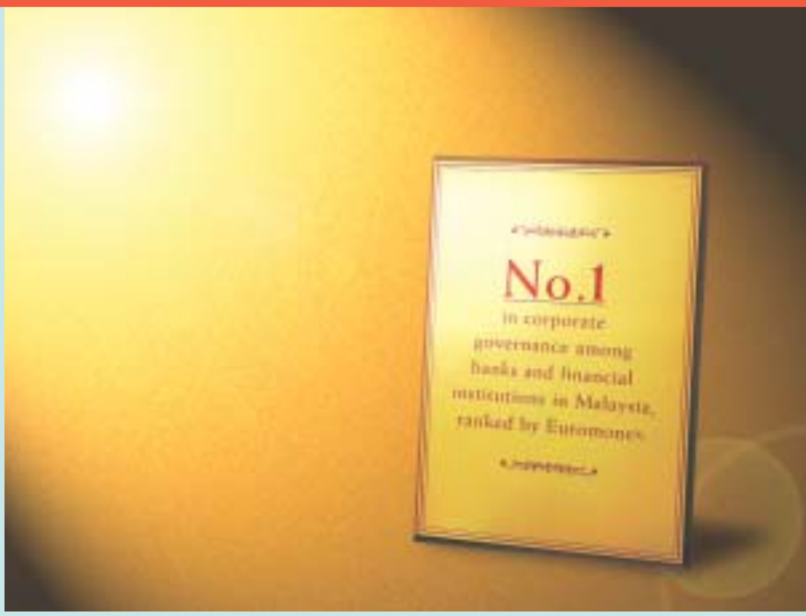
Corporate Governance

The Board is fully committed in ensuring that the principles and best practices in corporate governance are applied consistently in AMMB Holdings Berhad (AHB) and across the Group. The Company has complied with the Best Practices in Corporate Governance as set out in Part 2 of the Malaysian Code on Corporate Governance.



BOARD OF DIRECTORS

The Board of Directors supervises the management of the whole Group's businesses and affairs with the goal of enhancing shareholders' value. In addition to determining the overall strategy of the Group and the supervision of Senior Management of the Group, the Board meets regularly to address key matters in the area of strategy, finance, structure and organisation, and business development (subject to the matters reserved for shareholders' meetings by law). The Board approves the Group's strategic plan and the annual financial plans developed by management and reviews the performance and effectiveness of the business units in the Group. It establishes guidelines for overall business, risk and control policies, capital allocation and approves major changes in the Group's business activities, including major lending and borrowing transactions, and major business developments such as acquisitions and disposals of business or assets, investments or new businesses, mergers, joint-ventures and alliances and also consider other matters of strategic importance to the Group.

a. Composition

The Board currently comprises eleven (11) directors with a wide variation of skills and experience, of which six (6) are Independent Non-Executive Directors. There is thus a healthy Board balance, with more than 50.0% of the Board members being Independent Non-Executive Directors. The Independent Non-Executive Directors are from varied business backgrounds, and their experience enables them to exercise independent judgment and objective participation in the proceedings and decision making process of the Board.

The Directors participate fully in decision making on key issues regarding the Company and its subsidiaries. The view of the Independent Non-Executive Directors carry substantial weight in Board decisions and they fulfil their roles in ensuring that strategies proposed by the management are fully discussed and examined, as well as ensuring the interest of shareholders and stakeholders of the Company are properly safeguarded.

During the financial year ended 31 March 2004, the Chairman of the Company held an executive position and there was no separate Chief Executive Officer as the Company is an investment holding company. However, in line with the Best Practices in Corporate Governance set out in Part Two of the Malaysian Code on Corporate Governance, the Chairman relinquished his executive position on 1 July 2004 and is now the Company's Non-Executive Chairman. In all the major subsidiaries of the Company, the role of Chairman and Chief Executive Officer continue to remain separate.

b. Senior Independent Non-Executive Director

Tun Mohammed Hanif Omar is the Senior Independent Non-Executive Director to whom any concern on issues affecting the AMMB Holdings Berhad Group can be conveyed.

c. Board Meetings

Board Meetings are scheduled every month, with additional or special Board meetings convening as and when required. All directors review monthly board reports circulated prior to the board meeting, to enable the directors to obtain further explanations where necessary. In order to be briefed adequately, the senior management team is invited to attend Board Meetings to provide the Board with presentations, detailed explanations and clarification on matters that have been tabled.

As a full board or in their individual capacity, the directors have access to all information within the Group and the advice and services of the Group Company Secretary. Independent professional advice is also available to the Directors, if necessary, at the Group's expense.

During the year, 11 board meetings were held. The attendance of Directors during their tenure during the said period is as follows:

Directors	Number of Meetings Held/ Attended
Y Bhg Tan Sri Dato' Azman Hashim	11/11
Y Bhg Dato' Azlan Hashim	10/11
Y A Bhg Tun Mohammed Hanif Omar	11/11
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba	11/11
Y Bhg Tan Sri Datuk Dr Aris Osman @ Othman *(appointed 1 April 2004)*	n. a.
Y Bhg Tan Sri Datuk Clifford Francis Herbert *(appointed 16 April 2004)*	n. a.
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim *(resigned w.e.f. 19 Dec 2003)*	8/8
Y Bhg Dato' Malek Merican *(resigned w.e.f. 6 May 2004)*	9/11
Y Bhg Dato' Izham Mahmud *(appointed w.e.f. 16 October 2003)*	5/5
Y Bhg Dato' Mohd Ibrahim Mohd Zain *(appointed 16 April 2004)*	n. a.
Mr Cheah Tek Kuang	11/11
Mr Soo Kim Wai	10/11
Puan Shalina Azman *(appointed w.e.f. 16 October 2003)*	5/5

n. a. - not applicable as appointed after financial year ended 31 March 2004

d. Re-election

In accordance with the Company's Article of Association, all directors who are appointed by the Board are subject to election by shareholders at the following general meeting after their appointment. The Articles also provide that the Directors are subject to re-election by rotation at each Annual General Meeting at least once every three years.

e. Directors' Training

As an integral process of appointing new directors, there is an in-house orientation programme for the new Board members to familiarise and provide them with an overview of the Group's businesses, the markets in which it operates; responsibilities and duties of the Board as a whole, its corporate and risk management strategies, regulatory constraints and compliance.

Members of the Board attend seminars, Bursa Malaysia Securities Berhad (BMSB) Continuing Education Programmes, conferences and various other training programmes to keep abreast with developments in the financial services industry and arrangements are made for them to attend the programmes by the Group Organisational Development Department.

BOARD COMMITTEES

The Board delegates certain responsibilities to Board Committees. These committees, which were created to assist the Board in certain areas of deliberation are:

1. Nomination Committee
2. Remuneration Committee
3. Audit & Examination Committee
4. Risk Management Committee

a. The Nomination Committee

This Committee comprises the Deputy Chairman of the Company and two other Independent Non-executive Directors of the Board. It is responsible for regularly reviewing the board structure, size and composition, as well as making recommendations to the Board with regard to any changes that are deemed necessary. It also recommends the appointment of Directors to Committees of the Board as well as annually reviews the mix of skills and experience and other qualities and competencies that Non-executive Directors should bring to the Board. The Committee carried out a review of the Board and Committees of the Board during the financial year and the recommendations have been implemented by the Board during the financial year.

The Board of Directors, on recommendation of the Nomination Committee had also approved the mechanism for the formal assessment on effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

In carrying out their functions and duties, the Nomination Committee met five (5) times during the year. The attendance of the members is as follows:

Directors	Number of Meetings Held/ Attended
Y Bhg Dato' Azlan Hashim *Chairman, Deputy Chairman of the Company and Non-Executive Director*	4/5
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba *Independent Non-Executive Director*	5/5
Y Bhg Dato' Izham Mahmud *Independent Non-Executive Director (appointed w.e.f. 19 December 2003)*	2/2
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim *Independent Non-Executive Director (resigned w.e.f. 19 December 2003)*	3/3

b. The Remuneration Committee

All members of this Committee are Non-Executive Directors. The Committee is responsible for determining and recommending to the Board the framework or broad policy for the remuneration of the Directors, Chief Executive Officers and other senior management members of the staff.

In carrying out its functions and duties, the Remuneration Committee met four (4) times during the year. The attendance of the members is as follows:

Directors	Number of Meetings Held/ Attended
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba *Chairman, Independent Non-Executive Director*	4/4
Y Bhg Dato' Azlan Hashim *Deputy Chairman of the Company and Non-Executive Director*	3/4
Y Bhg Dato' Izham Mahmud *Independent Non-Executive Director (appointed w.e.f. 19 December 2003)*	0/0*
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim *Independent Non-Executive Director (resigned w.e.f. 19 December 2003)*	4/4

* *Note: No meetings were held between 19/12/03 and 31/03/04*

Directors' Remuneration

The remuneration of the Directors is packaged to ensure that the Group attracts and retains the right calibre of Directors with the necessary skills and experience needed to run the Group successfully.

The Remuneration Committee is responsible for recommending a remuneration framework for Directors as well as remuneration packages for Executive Directors of subsidiaries.

The Board, as a whole, determines the remuneration of Non-Executive Directors and Executive Directors of the Group with the interested Directors abstaining from discussion with respect to their remuneration.

Details and nature and amount of each major element of the remuneration of each Director in the Group for the FYE 2004 are as follows:

Aggregate Remuneration by Category (RM'000)	Executive Directors	Non-Executive Directors
Salaries	1,800	660
Other Remuneration	1,158	857
Fees	152	698
Bonuses	0	505
Gratuity payment	250	300
Benefits-in-kind	4	100
Total	**3,364**	**3,120**

Aggregate Remuneration by Category (RM'000)	Executive Directors	Non-Executive Directors
Less than RM50,000	-	3
RM50,001 - RM100,000	-	1
RM100,001 - RM150,000	-	1
RM150,001 - RM200,000	-	1
RM200,001 - RM250,000	-	1
RM350,001 - RM400,000	-	1
RM1,950,001 - RM2,000,000	-	1
RM3,250,001 - RM3,400,000	1	-

c. The Audit & Examination Committee

The Board has appointed the Audit and Examination Committee (A & E Committee) to assist in discharging its duties of maintaining a sound system of internal control to safeguard the Group's assets and shareholders' investments.

MEMBERSHIP & MEETINGS

The A & E Committee comprises the following members and details of attendance of each member at Committee meetings held during the financial year ended 31 March 2004 are as follows:

Members of Audit and Examination Committee	Number of Meetings Attended
Y Bhg Prof Tan Sri Dato' Dr Mohd Rashdan Haji Baba *Chairman, Independent Non-Executive Director*	6/6
Y Bhg Dato' Azlan Hashim *Deputy Chairman of the Company and Non-Executive Director*	5/6
Y Bhg Dato' Mohd Tahir Haji Abdul Rahim *Independent Non-Executive Director (resigned w.e.f. 19 December 2003)*	5/5
Y Bhg Dato' Izham bin Mahmud *Independent Non-Executive Director (appointed w.e.f. 19 December 2003)*	1/1

As the main activities of the Group are conducted at the subsidiaries, separate A & E Committees are also established at the major subsidiaries. This is to further enhance the effectiveness in monitoring and maintaining the system of internal control. Correspondingly, the Committees' activities were mostly concentrated at the subsidiaries.

The following is a summary of the number of A & E Committee meetings held at the major subsidiaries:

Subsidiary	Number of A & E Meetings Held
AmMerchant Bank Berhad	10
AmFinance Berhad	12
AmBank Berhad	15
AmAssurance Berhad	6
AmSecurities Berhad	5

The Managing Directors and the representatives of the external auditors are invited to attend the respective Committee meetings. The Head of Group Internal Audit is the secretary to the Committees. The minutes of the Committee meetings are tabled at the subsequent Board meetings.

d. Risk Management Committee of Directors

The Risk Management Committee oversees the overall management of all risks impacting the Group. It comprises non-executive Directors and is chaired by an Independent Director to ensure independence from management as it is the Committee that reviews and approves risk management policies and risk tolerance limits.

As the Company is only an investment holding company, the Risk Management Committee of Directors are established the Boards of the Company's banking subsidiaries; i.e. AmMerchant Bank Berhad, AmBank Berhad and AmFinance Berhad. The following is a summary of the number of Risk Management Committee of Directors meetings held at the Company's banking subsidiaries during the financial year 2004:

Subsidiary	Number of A & E Meetings Held
AmMerchant Bank Berhad	4
AmFinance Berhad	4
AmBank Berhad	4

REACHING OUT TO SHAREHOLDERS AND INVESTORS

a. Investor Relations

The Group values dialogue with its shareholders and investors. As part of the Group's active investor relations programmes to discuss long term issues and obtain feedback, the Chairman, Directors and Management Personnel of the AmBank Group have always looked forward to holding discussions with analysts and shareholders and do so from time to time.

Senior Management Personnel responsible for Investor Relations activities:

1. Mr Cheah Tek Kuang
   Director

2. Ms Amarjeet Kaur
   Director, Corporate Services

Key investor relations activities are meeting with financial analysts and fund managers of institutional investment funds; participating in road shows, investor conferences and forums, both domestic and international.

The Company had over 200 meetings with financial analysts and investors, participated in various teleconferences and made presentations to investor forums or conferences.

Highlights of Our Investor Relations Programmes

FY 2004 Roadshow Participations:

Date	Organiser	Event	Venue
24 – 25 Jul 03	Salomon Smith Barney	Malaysia 2003 Conference	Singapore
3 – 5 Sep 03	Deutsche Bank	Global Emerging Markets Conference	New York, USA
25–26 Sept 03	CLSA	CLSA Investors Conference	Hong Kong
21 Oct 03	UBS Warburg	Malaysia Conference	Singapore
8 – 9 Jan 04	Deutsche Bank	Annual Corporate Malaysia Conference	Singapore
5 – 6 Feb 04	Merrill Lynch	Malaysian Conference	Kuala Lumpur
18-19 Feb 04	J P Morgan	Malaysian Corporate Access	Singapore
23-26 Mar 04	Credit Suisse First Boston(HK)	Asian Investment Conference 2004	Hong Kong
19-23 Apr 04	CLSA	Malaysian Access Day	Boston/New York
26-28 Apr 04	Deutsche Bank	Corporate Malaysia Conference	London/Edinburgh
3 – 4 May 04	Salomon Smith Barney	Regional Investor Conference	Hong Kong/Singapore

Major Analyst Briefings Conducted:

Date	Event
27 Feb 2004	AmBank Group Proposed Corporate Reorganisation
31 May 2004	FY2004 Full Year Financial Results

b. Communication with Shareholders

Shareholders are presented with an informative review of the financial performance for the year at each Annual General Meeting (AGM). Shareholders who attend the AGM are encouraged to raise questions they may have that are pertinent to the Group's financial performance and its business operations.

Timely announcements are made to the public with regard to the Company's corporate proposals, financial results and other required announcements.

Corporate information on the AmBank Group is also accessible to shareholders and the general public through the AmBank Group's website: www.ambg.com.my which is updated regularly. In addition to corporate information, this website also provides information on news and events related to the Group.

RESPONSIBILITY STATEMENT

The Board of Directors is required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the Group and its state of affairs, results and cash flows at the end of the financial year. Following discussions with the auditors, the Directors consider that the appropriate accounting policies are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that all accounting standards which they consider applicable have been followed during the preparation of the financial statements.

The Board of Directors is responsible for ensuring that the Group keeps accounting records which are disclosed with reasonable accuracy, and for ensuring that the financial statements comply with the Companies Act, 1965.

The Board and Board Committees have the general responsibility for taking such steps to safeguard the assets of the Group, and to detect and prevent fraud as well as other irregularities.

RELATIONSHIP WITH AUDITORS

Messrs. Deloitte KassimChan (Deloitte) is the Company's external statutory auditor and the auditor of its consolidated accounts for the preparation of this annual report. Deloitte assumes all auditing functions, which are required by law. They are elected by the shareholders of the Company every year.

In line with good corporate governance practice, the Board, through the Audit & Examination Committee, undertook a review of the external auditors and the external audit function, as Deloitte has been the Company's auditors since 1991. Accordingly, the Audit & Examination Committee has recommended and that the Board has accepted the recommendation that the external auditors be rotated. Deloitte has accepted the need for rotation and has indicated that they will not be seeking reappointment. The Committee has recommended that Messrs Ernst & Young be appointed as the Group's statutory auditor to serve until the conclusion of the next Annual General Meeting. A major shareholder has nominated Messrs Ernst & Young to be appointed the Group statutory auditor.

a. Audit Fees

The total of the statutory and non-statutory audit fees for the Group (excluding expenses and service tax) charged by Deloitte in the financial year ended 2004 amounted to RM869,450.

b. Non-Audit Fees

The total of the non-audit fees (excluding expenses and service taxes) charged by Deloitte for services performed for the Group the financial year ended 2004 amounted to RM32,000.

STATEMENT ON INTERNAL CONTROL

The Board of Directors is responsible for the Group's system of internal control, which is designed to ensure effective and efficient operations, internal control, including financial reporting, and compliance with laws and regulations. In establishing and reviewing the system of internal control, the Directors have regarded the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. Therefore it follows that the system of internal control can only provide reasonable but not absolute assurance against the risk of material loss. The Group has adopted a co-ordinated and formalised approach to internal control and risk management. A risk-aware and control-conscious environment is fostered across the Group through its subsidiaries' Board Committees, including the Executive Committee of Directors and Risk Management Committees of Directors. These Board Committees are supported by the Risk Management, Legal and Compliance Departments in addition to Group Internal Audit Department.

The Board, through the Audit & Examination Committee, regularly reviews the ongoing process of control and self assessment. To assist the Board in meeting its responsibilities, the Group Internal Audit Department introduced the Business Risk Scorecard to all business units. The Business Risk Scorecard is a tool to systematically identify and prioritise all risks arising from the activities of a unit, function or department and to identify measures and controls to mitigate and manage the risks. The Scorecards will then be reviewed regularly and updated whenever there are changes to their risk profiles.

The Internal Audit Department also conducts independent risk-based audits to ensure that the system of internal controls developed to mitigate the risks identified using the Business Risk Scorecard is effective and operating satisfactorily.

The effectiveness of the internal control system is reviewed regularly by the Board and the Audit & Examination Committee, which receives reports of reviews undertaken by the Internal Audit Department.

AUDIT AND EXAMINATION COMMITTEE REPORT

Terms of Reference

The functions of the Committee are as follows:

(a) To provide assistance to and to review and report to the Board in relation to:

   i. fulfilling the statutory and fiduciary responsibilities of the Company/Group; and

   ii. monitoring of the accounting and financial reporting practices of the Company/Group;

(b) To determine that the Company/Group has adequate established policies, procedures and guidelines, operating and internal controls, and that they are being complied with and are operating effectively in promoting efficiency and proper conduct and protecting the assets of the Company/Group;

(c) To serve as an independent and objective party in the review of the financial information of the Company/Group that is presented by Management to the Board and shareholders;

(d) To review the quarterly results and year-end financial statements of the Company/Group and to ensure compliance with accounting standards and legal requirements;

(e) To review and approve the scope of audits, audit plans and audit reports of both the external and internal auditors;

(f) To evaluate the adequacy and effectiveness of the Management control systems of the Company/Group through the review of the reports of both the external and internal auditors that highlight internal accounting, organisational and operating control weaknesses and to determine that appropriate corrective actions are being taken by the Management;

(g) To ensure the adequacy of the scope, functions and resources of the internal audit functions and that they have the necessary authority to carry out their work;

(h) To ensure through discussions with the external and internal auditors, that no restrictions are being placed by Management and employees on the scope of their examinations;

(i) To direct and supervise any special project or investigation considered necessary;

(j) To prepare when deemed necessary, periodic reports to the Board summarising the work performed in fulfilling the Committee's primary responsibilities;

(k) To review any related party transaction and conflict of interest situation that may arise within the Company/Group including any transaction, procedure or course of conduct that raises questions of management integrity; and

(l) To review the annual appointment of external auditors, or letter of resignation from external auditors, to negotiate and approve the annual audit fees and/or special audit fees, and evaluate basis of billings therewith.

Activities

The following is a summary of the main activities carried out by the Committees during the year:

- Reviewed and approved the Internal Audit Department's annual audit plan, including its resource and training needs;
- Reviewed the Internal Audit Department's methodology in assessing and rating the risk levels of the various auditable areas and ensured that audit emphasis was given on high and critical risk areas;
- Monitored the progress of the Internal Audit Department in completing its audit plan and assessed the performance of the Department;
- Reviewed the adequacy and effectiveness of the system of controls, reporting and risk management to ensure there is a systematic methodology in identifying, assessing and mitigating/controlling risk areas;
- Reviewed and discussed reports of the Internal Audit Department, including internal investigations, BNM, external auditors and other external parties, considered Management's response and accordingly directed Management to take the necessary remedial action. The Committee also followed-up on major issues raised in the reports;
- Reviewed and discussed the financial position of the companies, in particular, capital adequacy, asset quality, management, profitability and liquidity position, every two months;
- Reviewed the adequacy of the Group's procedures in identifying, monitoring, reporting and reviewing related party transactions;
- Reviewed the quarterly results and financial statements of the companies;
- Reviewed the external auditors' scope of work and their annual audit fees; and
- Reviewed and ensured that allocations of options granted during the financial year under the Company's Employees' Share Option Scheme (Scheme) were in accordance with the provisions of the Scheme.

Internal Audit Function

The Group Audit Department reports to the A & E Committee and assists the Board of Directors in maintaining a sound system of internal controls. The Audit Charter safeguards the independence of the internal audit function as the Head of Group Audit reports to the A & E Committee.

The A & E Committee approves the work of the internal audit function and monitors and reviews the conclusion of its work. The Internal Audit Department's annual audit plan is approved by A & E Committee. The Internal Audit function covers all units and operations within the Group, with major emphasis being placed on high risk units. The frequency of audit depends on the risk profile of the business or operations unit and high risk units are audited at least once a year.

This audit function covers all major business groups and consists of five main categories of work:

(1) Planned audits
(2) Systems development life cycle review of major IT infrastructure projects
(3) Special focus reviews
(4) Mandatory audits
(5) Ad-hoc reviews and special assignments

The audit plan covers review of adequacy of risk management, operational controls, compliance with law and regulations, quality of assets, management efficiency and level of customer service amongst others. The audit plans are drawn up based on the inherent business risk and control risks in each operating unit and their financial significance, and these reviews conducted are on a risk-based approach, rather than solely compliance.

The internal auditing function is conducted to ensure consistency in the control environment and the application of policies and procedures. A systematic and disciplined approach is adopted to provide the required assurance to stakeholders, and also to add value and improve the Group's operations by providing an independent and objective review. The staff size of the internal audit function comprises some 80 professionals.

Compliance with Bursa Securities Listing Requirements

OTHER BURSA SECURITIES COMPLIANCE INFORMATION

1. **Share Buy-back**
   The Company has not purchased any of its own shares during the FYE 31 March 2004 and the preceding financial year.

2. **Material Contracts**
   There were no material contracts (not being contract entered into in the ordinary course of business) entered into by the Group which involved directors and shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

3. **American Depository Receipt (ADR) or Global Depository Receipt (GDR)**
   The Company has not sponsored any ADR or GDR programme for the financial year ended 31 March 2004

4. **Sanctions and/or Penalties**
   There were no sanctions and/or penalties imposed on the Company, directors or management by the relevant regulatory bodies during the financial year.

5. **Profit Guarantees**
   During the financial year, there were no profit guarantees given by the Company.

6. **Revaluation Policy**
   The Company has not revalued its landed properties and therefore has not adopted any revaluation policy.

7. **Utilisation of Proceeds Raised from Corporate Proposal**
   The status of the utilisation of proceeds from the renounceable rights issue of 303,457,091 new ordinary shares at an issue price of RM1.10 per share completed on 6 January 2004, is as follows:

Description	Approved Utilisation RM'000	Actual Utilisation RM'000
Subscription of AmBank Berhad's rights issue	325,000	325,000
Funding of working capital requirement	4,303	5,395
Estimated expenses for the corporate exercise (Note)	4,500	3,408
Total	333,803	333,803

Note:
The difference between the actual and estimated expenses for the corporate exercise of RM1.092 million has been allocated for funding the Group's working capital requirement.

8. Options, Warrants or Convertible Securities

During the financial year, the Company converted the following:

(i) 45,127,838 of its employees share options into 45,127,838 ordinary shares of RM1.00 each in the Company; and
(ii) 2,740,335 of its 2003/2008 share warrants into 2,740,335 ordinary shares of RM1.00 each in the Company.

9. Variation in Results

There were no profit forecast, projection or unaudited results made or announced for the FYE 31 March 2004.

10. Recurrent Related Party Transactions of a Revenue or Trading Nature

At an Extraordinary General Meeting held on 24 September 2003, the Company obtained a shareholders' mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature.

Pursuant to paragraph 10.09 (1)(b), Part E, Chapter 10 of the Listing Requirements of Bursa Malaysia, the details of the recurrent related party transactions conducted during the financial year ended 31 March 2004 pursuant to the shareholders' mandate are disclosed as follows:

Related Parties	Transacting Parties	Nature of transaction of transacting parties	Actual Value (RM'000)	Relationship with the Company
MCM Consulting Sdn Bhd	AHB and any of its subsidiaries	Purchase of software and hardware and provision of IT related services*	7,936	Companies in which a Director and major shareholder is deemed to have an interest
MCM Systems Sdn Bhd			1,167	
Blue Star Infotech (Malaysia) Sdn Bhd			2,248	
Harpers Travel (M) Sdn Bhd		Airline ticketing services	545	
Conquest Marketing Sdn Bhd		Advertising services	707	
Paragon Premiums Sdn Bhd		Advertising & promotions services	1,580	
Computer System Advisers (M) Berhad		Purchase of software and hardware and provision of IT related services	5,798	Companies in which a Director is deemed to have an interest
Unigaya Protection Systems Sdn Bhd		Armed and unarmed security guard services	460	Companies in which a Director is deemed to have an interest

* IT consultancy related services consist of but not limited to the following services:
1. design, development and customisation of software;
2. integration, installation, implementation, testing and commissioning of the software in the designated systems;
3. provision of maintenance services and upgrades to the existing mainframe related applications and the system;
4. development, optimisation and implementation of the website; and
5. provision of project management services.

Our approach to risk management and control continued to evolve during the year to reflect best practice. Sustainable profitability forms the core objective of the Group's risk management strategy.

Every risk assumed by the Group carries potential for gains as well as potential to erode shareholders' value. Risk management policy is designed to identify, capture and analyse these risks at an early stage, continuously measure and monitor these risks and to set limits, policies and procedures to control them to ensure sustainable risk-taking and sufficient returns. Seven types of risk identified are strategic, capital, credit, market, funding, operational and legal risks.

Managing Risks

The Risk Governing Bodies

Managing risks is the responsibility of every unit within the Group. Nevertheless, the Group has set up committees where risk issues are centrally reviewed for management attention and bank wide decisions. They comprise the Board of Directors, the Risk Management Committee of Directors and the Executive Risk Management Committees. As the Board of every licensed banking institution within the Group continues to be responsible for the management of risks in their respective entity, these key risk governing structures are set up in each of the three licensed banking institutions, i.e. AmBank Berhad, AmMerchant Bank Berhad and AmFinance Berhad (the term Bank hereinafter in this section shall refer to each licensed banking institution of the Group).

Board Overview

The focus on risk and risk management policies begins at the most senior level of the Bank, i.e the Board of Directors who:

- approves the risk management strategy of the Bank and sets the broad risk tolerance level for the Bank; and
- approves the engagement of new products or activities after taking into account the risk bearing capacity and readiness of the Bank.

The Risk Management Committee of Directors assists the Boards in discharging their functions and overseeing the executive body by having a more focused forum on risk issues. The Committee is independent from management and comprises only non-executive directors. The Committee:

- ensures that risks at all levels are managed effectively and the Board's risk tolerance level is effectively enforced; and
- reviews high-level risk exposures and management decisions to ensure that they are within the overall interests of the Bank.

Management

The Executive Risk Management Committee carries out the day-to-day management of risks and implements the Board's approved risk management policies. The Committees are chaired by senior level executives and participated by relevant senior executives of both the business and non-business units. The Committee:

- implements the risk strategy and capital allocation decision of the Board and Risk Management Committee of Directors;
- reviews risk exposures of the Bank and the environment, and sets appropriate risk positioning strategy;
- assesses Bank's ability to accommodate risks under normal and stress scenario;
- reviews compliance with limits or constraints set;
- monitors and assesses risk-return profile; and
- evaluates and approve recommendations made by the risk management and business units.

At the Group level, the consolidated risks of the three banking institutions within the Group are reviewed and discussed at the Group Risk Forum. The Forum is represented by the banks' chief executive officers, heads of risk management and other key senior executives of the three banking institutions.

- The Forum reviews all risks and sets uniform standards in risk measurement and risk tolerance for the Group. The Forum discusses and makes decisions on common risk issues for adoption across the Group.

Risk Management Department

The Risk Management Department is independent of business units and reports directly to the Managing Director. It serves to assist the Executive Risk Management Committees in discharging their duties and implementing the directives of the committees. The major role of the Risk Management Department is to:

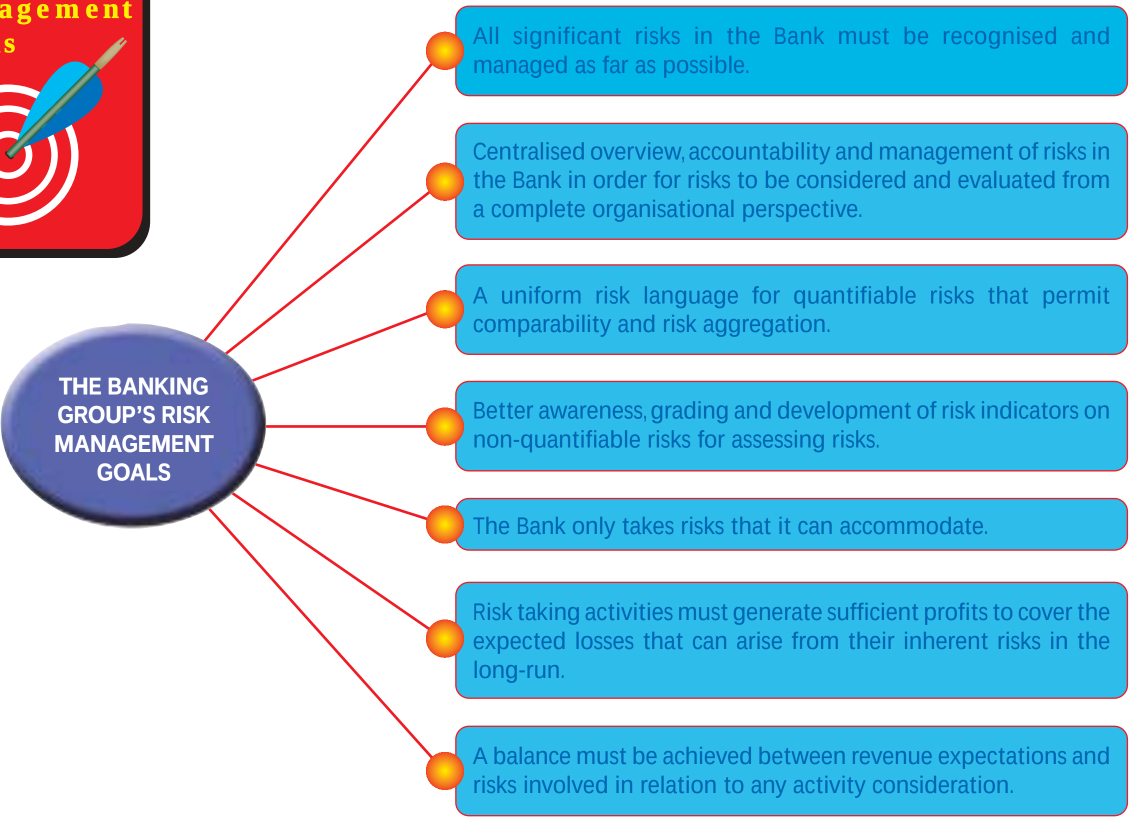
- be a central platform for which risks throughout the Bank can be aggregated for overview on a portfolio basis;
- standardise risk measurement methodology to enable comparability;
- act as a central resource for evaluating risks to assist management, business and operating units; and
- recommend means to control or minimise risks on a portfolio basis.

The Risk Management Department is made up of several units to provide a comprehensive coverage of all risks in the Bank. Their functions encompass research and analysis, risk exposure reporting, limit compliance monitoring, formulation of risk assessment methodology and formulation of the Bank's risk strategies.

To achieve Group harmonisation, risk measurement and evaluation methodologies are being standardised across the Group. The resources of the research and development function within each entities' risk management department are mobilised as a central resource for the Group with each risk management department developing specific expertise in certain risk areas.

Internal Audit Department

Complementing the above risk machinery, the Internal Audit Department assists the Audit Committee and the Board by providing an independent assessment on the effectiveness of the risk management structure, control systems and methodologies used to manage risks.



The Risk Management Approach

The management approaches towards the significant risks of the Company are enumerated in the following paragraphs.

Market risk is the risk of loss from changes in the value of portfolios and financial instruments caused by movements in market variables, such as interest rates and foreign exchange rates, credit spreads and equity prices.

The primary objective of market risk management is to ensure that losses from market risk can be promptly arrested and risk positions are sufficiently liquid so as to enable the Company to reduce its position without incurring potential loss that is beyond its sustainability.

Market Risk Management Structure

Market risk management is the responsibility of the Executive Risk Management Committee in charge of market risk. Its members and invitees include senior management of business and support units, such as Treasury, Risk Management and Finance Departments.

Market risk policies as approved by the Committee are implemented by the appropriate business units and if necessary are monitored and reported back to Committee by Treasury and/or Risk Management Department(s). The Committee reports to the Risk Management Committee of Directors on a quarterly basis on the market risk position and highlights major issues discussed.

Risk Management Method

The market risk of the trading and non-trading portfolio is managed separately. The duration-weighted-gap value-at-risk (DWG VAR) approach to compute market risk exposure for non-trading portfolio and parametric value-at-risk (parametric VAR) as well as a 25 basis point movement sensitivity analysis for its trading portfolio.

Value-At-Risk: the potential loss a portfolio is expected to incur over a specified time period, within a specified probability under normal market conditions.

The market risk exposure of its trading and non-trading activities is primarily controlled through a series of limits. Stop loss, parametric VAR and position sensitivity limits govern the trading activities while the DWG VAR limits governs the non-trading positions. Each relevant business desk is assigned month-to-date, quarter-to-date and year-to-date stop loss limits based on the business profitability budget. VAR limits are used to control the size of risk positions to ensure they are within sustainable capacity of the Company. Approved by the Board of Directors, these limit structure aligns specific risk-taking activities with the overall risk appetite of the Company and of its individual business units.

All business units are expected to maintain their exposure within assigned limits. If a limit is exceeded, business units are responsible to reduce their exposure immediately to a level within the limit. Where this is not possible, senior management is consulted on the appropriate method to address the exposure. Together, these techniques reduce the likelihood that trading and non-trading losses will exceed the risk appetite of the Company. These limits are reviewed regularly in line with the Company's quarterly performance.

To complement VAR, the Company has a set of scenario analysis that serves as an indicator of the change in portfolio value under various potential market conditions such as shifts in currency rates, general equity prices and interest rates, and yield curve shifts.

Funding Risk Management Objectives

Funding risk is the risk that the organisation will not be able to fund its day-to-day operations at a reasonable cost.

The primary objective of funding risk management framework is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments as it comes due.

The secondary objective is to ensure an optimal funding structure and to balance the key funding risk management objectives, which includes diversification of funding sources, customer base, and maturity period.

Funding Risk Management Structure

Funding risk management is the responsibility of the Executive Risk Management Committee in charge of funding risk. Its members and invitees include senior management of business and support units, such as Treasury, Risk Management and Finance Departments.

Funding risk policies approved by the Committee are implemented by the appropriate business units and if necessary monitored and reported back to the Committee by Treasury and/or Risk Management Departments. The Committee reports to the Risk Management Committee of Directors on a quarterly basis on the funding risk position of the bank and highlights major issues discussed.

Management Method

The ongoing funding risk management is based on the following key strategies:

- Management of cash-flow, through maintenance of adequate cash and liquefiable assets over and above what is required by BNM in their cash flow maturity mismatch framework.
- Scenario analysis, new business, changes in portfolio as well as stress scenarios based on historical experience of large withdrawals.
- Diversification and stabilisation of liabilities through management of funding sources, diversification of customer depositor base and inter-bank exposures.

The measures utilised for funding risk management is varied and ranges from daily to monthly monitoring and reporting. These include weekly cash flows, daily monitoring of depositors and relevant key ratios and monthly reporting to the Committee on the measures as well as any breaches of limits, if any.

Contingency Funding Plan

The Contingency Funding Plan provides a formal process to identify a funding crisis. Detailed responsibilities among the relevant departments are also specified to ensure orderly execution of procedures to restore the funding position and confidence in the Company during actual crisis.

Credit Risk Management Objectives

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises primarily from lending activities and, to a lesser extent, pre-settlement and settlement exposures of sales and trading activities.

The primary objective of credit risk management framework is to ensure that exposure to credit risk is always kept within its capability and financial capacity to withstand potential future losses.

Credit Risk Management Structure

Credit risk management comes within the purview of the Executive Risk Management Committee in charge of credit risk. Its members and invitees include senior management of business and support units, such as the lending relationship departments, Credit Risk Management, and Risk Management Departments.

The Business Managers perform credit assessment on new exposures, grade existing and new borrowers and ensure the compliance with all relevant guidelines and policies. However, this is subject to stringent vetting and review by an independent risk management department. To enhance the quality and consistency of credit evaluation for non-retail credits across the group, the Boards of AmMerchant, AmBank and AmFinance recently approved an exercise to centralise the credit evaluation function into specialised centres, one to undertake credit evaluation of large corporate exposures and the other for medium sized business banking exposures. Major loan approvals within approved policies are made by the Credit and Commitments Committee with exceptions escalated to the Executive Committee of Directors. These include the approval of new loans as well as revisions to the terms and conditions of existing loans.

Management Methods

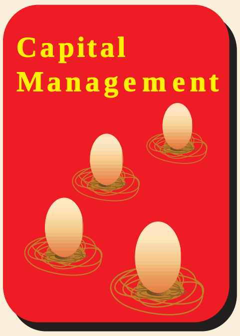
For non-retail credits, risk measurement begins with an assessment of the financial standing of the borrower or counterparty using an internally developed credit rating model. The model consists of quantitative and qualitative scores which are then translated into a rating grade, which ranges from 'AAA' (lowest risk) to 'C' (highest risk). The credit analysis not only highlights the key credit issues that need to be mitigated, but also reflects the overall level of risk for each new borrower. Notwithstanding this, the Board also sets the minimum credit acceptance criteria for new credits. The assigned credit rating forms a crucial part of the credit analysis undertaken for each credit exposure. A review of the credit rating assigned to each borrower is done once a year.

Credit risk is quantified based on expected default frequencies and expected losses on default from its portfolio of loans and off-balance sheet credit commitments. Expected default frequencies are calibrated to the internal rating model while loan loss estimates are based on past portfolio default experiences.

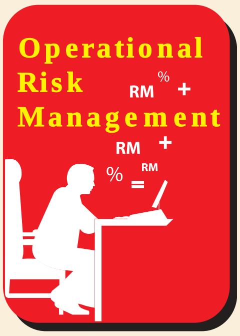
Apart from recommendations of the risk management units, lending activities are guided by internal credit policies and guidelines that are approved by the Board of Directors. Within these policies, name limits restrict total exposure allowed to corporate groups according to their level of creditworthiness, while sector limits ensure that total credit exposure to each economic sector is within prudent thresholds. These limits are monitored and reported to the senior management monthly. The pricing of non-retail exposure is also guided by benchmark return guidelines to ensure minimum returns that compensate for the risk taken, operating expenses and the cost of capital.

In order to further enhance the overall quality of loan exposures, the Board also endorsed a credit portfolio management strategy designed to achieve a desired ideal portfolio risk tolerance level and sector distribution over the next few years. These portfolio management strategies include minimum credit rating targets for new facilities, a more aggressive approach towards reducing existing high-risk exposures and exposures to certain sectors.

For retail credits, an in-house developed credit-scoring system to support the credit cards, housing and hire purchase applications is being used to complement the credit assessment process. Moving forward, the Company is in the midst of enhancing further the robustness of the credit scoring system to a level capable of performing credit based decision and automated approval in order to speed up the credit granting processes.



The Group continues to rely on retained earnings to enlarge its capital resources to drive the Group's businesses. Traditionally, the Group shall only employ rights issues only when the business expansion is expected to be strong to enable the shareholders to enjoy sustainable returns. 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 optimum balance is maintained between the return on shareholders' investments and a prudent level of capitalisation.



Operational Risk Management Objectives

Operational risk is the risk arising from inadequate or failed internal processes, people and systems or from external events on the Company's day-to-day operations that are executed to attain its business objectives, which restrict or prevent such objectives from being achieved. It is increasingly recognised that operational risk is the single most widespread risk facing financial institutions today.

Operational risk management is the discipline of systematically identifying the critical potential points and causes of failure, assess the potential cost and to minimise the impact of such risk through the initiation of risks mitigating measures and policies.

Operational Risk Management Structure

Operational risk management is the responsibility of the Executive Risk Management Committee in charge of operational risk. Its members include senior management of the operational and support units.

Operational risk policies as approved by the Committee will be implemented by the various departments and monitored and reported back to the Committee by Risk Management Department. The Committee reviews the adequacy of controls to manage operational risks based on the assessment performed on each operating units. On a quarterly basis, the Committee will report to the Risk Management Committee of Directors.

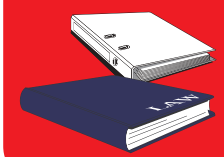
Management Method

Efforts are in progress to implement the internal framework on risk identification and assessment of the operational risk. This would assist the Company in prioritising the operational risk areas which require further enhancement.

The Company minimises operational risk by putting in place appropriate policies, internal controls and procedures as well as maintaining back-up procedures for key activities and undertaking contingency planning. These are supported by independent reviews by the Internal Audit Department.

The primary responsibility for managing operational risk rests with each operating department. Nevertheless, the execution of risk assessment methodology is supported and guided by a Risk Management Department whose function is to define minimum standards, policies and methodologies, monitor compliance, and identify as well as report on Company-wide risk exposures. The operating departments are responsible to assess their operational risks and review controls instituted on a periodical basis to ensure that the measures introduced continue to be relevant and appropriate.

Legal and Regulatory Risk



The Company manages legal and regulatory risks to its business. Legal risk arises from the potential that breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgement, may lead to the incurrence of losses, disrupt or otherwise resulting in financial and reputational risk. Legal risk is managed by internal legal counsel and where necessary, in consultation with external legal counsel to ensure that legal risk is minimised.

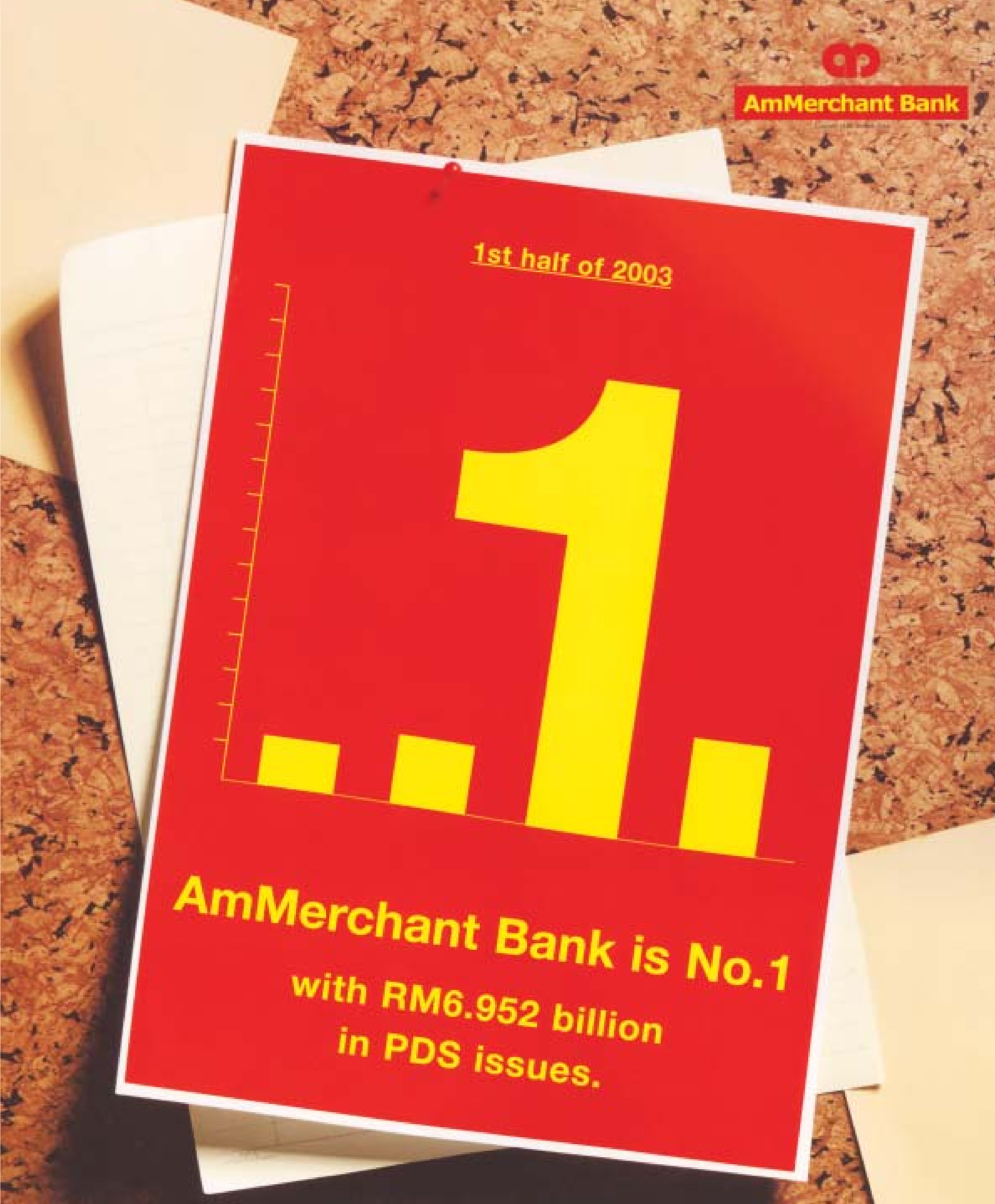
The Compliance Unit manages regulatory risk which arises from the possibility of laws and regulatory rules being breached. Strategies and tasks implemented to manage these risks include monitoring and reporting, training, providing advisory service and disseminating information.

A compliance monitoring and reporting process has been implemented to monitor compliance to rules. The process requires the identification of risk areas, prioritisation of these risks and prescribing controls to minimize these risks. Monitoring is conducted through self-certification as well as monthly, quarterly and exception reporting. Efforts are underway to further enhance the entire process by enabling monitoring and reporting to be carried out on-line.

All staff undergo continuous Compliance Awareness Training, on banking and other relevant rules. Assessments are also conducted to gauge staff comprehension on topics covered. This is vital to make staff conversant with new rules, develop their skills to identify compliance issues as well as create an appreciation for good corporate ethics.

In its advisory role, the Unit provides advice on all areas of regulation applicable to the Company. This includes implementing measures and procedures within the organisation to facilitate compliance with new regulations. To further promote understanding, application and compliance with these regulations, the Unit conducts briefings, disseminates information as well as leads coordination efforts.

Compliance Repository, an e-Library that enables easy access to rules through various search modes, continues to serve staff as an important resource tool. Easy access to rules is vital to facilitate staff in their daily tasks as well as educate new staff joining the organisation.



AmMerchant Bank has been listed by the Rating Agency Malaysia (RAM) as the top Lead Manager for the first half of 2003 in the issuance of Private Debt Securities (PDS).

The Bank is also No. 1 in the issuance of Islamic PDS totalling RM4.356 billion.

AmMerchant Bank - Leader in Investment Banking

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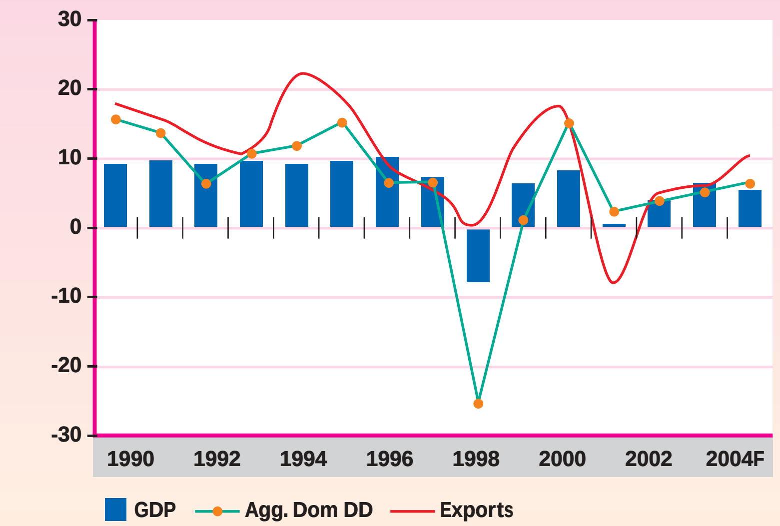
Development in 2003

The Malaysian economy registered a stronger performance in 2003. Despite the global geopolitical and economic uncertainties following the Iraq war and the outbreak of Severe Acute Respiratory Syndrome (SARS), real Gross Domestic Product (GDP) rose favourably by 4.6% in the first half of last year as compared with 2.5% in the same period of 2002.

Growth in the second half had accelerated to 6.0% largely in response to a stronger external and domestic demand. The average growth for the whole of 2003 therefore had accelerated to 5.3% from 4.1% in 2002. Against 2001, Malaysia's real GDP had expanded encouragingly by 9.7%.

GDP, Agg. Dom. Demand and Exports (% YoY)



Demand Condition

Growth in 2003 was broad-based as both the domestic and external demand recorded stronger expansion. The domestic demand had continued to lead growth, and its contribution to the overall GDP growth had increased to 5.3 percentage points (pps) in 2003 from 3.7 pps in the preceding year as it grew faster at 5.9% as opposed to 4.2% in 2002. This was largely on account of a firmer private sector spending. As opposed to a 0.7% rise in 2002, private spending had increased by 5.6% in 2003 thanks to the accommodative monetary policy and improved consumer sentiment. Sectorwise, private spending emerged as the largest contributor to the overall GDP growth at 3.2 pps.

Real GDP by Demand Aggregate

% Change	2000	2001	2002	2003	2004F	2005F
Consumption	**10.5**	**5.4**	**6.1**	**7.4**	**7.6**	**6.5**
Public	1.6	17.3	11.9	10.0	5.1	1.5
Private	13.0	2.4	4.4	6.6	8.3	8.0
Investment (ex-stocks)	**25.7**	**-2.8**	**0.3**	**2.7**	**3.2**	**4.1**
Public	19.4	14.5	9.8	3.6	-0.6	-1.3
Private	32.6	-19.9	-13.1	1.1	10.0	13.1
Agg. Domestic Demand	**15.5**	**2.5**	**4.2**	**5.9**	**6.2**	**5.7**
Public	11.2	15.7	10.7	6.4	-2.2	0.0
Private	17.5	-3.3	0.7	5.6	9.3	8.9
Exports	16.1	-7.5	4.5	6.3	10.1	7.3
Imports	24.4	-8.6	6.3	5.0	11.1	6.5
Real GDP	**8.9**	**0.3**	**4.1**	**5.3**	**6.8**	**6.0**

Source: Department of Statistics F: AmBank forecast

Both the private consumption and investment had chartered an uptrend in 2003. While private consumption had increased by 6.6% from 4.4%, investment spending by the private sector had moved up by 1.1% after charting a contraction of 13.1% in 2002. Total investment (excluding stocks) therefore had increased faster at 2.7% last year (2002: 0.3%) although public investment showed a slower growth of 3.6% against 9.8% in the preceding year. However, as a result of stock reduction, the contribution by capital formation to the overall GDP growth had shown a decline of 1.2 pps from a positive 1.8 pps in 2002. Subsequently, as ratio of Gross National Product (GNP), capital formation recorded a decrease to 22.7% last year from 25.5% in 2002 and the post-crisis high of 29.7% in 2000. On the other hand, the ratio of total savings to GNP had risen to 36.3%, thus indicating an enlarged resource surplus in the economy (13.7% against 9.1% in 2002) and a gap between the potential and actual output growth.

Exports of goods and services similarly had recorded a faster real growth of 6.3% in 2003 from 4.5% in 2002 to reflect the increased earnings on both the primary commodities and manufacturing. As income leakages from imports recorded a slower growth of 5.0% from an increase of 6.3% in 2002, net exports had chartered a sharp growth of 20.5% in 2003 against -11.4% in 2002. As a result, net exports contributed a favourable 2.0 pps to the overall GDP growth in 2003 from -1.3 pps in 2002.

Contribution to Growth by Demand Aggregate

% Points	2000	2001	2002	2003	2004F	2005F
Consumption	**5.9**	**3.0**	**3.6**	**3.5**	**4.7**	**4.0**
Public	0.2	2.0	1.6	1.4	0.8	0.2
Private	5.7	1.1	2.0	3.1	3.9	3.8
Investment (ex-stocks)	**6.9**	**- 0.9**	**0.1**	**0.8**	**0.9**	**1.1**
Public	2.7	2.2	1.7	0.7	-0.1	-0.2
Private	4.1	--3.1	-1.6	0.1	1.0	1.3
Stocks	1.1	-2.2	1.7	-1.9	0.2	-0.6
Agg. Domestic Demand	**12.7**	**2.2**	**3.7**	**5.3**	**5.7**	**5.1**
Public	2.9	4.2	3.3	2.1	0.4	0.0
Private	9.8	-2.0	0.4	3.2	5.3	5.2
Exports	17.6	-8.8	4.8	6.9	11.2	8.2
Imports	22.6	-9.1	6.1	4.9	10.2	6.6
Net Exports	**-5.0**	**0.3**	**-1.3**	**2.0**	**0.3**	**1.5**
Real GDP	**8.9**	**0.3**	**4.1**	**5.3**	**6.8**	**6.0**

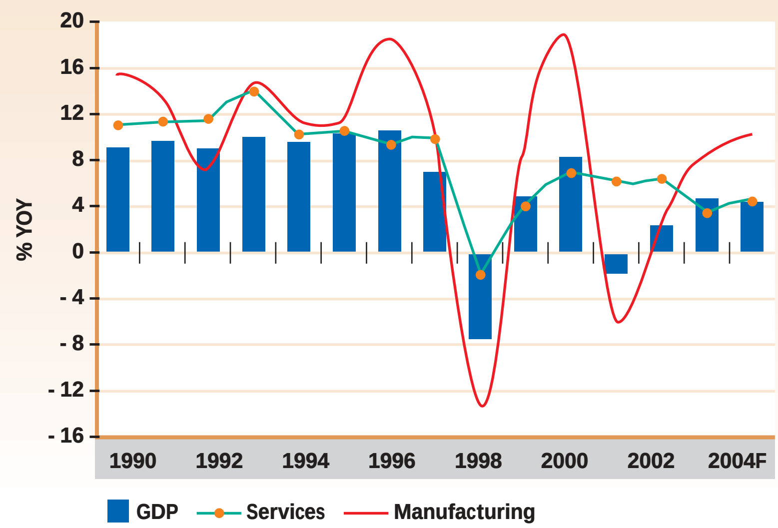
Source: Department of Statistics F: AmBank forecast

Supply Condition

All sectors of the economy registered expansion and contributed positively to the overall GDP growth in 2003. The manufacturing, agriculture and mining sectors had showed stronger growth of 8.3% and 5.7% and 5.9% respectively as compared with 4.1%, 2.6% and 3.7% in 2002. Subsequently, the manufacturing sector had contributed a larger 2.5 pps to the overall GDP growth in 2003 from 1.2 pps in 2002. The agriculture also saw an increased contribution of 0.5 pp from 0.2 pp while mining edged up to 0.4 pp from 0.3 pp.

The manufacturing sector generally had strengthened across the board in response to higher domestic demand and exports. While the domestic-orientated industries had increased by 10.5% in 2003 from 4.9% in 2002, the export-orientated industries grew by 9.9% against 4.6%. Meanwhile, the electrical and electronics industries (E&E) had recorded a slightly higher expansion of 10.0% in 2003 against 8.3% in 2002.

GDP, Manufacturing, Services (% YoY)



The faster expansion in agriculture on the other hand was largely driven by the stronger rise in palm oil and rubber production, on the back of firmer commodity prices. Meanwhile, the mining sector had expanded on account of higher production of crude oil and gas. For the whole of 2003, Malaysia's crude oil output had increased by 5.0% while gas production had risen by 6.5% compared with 2.8% and -0.5% respectively in 2002.

Real GDP by Sector

% Change	2000	2001	2002	2003	2004*F*	2005*F*
Agriculture	6.0	- 0.6	2.6	5.7	1.2	2.7
Mining	0.3	- 1.5	4.0	5.9	5.2	2.5
Manufacturing	18.3	- 5.9	4.1	8.3	10.3	8.1
Construction	0.6	2.1	2.3	2.0	2.4	2.5
Services	6.7	6.0	6.4	4.4	6.2	5.6
Real GDP	**8.9**	**0.3**	**4.1**	**5.3**	**6.8**	**6.0**

Source: Department of Statistics F: AmBank forecast

Contribution to Growth - Sector

Percentage Points	2000	2001	2002	2003	2004F	2005F
Agriculture	0.6	-0.1	0.2	0.5	0.1	0.2
Mining	0.0	-0.1	0.3	0.4	0.4	0.2
Manufacturing	5.4	-1.9	1.2	2.5	3.2	2.6
Construction	0.0	0.1	0.1	0.1	0.1	0.1
Services	3.7	3.2	3.6	2.6	3.5	3.2
Other Items	-0.8	-0.9	-1.3	-0.7	-0.4	-0.2
Real GDP	**8.9**	**0.3**	**4.1**	**5.3**	**6.8**	**6.0**

Source: Department of Statistics F: AmBank forecast

Meanwhile, the services sector had continued to perform favourably and grew by 4.4% in 2003 from 6.4% in 2002 although several sub-sectors, particularly related to tourism and retail trade, were adversely affected by the Iraq war and outbreak of SARS epidemic in the first half of 2003. The stronger manufacturing activity and sustained domestic demand principally had helped to support the performance of this sector. On average, the services sector had contributed a favourable 2.6 pps to the overall GDP growth, only slightly lower than the 3.6 pps in 2002. The sector remained as the largest sector with a share of 57.6% to overall GDP.

The construction in turn had increased by 2.0% in 2003 from 2.3% in 2002. To a large extent the construction had gained from enlarged public development expenditure. It would also have benefited from the Government's accommodative monetary policy.

External Trade and Current Account

Malaysia's external trade showed stronger performance during 2003. For the whole of 2003, exports chartered a faster growth of 11.4% as opposed to 7.0% in 2002. The higher exports in 2003 principally had been supported by the enlarged earnings from primary commodities, especially petroleum and palm oil following increased prices. While exports of crude oil and gas surged by 33.6% (2002: -2.0%), palm oil exports expanded by 36.0%. On average, the prices of crude oil had increased by 17.2% in 2003 to US$30.5 per barrel (RM115.9), while the price of palm oil rose by 16.3% to RM1,579 per tonne.

On the other hand, exports of manufactures registered a sharp slowdown in 2003 with a growth of 2.5% from 5.2% in the preceding year. It was principally on account of lower earnings from the electrical and electronics (E&E) products. Against the 2002 growth of 4.4%, exports of E&E fell by 1.5% in 2003.

On the import front, the development in 2003 showed a slower increase. Imports for the whole of 2003 had moderated to 4.8% last year from 8.2% in 2002. To a large extent, the slower imports during 2003 was attributed to a sharp slowdown in the purchases of intermediate goods along with declines in consumption and capital good imports.

The surplus in the trade balance had also expanded sharply to RM80.7 billion last year from RM54.6 billion in 2002. This is the largest ever surplus accumulated by the country, exceeding the previous high of RM73.1 billion in 1999. Arising from this enlarged trade surplus, Malaysia's current account of the balance of payments for the whole of 2003 had chartered a substantially higher surplus of RM50.8 billion or 13.7% of GNP compared with RM30.5 billion or 9.1% of GNP in 2002. This is the largest current account surplus ever achieved and outpacing the previous record of RM47.9 billion or 17.1% in 1999.

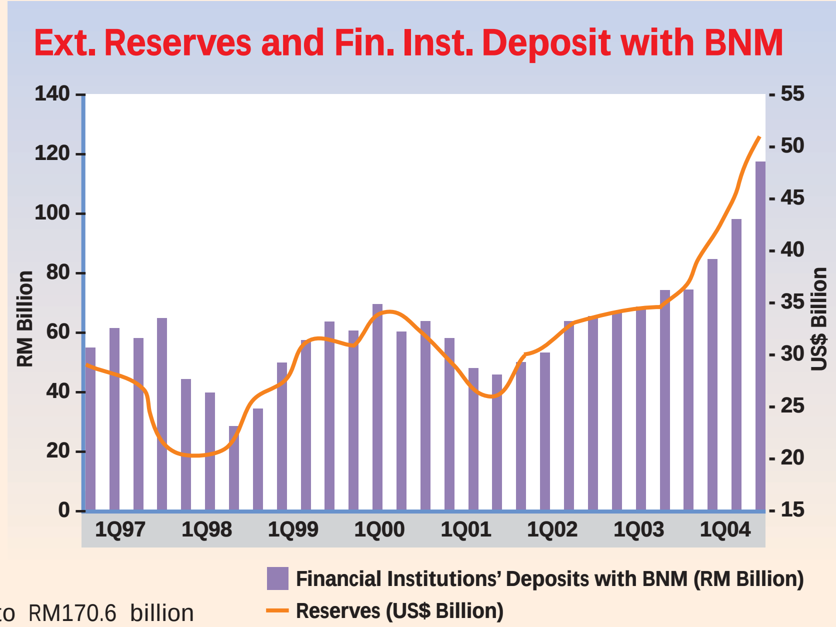
Balance of Payments

RM billion	2001	2002	2003	2004F	2005F
Current Acc. Balance	27.7	30.5	50.8	50.2	41.7
% of GNP	9.0	9.1	13.7	12.5	9.7
Merchandise Balance	69.9	72.1	97.7	96.7	91.2
Services Balance	-8.4	-6.0	-15.0	-10.3	-10.6
Income Balance	-25.6	-25.1	-22.5	-25.5	-28.4
Net Transfer	-8.2	-10.6	-9.3	-10.6	-10.5
Real GDP (%YoY)	0.3	4.1	5.2	6.8	6.0

Source: Department of Statistics F: AmBank forecast

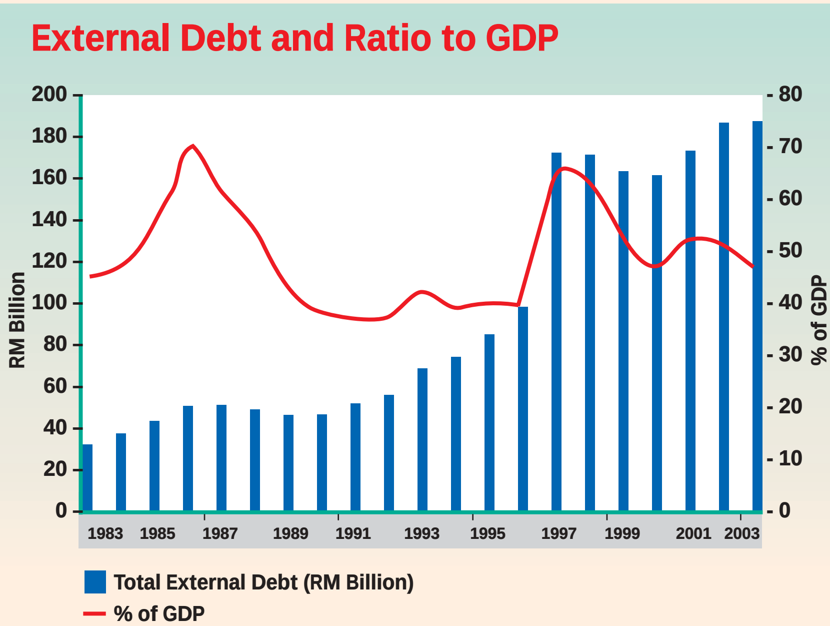
Financial Account and External Reserves

The financial account of the balance of payments in 2003 continued to register a deficit of RM12.1 billion, slightly larger compared with RM11.9 billion registered in 2002 principally as a result of a larger net outflow from official loan repayments. A smaller deficit in private sector investment of RM9.3 billion (2002: RM15.1 billion) following a lower repayment of loans by the private sector together with increased Foreign Direct Investment (FDI) inflow helped contain the deficit in the overall financial account.



As the current account surplus had increased strongly, the overall balance of the balance of payments as reflected by the international reserves of Bank Negara Malaysia (BNM) had surged to RM170.6 billion (US$44.9 billion) as at end of December 2003 from RM131.5 billion (US$34.6 billion) as at end of 2002. This is the highest level ever achieved by Malaysia, which was adequate to finance about 7.2 months of retained imports compared with 5.4 months in 2002. As a ratio of short-term debts (RM24.6 billion), the external reserve coverage had increased substantially to 5.1 times in 2003 from 4.5 times in 2002.

Meanwhile, Malaysia's external debt had only increased marginally by RM1.6 billion to an estimated RM187.3 billion in 2003. Hence, as a share of GDP, it had decreased to 47.8% from 51.5% recorded in 2002. The Federal Government external debts constituted about 19.9% of the total external debt (and mainly of the medium and long term debts) while the non-financial public enterprises and the private sector constituted 31.8% and 29.9% respectively. The Federal Government debts had remained manageable and constituting about 24.6% of the international reserves in 2003. As a result, the external debt service ratio of the Federal Government remained low at 1.2% in 2003. About 70.0% of the Federal Government debt is in the US Dollar, and 18.0% in Yen while the rest is in other currencies.



Prospects in 2004

The global economy is projected to show further improvement in 2004 underpinned by stronger growth in major industrial economies, to be led by the US. Overall, world output is projected to grow by 4.1% this year from 3.2% in 2003. In the US, while the manufacturing and services sectors are showing expansion, productivity growth has remained robust and job creation is improving. In Japan, the GDP data for the final quarter of 2003 and the first quarter of 2004 were stronger than expected. Improved business confidence, stronger investment and rising exports would help sustain recovery in the Japan's economy.

Meanwhile, despite the generally subdued domestic demand condition as a result of rising unemployment resulting from the persistent weakness of domestic demand Euro zone is expected to grow further this year on account of increased exports and investment, amidst low interest rates.

According to the latest International Monetary Fund's projection, emerging Asian economies are expected to continue enjoying favourable economic recovery in 2004, and to record over a 6.0% growth rate compared with 5.9% in 2003 as the region extends its rebound from the impact of SARS virus. Growth in 2004 will be supported by both the external and domestic demand.

The Malaysian economy is also expected to chart a stronger performance in 2004 in line with its regional counterparts and a reflection of the upswing in the global economy. Indeed, the economy has started the new year with much improved external condition compared with the same period a year ago. A firmer base has also been established following the strong expansion of 7.6% in the first quarter of 2004. On account of a stronger external and domestic demand, real GDP in 2004 is projected to grow by 6.8%. In its 2003 Annual Report, Bank Negara Malaysia is projecting Malaysia's real GDP growth this year to range between 6.0% and 6.5%.

As the public sector would undergo a consolidation in 2004 to reduce fiscal deficit, monetary policy would remain accommodative to promote private initiatives. As a result, the private sector would return to be the engine of growth. This will be supported by improving outlook of business condition and firmer consumer confidence, amidst relatively stable capital market, low interest rates and rising income.

Meanwhile, the external uncertainties, including rising oil prices, the impact of rising US interest rate and China's economic slowdown may affect the performance of global economy in the coming year. Nonetheless, Malaysia is expected to retain a favourable rate of growth of at least 6.0% in 2005 on account of its strong fundamentals and given its well diversified economic base. Furthermore, the private sector is likely to show a stronger performance, particularly following a higher investment spending, amidst low interest rate. At the same time, exports would continue to contribute positively to the overall GDP growth in 2005 although it may show a moderation as a result of slower global economy.