

# Corporate Development

## PROPOSED PRIVATISATION OF AMFB HOLDINGS BERHAD

On 27 February 2004, AMMB Holdings Berhad (AHB) announced the proposed privatisation of AMFB Holdings Berhad (AMFB) through the acquisition by AHB of the remaining ordinary shares in AMFB, not already owned by AHB (Proposed AMFB Privatisation). The Proposed AMFB Privatisation involves a scheme of arrangement pursuant to section 176 of the Companies Act, 1965, between AMFB and its shareholders other than AHB.

The Proposed AMFB Privatisation is an integral part of AHB's efforts in meeting the specific initiative announced by Bank Negara Malaysia on the merger of the commercial banking and finance company businesses within a banking group into a single entity. Pursuant to the Financial Sector Masterplan, which allows banking groups to operate as one-stop financial centres and as a single entity holding multiple licences, the legal and regulatory framework for the banking industry had been amended recently to enable the merger of commercial bank and finance company operations into one single entity within a banking group and the creation of a new banking entity called 'banking and finance company' or 'Bafin'.

Upon the completion of the Proposed AMFB Privatisation, AmFinance Berhad, AMFB's wholly-owned finance company, will effectively become a wholly-owned subsidiary of AHB. This will facilitate the merger of AHB's commercial bank, AmBank Berhad, and AmFinance Berhad into a single entity and operate as one-stop financial centres. With the single entity's enlarged asset base, increased scale of operations and improved financing capabilities, the banking arm of AHB will be able to compete more effectively in the increasingly competitive environment. Further, the single entity will benefit from cross-selling opportunities, consolidated back-office processing and branch operations rationalisation.



## PROPOSED LISTING OF THE INVESTMENT BANKING GROUP

In tandem with the Proposed AMFB Privatisation, AHB had on 31 May 2004 announced the proposed listing of its investment banking group via a newly incorporated company, AmlInvestment Group Berhad (Proposed Listing of AIGB). The Proposed Listing of AIGB will entail the following:

- a) an internal reorganisation involving the transfer of AHB's entire interests in the component companies of AHB involved in the investment banking operation to AmlInvestment Group Berhad (AIGB);
- b) an offer for sale/restricted issue of an aggregate of 40.0% of the enlarged issued and paid-up share capital of AIGB to the shareholders of AHB, directors of AHB, directors and employees of AIGB and/or its Malaysian-incorporated subsidiary and associated companies, business associates of AHB which have contributed to the success of the AHB group of companies; and
- c) the listing of the entire issued and paid-up capital of AIGB on the Main Board of the Bursa Malaysia Securities Berhad.

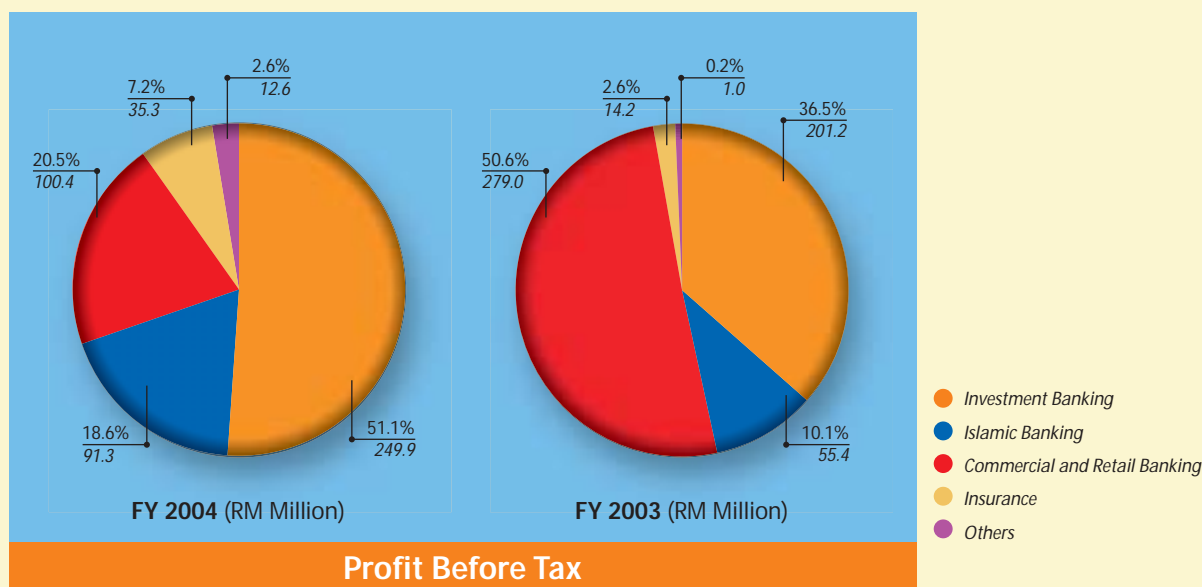
The Proposed Listing of AIGB, which is inter-conditional with the Proposed AMFB Privatisation, is part of AHB's continuing efforts to streamline its core activities namely banking (comprising business and retail banking, merchant banking and finance company business), stockbroking and insurance, and is expected to bring greater recognition and unlock shareholder value. The Proposed Listing of AIGB will also enable AHB to capitalise on the demand of investors for quality initial public offers to maximise returns for its shareholders and at the same time, provide AHB with the requisite funding to finance the Proposed AMFB Privatisation.

The Proposed Listing of AIGB will also provide the shareholders of AHB with the opportunity to participate in the equity of its investment banking group, AIGB, and to benefit from any potential capital gains arising from the future appreciation in value of AIGB.

The Proposed AMFB Privatisation and Proposed Listing of AIGB are expected to be completed by the last quarter of 2004.



# Group Financial Review



## PROFIT BEFORE TAX

FY 2004 : RM358.4 million (- RM43.7 million - 10.9%)  
FY 2003 : RM402.1 million

The Group's profit before tax was lower arising from a few factors. Firstly, the Group's Islamic banking business registered very strong growth and its income more than doubled to RM337.2 million. As a result, the Group had registered a higher transfer to a profit equalization reserve account of RM47.9 million (as compared to RM6.4 million for FY 2003), as it is a Bank Negara Malaysia (BNM) requirement to maintain a certain level of returns for depositors. Secondly, the higher premium income from the Group's insurance business of RM445.8 million for FY 2004 (FY 2003: RM291.8 million), had resulted in a higher transfer to the life insurance fund of RM172.8 million (FY 2003: RM91.3 million). In addition, the strong growth in the Group's insurance business had also resulted in higher claims of RM177.8 million (FY 2003: RM106.8 million). Thirdly, an additional amount of RM18.2 million in handling fees paid to

motor vehicle dealers for hire purchase loans and financing approved and disbursed after 1 January 2004 was fully expensed off in the income statement for FY 2004 as a result of the change in the accounting treatment on handling fees. Fees that were disbursed before 1 January 2004 continue to be amortised over the tenure of the hire purchase loans. Fourthly, the Group had provided RM37.0 million for the out-of-court total settlement in respect of the legal suits relating to the Highland Tower tragedy. Taking these factors into consideration, the Group's reported pre-tax profit was not reflective of its actual performance.

The largest contributor to the Group's PBT for FY 2004 was the investment banking business, followed by commercial and retail business and the Islamic banking business.

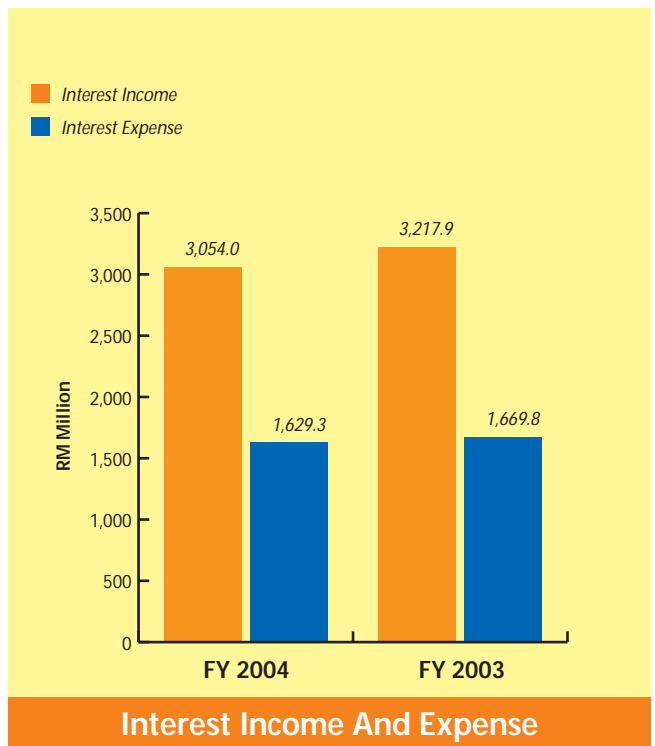
FINANCIAL RATIOS	FY 2003	FY 2004
Earnings per share – net		
- Basic	17.5 sen	14.0 sen
- Fully diluted	17.5 sen	13.2 sen
Post-tax return on average shareholders' funds	8.6%	5.9%
Post-tax return on average total assets	0.7%	0.7%
Net tangible assets per share	210.9 sen	205.8 sen
Gross dividend rate	3.3%	4.0%
Dividend payable/paid	RM36.1 million	RM53.5 million

## NET INTEREST INCOME

FY 2004 : RM1,424.8 million (- RM123.3 million - 7.9%)  
 FY 2003 : RM1,548.1 million

The Group's narrower net interest income was about 8% lower primarily due to financing margins despite the modest growth in loans and financing. In addition, corporations were by passing the banking system and going directly to the debt capital markets. Total funds raised in 2003 in the debt capital markets debt totalled approximately RM43.0 billion.

Going forward, the Group is focused on increasing its low cost funding to improve net interest income.



## INCOME FROM ISLAMIC BANKING BUSINESS

FY 2004 : RM337.2 million (+ RM187.4 million + 125.1%)  
 FY 2003 : RM149.8 million

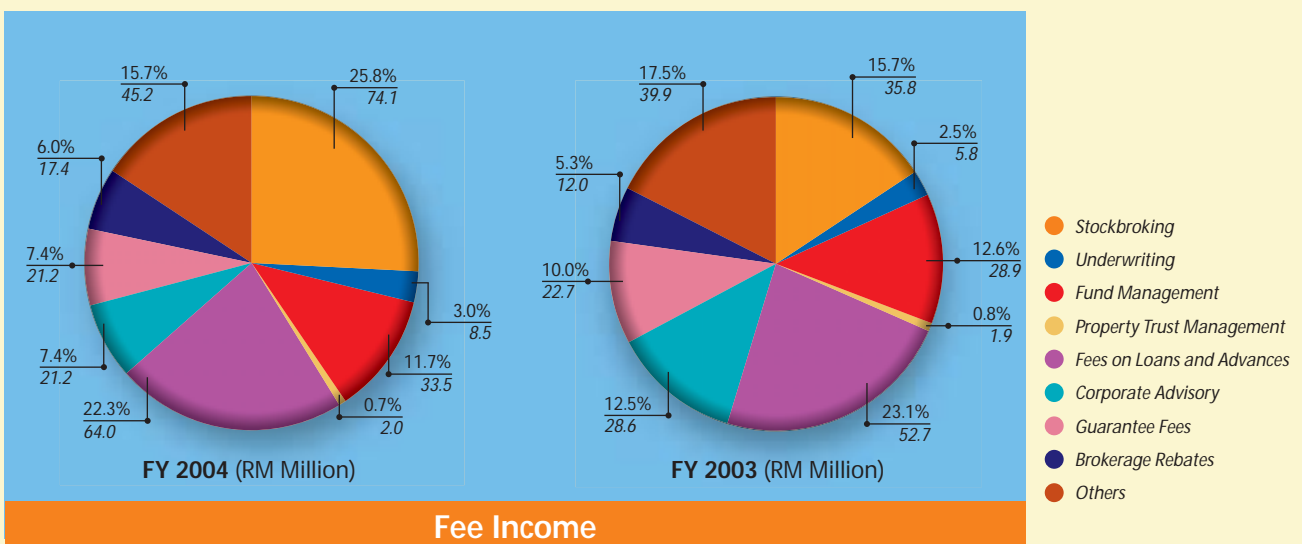
The Group's gross financing assets almost doubled to RM6.9 billion as at FY 2004 (FY 2003: RM3.7 billion). In tandem with this increase, income too doubled a RM337.2 million. Of this, RM170.0 million was due to financing activities, with the balance from the debt capital markets and treasury operations.

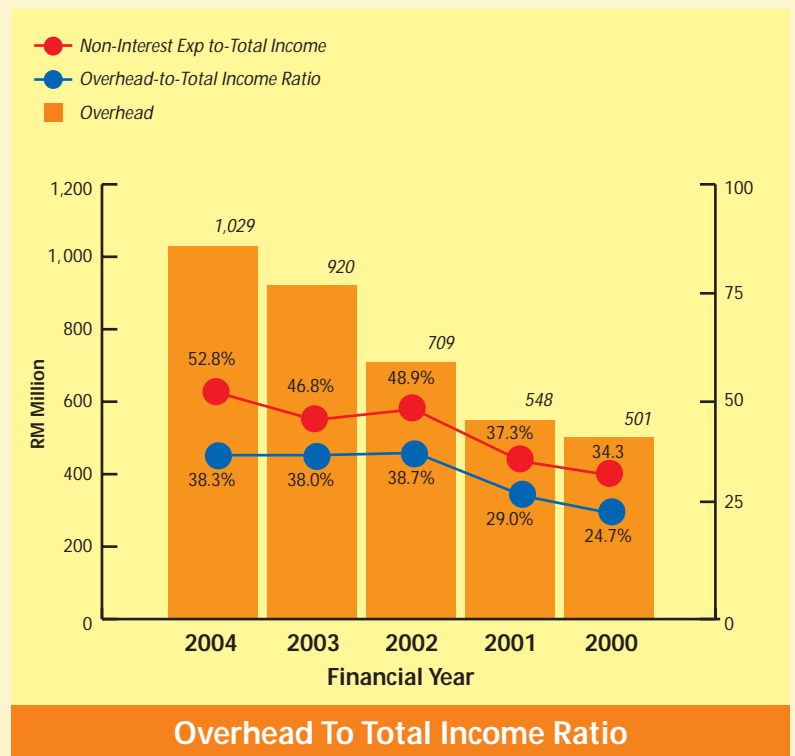
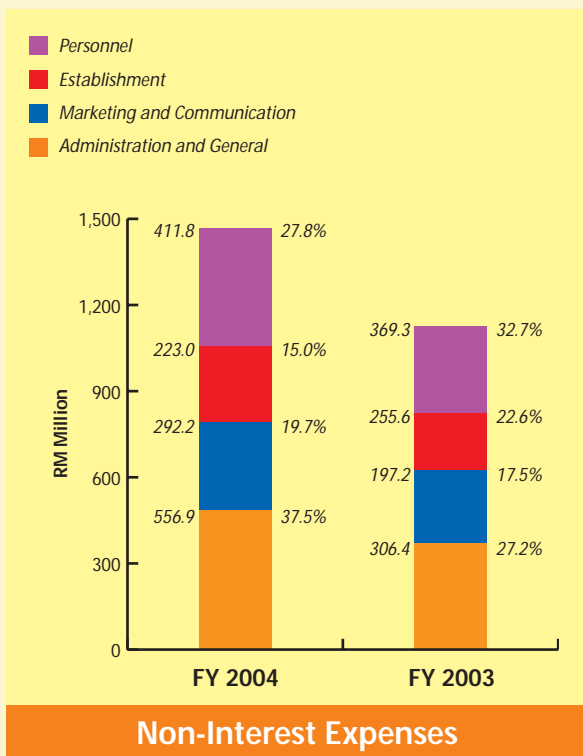
## NON-INTEREST INCOME

FY 2004 : RM944.7 million (+ RM220.8 million + 30.5%)  
 FY 2003 : RM723.9 million

The growth in non interest income is primarily due to the RM154.0 million increase in premium income from the life and general insurance businesses. The Group's insurance businesses registered a premium income of RM445.8 million (as compared to RM291.8 million in FY2003) as a result of cross-selling and bundling of retail products.

Brokerage fees and commissions almost doubled to RM74.0 million for FY 2004 as compared to RM35.8 million for the previous year primarily due to increased stock market activities especially in the second half of 2003. The Group managed to maintain its non-interest income to total income (inclusive of income from Islamic banking business) at about 35.0%.





## NON-INTEREST EXPENSES

FY 2004 : RM1,484.0 million (+ RM355.5 million +31.5%)  
 FY 2003 : RM1,128.5 million

The largest component of non-interest expense remains personnel/staff costs, which comprise primarily staff salaries, bonuses and benefits, and was higher by 11.5% or RM42.6 million. The personnel costs were higher as the Group had to increase the Group's headcount, especially those with specialist skills and competencies required to build up the Group's various core businesses.

Marketing and communications expenses increased by RM95.0 million due to the expansion in hire purchase business, and general advertising.

The transfer to insurance funds and claims were also higher by RM81.5 million and RM71.0 million respectively as a result of strong growth in insurance premiums.

## LOAN & FINANCING LOSS & ALLOWANCES

FY 2004 : RM865.6 million  
 (- RM21.7 million - 2.5%)  
 FY 2003 : RM887.3 million

The Group continued to set aside provisions for the non-performing loans, to build the loan loss cover. The Group's loans and financing loss & allowances were lower on account of higher recovery of bad debts. For FY 2004, the Group recovered RM296.3 million which is 118.3% higher than the recovery of the previous financial year.

The Group has fully provided for the value impairment on amounts recoverable from Danaharta in relation to the non-performing loans sold in FY 2004 this amounted to RM80.6 million.

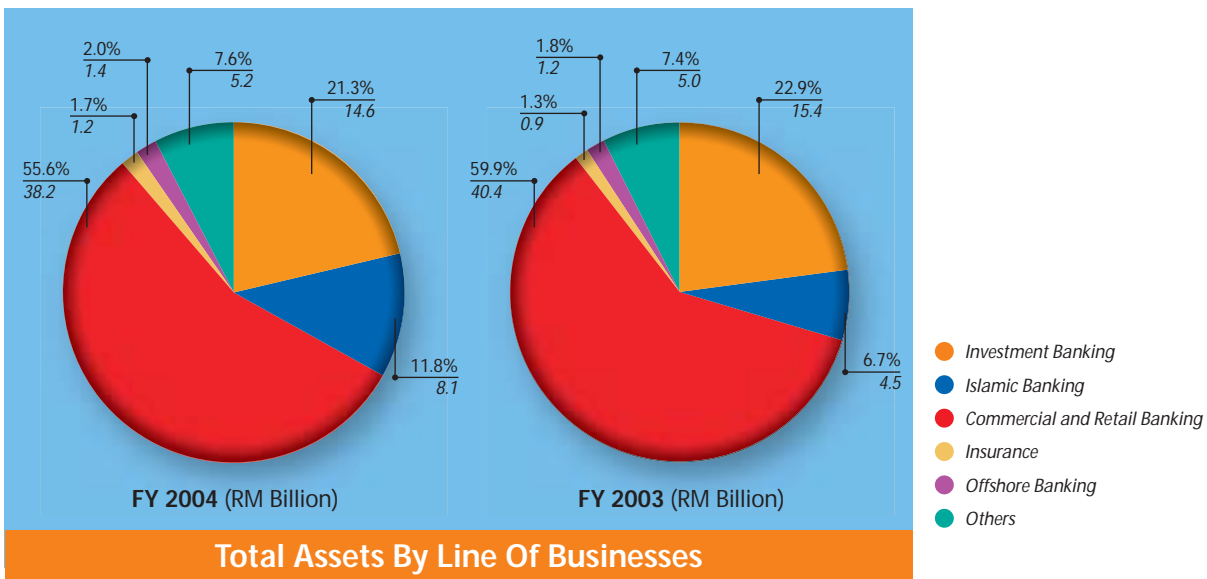
RM MILLION	FY 2003	FY 2004
General allowance	11.4	9.9
Specific allowance – net	869.5	1,066.5
Danaharta amortisation	137.8	80.6
Bad debts written off	4.3	3.7
Bad debts recovered	(135.7)	(296.3)
Loss on disposal of loan assets	-	1.2
<b>Net charge</b>	<b>887.3</b>	<b>865.6</b>

## TOTAL ASSETS

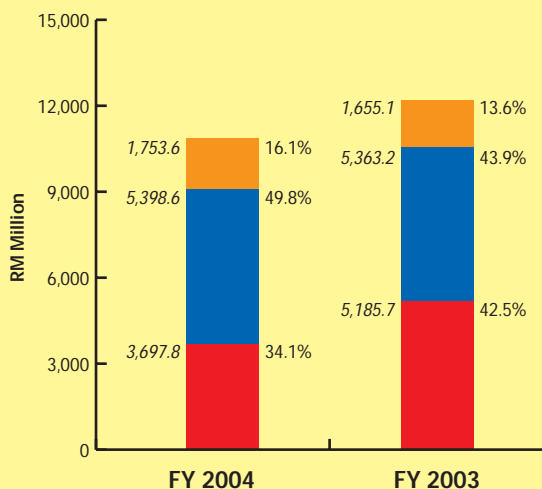
FY 2004 : RM60,478.6 million (+RM1,761.9 million +3.0%)

FY 2003 : RM58,716.7 million

Net loans, advances and financing remain the largest component of total assets at 63.8% of total assets for FY 2004 (FY 2003: 64.9%). Although the Group's cash and short term funds increased by approximately 59.8% or RM2.5 billion, this increase was offset by the lower dealing securities held by the Group. The Group increased its investments securities by RM765.4 million or 13.8% to RM6.3 billion to take advantage of attractive interest income offered by these securities.



- Quoted Securities
- Unquoted Securities
- Money Market Securities



Dealing And Investment Securities

## DEALING & INVESTMENT SECURITIES

FY 2004 : RM10,850.0 million (-RM1,354.0 million - 11.1%)

FY 2003 : RM12,204.0 million

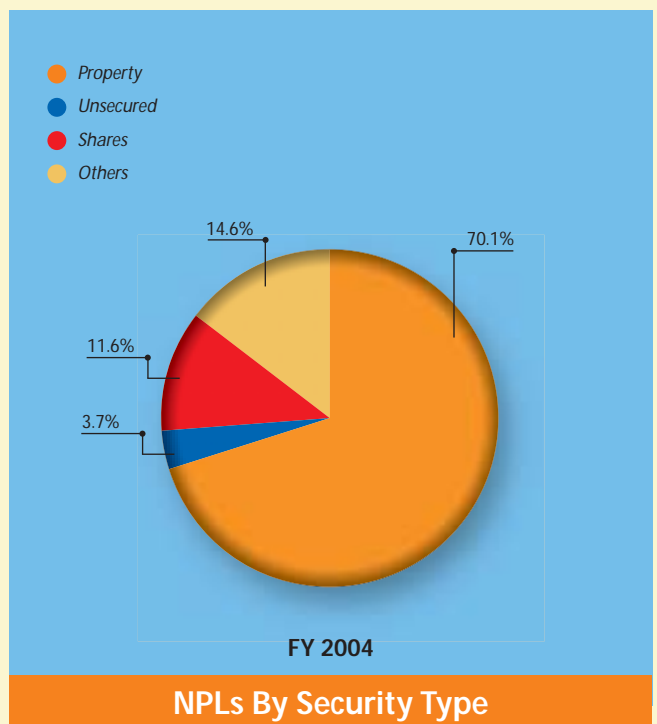
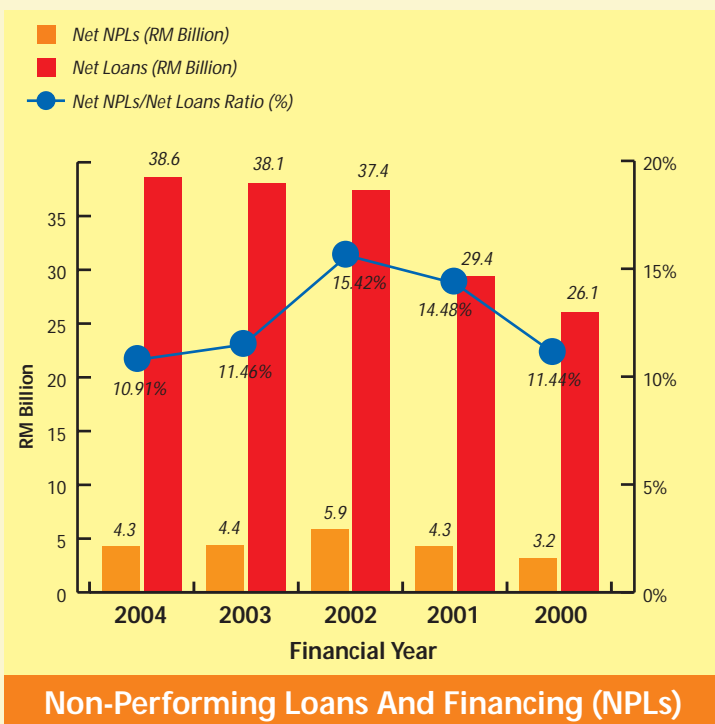
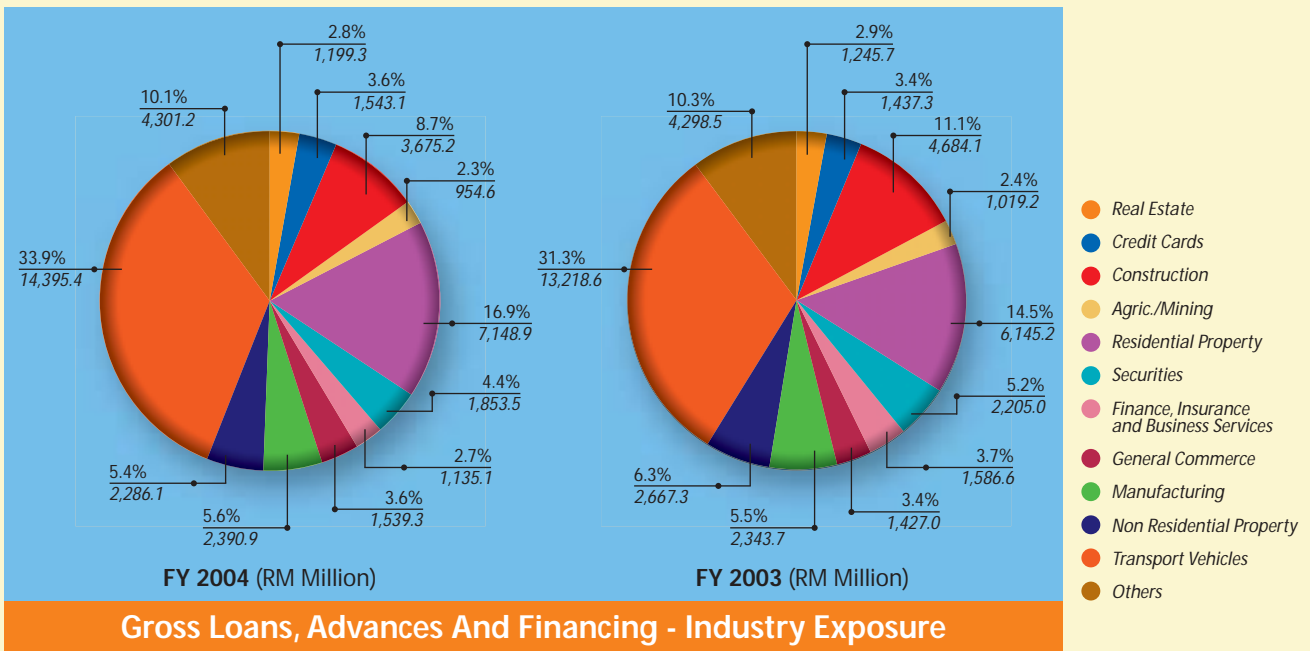
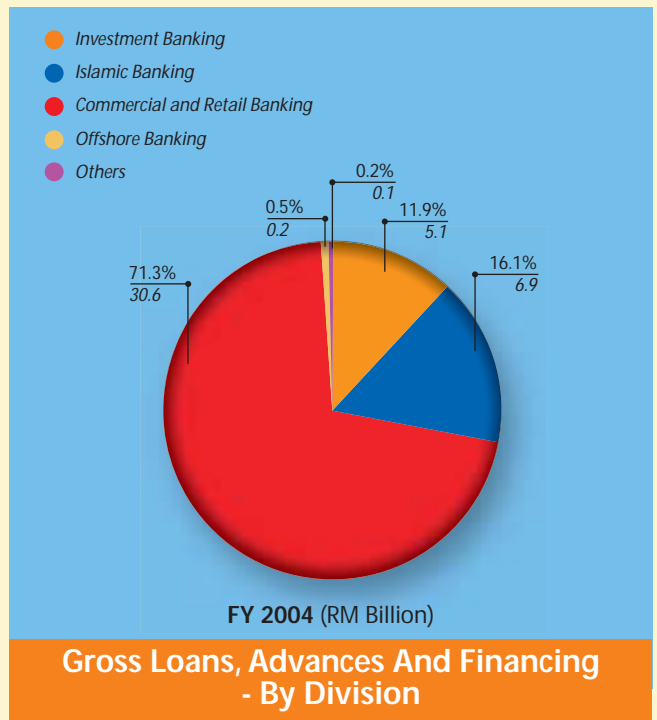
The Group's dealing securities declined from RM6.2 billion as at 31 March 2003 to RM3.8 billion as at 31 March 2004, as the Group took the opportunity to reduce its holdings.

This decline was substantially offset by the RM1.0 billion increase in investment securities to RM7.0 billion as the Group increased its holding of securities which provided attractive yields.

## LOANS, ADVANCES & FINANCING

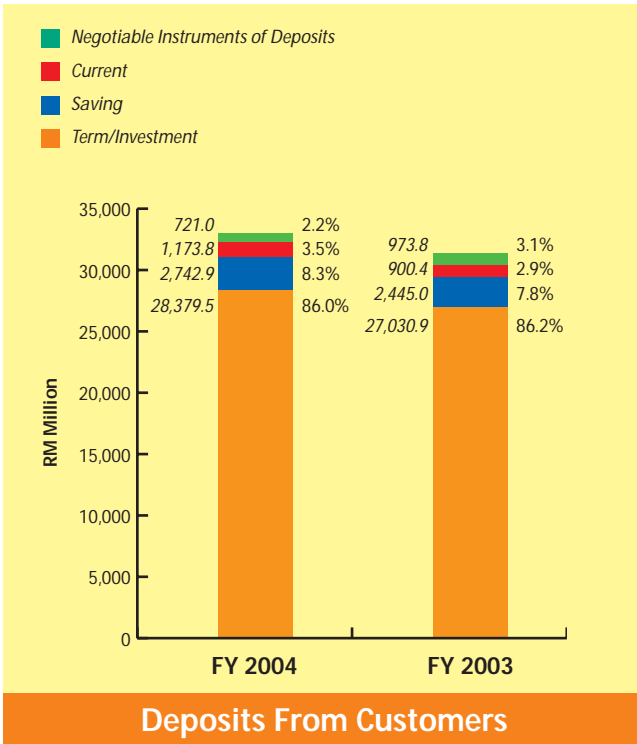
FY 2004 : RM38,601.1 million (+RM483.3 million +1.3%)  
 FY 2003 : RM38,117.8 million

About one third, or 33.9%, of the Group's total loans portfolio went into the purchase of transport vehicles as the AmBank Group is the largest financier of automobiles domestically. The second largest segment of the Group's loans portfolio is the purchase of residential properties; comprising 16.9% of the total loans portfolio as we have gained significant market share in the mortgage market. Although retail loan growth has been strong, however, this has been offset by a contraction in corporate loans, as the larger corporate clients continue to top the debt capital markets.



## FUNDING SOURCES

The Group's primary source of funding is from customer deposits, either term/investment deposits, savings deposits, current deposits or negotiable instruments of deposits. Other major sources of funds include shareholders' funds, other interest bearing securities, interbank and other borrowings.



## DEPOSITS FROM CUSTOMERS

**FY 2004 : RM33,017.2 million (+RM1,667.1 million + 5.3%)**  
**FY 2003 : RM31,350.1 million**

Customer deposits remains the primary source of funding of the Group's operations. Similar to the previous financial year, about half of these deposits were from individuals followed by business enterprises which formed 35.9% of deposits from customers. More than 80% of these deposits are deposits with tenures of six months or less.

Although the Group's funding consists primarily of short term deposits, its experience has been that the customers often roll over their deposits at maturity, therefore providing the Group with a stable source of core 'long-term' funds.

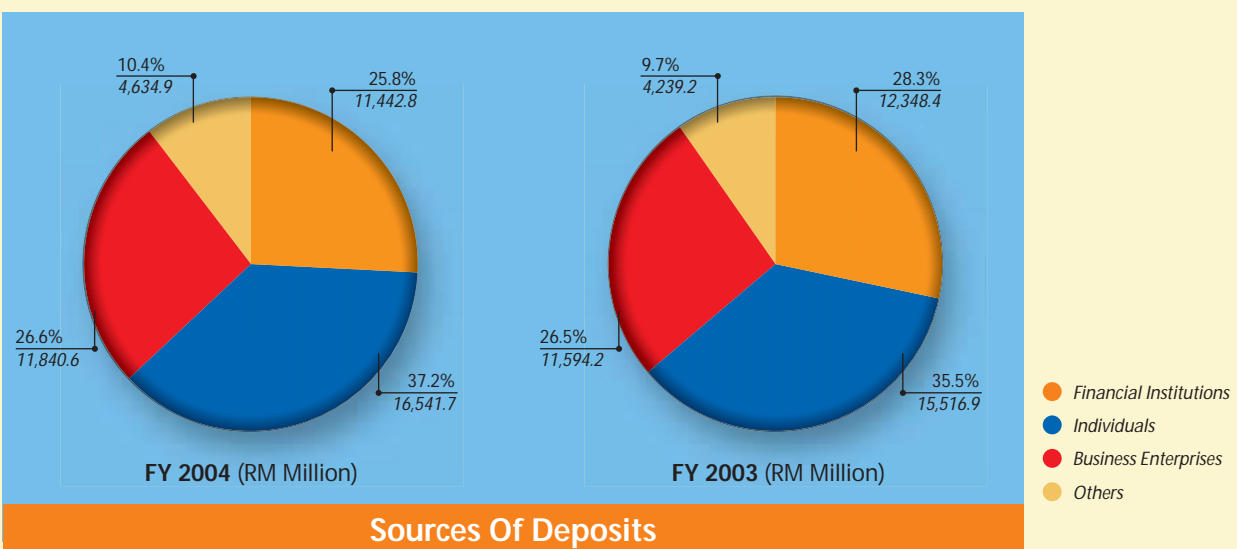


## DEPOSITS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

**FY 2004 : RM11,442.8 million (-RM905.6 million -7.3%)**  
**FY 2003 : RM12,348.4 million**

Deposits by banks and other financial institutions fell by 7.3% to RM11.4 billion as at 31 March 2004 as the Group continues to grow its retail and corporate deposit base.

Deposits from other financial institutions, are primarily deposits placed by non-bank institutions such as insurance companies, pension funds, and development financial institutions.





## LIQUIDITY

Liquidity refers to the ability to fund day-to-day operations at reasonable cost. The Group's liquidity management is primarily concerned with the Group's ability to fund its obligations which includes the repayment of deposits on demand or their contractual maturity dates, the repayment of borrowings on maturity, the payment of insurance policy benefits, claims and surrender, the payment of operating expenses and taxation, the payment of dividend to shareholders, and the ability to fund new and existing loan commitments.

The Group's liquidity policy focuses on cash flow management, interbank funding capacity and the management of sufficient liquid assets to meet obligations under normal as well as adverse circumstances and to take advantage of lending and investment opportunities as they arise.

The Group's banking and insurance subsidiaries comply with the Bank Negara Malaysia's Liquidity Framework and also the Group's own internal liquidity risk management policy.

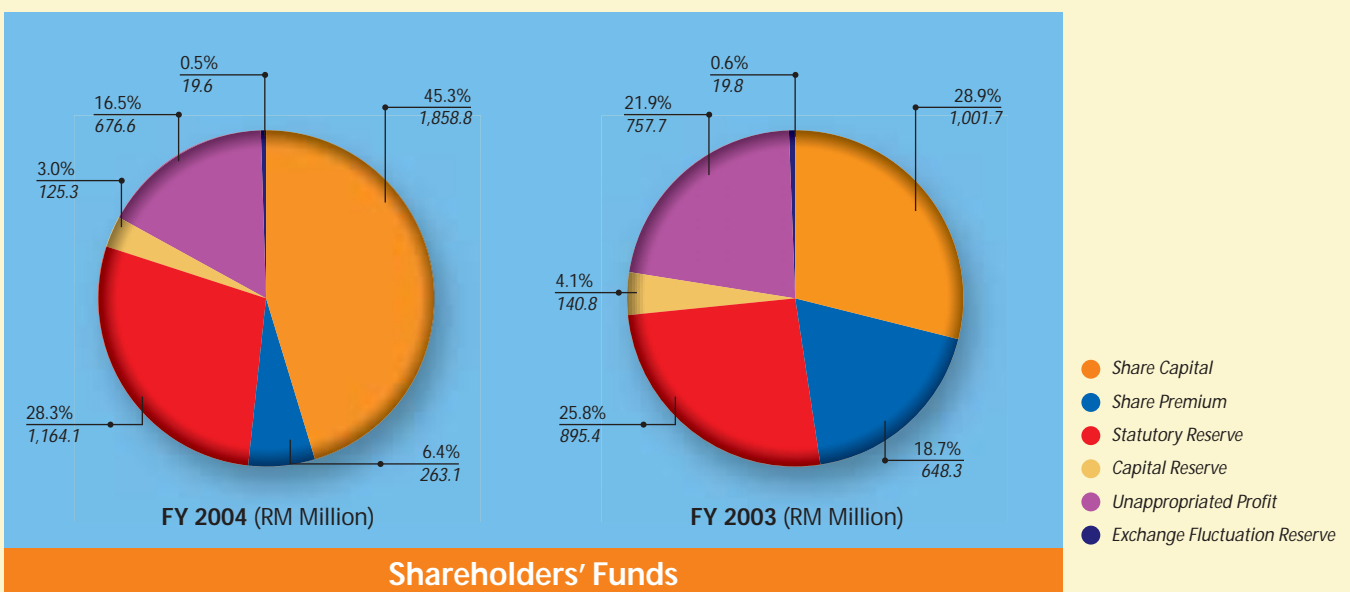
## CAPITAL MANAGEMENT

The Group's overriding capital management philosophy is the efficient returns on capital in relation to the risks involved. The Group monitors the capital adequacy positions and market conditions to determine desirability and timing of raising additional capital. The Group has traditionally relied on retained earnings to augment its capital resources to allow for growth in its asset base, undertaking rights issues only when business expansion is expected to be strong. The Group also believes in diversifying its sources of capital, and relying on qualifying hybrid instruments and long-dated subordinated debt instruments which contain, among others, interest deferral and loss absorption features. This is to ensure that an optimum balance is maintained between the return on shareholders' investments and a prudent level of capitalisation.

## SHAREHOLDERS' FUNDS

FY 2004 : RM4,107.5 million (+RM643.8 million +18.6%)  
 FY 2003 : RM3,463.7 million

The Group's shareholders funds increased by 18.6% to RM4.1 billion as at 31 March 2004 (FY 2003: RM3.5 billion) primarily due to the completion of the rights issues totalling RM333.8 million, retained profits of RM223.7 million and the issue of new shares under the Employees' Share Option Scheme and exercise of warrants totalling RM122.5 million collectively.



	AHB	AmMerchant	AmFinance	AmBank
FY 2003	12.8%	14.7%	10.8%	12.9%
<b>FY 2004</b>	<b>12.8%</b>	<b>16.1%</b>	<b>11.2%</b>	<b>12.0%</b>

## CAPITAL ADEQUACY RATIO

Arising from the expansion in risk-weighted assets to RM45.8 billion as at 31 March 2004 (FY 2003: RM45.1 billion) the Group's core capital ratio and risk-weighted capital ratio (RWCR) stood at 8.33% and 12.75% respectively as at 31 March 2004.

Moving forward, with the capital adequacy ratio of 12.75% as compared to the minimum requirement of 8.0%, the Group is well positioned to take advantage of the strong economic growth to further expand the range of financial services and products offered.

The Group's banking subsidiaries have complied with the RWCR of 8.0% as at 31 March 2004.



## TIER TWO CAPITAL

**FY 2004 : RM2,023.8 million**  
 (+RM66.5 million +3.4%)  
**FY 2003 : RM1,957.3 million**

The Group's Tier Two capital was marginally higher by 3.4% or RM66.5 million primarily due to the issuance of RM660.0 million of redeemable unsecured subordinated bonds (RUSBs) of which RM460.0 million was utilized to refinance the Group's commercial bank's exchangeable subordinated capital loan from Danamodal Nasional Berhad of the same amount and the balance of RM200.0 million were utilized to increase AmFinance's capital funds. The Group's total capital funds stood at RM5.8 billion.

## STAFF STRENGTH AND BRANCH NETWORK

As at 31 March 2004, the Group's staff strength and branch network stood at 8,776 persons (2003: 8,285) and 207 branches (2003: 219 respectively).

	FY 2003	FY 2004
Staff strength	8,285	<b>8,776</b>
Branch network	219	<b>207</b>
ATMs	223	<b>238</b>
Electronic Banking Centre	7	<b>15</b>

