors, deposits and prepayments	2,531	716,110

(g) Deposits from customers

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Non-Mudharabah Fund:		
Demand deposits	1,347,101	1,200,094
Savings deposits	261,792	244,613
Negotiable Instrument deposit certificate	458,244	148,762
	2,067,137	1,593,469
Mudharabah Fund:		
Demand deposits	53,363	55,327
Savings deposits	8,792	10,528
General investment deposits	637,570	2,215,086
	699,725	2,280,941
	2,766,862	3,874,410

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(g) Deposits from customers (continued)

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Due within six months	995,367	1,669,673
Six months to one year	94,766	672,270
One to three years	3,653	16,576
Three to five years	2,028	5,329
	1,095,814	2,363,848

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

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Business enterprises	305,251	1,151,942
Individuals	278,129	501,973
Others	2,183,482	2,220,495
	2,766,862	3,874,410

(h) Deposits and placements of banks and other financial institutions

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Mudharabah Fund:		
Licensed banks	422,000	46,258
	422,000	46,258

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(i) Accruals and other liabilities

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Other liabilities	27,717	19,933
Profit equalisation reserve (see below)	—	6,645
	27,717	26,578

Profit Equalisation Reserve

	The Group and The Bank	
	2003 RM'000	2002 RM'000
As at beginning of the financial year	6,645	—
Amount provided during the financial year	17,371	9,295
Amount written back during the financial year	(24,016)	(2,650)
As at end of the financial year	—	6,645

(j) Islamic Banking funds

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Funds allocated from Head Office	72,000	72,000
Retained profit	178,788	135,865
	250,788	207,865

(k) Income from Islamic banking operations

For consolidation with conventional operations, net income from Islamic Banking operations comprise the following items:

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Income derived from investment of depositors' funds	144,580	123,678
Income attributable to the depositors	(75,052)	(78,700)
Income derived from the investment of shareholders' funds	10,415	7,254
	79,943	52,232

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(k) Income from Islamic banking operations (continued)

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

	The Group and The Bank Depositors' funds	
	2003 RM'000	2002 RM'000
Income derived from investment of:		
(i) General investment deposits	49,302	49,372
(ii) Other depositors' funds	95,278	74,306
	144,580	123,678

(i) Income derived from investment of general investment deposits

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Income from financing	28,827	30,186
Income from investment securities	3,933	6,896
Income from money at call and deposits with financial institutions	5,911	5,593
	38,671	42,675
Amortisation of premium	—	(58)
Accretion of discount	12,045	6,896
	50,716	49,513
Other dealing income		
Net gain from foreign exchange transaction	13	80
Other revenue income		
Net gain/(loss) from sale of investment securities	20	(34)
Provision for diminution in value of investment securities	(2,386)	(177)
	(2,366)	(211)
Fee and commission income		
Commission	566	759
Service charges and fees	152	170
Guarantee fees	147	210
	865	1,139
Other income		
Others	74	(1,149)
	49,302	49,372

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(k) Income from Islamic banking operations (continued)

(ii) Income derived from investment of other depositors' funds

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Income from financing	55,711	45,431
Income from investment securities	7,600	10,378
Income from money at call and deposits with financial institutions	11,425	8,416
	74,736	64,225
Amortisation of premium	—	(86)
Accretion of discount	23,276	10,379
	98,012	74,518
Other dealing income		
Net gain from sale of dealing securities	25	121
Other revenue income		
Net gain/(loss) from sale of investment securities	39	(51)
Provision for diminution in value of investment securities	(4,612)	(267)
	(4,573)	(318)
Fee and commission income		
Commission	1,093	1,142
Service charges and fees	294	256
Guarantee fees	285	317
	1,672	1,715
Other income		
Others	142	(1,730)
	95,278	74,306

(l) Financing loss and provision

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Provision for bad and doubtful debts and financing:		
– specific provision (net of recoveries)	42,003	1,880
– general provision	—	2,439
Bad debts and financing:		
– written off	(135)	382
	41,868	4,701

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(m) Income attributable to depositors

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Deposits from customers		
– Mudharabah Fund	33,413	36,377
– Non-mudharabah	27,198	22,566
Deposits and placements of banks and other financial institutions		
– Mudharabah	13,210	19,757
Others	1,231	–
	75,052	78,700

(n) Income derived from investment of shareholders' funds

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Income from financing	6,090	4,435
Income from investment securities	831	1,013
Income from money at call and deposits with financial institutions	1,249	822
	8,170	6,270
Amortisation of premium	–	(8)
Accretion of discount	2,545	1,013
	10,715	7,275
Other dealing income		
Net gain from foreign exchange transaction	3	12
Other revenue income		
Net gain/(loss) from sale of investment securities	4	(5)
Provision for diminution in value of investment securities	(504)	(26)
	(500)	(31)
Fee and commission income		
Commission	119	111
Service charges and fees	32	25
Guarantee fees	31	31
	182	167
Other income		
Others	15	(169)
	10,415	7,254

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(o) Overhead expense

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Personnel costs	1,060	884
Establishment costs	117	112
Marketing expenses	123	55
Administration and general expenses	397	357
	1,697	1,408

Personnel costs comprise the following:

	The Group and The Bank	
	2003 RM'000	2002 RM'000
Wages, salaries and bonus	887	751
Defined contribution plan (EPF)	148	126
Other personnel costs	25	7
	1,060	884

(p) Commitments and contingencies

	The Group and The Bank			
	2003		2002	
	Principal amount RM'000	Credit equivalent amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000
Direct credit substitutes	18,511	18,511	84,249	84,249
Transaction-related contingent items	59,667	29,834	82,199	41,100
Short-term self-liquidating trade-related contingencies	6,153,636	1,230,727	5,049,344	1,009,869
Obligation under underwriting agreement	—	—	85,000	42,500
Irrevocable commitments to extent credit:				
– maturity exceeding one year	1,658,712	829,356	—	—
– maturity not exceeding one year	4,490	—	—	—
	7,895,016	2,108,428	5,300,792	1,177,718

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(s) Capital adequacy

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

	2003 RM'000	2002 RM'000
Tier 1 capital		
Paid-up share capital	72,000	72,000
Retained profit	178,788	135,865
Total Tier 1 capital	250,788	207,865
Tier 2 capital		
General provision for bad and doubtful debts	23,539	23,539
Total Tier 2 capital	23,539	23,539
Total capital	274,327	231,404
Capital ratios		
Core capital	16.87%	8.29%
Risk-weighted capital ratio	18.45%	9.23%

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

	2003 RM'000	2002 RM'000
0%	3,264,689	1,986,111
10%	10,710	90,000
20%	454,388	1,652,834
50%	768,385	775,786
100%	1,010,873	1,779,190
	5,509,045	6,283,921
Risk-weighted assets	1,487,015	2,506,650

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(t) Liquidity risk

Group and Bank 2003	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
Assets							
Cash and short-term funds	737,700	—	—	—	—	—	737,700
Deposits and placements with financial institutions	—	10,000	—	—	—	—	10,000
Investment securities	17,118	59,767	210,555	915,167	130,745	575	1,333,927
Loans, advances and financing	88,859	110,527	6,165	45,049	63,090	1,007,830	1,321,520
Other assets	—	2,240	—	—	—	—	2,240
Total assets	843,677	182,534	216,720	960,216	193,835	1,008,405	3,405,387
Liabilities							
Deposits from customers	2,101,022	163,048	19,647	483,145	—	—	2,766,862
Deposits and placements of banks and other financial institutions	350,000	62,000	10,000	—	—	—	422,000
Bills and acceptances payable	40,594	1,103	—	—	—	—	41,697
Other liabilities	17,430	7,031	—	—	3,256	—	27,717
Total liabilities	2,509,046	233,182	29,647	483,145	3,256	—	3,258,276
On balance sheet gap	(1,665,369)	(50,648)	187,073	477,071	190,579	1,008,405	147,111
Off balance sheet credit and commitments	17,226	—	—	1,724,154	—	—	1,741,380
Net maturity mismatch	(1,648,143)	(50,648)	187,073	2,201,225	190,579	1,008,405	1,888,491

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

42 THE OPERATIONS OF ISLAMIC BANKING (CONTINUED)

(t) Liquidity risk (continued)

Group and Bank 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
Assets							
Cash and short-term funds	1,012,892	—	—	—	—	—	1,012,892
Deposits and placements with financial institutions	50,000	—	—	—	—	—	50,000
Investment securities	40,290	—	82,880	887,662	13,050	—	1,023,882
Loans, advances and financing	92,239	105,416	13,177	39,531	65,885	1,001,452	1,317,700
Other assets	715,762	—	—	—	—	—	715,762
Total assets	1,911,183	105,416	96,057	927,193	78,935	1,001,452	4,120,236
Liabilities							
Deposits from customers	2,944,552	232,465	38,744	658,649	—	—	3,874,410
Deposits and placements of banks and other financial institutions	46,258	—	—	—	—	—	46,258
Bills and acceptances payable	37,473	—	—	—	—	—	37,473
Other liabilities	—	13,019	—	—	6,914	—	19,933
Total liabilities	3,028,283	245,484	38,744	658,649	6,914	—	3,978,074
Net maturity mismatch	(1,117,100)	(140,068)	57,313	268,544	72,021	1,001,452	142,162