

# Review of Business Operations

## RETAIL BANKING



We have organised our retail banking operations into the various product monolines of Hire Purchase (HP), Mortgage and Other Consumer Loans (Mortgage), Deposits, Credit Cards and Line of Credit Business supported by the branches and alternate delivery channels.

In retail banking our key objective is to build strong customer relations by delivering value to customers. For example, the ongoing strategic initiative of upgrading our brick and mortar channel into more customer friendly Sales and Service Centres (SSC) is aimed at providing our customers with comfortable and pleasant surroundings to perform their banking transactions. We are also enabling more commercial banking windows at our AmFinance branches, thus increasing the transactional services available to our customers. Very soon, with the proposed merger between AmBank and AmFinance, our entire network of branches will be fully enabled to provide the full range of commercial banking services.

We have also made improvements in our various alternative channels. We have added more self-service e-Banking Centres that operate 24 hours for the convenience of our customers. We are also continuously refining our internet banking channel, with additional services to enable our more technologically savvy customers the ease of banking convenience at a click.

### Hire Purchase

The last financial year was challenging for our HP operations due to the uncertainties surrounding the implementation of ASEAN Free Trade Agreement (AFTA) and the general public's cautious stance in motor vehicle purchases, due to the expectations of lower car prices following tariff adjustments, which dampened buying activities in the local automotive market. The Malaysian Automotive Association (MAA) reported that the new motor vehicle sales declined by 6.7% in 2003.

Despite the subdued environment, we maintained a respectable loan growth of 10.4%, with total hire purchase loans rising to RM18.1 billion, an increase of 9.0%. We attribute this growth to our competitive pricing strategies and continued focus on service and maintaining close relationships with our panel of more than 5,000 car dealers nationwide, who are our valued partners.

We also implemented an automated Credit Scoring System as part of our on-going efforts to manage credit risk prudently. The automated Credit Scoring System is also expected to lead to improved efficiency in our back room processes and thus, better turnaround time for our dealers and customers.

In line with our 'Customer First' theme and in response to the Government's call for heightened road safety awareness, we



pioneered the requirement for mandatory inspection on all used cars by PUSPAKOM, the officially sanctioned vehicle inspection body as a condition for financing. The objective of this move is two-fold: as the financier, our primary collateral-the vehicle to be financed, is certified by an independent party to be in a reasonably good condition; and for the customer, it ensures that the vehicle being purchased is roadworthy and fit for use.

In line with our 'Customer First' focus we also publish used car prices in a supplementary issue of the New Straits Times daily as a reference to assist prospective used-car buyers in making purchase decisions. The prices are decided upon as a result of extensive research on values of cars that appeared in advertisements, motoring publications, auction records and historical records.

Moving forward, our strategic thrust will be to further strengthen our market leadership in motor vehicle financing, achieve a balanced number of new and used car financing hirers and uphold our strong branding as the preferred car financier in the country.

### Credit Cards and Line-of-Credit (LOC) Business

AmBank credit cards recorded a phenomenal growth of 168.0% in its card base with cards in circulation increasing from 83,000 in April 2003 to 223,000 as at 31 March 2004, earning the Card Centre the status of 'Fastest Growing Card Centre in Malaysia'.

The growth was achieved through a series of aggressive promotional activities launched under the 'Let's Duit' umbrella, which offered consumers high value items such as digital cameras and DVD players through an innovative marketing promotion. Strong brand alliances coupled with enhanced advertising and promotional support and the development of new sales channels contributed to the success of the campaign.

RedHall Gallery, an innovative Mall-on-Call programme was also launched and offered card members a catalogue shopping experience, catalogue shopping or direct mail

shopping is a well established sales channel in most developed countries. With money-back guarantees and an automatic 10-month installment on all purchases, we see this as a growing segment within the card portfolio.



Both the "Let's Duit" and RedHall Gallery Mall-on-Call programme have received numerous accolades. "Let's Duit" was voted 'Best Campaign In Malaysia' by Promotion Marketing Award of Asia (PMAA) and Asian Banking Awards Marketing/PR Brand Management Category whilst RedHall won the Best eCommerce Related Initiative from MasterCard International.

The strategic alliance between the Group and MBF Cards (M) Sdn Bhd has proven to be successful and beneficial to both parties, with the credit card receivable base standing at RM1.2 billion as at March 2004.

The Group is also well positioned to grow its card base through cross selling activities and active data maintaining of its database. Branches, staff and direct sales channels are primed to contribute to the growth of a profitable card business. The vision is to build a high performing card base of 500,000 cards within two years.

### Mortgage and Other Consumer Loans (MOCLs)

In 2003, the Group's residential mortgage loans portfolio increased by 15.5% to RM6.7 billion translating to approximately 6.6% of the mortgage loans market share. Aggressive marketing, product bundling initiatives, strategic partnership with reputable developers and active participation in sales launches and major property exhibitions contributed to this expansion.



We also tailored our mortgage loans to meet the evolving needs of customers. Additional features such as daily-rest interest calculation and fortnightly payment options were added to assist our customers in reducing their interest payments by prudent management of funds.



As part of our responsibility towards nation building, the Group continued extending micro-credit schemes under the 'Tabung Perumahan Ehsan' (TPE) to enable low-income earners to own homes. TPE was launched in July 2001 as a result of collaboration with the Selangor State Government. To date, more than 8,000 customers have benefited from the scheme, with the participation of over 30 companies on panel of developers.

We will be moving more aggressively into cross-selling activities to leverage on the Group's customer database, enhancing our direct sales channels and implementing effective loyalty schemes to increase our market share and competitiveness in the mortgage loan segment.

## Deposits

The Group's retail deposits base achieved a healthy growth last year encompassing 50.1% of the total deposits. We were pleased with the performance of our Islamic deposits base, which achieved a commendable growth of RM1.3 billion as at 31 March 2004, commanding an increased market share of about 30.0%.

This was achieved partly due to the introduction of new Islamic deposit products, namely, Savers Gang-*i*, Am50 Plus-*i*, AmQuantum-*i* and Afdhal, which were launched to support the direct sales team in mobilising Islamic deposits. Roadshows were also conducted nationwide to create awareness and enrich staff knowledge on Islamic products.

We also saw a growth in current account deposits due to our branches remodeling exercise, which enabled commercial banking windows to be placed at AmFinance SSCs nationwide. This expanded the reach of our commercial bank, thus enabling our current account products to be offered at more locations nationwide.

## Islamic Retail Banking

For the financial year ended (FY) 31 March 2004, AMFB Group's Islamic Banking operations recorded an impressive increase in income of 92.3% to RM446.6 million as compared to the same corresponding period last year. The strong growth in income was mainly attributed to the expansion of the Group's retail-based financing activities, particularly Islamic hire-purchase financing. Accordingly, the Group's gross financing grew by 85.5% to RM6.9 billion as at 31 March 2004.



We remained focused in the hire-purchase-*i* business as the hire-purchase portfolio expanded to RM4.0 billion for the period as compared to RM1.7 billion recorded last year. Additionally, Islamic residential property financing had improved by 60.5% to RM350.8 million, while Islamic consumption credit rose to RM443.5 million against RM77.8 million in March 2003.

The Group's deposits from customers more than doubled to RM2.5 billion as at March 2004 in which deposits from business enterprises almost doubled to RM1.2 billion as at March 2004. Deposits from other financial institutions grew by 82.9% to RM1.2 billion as at end March 2004.



In the retail segment, we launched an innovative deposit investment product, Value Plus Investment Account-*i* in October 2003. Offering high potential returns, the product combines the benefits of General Investment Account-*i*, and AmIttikal. Similarly, the Al-Taslif credit card too registered impressive card growth.

For the convenience of our customers, we added two new e-Payment services for Pusat Zakat Selangor and Pusat Zakat Negeri Sembilan to complement the existing service for Majlis Agama Islam Wilayah Persekutuan. We are also working to widen this service to include other states.

The Group also actively participated in various activities aimed at increasing public awareness of Islamic Banking products and services and enhancing the acceptance rate. For example, we participated in the production of 'Kewangan Islam', which was aired on TV3 in September 2003. There were altogether 11 episodes, with the first episode featuring our Chairman, Y Bhg Tan Sri Dato' Azman Hashim, in an interview on Islamic Banking. Amongst the products that were featured include, Am50Plus Deposit Investment Account-*i*, Al-Taslif Credit Card-*i*, and Islamic Private Debt Securities (IPDS).





In the same month, The Association of Islamic Banking Institutions Malaysia (AIBIM) organised Islamic Banking and Takaful Week 2003 (IBTW). This prestigious event is held once every two years to promote greater awareness on Islamic banking and takaful. Various events, including an expo, were held. At the expo, the Group's booth was very popular amongst the visitors, and we were honoured with the 'Best Booth Award'.

The Group was the Official Bank and Foreign Exchange Agent at the Expo OIC 2003 in October at Putrajaya in conjunction with the Organisation of Islamic Countries (OIC) Summit held in Malaysia. We also participated in the OIC Business Forum and played host at the OIC Business Forum Dinner along with Malaysia South-South Association (MASSA).

We intend to aggressively build on our significant footing in the Islamic banking arena to become the premiere Islamic banking in the country.

### Environmental Consciousness

Due to the nature of the Group's businesses, it is unavoidable that the Group consumes a significant amount of paper. Notwithstanding this, the Group has always encouraged the recycling and reutilization of paper. Each department in the Group is encouraged to reutilize paper for non-essential hardcopies. Documents, publications and all other discarded paper materials from the Group's subsidiaries are collected for recycling by an appointed third party paper recycler.

In addition, the Group continues to implement initiatives to reduce the usage of paper through the utilization of information technology (IT). The Group's IT infrastructure allows for the inter-departmental transmission of memos and the sharing of electronic folders which has helped reduce the amount of paper the Group uses for internal communications. These initiatives are part of the Group's long term objective to strive towards a paperless environment.

The Group continues to adhere to its energy conservation policies in reducing the wastage of electricity. One such measure is the reducing the number of functioning elevator and air conditioning units during non-office hours to save electricity.