

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

The Directors have pleasure in presenting their report together with the audited financial statements of the Bank and of the Group for the financial year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services.

The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

| | Group/Bank RM'000 |
|---|------------------------------|
| Profit before taxation | 47,553 |
| Taxation | (13,900) |
| Profit after taxation | <u>33,653</u> |
| Dividend | (16,078) |
| Transfer to statutory reserves | <u>(16,826)</u> |
| Profit after transfer to statutory reserves | 749 |
| Accumulated profit brought forward | <u>18,593</u> |
| Accumulated profit carried forward | <u>19,342</u> |

DIVIDENDS

The amount of dividend paid by the company since 31 December 2002 was as follows:

| | RM'000 |
|---|---------------|
| In respect of the financial year ended 31 December 2002 as reported in the directors' report of that year | |
| Final dividend of 11% less 28% taxation, paid on 23 May 2003 | <u>16,078</u> |

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2003, of 11.51% less 28% taxation on 203,000,002 ordinary shares of RM1 each, amounting to a total dividend payable of RM16,823,016 (8.28 sen net per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2004.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the year other than those disclosed in the financial statements.

NON PERFORMING DEBTS AND FINANCING

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

CURRENT ASSETS

Before the financial statements of the Bank and of the Group were made out, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, have been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

As at the date of this report there does not exist:

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

- (i) the results of the operations of the Bank and of the Group for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than those as disclosed in the financial statements; and
- (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of the operations of the Bank and of the Group for the current financial year in which this report is made.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

DIRECTORS

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

General (Rtd) Tan Sri Dato' Mohd Ghazali Seth
Diong Chin Teck @ Tiong Chin Sang
Dato' Jorgen Bornhoft
Mohamed Eusoff Abdul Carrim
Robert Ralph Davis
Dato' Krishnan Tan Boon Seng
Wong See Hong (*Appointed on 12.3.2003*)
Jeremy Roy Oliver (*Appointed on 27.1.2004*)
Hugues Jacques Edouard Alain Delcourt (*Resigned on 13.5.2003*)

General (Rtd) Tan Sri Dato' Mohd Ghazali Seth and Diong Chin Teck @ Tiong Chin Sang, being over seventy years of age, retire in accordance with Section 129(2) of the Companies Act, 1965. The Board recommend that they be re-appointed as Directors in accordance with Section 129(6) of the Act.

DIRECTORS' INTERESTS

None of the Directors who held office at the end of the financial year had according to the register required to be kept under Section 134 of the Companies Act 1965 an interest in shares in the Bank or its related corporations.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the financial statements, or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

HOLDING COMPANIES

The Directors regard ABN AMRO Bank N.V. and ABN AMRO Holding N.V., as the immediate and ultimate holding companies of the Bank. Both companies are incorporated in The Netherlands.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

BUSINESS PLAN AND STRATEGY FOR FINANCIAL YEAR ENDED 31 DECEMBER 2003

ABN AMRO Bank Berhad has maintained its strategy of increasing revenues from its selected key clients, while remaining competitive, by constantly reviewing operational efficiency.

The bank has also been changing its revenue mix by growing its non-interest revenues, predominantly in the area of Financial Markets by offering value-added solutions in foreign exchange options and other derivatives that are focused on clients needs.

Tight cost management also resulted in a modest efficiency ratio of 54% recorded for the year.

OUTLOOK FOR 2004

ABN AMRO Bank Berhad expects a healthy Gross Domestic Products (GDP) in 2004 for the Malaysian economy, led mainly by export growth, particularly in emerging markets such as China and the intra ASEAN region. The weak United States Dollar has resulted in Malaysia maintaining its competitiveness in the global markets. Consumer confidence and domestic consumption is expected to remain high in 2004 despite the lower budget deficit projected for 2004 by the Government.

The Bank is striving to build its loan base which will be helped by sovereign upgrades and the better economic outlook for Malaysia in 2004 by offering innovative trade financing and credit solutions to its key clients.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

RATING BY AGENCY

RAM, Ratings Agency Malaysia Berhad reaffirmed the Bank's long term rating of AA₂ and its short-term rating of P1. The ratings were based on the Bank's sound asset quality, relatively stable funding, well-capitalised position and improving profitability. The Bank's healthy asset quality as demonstrated by the low incidence of non-performing loans ("NPLs"), the Bank's promotion of its fee-based activities to sustain its earnings by leveraging on its extensive global network as well as the Bank's position as a wholly owned subsidiary of ABN AMRO Holding N.V., a major global banking institution with a very strong franchise and prudent operations, were considered in the above rating.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors



JEREMY ROY OLIVER



MOHAMED EUSOFF ABDUL CARRIM

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DIRECTORS

Kuala Lumpur, Malaysia.
12 March 2004

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT 1965

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT 1965

We, JEREMY ROY OLIVER and MOHAMED EUSOFF ABDUL CARRIM, being two of the Directors of ABN AMRO BANK BERHAD, do hereby state that in the opinion of the Directors, the accompanying financial statements set out on pages 9 to 56 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act so as to give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2003 and of the results and the cash flows of the Bank and of the Group for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors



JEREMY ROY OLIVER



MOHAMED EUSOFF ABDUL CARRIM

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DIRECTORS

Kuala Lumpur, Malaysia.
12 March 2004

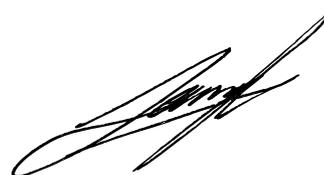
STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT 1965

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT 1965

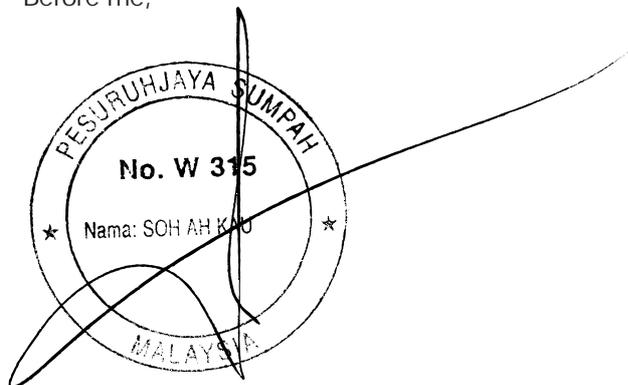
I, JEREMY ROY OLIVER being the Director primarily responsible for the financial management of ABN AMRO BANK BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 56 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed
JEREMY ROY OLIVER
at Kuala Lumpur in the Federal Territory
on 12 March 2004



JEREMY ROY OLIVER

Before me,



AUDITORS' REPORT

TO THE MEMBERS OF ABN AMRO BANK BERHAD

We have audited the accompanying financial statements and consolidated financial statements set out on pages 9 to 56. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

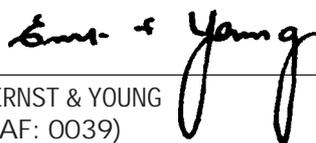
We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements and consolidated financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Bank and of the Group as at 31 December 2003 and of the results and cash flows of the Group and of the Bank for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements and consolidated financial statements.
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiaries for which we are the auditors have been properly kept in accordance with the provisions of the Act.

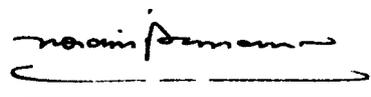
We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.



ERNST & YOUNG
(AF: 0039)
Chartered Accountants

Kuala Lumpur, Malaysia
12 March 2004



Dato' Nordin Bin Baharuddin
(No. 837/03/04(J))
Partner

BALANCE SHEETS

AS AT 31 DECEMBER 2003

| | Note | GROUP | | BANK | |
|--|------|-------------------|------------------|-------------------|------------------|
| | | 2003 RM'000 | 2002 RM'000 | 2003 RM'000 | 2002 RM'000 |
| ASSETS | | | | | |
| Cash and short-term funds | 4 | 1,237,145 | 1,130,851 | 1,237,145 | 1,130,851 |
| Deposits and placements with financial institutions | 5 | 304,684 | 371,841 | 304,684 | 371,841 |
| Dealing securities | 6 | 48,561 | 25,097 | 48,561 | 25,097 |
| Investment securities | 7 | 845,170 | 618,863 | 845,170 | 618,863 |
| Loans and advances | 8 | 370,592 | 450,137 | 370,592 | 450,137 |
| Other assets | 9 | 107,921 | 97,710 | 107,921 | 97,710 |
| Deferred tax assets | 10 | 2,105 | 2,719 | 2,105 | 2,719 |
| Statutory deposits with Bank Negara Malaysia | 11 | 36,353 | 42,454 | 36,353 | 42,454 |
| Investment in subsidiary companies | 12 | - | - | 20 | 20 |
| Property, plant and equipment | 13 | 2,585 | 3,599 | 2,585 | 3,599 |
| TOTAL ASSETS | | 2,955,116 | 2,743,271 | 2,955,136 | 2,743,291 |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | |
| Deposits from customers | 14 | 1,632,592 | 1,155,247 | 1,632,612 | 1,155,267 |
| Deposits and placements of banks and other financial institutions | 15 | 806,861 | 1,086,298 | 806,861 | 1,086,298 |
| Other liabilities | 16 | 141,954 | 145,328 | 141,954 | 145,328 |
| Deferred tax liabilities | 10 | 594 | 858 | 594 | 858 |
| TOTAL LIABILITIES | | 2,582,001 | 2,387,731 | 2,582,021 | 2,387,751 |
| Share capital | 17 | 203,000 | 203,000 | 203,000 | 203,000 |
| Reserves | 18 | 170,115 | 152,540 | 170,115 | 152,540 |
| SHAREHOLDERS' FUNDS | | 373,115 | 355,540 | 373,115 | 355,540 |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS | | 2,955,116 | 2,743,271 | 2,955,136 | 2,743,291 |
| COMMITMENTS AND CONTINGENCIES | 32 | 18,616,115 | 9,448,788 | 18,616,115 | 9,448,788 |

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

| | Note | GROUP/BANK | |
|---|------|----------------|----------------|
| | | 2003 RM'000 | 2002 RM'000 |
| Interest income | 19 | 89,420 | 93,180 |
| Interest expense | 20 | (53,782) | (55,488) |
| Net interest income | | 35,638 | 37,692 |
| Loan loss and write back | 21 | 2,341 | 4,268 |
| Provision for commitments and contingencies | | 2,191 | 1,802 |
| | | 40,170 | 43,762 |
| Non-interest income | 22 | 58,220 | 57,840 |
| Net income | | 98,390 | 101,602 |
| Non-interest expense | 23 | (50,837) | (46,851) |
| | | 47,553 | 54,751 |
| Provision for restructuring costs | 24 | - | 4,617 |
| Profit before taxation | | 47,553 | 59,368 |
| Taxation | 28 | (13,900) | (13,007) |
| Profit after taxation | | 33,653 | 46,361 |
| Earnings per share (sen) | 29 | 17 | 23 |

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

| | Issued and fully paid ordinary shares of RM1.00 each | | Non-distributable | | Distributable | Total |
|--|--|------------------|-------------------|-----------------------|----------------------|----------|
| | Number of shares | Nominal value | Share premium | Statutory reserves | Retained earnings | |
| | '000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| GROUP AND BANK | | | | | | |
| At 1 January 2002, as previously reported | 203,000 | 203,000 | 76,182 | 32,168 | (710) | 310,640 |
| Prior year adjustments (Note 37) | - | - | - | - | (1,461) | (1,461) |
| At 1 January 2002, as restated | 203,000 | 203,000 | 76,182 | 32,168 | (2,171) | 309,179 |
| Profit for the year | - | - | - | - | 46,361 | 46,361 |
| Transfer to reserves | - | - | - | 25,597 | (25,597) | - |
| At 31 December 2002 | 203,000 | 203,000 | 76,182 | 57,765 | 18,593 | 355,540 |
| At 31 December 2002, as previously reported | 203,000 | 203,000 | 76,182 | 57,765 | 24,886 | 361,833 |
| Prior year adjustments (Note 37) | - | - | - | - | (6,293) | (6,293) |
| At 31 December 2002, as restated | 203,000 | 203,000 | 76,182 | 57,765 | 18,593 | 355,540 |
| Profit for the year | - | - | - | - | 33,653 | 33,653 |
| Dividends (Note 30) | - | - | - | - | (16,078) | (16,078) |
| Transfer to reserves | - | - | - | 16,826 | (16,826) | - |
| At 31 December 2003 | 203,000 | 203,000 | 76,182 | 74,591 | 19,342 | 373,115 |

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

| | Note | GROUP/BANK | |
|---|------|------------------|------------------|
| | | 2003 RM'000 | 2002 RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 47,553 | 59,368 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 1,171 | 2,298 |
| Property, plant and equipment written off | | - | 46 |
| Gain on disposal of property, plant and equipment | | (31) | (116) |
| Loan loss and write back | | (2,341) | (4,268) |
| Provision for commitments and contingencies | | (2,191) | (1,802) |
| Provision for diminution in value of investment securities | | 4,311 | - |
| Provision for interest-in-suspense | | - | (177) |
| Loss on sale of investment securities | | - | 1,949 |
| Gross dividends | | (16,078) | - |
| | | (15,159) | (2,070) |
| Operating profit before working capital changes | | 32,394 | 57,298 |
| (Increase)/decrease in dealing securities | | (23,464) | 48,769 |
| Decrease in loans and advances | | 81,886 | 564,160 |
| Increase in other assets | | (7,245) | (37,243) |
| Decrease in statutory deposits with Bank Negara Malaysia | | 6,101 | 28,378 |
| Increase/(decrease) in deposits from customers | | 477,345 | (35,555) |
| (Decrease)/increase in deposits and placements of banks and other financial institutions | | (279,437) | 52,761 |
| Increase/(decrease) in other liabilities | | 1,492 | (46,977) |
| Decrease in bills and acceptances payable | | - | (9,940) |
| Cash generated from operations | | 289,072 | 621,651 |
| Income taxes paid | | (19,191) | (22,939) |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | | 269,881 | 598,712 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (193) | (4) |
| Proceeds from disposal of property, plant and equipment | | 67 | 201 |
| Increase in investment securities | | (230,618) | (275,698) |
| NET CASH USED IN INVESTING ACTIVITIES | | (230,744) | (275,501) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 39,137 | 323,211 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 1,502,692 | 1,179,481 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 25 | 1,541,829 | 1,502,692 |

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank and of the Group have been prepared in accordance with the provisions of the Companies Act, 1965, the Banking and Financial Institutions Act, 1989 and applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board (MASB).

During the financial year ended 31 December 2003, the Bank and the Group adopted the following MASB Standards for the first time:

| | |
|---------|-------------------|
| MASB 25 | Income Taxes |
| MASB 29 | Employee Benefits |

The effects of adopting MASB 25 is summarised in the Statements of Changes in Equity and further information is disclosed in Note 37 to the financial statements. The adoption of MASB 29 has not given rise to any adjustments to the opening balances of retained profits of the prior and current year or to changes in comparatives.

2. GENERAL

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

The registered office is located at Levels 26, MNI Twins, Tower 2, 11, Jalan Pinang, 50450 Kuala Lumpur.

The principal place of business is located at Levels 25 - 27, MNI Twins, Tower 2, 11, Jalan Pinang, 50450 Kuala Lumpur.

The principal activities of the Bank are banking and related financial services.

The principal activities of the subsidiary companies are to act as nominee, trustees, custodian trustees and agents on behalf of the Bank.

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 12 March 2004 and by Bank Negara Malaysia via its letter dated 25 February 2004.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements are prepared under the historical cost convention.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and all its subsidiaries for the year to 31 December 2003. The results of all subsidiary companies acquired or sold are included in the consolidated financial statements from the date of acquisition or to the date of sale.

(c) Recognition of Interest Income

Interest income is recognised on an accrual basis. Interest income on housing and term loans is recognised by reference to rest periods which are either monthly or yearly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for loans, overdrafts, and housing loans and after maturity date for trade bills, bankers' acceptances and trust receipts.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Recognition of Fees and Other Income

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from dealing securities are recognised when received. Dividends from investment securities are recognised when declared.

(e) Provision for Non-Performing Debts and Financing

Specific provisions are made for doubtful debts and financing which have been individually reviewed and specifically identified as sub-standard, doubtful or bad.

A general provision based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

An uncollectible loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(f) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

(g) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Cagamas bonds, other Government securities and Government and bank guaranteed Private debt securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date.

Bankers' acceptances are stated at face value less unearned discount. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Unquoted equity securities held as long term investments are stated at cost and provision is made in the event of any permanent diminution in value.

Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

(h) Investments in Subsidiary Companies

A subsidiary company is a company in which the Bank controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost, and written down when the Directors consider that there is a permanent diminution in the value of such investments.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, with the exception of freehold land and buildings which are not depreciated. The non-depreciation of buildings on freehold land is a non-compliance of MASB Standard No.14 - Depreciation Accounting, but the effect of this non-compliance is not material. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(j).

The principal annual rates of depreciation used are as follows:

| | |
|---|---------------|
| Motor vehicles | 20% |
| Office equipment and machinery | 20% |
| Furniture, fittings and office renovation | 10% - 20% |
| Computer equipment and software | 20% - 33 1/3% |

(j) Impairment of Assets

At each balance sheet date, the Bank reviews the carrying amounts of its assets, other than financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(k) Repurchase Agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and corresponding obligations to purchase the securities are reflected as a liability on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Forward Exchange Contracts

Unmatured forward exchange contracts are valued at forward rates as at the balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the income statement.

(m) Interest Rates Swap, Futures, Forward and Option Contracts

The Bank acts as an intermediary with counterparties who wish to swap their interest obligations. The Bank also uses interest rate swaps, futures, forward and option contracts in its trading account activities and in its overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rates futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in net result from dealing securities.

(n) Currency Translations

Individual foreign currency assets and liabilities are reported in Ringgit Malaysia in the balance sheet at spot rates of exchange which closely approximate those ruling at the balance sheet date. Income statement items are recorded at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statement in the year they arise.

The major exchange rates used by the Bank and the Group are:

| | GROUP AND BANK | |
|----------------------|----------------|--------|
| | Year end rates | |
| | 2003 | 2002 |
| United States Dollar | 3.8000 | 3.8000 |
| Great Britain Pounds | 6.7686 | 6.0918 |
| Euro | 4.7783 | 3.9410 |
| Singapore Dollar | 2.2342 | 2.1700 |
| Japanese Yen | 0.0355 | 0.0320 |

(o) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Income Tax (Cont'd)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Prior to the adoption of MASB 25 Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Note 37.

(p) Employee Benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(q) Cash and Cash Equivalents

Cash and cash equivalents as stated in the cash flow statement comprise cash and short-term funds, deposits and placements with financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(r) Financial Instruments

Financial instruments are recognised on the balance sheet when the Bank has become a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement.

(i) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(ii) Other financial instruments

The accounting policies for financial instruments other than equity instruments are disclosed in the individual policies associated with each item.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Derivatives

Derivatives are financial instruments, the contracted or notional amounts of which are not included in the balance sheet either because rights and obligations arise out of one and the same contract, the performance of which is due after balance sheet date, or because the notional amounts serve merely as variables for calculation purposes. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products or a combination of these.

(i) Hedging transactions

All currency and interest rate swaps undertaken as a hedge against open positions created by customer transactions have been disclosed as contingent items. These transactions are revalued and the income or losses resulting from the revaluation taken to the income statement.

(ii) Trading transactions

There are no proprietary trading positions for money market, interest rate or currency derivatives for the Bank.

4. CASH AND SHORT-TERM FUNDS

| | GROUP AND BANK | |
|--|------------------|------------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Cash and balances with banks and other financial institutions | 10,234 | 25,387 |
| Money at call and deposit placements maturing within one month | 1,226,911 | 1,105,464 |
| | <u>1,237,145</u> | <u>1,130,851</u> |

5. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | GROUP AND BANK | |
|----------------|----------------|----------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Licensed banks | <u>304,684</u> | <u>371,841</u> |

6. DEALING SECURITIES

| | GROUP AND BANK | |
|------------------------------------|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Money market instruments: | | |
| Malaysian Government securities | 552 | - |
| Quoted securities: | | |
| In Malaysia | | |
| Private debt securities | <u>48,009</u> | <u>25,097</u> |
| Total dealing securities | <u>48,561</u> | <u>25,097</u> |
| Market value of quoted securities: | | |
| Malaysian Government securities | 552 | - |
| Private debt securities | <u>48,009</u> | <u>25,568</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

7. INVESTMENT SECURITIES

| | GROUP AND BANK | |
|--|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| Money market instruments: | | |
| Malaysian Government securities | 331,000 | 186,000 |
| Khazanah bonds | 20,000 | 10,000 |
| Danaharta bonds | 110,000 | 135,000 |
| Danamodal bonds | - | 60,100 |
| Treasury Bills | 5,000 | - |
| Bankers' acceptances | 358,082 | 185,811 |
| Prasarana Bonds | - | 50,862 |
| | 824,082 | 627,773 |
| Quoted securities: | | |
| <u>In Malaysia</u> | | |
| Shares | 4,933 | 622 |
| Unquoted securities: | | |
| <u>In Malaysia</u> | | |
| Shares | 1,699 | 1,699 |
| Debentures | 20 | 20 |
| | 1,719 | 1,719 |
| | 830,734 | 630,114 |
| Amortisation of premium less accretion of discounts | 19,359 | (10,639) |
| Provision for diminution in value of investment securities | (4,923) | (612) |
| Total investment securities | 845,170 | 618,863 |
| Market value of quoted securities: | | |
| Malaysian Government securities | 350,272 | 205,059 |
| Khazanah bonds | 19,120 | 9,574 |
| Danaharta bonds | 108,853 | 129,625 |
| Danamodal bonds | - | 58,637 |
| Treasury Bills | 4,908 | - |
| Prasarana bonds | - | 51,095 |
| Shares | 5 | 5 |
| The maturity structure of money market instruments held for investment are as follows: | | |
| Maturity within one year | 483,082 | 325,911 |
| One year to three years | 225,000 | 130,000 |
| Three years to five years | 116,000 | 126,086 |
| Over five years | - | 45,776 |
| | 824,082 | 627,773 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

8. LOANS, ADVANCES AND FINANCING

| | GROUP AND BANK | |
|--|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| Overdrafts | 28,380 | 42,595 |
| Term loans | 204,615 | 410,547 |
| Bills receivable | 166,358 | 30,093 |
| Trust receipts | 3,161 | 4,061 |
| Claims on customers under acceptance credits | 15,987 | 26,002 |
| Staff loans (of which RM151,213 (2002 : RM179,373) to Directors) | 10,308 | 11,487 |
| Gross loans, advances and financing | 428,809 | 524,785 |
| Provision for bad and doubtful debts and financing | | |
| - specific | (29,334) | (42,864) |
| - general | (17,200) | (17,200) |
| Interest-in-suspense | (11,683) | (14,584) |
| Total net loans, advances and financing | 370,592 | 450,137 |
| (i) The maturity structure of gross loans, advances and financing are as follows: | | |
| Maturing within one year | 398,901 | 486,858 |
| One year to three years | 13,412 | 26,367 |
| Three years to five years | 248 | 227 |
| Over five years | 16,248 | 11,333 |
| | 428,809 | 524,785 |
| (ii) Loans, advances and financing analysed by their economic purposes are as follows: | | |
| Agriculture | 1 | 30,334 |
| Mining and quarrying | 1 | - |
| Manufacturing | 116,597 | 76,950 |
| Construction | 70,390 | 26,016 |
| Real estate | 40,401 | 67,090 |
| Purchase of landed properties (Residential) | 24,655 | 20,656 |
| Transport, storage and communication | 33,604 | 95,383 |
| Finance, insurance and business services | 83,628 | 29,472 |
| Purchase of securities | 1,319 | 1,889 |
| Purchase of transport vehicles | 708 | 1,218 |
| Government of Malaysia | - | 114,000 |
| Wholesale and retail | 53,179 | 53,523 |
| Consumption credit | 4,294 | 4,163 |
| Others | 32 | 4,091 |
| | 428,809 | 524,785 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

8. LOANS, ADVANCES AND FINANCING (CONT'D)

| | GROUP AND BANK | |
|--|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| (iii) Movements in the non-performing loans and financing including interest receivable are as follows: | | |
| Balance as at 1 January | 60,901 | 105,612 |
| Non-performing during the year (gross) | 5,370 | 9,705 |
| Recoveries | (3,998) | (47,200) |
| Amount written off | (15,290) | (7,216) |
| Debt equity/bonds conversion | (4,311) | - |
| Balance as at 31 December | <u>42,672</u> | <u>60,901</u> |
| (as % of total loans less specific provision (SP) and interest-in-suspense (IIS)) | <u>0.43%</u> | <u>0.74%</u> |
| (iv) Movements in the provision for bad and doubtful debts and financing and interest-in-suspense accounts are as follows: | | |
| General provision: | | |
| Balance as at 1 January and 31 December | 17,200 | 17,200 |
| (as % of total loans less loan to Government of Malaysia, SP & IIS) | <u>4.44%</u> | <u>4.87%</u> |
| Specific provision: | | |
| Balance as at 1 January | 42,864 | 51,521 |
| Provision made during the year | 136 | 2,088 |
| Amount written back in respect of recoveries | (2,477) | (6,356) |
| Amount written off | (6,878) | (4,389) |
| Debt equity conversion | (4,311) | - |
| Balance as at 31 December | <u>29,334</u> | <u>42,864</u> |
| Interest-in-suspense: | | |
| Balance as at 1 January | 14,584 | 17,444 |
| Provision made during the year | 907 | 1,514 |
| Amount written back in respect of recoveries | (403) | (1,691) |
| Amount written off | (3,405) | (2,683) |
| Balance as at 31 December | <u>11,683</u> | <u>14,584</u> |

9. OTHER ASSETS

| | GROUP AND BANK | |
|---|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| Other debtors, deposits and prepayments | 104,955 | 97,710 |
| Tax recoverable | 2,966 | - |
| | <u>107,921</u> | <u>97,710</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

10. DEFERRED TAX

| | GROUP AND BANK | |
|--|----------------|----------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| At 1 January | (1,861) | 1,461 |
| Recognised in the income statement (Note 28) | 350 | (3,322) |
| At 31 December | <u>(1,511)</u> | <u>(1,861)</u> |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | (2,105) | (2,719) |
| Deferred tax liabilities | 594 | 858 |
| | <u>(1,511)</u> | <u>(1,861)</u> |

Deferred Tax Liabilities of the Bank and of the Group:

| | Accelerated Capital Allowances | Total |
|------------------------------------|--------------------------------------|------------|
| | RM'000 | RM'000 |
| At 1 January | 858 | 858 |
| Recognised in the income statement | (264) | (264) |
| At 31 December | <u>594</u> | <u>594</u> |

Deferred Tax Assets of the Bank and of the Group:

| | Loan Loss And Provision | Other Payables | Total |
|------------------------------------|-------------------------------|-------------------|--------------|
| | | RM'000 | RM'000 |
| At 1 January | 1,629 | 1,090 | 2,719 |
| Recognised in the income statement | - | (614) | (614) |
| At 31 December | <u>1,629</u> | <u>476</u> | <u>2,105</u> |

11. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

12. INVESTMENT IN SUBSIDIARY COMPANIES

| | BANK | |
|--------------------------|-----------|-----------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Unquoted shares, at cost | <u>20</u> | <u>20</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

12. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

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

| Name | Principal Activity | Percentage of equity held |
|--|--------------------|---------------------------|
| ABN AMRO Nominees (Tempatan) Sdn. Bhd. | Nominee Company | 100% |
| ABN AMRO Nominees (Asing) Sdn. Bhd. | Nominee Company | 100% |

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

13. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land and buildings RM'000 | Motor vehicles RM'000 | Office equipment and machinery RM'000 | Furniture, fixture and fittings RM'000 | Computer equipment and software RM'000 | Total RM'000 |
|---|---|-----------------------------|---|---|--|-----------------|
| GROUP AND BANK | | | | | | |
| Net book value: | | | | | | |
| As at 1 January 2003 | 388 | 189 | 185 | 2,396 | 441 | 3,599 |
| Additions | - | - | - | - | 193 | 193 |
| Disposals/write-offs | - | (11) | - | - | (25) | (36) |
| Depreciation | - | (93) | (111) | (539) | (428) | (1,171) |
| As at 31 December 2003 | 388 | 85 | 74 | 1,857 | 181 | 2,585 |
| Depreciation for the year ended 31 December 2002 | - | 141 | 380 | 815 | 962 | 2,298 |
| As at 31 December 2003: | | | | | | |
| Cost | 388 | 427 | 1,158 | 4,732 | 8,583 | 15,288 |
| Accumulated depreciation | - | (342) | (1,084) | (2,875) | (8,402) | (12,703) |
| Net book value | 388 | 85 | 74 | 1,857 | 181 | 2,585 |
| As at 31 December 2002: | | | | | | |
| Cost | 388 | 516 | 2,276 | 6,078 | 8,420 | 17,678 |
| Accumulated depreciation | - | (327) | (2,091) | (3,682) | (7,979) | (14,079) |
| Net book value | 388 | 189 | 185 | 2,396 | 441 | 3,599 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

14. DEPOSITS FROM CUSTOMERS

| Type | GROUP | | BANK | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2003 RM'000 | 2002 RM'000 | 2003 RM'000 | 2002 RM'000 |
| Demand deposits | 678,428 | 559,490 | 678,448 | 559,510 |
| Saving deposits | 5,840 | 5,330 | 5,840 | 5,330 |
| Fixed deposits | 484,719 | 535,612 | 484,719 | 535,612 |
| Repurchase agreements | 463,605 | 54,815 | 463,605 | 54,815 |
| | <u>1,632,592</u> | <u>1,155,247</u> | <u>1,632,612</u> | <u>1,155,267</u> |

(i) Maturity structure of fixed deposits are as follows:

| | GROUP AND BANK | |
|-------------------------|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| Due within six months | 437,925 | 480,440 |
| Six months to one year | 28,358 | 41,599 |
| One year to three years | 18,436 | 13,573 |
| | <u>484,719</u> | <u>535,612</u> |

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

| | GROUP | | BANK | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2003 RM'000 | 2002 RM'000 | 2003 RM'000 | 2002 RM'000 |
| Business enterprises | 1,360,743 | 892,469 | 1,360,763 | 892,489 |
| Individuals | 98,716 | 122,669 | 98,716 | 122,669 |
| Others | 173,133 | 140,109 | 173,133 | 140,109 |
| | <u>1,632,592</u> | <u>1,155,247</u> | <u>1,632,612</u> | <u>1,155,267</u> |

15. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | GROUP AND BANK | |
|---|----------------|------------------|
| | 2003 RM'000 | 2002 RM'000 |
| Deposits from licensed banks | 806,861 | 827,298 |
| Negotiable instruments of deposits issued to financial institutions | - | 259,000 |
| | <u>806,861</u> | <u>1,086,298</u> |

16. OTHER LIABILITIES

| | GROUP AND BANK | |
|---|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| Taxation | - | 2,673 |
| Retirement benefits | 22 | 22 |
| Other liabilities | 140,230 | 138,740 |
| Provision for commitments and contingencies | 1,702 | 3,893 |
| | <u>141,954</u> | <u>145,328</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

17. SHARE CAPITAL

| | GROUP AND BANK | |
|---|----------------|---------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Authorised: | | |
| 500,000,000 ordinary shares of RM1 each | 500,000 | 500,000 |
| Issued and fully paid: | | |
| Balance as at 1 January | 203,000 | 203,000 |
| Issued during the year | - | - |
| Balance as at 31 December | 203,000 | 203,000 |

18. RESERVES

| | GROUP AND BANK | |
|---|----------------|---------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Share premium (see below) | 76,182 | 76,182 |
| Statutory reserves (see below) | 74,591 | 57,765 |
| Accumulated profit | 19,342 | 18,593 |
| | 170,115 | 152,540 |
| (a) <u>Share premium</u> | | |
| Balance as at 1 January and 31 December | 76,182 | 76,182 |
| (b) <u>Statutory reserves</u> | | |
| Balance as at 1 January | 57,765 | 32,168 |
| Transfer from distributable earnings | 16,826 | 25,597 |
| Balance as at 31 December | 74,591 | 57,765 |

The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

19. INTEREST INCOME

| | GROUP AND BANK | |
|--|----------------|--------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Loans and advances | 19,714 | 30,104 |
| Money at call and deposit placements with financial institutions | 39,400 | 33,403 |
| Investment securities | 27,762 | 26,590 |
| Dealing securities | 2,544 | 2,906 |
| | 89,420 | 93,003 |
| Interest suspended net of recoveries | - | 177 |
| | 89,420 | 93,180 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

20. INTEREST EXPENSE

| | GROUP AND BANK | |
|---|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Deposits and placements of banks and other financial institutions | 21,869 | 22,155 |
| Deposits from other customers | 30,328 | 29,363 |
| Others | 1,585 | 3,970 |
| | <u>53,782</u> | <u>55,488</u> |

21. LOAN LOSS AND WRITE BACK

| | GROUP AND BANK | |
|--------------------------------------|----------------|----------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Provision for bad and doubtful debts | | |
| - specific provision (net) | (2,341) | (4,268) |
| - general provision | - | - |
| | <u>(2,341)</u> | <u>(4,268)</u> |

22. NON-INTEREST INCOME

| | GROUP AND BANK | |
|---|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Fee income: | | |
| Commission | 28,285 | 7,308 |
| Service charges and fees | 2,907 | 1,969 |
| Guarantee fees | 782 | 2,120 |
| Other fee income | 1,400 | 1,433 |
| | <u>33,374</u> | <u>12,830</u> |
| Investment income: | | |
| Net profit from dealing securities | 3,219 | 22,427 |
| Loss from sale of investment securities | - | (1,949) |
| Gross dividend from unquoted investments securities | 338 | 67 |
| | <u>3,557</u> | <u>20,545</u> |
| Other income: | | |
| Foreign exchange profit | 13,871 | 18,349 |
| Premium on disposal of mortgage loans | 2,444 | 6,000 |
| Gain on disposal of property, plant and equipment | 31 | 116 |
| Share of profit on derivatives trading | 3,719 | - |
| Premium earned from currency option trading | 1,224 | - |
| | <u>21,289</u> | <u>24,465</u> |
| Total | <u>58,220</u> | <u>57,840</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

23. NON-INTEREST EXPENSE

| | GROUP AND BANK | |
|--|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Personnel costs | 19,242 | 19,070 |
| Establishment costs | 17,283 | 12,656 |
| Marketing expenses | 832 | 444 |
| Administration and general expenses | 13,480 | 14,681 |
| | <u>50,837</u> | <u>46,851</u> |
| Included in the above expenditure are the following: | | |
| Directors' remuneration and benefits-in-kind (Note 27) | 1,600 | 1,259 |
| Rental of premises | 1,702 | 1,823 |
| Rental of equipment | 39 | 130 |
| Auditors' remuneration - statutory audit | 80 | 80 |
| Depreciation of property, plant and equipment | 1,171 | 2,298 |
| Property, plant and equipment written off | - | 46 |

The number of employees of the Group and of the Bank at the end of the year were 138 (2002 : 144) and 138 (2002 : 144) respectively.

24. PROVISION FOR RESTRUCTURING COSTS

The write back in 2002 relates to unutilised provision for restructuring costs from prior years. Such provision was made then by the Bank to be in line with the new structure identified for the Malaysian operations which is a focused wholesale bank.

25. CASH AND CASH EQUIVALENTS

| | GROUP AND BANK | |
|---|------------------|------------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Cash and cash equivalents comprise the following: | | |
| Cash and short-term funds | 1,237,145 | 1,130,851 |
| Deposits and placements with financial institutions | 304,684 | 371,841 |
| | <u>1,541,829</u> | <u>1,502,692</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

26. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

| | Immediate holding company RM'000 | Subsidiary companies RM'000 | Other related companies RM'000 |
|-------------------------------------|---|-----------------------------------|---|
| 2003 | | | |
| Income: | | | |
| Commission | 28,350 | - | - |
| Interest income | 19,428 | - | - |
| Expense: | | | |
| Interest expense | 11,852 | - | 18 |
| Management fee | 18,004 | - | - |
| Commission | 424 | - | - |
| Cost sharing automation | 3,018 | - | - |
| Amount due from: | | | |
| Deposits and current accounts | 554,694 | - | - |
| Interest receivable | 2,555 | - | - |
| Amount due to: | | | |
| Deposits and current accounts | 423,867 | 20 | - |
| Interest payable | 652 | - | - |
| Foreign exchange related contracts: | | | |
| - purchased and receivable | 4,092,504 | - | - |
| - sold and payable | 4,032,515 | - | - |
| 2002 | | | |
| Income: | | | |
| Commission | 2,222 | - | - |
| Interest income | 23,353 | - | 162 |
| Expense: | | | |
| Interest expense | | | |
| Management fee | 7,152 | - | - |
| Commission | 14,683 | - | - |
| Cost sharing automation | 69 | - | - |
| Other automation costs | 3,205 | - | - |
| Amount due from: | | | |
| Deposits and current accounts | 1,082,216 | - | 1,173 |
| Interest receivable | 5,463 | - | - |
| Amount due to: | | | |
| Deposits and current accounts | 748,008 | 20 | - |
| Interest payable | 576 | - | - |
| Foreign exchange related contracts: | | | |
| - purchased and receivable | 413,724 | - | 140,794 |
| - sold and payable | 393,865 | - | 139,280 |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

27. DIRECTORS' REMUNERATION (Note 23)

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

| | GROUP AND BANK | |
|---------------------------------|----------------|--------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Executive directors | | |
| - Salary and other remuneration | 925 | 876 |
| - Bonuses | 464 | - |
| - Benefits-in-kind | 120 | 322 |
| - Pension | 30 | - |
| Non-executive directors | | |
| - Fees | 61 | 61 |
| | <u>1,600</u> | <u>1,259</u> |

The remuneration attributable to the Managing Director of the Bank, including benefits-in-kind during the year amounted to RM971,167 (2002 : RM737,000).

28. TAXATION

| | GROUP AND BANK | |
|---|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Malaysian income tax based on results for the year: | | |
| Current year | 13,550 | 16,329 |
| Deferred tax | | |
| Relating to origination and reversal of temporary differences (Note 10) | 350 | (3,322) |
| | <u>13,900</u> | <u>13,007</u> |

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank and of the Group is as follows:

| | GROUP AND BANK | |
|---|----------------|---------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Profit before taxation | 47,553 | 59,368 |
| Taxation at Malaysian statutory tax rate of 28% (2002: 28%) | 13,315 | 16,623 |
| Income not subject to tax | (78) | (3,071) |
| Expenses not deductible for tax purposes | 663 | 3,635 |
| Deferred tax asset recognised on provisions | - | (1,090) |
| Underprovision of deferred taxation in prior years | - | (3,090) |
| Tax expense for the year | <u>13,900</u> | <u>13,007</u> |

29. EARNINGS PER SHARE

The earnings per share has been calculated based on the net profit after taxation of RM33,653,000 (2002 : RM46,361,000) on the weighted average number of ordinary shares of RM1 each in issue of RM203,000,002 (2002: RM203,000,002) during the year.

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30. DIVIDENDS

| | Amount | | Net Dividends per Share | |
|---|----------------|----------------|-------------------------|----------------|
| | 2003 RM'000 | 2002 RM'000 | 2003 RM'000 | 2002 RM'000 |
| Final dividend of 11% less 28% taxation, paid on 23 May 2003 | 16,078 | - | 7.9 | - |

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2003, of 11.51% less 28% taxation on 203,000,002 ordinary shares of RM1 each, amounting to a total dividend payable of RM16,823,016 (8.28 sen net per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2004.

31. LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long term lease commitments, net of sub-leases is as follows:

| Year | GROUP AND BANK | |
|------|----------------|----------------|
| | 2003 RM'000 | 2002 RM'000 |
| 2003 | - | 1,150 |
| 2004 | 1,462 | 218 |
| 2005 | 1,350 | - |
| 2006 | 990 | - |

32. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

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32. COMMITMENTS AND CONTINGENCIES (CONT'D)

Risk Weighted Exposures of the Bank as at 31 December:

| | GROUP AND BANK | | | |
|---|----------------------------|--------------------------------------|----------------------------|--------------------------------------|
| | 2003 | | 2002 | |
| | Principal amount RM'000 | Credit equivalent amount * RM'000 | Principal amount RM'000 | Credit equivalent amount * RM'000 |
| Direct credit substitutes | 46,591 | 46,591 | 44,088 | 44,088 |
| Transaction-related contingent items | 447,066 | 223,533 | 443,644 | 221,822 |
| Short-term self-liquidating trade-related contingencies | 36,353 | 7,271 | 57,060 | 11,412 |
| Other assets sold with recourse and commitments with certain drawdown | 9,463 | 9,463 | 9,860 | 9,860 |
| Irrevocable commitments to extend credit: | | | | |
| - maturity less than one year | 129,317 | - | 182,234 | - |
| - maturity more than one year | 5,809 | 2,905 | 10,306 | 5,153 |
| Foreign exchange related contracts: | | | | |
| - Forward and futures contracts - less than one year | 13,042,516 | 380,650 | 6,201,596 | 143,882 |
| Interest rate related contracts: | | | | |
| - Forward and futures contracts - less than one year | 4,899,000 | 122,333 | 2,500,000 | 59,182 |
| | <u>18,616,115</u> | <u>792,746</u> | <u>9,448,788</u> | <u>495,399</u> |

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

Foreign exchange 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 amount of contracts which were not hedged and, hence, exposed to market risk was RM25.1 million (2002: RM32.6 million).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As 31 December 2003, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM19.4 million (2002: RM9.2 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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33. FINANCIAL RISK MANAGEMENT POLICIES

The Bank's financial risk management policy seeks to ensure that adequate resources are available for the development of the Bank's business whilst managing its interest rate, market, credit and liquidity risks. The Board of Directors has approved guidelines pertaining to the risk management policies of the Bank which are closely adhered to, ensuring that the operations of the Bank are conducted in a prudent manner.

(a) Operational Risk

Operational risk is the risk of loss to the Bank resulting from weaknesses or failures in its internal processes, people and systems, or due to external events whether within or beyond its control.

The Bank is currently implementing an Internal Operational Self Risk Assessment system, identifying areas and probability of risk. The actual occurrence of operational loss is entered into a Corporate Loss Database and reconciled against the financial statements. The Bank has also the Operational Risk Assessment Process and a Business Continuity Plan already in place.

(b) Credit Risk

Credit risk arises from the possibility that a customer or counterparty may be unable to meet its financial obligations to the Bank, either from a facility granted or a contract in which the Bank has a gain position. At customer level, the Bank will evaluate the total credit risk for all products.

Credit risk for derivatives is measured as sum of replacement cost of the outstanding position (determined by using current market rates) plus an estimate of the Bank's future credit exposure as a result of market price changes. A "Contracts Violations Report" is generated and the report presents credit violations that were committed. These violations will be monitored and reported to Head Office by the Country Risk Officer ("CRO").

With respect to country risk:

- (i) The CRO signs off on the monthly country risk reports which reflect the cross border risk exposure, sovereign risk exposure and gross country exposure in accordance with the Bank's policy on country risk, and
- (ii) The CRO will track limit violations and together with the Business Support Unit, reports the violations to Head Office.

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33. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit Risk (Cont'd)

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

| Group | | | | | | | | |
|---|--|------------------------------|---------------------------------|------------------------------|-----------------------------|-----------------------|----------------------------------|---|
| | Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000 | Dealing securities RM'000 | Investment securities RM'000 | Loans and advances RM'000 | General provision RM'000 | Other Asset RM'000 | On balance sheet Total RM'000 | Commitments and contingencies RM'000 |
| Agricultural mining and quarrying | | | | 2 | | | | |
| Manufacturing | | | | 116,597 | | | | |
| Construction | | | | 70,390 | | | | |
| Real estate | | | | 40,401 | | | | |
| Purchase of landed properties (Residential) | | | | | | | | |
| i) Resident | | | | 24,655 | | | | |
| ii) Non-resident | | | | - | | | | |
| Wholesale and retail | | | | 53,179 | | | | |
| Transport, storage and communication | | | | 33,604 | | | | |
| Finance, insurance and business services | | | | 83,628 | | | | |
| Government and government agencies | | | | - | | | | |
| Purchase of securities | | | | 1,319 | | | | |
| Purchase of transport vehicles | | | | 708 | | | | |
| Consumption credit | | | | - | | | | |
| Others | 1,576,557 | 48,561 | 845,170 | 4,326 | (17,200) | | | 18,616,115 |
| | 1,576,557 | 48,561 | 845,170 | 428,809 | (17,200) | - | - | 18,616,115 |

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33. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit Risk (Cont'd)

| Bank | | | | | | | | |
|---|--|------------------------------|---------------------------------|------------------------------|-----------------------------|-----------------------|----------------------------------|---|
| | Short term funds and placements with financial institutions including Statutory Deposit with BNM RM'000 | Dealing securities RM'000 | Investment securities RM'000 | Loans and advances RM'000 | General provision RM'000 | Other Asset RM'000 | On balance sheet Total RM'000 | Commitments and contingencies RM'000 |
| Agricultural mining and quarrying | | | | 2 | | | | |
| Manufacturing | | | | 116,597 | | | | |
| Construction | | | | 70,390 | | | | |
| Real estate | | | | 40,401 | | | | |
| Purchase of landed properties (Residential) | | | | | | | | |
| i) Resident | | | | 24,655 | | | | |
| ii) Non-resident | | | | - | | | | |
| Wholesale and retail | | | | 53,179 | | | | |
| Transport, storage and communication | | | | 33,604 | | | | |
| Finance, insurance and business services | | | | 83,628 | | | | |
| Government and government agencies | | | | - | | | | |
| Purchase of securities | | | | 1,319 | | | | |
| Purchase of transport vehicles | | | | 708 | | | | |
| Consumption credit | | | | - | | | | |
| Others | 1,576,557 | 48,561 | 845,170 | 4,326 | (17,200) | | | 18,616,115 |
| | 1,576,557 | 48,561 | 845,170 | 428,809 | (17,200) | - | - | 18,616,115 |

(c) Market Risk

Market risk is the potential change in value caused by movements in market rates and prices. The Bank is exposed to foreign exchange and interest rate risks, which are monitored daily through its market risk management systems. Daily reports measuring utilization of currency and holding limits together with price value basis points limits are generated and circulated to the relevant parties for information and action.

All limits are approved by the holding company and are reviewed regularly.

(d) Liquidity Risk

Liquidity risk is the risk of loss due to failure by the Bank to meet its short term funding requirements.

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33. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(d) Liquidity Risk (Cont'd)

The Assets and Liabilities Committee ("ALCO") is primarily responsible for the strategic management of the Bank's liquidity, the daily operations of which are carried out by the Money Market Desk of the Treasury Department.

ALCO monitors at its monthly meeting, adherence to the liquidity and mismatch limits, and compliance with ABN AMRO Bank N.V worldwide, ALCO guidelines and Bank Negara Malaysia's New Liquidity Framework.

34. INTEREST RATE RISK

Interest rate risk is the potential change in interest rate levels including changes in interest rate differentials and arises mainly from the differing yields and maturity profiles between assets and liabilities.

Interest rate is monitored through the market risk management systems as part of the overall market risk management of the Bank.

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34. INTEREST RATE RISK (CONT'D)

The following tables represent the Group and Bank's carrying assets and liabilities at carrying amounts as at 31 December 2003.

| 31.12.2003 | | | | | | | | | |
|---|------------------|-----------------|------------------|----------------|-----------------|-----------------------------|-----------------|--------------------------|------------------|
| Group | | | | | | | | | |
| | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Non- interest bearing | Provisions | SPI- related items | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets | | | | | | | | | |
| Cash and short-term funds | 1,237,145 | - | - | - | - | - | - | - | 1,237,145 |
| Deposits and placements with financial institutions | - | 108,092 | 177,782 | 18,810 | - | - | - | - | 304,684 |
| Dealing securities | - | - | 15,210 | 17,390 | 15,961 | - | - | - | 48,561 |
| Investment securities | 139,850 | 188,731 | 98,730 | 417,859 | - | - | - | - | 845,170 |
| Loans, advances and Financing | 77,743 | 102,603 | 218,555 | 13,660 | 16,248 | - | (58,217) | - | 370,592 |
| Taxation | - | - | - | - | - | 2,966 | - | - | 2,966 |
| Other assets | - | - | - | - | - | 104,955 | - | - | 104,955 |
| Deferred tax assets | - | - | - | - | - | 2,105 | - | - | 2,105 |
| Statutory deposits with Bank negara Malaysia | - | - | - | - | - | 36,353 | - | - | 36,353 |
| Investment in subsidiary companies | - | - | - | - | - | - | - | - | - |
| Fixed assets | - | - | - | - | - | 2,585 | - | - | 2,585 |
| Total Assets | 1,454,738 | 399,426 | 510,277 | 467,719 | 32,209 | 148,964 | (58,217) | - | 2,955,116 |
| Liabilities | | | | | | | | | |
| Deposits from customers | 1,479,999 | 105,427 | 46,791 | 375 | - | - | - | - | 1,632,592 |
| Deposits and placements of banks and other financial institutions | 551,283 | 138,078 | 117,500 | - | - | - | - | - | 806,861 |
| Other Liabilities | - | - | - | - | - | 141,954 | - | - | 141,954 |
| Deferred tax liabilities | - | - | - | - | - | 594 | - | - | 594 |
| Total Liabilities | 2,031,282 | 243,505 | 164,291 | 375 | - | 142,548 | - | - | 2,582,001 |
| On balance sheet interest rate gap | (576,544) | 155,921 | 345,986 | 467,344 | 32,209 | 6,416 | (58,217) | - | 373,115 |
| Off balance sheet interest rate gap | - | - | - | - | - | - | - | - | - |
| Net interest rate gap | (576,544) | 155,921 | 345,986 | 467,344 | 32,209 | 6,416 | (58,217) | - | 373,115 |

NOTES TO THE FINANCIAL STATEMENTS

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34. INTEREST RATE RISK (CONT'D)

| 31.12.2003 | | Bank | | | | | | | |
|---|------------------|----------------|----------------|----------------|---------------|----------------------|-----------------|-------------------|------------------|
| | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Non-interest bearing | Provisions | SPI-related items | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets | | | | | | | | | |
| Cash and short-term funds | 1,237,145 | - | - | - | - | - | - | - | 1,237,145 |
| Deposits and placements with financial institutions | - | 108,092 | 177,782 | 18,810 | - | - | - | - | 304,684 |
| Dealing securities | - | - | 15,210 | 17,390 | 15,961 | - | - | - | 48,561 |
| Investment securities | 139,850 | 188,731 | 98,730 | 417,859 | - | - | - | - | 845,170 |
| Loans, advances and Financing | 77,743 | 102,603 | 218,555 | 13,660 | 16,248 | - | (58,217) | - | 370,592 |
| Taxation | - | - | - | - | - | 2,966 | - | - | 2,966 |
| Other assets | - | - | - | - | - | 104,955 | - | - | 104,955 |
| Deferred tax assets | - | - | - | - | - | 2,105 | - | - | 2,105 |
| Statutory deposits with Bank negara Malaysia | - | - | - | - | - | 36,353 | - | - | 36,353 |
| Investment in subsidiary companies | - | - | - | - | - | 20 | - | - | 20 |
| Fixed assets | - | - | - | - | - | 2,585 | - | - | 2,585 |
| Total Assets | 1,454,738 | 399,426 | 510,277 | 467,719 | 32,209 | 148,984 | (58,217) | - | 2,955,136 |
| Liabilities | | | | | | | | | |
| Deposits from customers | 1,480,019 | 105,427 | 46,791 | 375 | - | - | - | - | 1,632,612 |
| Deposits and placements of banks and other financial institutions | 551,283 | 138,078 | 117,500 | - | - | - | - | - | 806,861 |
| Other Liabilities | - | - | - | - | - | 141,954 | - | - | 141,954 |
| Deferred tax liabilities | - | - | - | - | - | 594 | - | - | 594 |
| Total Liabilities | 2,031,302 | 243,505 | 164,291 | 375 | - | 142,548 | - | - | 2,582,021 |
| On balance sheet interest rate gap | (576,564) | 155,921 | 345,986 | 467,344 | 32,209 | 6,436 | (58,217) | - | 373,115 |
| Off balance sheet interest rate gap | - | - | - | - | - | - | - | - | - |
| Net interest rate gap | (576,564) | 155,921 | 345,986 | 467,344 | 32,209 | 6,436 | (58,217) | - | 373,115 |

NOTES TO THE FINANCIAL STATEMENTS

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34. INTEREST RATE RISK (CONT'D)

Included in the tables are the Group's and Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates and their average effective interest rates per annum at their balance sheet dates.

| | GROUP 31.12.2003 | | BANK 31.12.2003 | |
|---|---------------------|------|--------------------|------|
| | MYR | USD | MYR | USD |
| | % | % | % | % |
| Financial Assets | | | | |
| Cash and short-term funds | 2.86 | 1.00 | 2.86 | 1.00 |
| Deposits and placements with financial institutions | 2.98 | 2.09 | 2.98 | 2.09 |
| Dealing securities | - | - | - | - |
| Investment securities | 3.23 | - | 3.23 | - |
| Loans, advances and Financing | 5.39 | 1.40 | 5.39 | 1.40 |
| Other assets | - | - | - | - |
| Financial Liabilities | | | | |
| Deposits from customers | 2.75 | 0.89 | 2.75 | 0.89 |
| Deposits and placements of banks and other financial institutions | 2.74 | 1.09 | 2.74 | 1.09 |
| Obligations on securities sold under repurchase agreements | 2.48 | - | 2.48 | - |
| Other Liabilities | - | - | - | - |

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

| 31.12.2003 | GROUP | | BANK | |
|---|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying Amount RM'000 | Fair Value RM'000 | Carrying Amount RM'000 | Fair Value RM'000 |
| Assets | | | | |
| Cash and short-term funds | 1,237,145 | 1,237,145 | 1,237,145 | 1,237,145 |
| Deposits and placements with financial institutions | 304,684 | 304,684 | 304,684 | 304,684 |
| Dealing securities | 48,561 | 48,561 | 48,561 | 48,561 |
| Investment securities | 845,170 | 842,959 | 845,170 | 842,959 |
| Loans, advances and Financing | 370,592 | 369,296 | 370,592 | 369,296 |
| Other assets | 107,921 | 107,921 | 107,921 | 107,921 |
| Statutory deposit with Bank Negara Malaysia | 36,353 | 36,353 | 36,353 | 36,353 |
| Total Assets | 2,950,426 | 2,946,919 | 2,950,426 | 2,946,919 |
| Liabilities | | | | |
| Deposits from customers | 1,632,592 | 1,732,592 | 1,632,612 | 1,632,612 |
| Deposits and placements of banks and other financial institutions | 806,861 | 806,861 | 806,861 | 806,861 |
| Other Liabilities | 141,954 | 141,954 | 141,954 | 141,954 |
| Total Liabilities | 2,581,407 | 2,681,407 | 2,581,427 | 2,581,427 |

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35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

| 31.12.2003 | Underlying Notional RM'000 | GROUP Fair Value | | BANK Fair Value | |
|----------------------------------|----------------------------------|---------------------|---------------------|--------------------|---------------------|
| | | Asset RM'000 | Liability RM'000 | Asset RM'000 | Liability RM'000 |
| Derivative financial instruments | | | | | |
| Foreign exchange contracts: | | | | | |
| - Forward | 1,701,994 | 772,585 | 929,409 | 772,585 | 929,409 |
| - Cross currency swaps | 5,680,608 | 2,665,370 | 3,015,238 | 1,753,370 | 2,635,238 |
| - Options | 5,659,914 | 2,829,957 | 2,829,957 | 2,829,957 | 2,829,957 |
| Interest rate contracts: | | | | | |
| - Futures | - | - | - | - | - |
| - Swaps | 4,899,000 | 3,779,000 | 1,120,000 | 3,779,000 | 1,120,000 |

Derivative financial assets represent contracts that are in a favourable position, and derivative financial liabilities are contracts that are in an unfavourable position at reporting date and may fluctuate in relation to changes in market rates.

Fair value is the estimated amount at which a financial asset or liability can be exchanged between two parties under normal market conditions.

However, certain assets such as loans, deposits and derivatives, fair values are not readily available as there is no open market where these instruments are traded.

The fair values for these instruments are estimated based on the assumptions and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

(i) Cash and short term funds

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

(ii) Deposits and placements with financial institutions

Deposits and placements of below one year are at carrying amounts while those maturing beyond one year have been valued at discounted cashflows.

(iii) Dealing and investment securities

Dealing and investment securities are valued at market rates prevailing at balance sheet date.

(iv) Loans and advances

Loans, advances and financing have been adjusted to reflect the capacity of the borrowers to repay on demand by calculating the discounted amount payable and credit worthiness of borrowers.

NOTES TO THE FINANCIAL STATEMENTS

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35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

(v) Other assets

Other assets have been reflected at amounts generated from internal sources and credit adjusted for amounts recoverable from external parties.

(vi) Statutory deposits with BNM

Statutory deposits with BNM are stated at carrying amounts.

(vii) Deposits from customers

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cashflows.

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

Deposits and placements of banks and other financial institutions are valued at carrying amounts.

(ix) Other liabilities

Other liabilities are stated at carrying amounts.

36. CAPITAL ADEQUACY

The components of Tier I and Tier II capital are as follows:

| | GROUP AND BANK | |
|--|----------------|----------------|
| | 2003 | 2002 |
| | RM'000 | RM'000 |
| Tier-I capital | | |
| Paid-up share capital | 203,000 | 203,000 |
| Share premium | 76,182 | 76,182 |
| Other reserves | 74,591 | 57,765 |
| Accumulated profit | 19,342 | 18,593 |
| Total Tier-I capital | <u>373,115</u> | <u>355,540</u> |
| Tier-II Capital | | |
| General provision for bad and doubtful debts | 17,200 | 17,200 |
| Total Tier-II capital | <u>17,200</u> | <u>17,200</u> |
| Total capital base | 390,315 | 372,740 |
| Less: Investment in subsidiaries | (20) | (20) |
| Capital base | <u>390,295</u> | <u>372,720</u> |
| Capital Ratios | | |
| Core capital ratio | 31.67% | 35.27% |
| Risk-weighted capital ratio | <u>33.12%</u> | <u>36.98%</u> |

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36. CAPITAL ADEQUACY (CONT'D)

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

| | 2003 RM'000 | 2002 RM'000 |
|-------|------------------|------------------|
| 0% | - | - |
| 20% | 466,183 | 402,287 |
| 50% | 234,686 | 232,090 |
| 100% | 477,436 | 373,573 |
| Total | <u>1,178,305</u> | <u>1,007,950</u> |

37. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

(a) Changes in Accounting Policies

During the financial year, the Bank and the Group applied two new MASB Standards which became effective from 1 January 2003, and accordingly modified certain accounting policies. The changes in accounting policies which resulted in prior year adjustments are discussed below:

(i) MASB 25 - Income Taxes

Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Bank and the Group have commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was a reasonable expectation of their realisation.

(b) Prior Year Adjustments

During the financial year, the immediate holding company advised the Bank that an accounting error in relation to sales credits allocation to Malaysia for the financial year 2002 had been identified, resulting in an overstatement of profit after taxation for the year ended 31 December 2002 by RM8,154 mil. Accordingly, the 2002 comparative balances have been restated to reflect the change in the sales credit allocation.

The changes in accounting policies have been applied retrospectively and comparatives have been restated. The effects of the changes in error and in accounting policies are as follows:

| | GROUP 2003 RM'000 | BANK 2002 RM'000 |
|--|-------------------------|------------------------|
| Effects on Reserves: | | |
| At 31 December, as previously stated | 184,430 | 184,430 |
| Transfer to statutory reserves (S.36 of BAFIA) | <u>(25,597)</u> | <u>(25,597)</u> |
| | 158,833 | 158,833 |
| Effects on overstatement of sales credits allocation | (11,325) | (11,325) |
| Tax effects arising on overstatement of sales credits allocation | 3,171 | 3,171 |
| Effects of adopting MASB 25 | 1,861 | 1,861 |
| Effects on transfer to statutory reserves | - | - |
| At 31 December, as restated | <u>152,540</u> | <u>152,540</u> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2003

37. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (CONT'D)

(b) Prior Year Adjustments (Cont'd)

| | GROUP 2003 RM'000 | BANK 2002 RM'000 |
|--|-------------------------|------------------------|
| Effects on profit for the year: | | |
| At 31 December, as previously stated | 70,693 | 70,693 |
| Effects on the overstatement of sales credits allocation | (11,325) | (11,325) |
| | <u>59,368</u> | <u>59,368</u> |
| Taxation, as previously stated | (19,500) | (19,500) |
| Tax effects arising on overstatement of sales credits allocation | 3,171 | 3,171 |
| Effects of adopting MASB 25 | 3,322 | 3,322 |
| | <u>(13,007)</u> | <u>(13,007)</u> |
| At 31 December, as restated | <u>46,361</u> | <u>46,361</u> |

Comparative amounts as at 31 December 2002 have been restated as follows:

| | Previously Stated RM'000 | Adjustments RM'000 | Restated RM'000 |
|--------------------------|--------------------------------|-----------------------|--------------------|
| Group and Bank | | | |
| Deferred tax assets | - | 2,719 | 2,719 |
| Deferred tax liabilities | - | 858 | 858 |
| Other liabilities | 137,174 | 8,154 | 145,328 |
| Non interest income | 69,165 | (11,325) | 57,840 |
| Taxation | 19,500 | (6,493) | 13,007 |
| | | <u>(6,493)</u> | <u>13,007</u> |

38. COMPARATIVES

The presentation and classification of items in the current year financial statements have been consistent with the previous financial year except that certain comparative amounts have been adjusted as a result of changes in accounting policies as disclosed in Note 1 and Note 37.