

Group Financial Highlights

	YEAR ENDED 31 MARCH				HALF-YEAR ENDED 30 SEPTEMBER			
	RM Million		Growth Rate +/(-)%		RM Million		Growth Rate +/(-)%	
	2004	2003	2004	2003	2003	2002	2003	2002
Operating revenue	4,420.4	4,203.4	5.2	23.2	2,123.8	2,018.2	5.2	22.7
Operating profit before loan and financing loss and allowances	1,224.0	1,289.4	(5.1)	43.4	591.1	560.0	5.5	21.4
Loan and financing loss and allowances	865.6	887.3	(2.4)	90.0	437.2	329.9	32.5	39.1
Profit before tax and after share in results of associated companies	358.4	402.1	(10.9)	(6.9)	153.9	230.1	(33.1)	2.6
Profit after tax and minority interests[@]	223.7	263.2	(15.0)	37.7	161.2	161.0	0.1	>100.0
Total assets [@]	60,478.6	58,716.7	3.0	6.0	59,011.9	55,525.0	6.3	25.9
Loans, advances and financing (net)	38,601.1	38,117.8	1.3	2.0	39,339.2	38,179.2	3.0	33.3
Deposits and borrowings	52,872.0	52,536.5	0.6	6.0	52,207.2	49,632.6	5.2	27.1
Commitments and contingencies	18,708.7	15,941.2	17.4	(13.9)	18,705.7	20,611.1	(9.2)	21.4
Shareholders' funds [@]	4,107.5	3,463.7	18.6	30.9	3,600.0	3,353.1	7.4	37.3
Pre-tax return on average shareholders' funds (%) [^]	5.0	9.0	(44.4)	(26.2)	3.9 ^{**}	11.7 ^{**}	(66.4)	(16.5)
Pre-tax return on average total assets (%)	0.6	0.7	(14.7)	(18.8)	0.5 ^{**}	0.8 ^{**}	(37.0)	(18.3)
Basic earnings per share								
- gross (sen)	11.9	18.7 [#]	(36.4)	(17.7)	9.2 ^{***}	24.5 ^{***}	(62.3)	2.3
- net (sen) [@]	14.0	17.5 [#]	(20.0)	24.2	21.4 ^{***}	22.4 ^{***}	(4.5)	91.2
Fully diluted earnings per share								
- gross (sen)	11.2	18.7 [#]	(40.1)	(16.7)	9.0 ^{***}	24.4 ^{***}	(63.3)	N/A
- net (sen) [@]	13.2	17.5 [#]	(24.6)	25.8	20.8 ^{***}	22.4 ^{***}	(7.0)	N/A
Gross dividend per share (sen)	4.0	3.3 [#]	21.2	-	-	-	-	-
Net dividend cover (No. of times)	4.2	7.3	(42.7)	26.0	-	-	-	-
Net tangible assets per share (RM) [@]	2.06	2.11 [#]	(2.4)	22.3	2.19 [#]	2.03 [#]	7.9	19.6
Overheads to total income (%)	38.3	38.0	0.7	(1.8)	37.7	40.5	(6.9)	20.9
Number of employees	8,776	8,285	5.9	(5.9)	8,367	8,010	4.5	29.7
Assets per employee (RM Million)	6.9	7.1	(2.8)	12.6	7.1	6.9	1.7	(3.0)
Pre-tax profit per employee (RM'000)	40.8	48.5	(15.8)	(1.1)	36.8 ^{**}	57.5 ^{**}	(36.0)	(20.9)

Five-Year Group Financial Review

	YEAR ENDED 31 MARCH				
	2004	2003	2002	2001	2000
1. REVENUE (RM MILLION)					
i Operating revenue	4,420.4	4,203.4	3,412.0	3,350.6	3,875.6
ii Operating profit before loan and financing loss and allowances	1,224.0	1,289.4	899.0	1,161.9	1,402.3
iii Loan and financing loss and allowances	865.6	887.3	467.1	511.8	549.1
iv Profit before tax and after share in results of associated companies	358.4	402.1	431.9	650.1	853.2
v Profit after tax and minority interests [@]	223.7	263.2	191.2	362.6	552.6
2. BALANCE SHEET (RM MILLION)					
Assets					
i Total assets [@]	60,478.6	58,716.7	55,381.7	44,164.0 *	38,846.6
ii Loans, advances and financing (net)	38,601.1	38,117.8	37,377.0	29,437.3 *	26,092.0
Liabilities and Shareholders' Funds					
i Deposits and borrowings	52,872.0	52,536.5	49,574.5	39,230.5 *	34,200.9
ii Paid-up share capital	1,858.8	1,502.6 #	1,375.4 #	1,337.4 #	1,326.0 #
iii Shareholders' funds [@]	4,107.5	3,463.7	2,646.2	2,399.3	2,054.0
Commitments and Contingencies	18,708.7	15,941.2	18,506.9	15,061.5 *	16,506.9
3. PER SHARE (SEN)					
i Basic gross earnings	11.9	18.7 #	22.7 #	37.6 #	57.4 #
ii Basic net earnings [@]	14.0	17.5 #	14.0 #	27.2 #	44.4 #
iii Fully diluted gross earnings	11.2	18.7 #	22.4 #	37.2 #	57.3 #
iv Fully diluted net earnings [@]	13.2	17.5 #	13.9 #	26.9 #	44.1 #
v Net tangible assets [@]	205.8	210.9 #	172.4 #	166.4 #	147.9 #
vi Gross dividend	4.0	3.3 #	3.3 #	3.3 #	3.3 #
4. FINANCIAL RATIOS (%)					
i Pre-tax return on average shareholders' funds [^]	5.0	9.0	12.2	22.5	46.2
ii Pre-tax return on average total assets	0.6	0.7	0.9	1.6	2.2
iii Loans, advances and financing to deposits and borrowings	73.0	72.6	75.4	75.0	76.3
iv Overheads to total income	38.3	38.0	38.7	29.0	24.7
5. SHARE PRICE (RM)					
i High	4.22	4.16 #	3.80 #	5.40 #	5.33 #
ii Low	1.84	2.09 #	1.52 #	1.96 #	1.13 #
iii As at 31 March	4.00	2.16 #	3.50 #	1.96 #	4.73 #

** Annualised

[^] Adjusted for minority interests

Adjusted for bonus issue

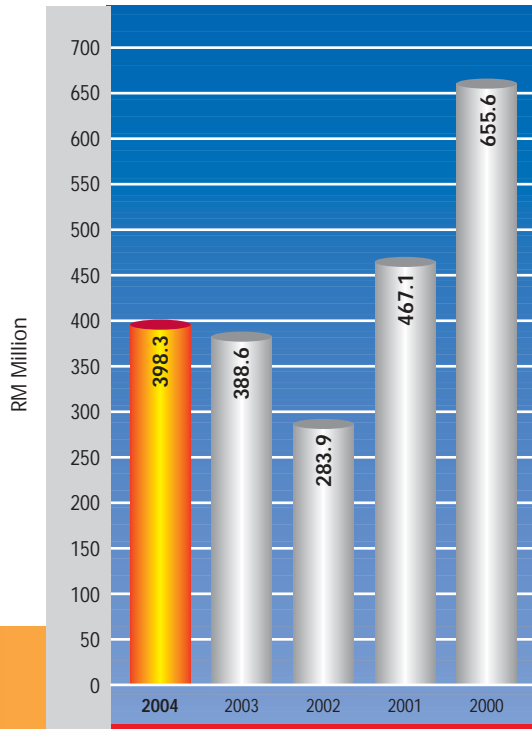
[@] After adjusting for the adoption of MASB 25 Income Tax, on the measurement and recognition of deferred tax assets and/or liabilities and MASB 19, Events After Balance Sheet Date, on the recognition of dividends, which have been applied retrospectively

* Adjusted for loans sold to Cagamas Berhad (excluding Islamic financing)

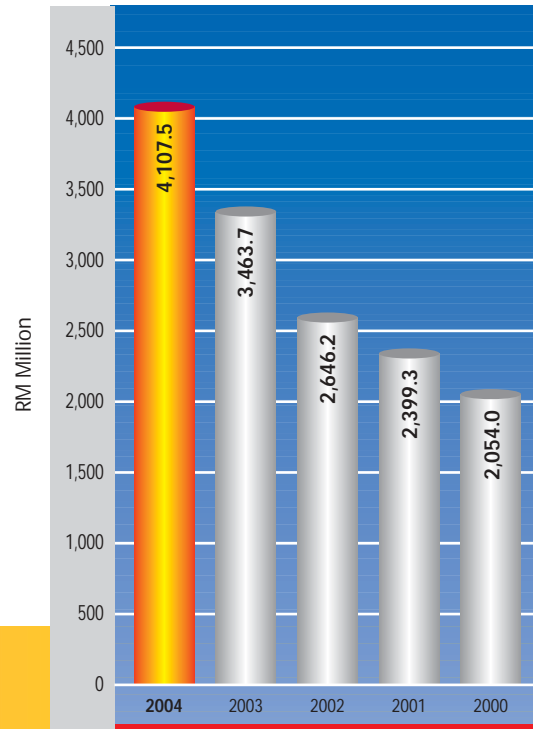
N/A Increase basic earnings per share



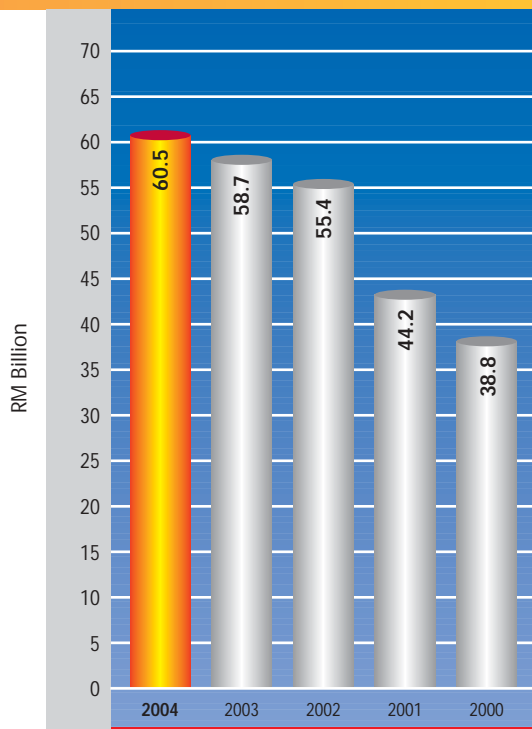
Profit After Tax



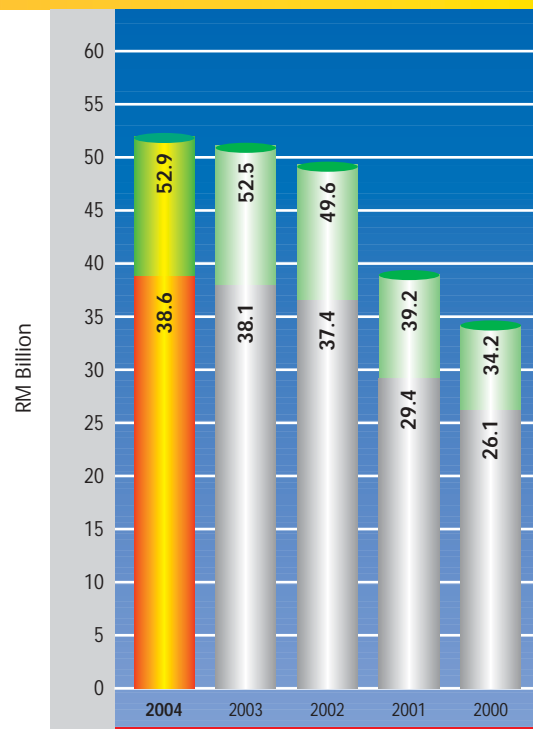
Shareholders' Funds



Five-Year Group Financial Review



Total Assets



Loans, Advances and Financing - Net/ Deposits and Borrowings

■ Loans, Advances and Financing - Net
■ Deposits and Borrowings

Review of Business Operations

INVESTMENT BANKING

The Group's investment banking operations encompass merchant banking, stock broking and funds management operations. The Group is a key player in the investment banking arena, with its investment banking business recording a net profit after tax of RM178.6 million, an increase of 19.9% over last financial year's RM148.9 million.

Corporate Lending

The financial landscape is constantly evolving. We are currently witnessing an increasing tendency of large corporates to divert from traditional corporate lending as a funding source by tapping debt capital markets directly. In line with the Capital Markets Master Plan, the Securities Commission has also eased the way for this development by streamlining its approval processes to enable faster time-to-market for the issuance of equities and debt. Although we did see a contraction in total loans assets, from RM5.9 billion as at 31 March 2003 to RM5.7 billion, arising from redemptions and refinancing via the debt capital markets, AmMerchant Bank had disbursed approximately RM1.8 billion in new corporate loans during the financial year. These loans were primarily bridging loans as many of the corporates continue to tap the debt capital markets for their funding.

The growing trend towards debt capital markets do not pose a significant threat to the Group's source of income, rather, it presents further opportunities for rapid growth of Bank's Debt Capital Markets business.

Although income from traditional corporate lending is not expected to be a crucial component of Group profits in the future, the Group remains committed to traditional corporate lending activities comprising bridging, long term and working capital financing. We view the relationships we build here with targeted corporates as the platform for sustainable, long term and profitable growth for the Group's investment banking business. We nurture our corporate customers so that, together we reap the rewards of the future.



Corporate Finance Advisory Services

Corporate Finance advisory services are a core focus area for the Group. We have strived hard to establish the Bank's Corporate Finance Advisory Division as a powerhouse and market leader in the equity capital markets and mergers and acquisitions (M&A) scene, with pleasing results. AmMerchant Bank's branding is particularly renowned in this arena, with the Bank leading all other corporate finance advisory houses in initial public offerings (IPOs) across all boards in Malaysia, i.e. the Main Board, Second Board, MESDAQ and Labuan Financial Exchange (LFX) this financial year. The Bank was the lead manager for 31 IPOs for FYE 31 March 2004 (excluding IPOs on the LFX); almost double the IPOs lead managed by the second placed merchant bank (15 IPOs).

Apart from IPOs, the Bank continued its leadership position in the M&A and restructuring front by advising 29 transactions valued at RM21.0 billion. One notable achievement was that the Bank was the advisor for the first Leveraged Buy-Out (LBO) in Malaysia.

The Secondary Offering market experienced high under-subscription rates for rights issues of about 22.0%, especially in the first half of 2003. Despite the general under-subscription trend, all ten of the rights issues that the Bank advised were fully subscribed.



We expect the corporate financial advisory scene to become even more competitive in the future with new players entering the market. Universal brokers are likely new competitors, placing downward pressure on advisory fees. Additionally, the implementation of a disclosure based regime has 'commoditised' corporate financial advisory services, thereby further squeezing the margins on advisory fees.

In order to remain in the lead, we intend to maintain superior execution and time-to-market levels, enhance distribution capability and introduce innovative new products, primarily equity structured products.



We strive to be innovative in meeting our customers' needs. The Bank lead-arranged the first Repackaged Loan Obligation in Malaysia with Astute Assets Berhad's asset-backed securities issuance of RM698.5 million. Another notable issue was the Bai' Bithaman Ajil Islamic Debt Securities (BaIDS) issuance by New Pantai Expressway Sdn Bhd totalling RM740.0 million, whose dual-tier dual-rating instrument was structured with a project financing structure.

Significant Ringgit Private Debt Securities transactions arranged and managed by the Bank in 2003 were:

No.	Issuer	Value (RM'Mil)	Date Completed
1.	KL International Airport Berhad	4,060	June 2003
2.	Panglima Power Sdn Bhd	1,220	March 2003
3.	Petronas Fertilizer (Kedah) Sdn Bhd	750	April 2003
4.	New Pantai Expressway Sdn Bhd	740	October 2003
5.	Astute Assets Bhd	698	October 2003
6.	Malaysian Industrial Development Finance Berhad	500	January 2003
7.	LaFarge Malayan Cement Berhad	350	April 2003

We will be directing our efforts towards helping our clients achieve optimal cost-efficient funding. We intend to innovate on current debt financing structures, such as by incorporating derivatives or other appropriate instruments, and specifically tailoring the offerings to meet our clients' needs.

With excess liquidity of RM120.0 billion in the market, we expect new debt issues in the pipeline to be strong in the 1st half of 2004. For the FY2004/2005, we will continue to leverage on our strength as a leading integrated financial institution and maintain our leading market position in the Debt Capital Markets.

Treasury & Derivatives

Despite Bank Negara Malaysia's accommodative interest rate policy which kept short term interest rates flat, the last financial was indeed challenging for our Treasury & Derivatives Division, particularly in Fixed Income activities. The long end of the yield curve reacted to the volatilities of the US markets and tracked the movements of the 10-year US Treasury notes, which experienced a very sharp retracement of close to 150 basis points from its all-time low in 2003. Despite the demanding environment, the Bank still managed to record gains of RM51.4 million in the last financial year.

We are pleased that the Bank and Treasury's continued contributions to the liquidity and development of the bond market was once again given due recognition, with the Bank's reappointment as a Principal Dealer by Bank Negara Malaysia.

The Funding and Liquidity Management units (i.e. Interbank Money Market and Corporate Sales) continued to comply with the Statutory Reserve and Liquidity Framework requirements, while intensifying its efforts to further diversify the Bank's depositor base and reduce its reliance and funding exposure to single depositor groups.

Debt Capital Markets

2003 was a bumper year for the issuance of corporate debt securities. Despite volatile interest rates in the second half of 2003, the Malaysian Private Debt Securities (PDS) market experienced high positive growth, achieving overall market size of RM34.6 billion as compared to RM23.9 billion in the previous year. This is mainly due to the flat interest rate environment in the first half of 2003, which made it attractive for large corporations and investors to lock in long-term funding.

2003 was a notable year for the Bank's debt capital markets (DCM) business. We captured the No. 1 position in the Ratings Agency Malaysia (RAM) 2003 League Table for both PDS and Islamic PDS issues, lead-managing RM8.4 billion worth of debt in 2003, or close to a quarter of total debt raised.

In interest-rate derivatives trading, spearheaded by the Treasury Derivatives Unit, the Bank continued to be in the forefront of the domestic derivatives market; we were actively involved in trading and market making in Interest Rate Swaps, the three-month Kuala Lumpur Inter-Bank Offering Rate (KLIBOR) Futures, and Malaysian Government Securities Bond Futures contracts.

The Islamic Treasury unit continues to contribute to the overall strategy of strengthening capabilities and building franchises in Islamic Banking, and is actively involved in the funding of the Islamic Banking portfolio and trading of Islamic debt securities.

Operational risk management remains a key focus area. Regular drills are conducted to test the Group Treasury Disaster Recovery Site and Business Continuity Plan. As a precautionary measure against the outbreak of SARS in the region, half of AmBank Group's Treasury staff (Treasury Dealing and Treasury Operations) were deployed to operate at the Disaster Recovery site for a period of two months.

Private Banking

Our private banking business under the label AmPrivate Banking completed its maiden year of operations in March 2004. AmPrivate Banking offers more exclusive and personalised wealth management services to meet the needs of our affluent, financially sophisticated and thus, more demanding clients. We aim to provide our clients with the broadest possible range of investment products and financial planning services tailored exclusively to meet their financial objectives.

As at March 2004, total assets under management stood at RM701.6 million.

We will be focusing on increasing our sales force to further penetrate the wealth management market and also to increase the number of products offered, whether in-house products or products from third-party producers.



Offshore Banking

The Group's offshore banking operations are undertaken through AmMerchant Bank Labuan Branch as well as AmInternational (L) Limited (AmInternational), and encompass the whole spectrum of investment banking, from origination to structuring and finally to distribution. We foresee a high demand for USD capital raising capabilities, as the increasing rate of globalisation spurs more Malaysian companies to venture towards tapping foreign currency-based capital markets for investments and projects overseas.

During the year, the Group's offshore banking operations recorded a pretax profit of US\$4.4 million, resulting in a strengthening of our risk weighted capital ratio to 14.4%. This improvement arose mainly from better performing loan assets, in light of improving global and regional economic conditions.



AmInternational maintained its position as a leading listing sponsor on the Labuan International Financial Exchange (LFX) in terms of innovativeness and the number of instruments and amount listed. AMIL successfully listed the Am-Macquarie Sovereign Plus Fund which is the first primary listing of an open-ended fund on LFX. Approval from LFX was also obtained for the secondary listing of three existing international sovereign bonds issued by the Government of Malaysia namely €650 million 6.375% Bonds due 2005, US\$1.5 billion 8.75% Global Bond due 2009 and US\$1.75 billion 7.50% Global Bonds due 2011.

Going forward, we are committed towards the development of the Islamic finance industry, in line with Labuan Offshore Financial Services Authority (LOFSA's) strategy to drive and foster the growth of Islamic finance activities in Labuan IOFC.



Funds Management

AmInvest, the Group's funds management unit, comprising of AmInvestment Services Berhad and AmInvestment Management Sdn Bhd, is a 70:30 joint venture between AmMerchant Bank Berhad and our strategic partner, Macquarie Bank Limited, Australia. AmInvest provides investment management, unit trust management and customised investment solutions for both retail and institutional clients.



AmInvest has retained its top position in the institutional funds segment this year with a market share of 17.5% and third position with a market share of 7.2% in the retail unit trust segment. As at 31 March 2004, the total funds under management grew by 15.0% to RM5.2 billion from RM4.5 billion at 31 March 2003, representing a total market share of 10.8%. We maintained our third position overall in the funds management industry. Of the RM5.2 billion funds under management, 57.0% of the funds are invested in equities and the remaining 43.0% is invested in fixed income securities. AmInvest is the largest fixed income fund manager in Malaysia.

In September 2003, AmInvest launched three new funds. They were AmDynamic Bond, AmBalanced and AmConservative. Subsequently, on 5 January 2004, we launched AmConstant, a closed-ended fixed income fund garnering RM172.0 million in sales within three weeks. Currently AmInvest manages a total 14 unit trust funds.

In February 2004, AmIncome received the inaugural award for the top performer in the Money Market Category in the Malaysia Unit Trust Awards 2003 presentation by The Edge-Lipper. Also in February, AmInvestment Management Sdn Bhd was awarded the 'Best Three-Years Realised Return Manager 2003' by the Employees Provident Fund. This is the second consecutive year that AmInvestment Management was honoured with this prestigious award.



Stockbroking

Turnover in Bursa Malaysia Securities Berhad (Bursa Securities) was suppressed for the first four months of 2003 as a result of the uncertainties surrounding the global economic outlook namely by the Severe Acute Respiratory Syndrome (SARS) outbreak and the invasion of Iraq. However, as stronger corporate earnings and positive news of significant progress on major corporate restructurings as well as the smooth transition of power arising from the succession of our current prime minister along with numerous positive political developments, Bursa Malaysia surged to a four-year high, touching the 919 point mark in late March 2004.

As a consequence of the increased turnover in Bursa Malaysia, AmSecurities Sdn Bhd (AmSecurities) managed to register a 163.0% increase in profit before tax to RM63.0 million for FYE 31 March 2004. In terms of market share, AmSecurities contributed close to 7.0% of the total turnover on Bursa Securities.

AmSecurities operates from a position of strength. Our capital adequacy ratio, measured by liquid capital against total risk requirement, stood at 7.06 times as at 31 March 2004, well above the minimum requirement of 1.2 times. In addition, AmSecurities' research subsidiary, AmResearch Sdn Bhd, was voted '**The Most Improved Local Research House**' by the leading local business weekly, The Edge, reinforcing our philosophy of offering superior research and execution services for our clients.



AmSecurities continues to increase its market share by recruiting and retaining dealers and remisiers to expand our client base, as well as continued expansion of the branch based broking (BBB) business, which although small currently, is profitable. In addition, it will introduce attractive margin financing packages and other innovative products to attract new clients and increase revenue from existing ones.

Futures Broking

The Exchange Traded Derivatives (ETD) industry in Malaysia continues to grow by more than 50.0% as the average monthly volume recorded for last year was more than 180,000 contracts compared to only 120,000 contracts for the previous year. The Crude Palm Oil futures contract (FCPO) remains the most actively traded contract with an average monthly volume of 110,000 contracts per month. A positive development was also the building up of significant interest on the index futures contract (FKLI), as the underlying Kuala Lumpur Composite Index (KLCI) gained momentum and volatility towards the second half of last year.

Bursa Malaysia Derivatives Exchange will be replacing the current derivative trading system with a common trading platform (CTP) that will facilitate trading programs for both the equity and derivatives market. The CTP will be linked to the clearing house and is expected to incorporate an advanced risk management system within the network itself.

AmFutures Sdn Bhd (AmFutures) is one of only two bank-backed futures broking firms with a license to trade all products approved by Bursa Malaysia Derivatives Exchange. We remain as one of the top brokers in the industry especially for the FKLI & FCPO contracts, registering a market share of 18.0% and 12.0% respectively.

Trustee Services

AmTrustee Berhad (AmTrustee) recorded a noteworthy achievement this financial year, as assets held in trust as at 31 March 2004 almost doubled to RM7.1 billion from RM3.8 billion, at the previous year end. AmTrustee's clients are from the various industries including unit trust funds, retirement funds, memorial parks, time-share programmes, golf clubs and resorts.

Property Trust

AmProperty Trust Management Berhad (AmProperty Trust) manages the AmFirst Property Trust (AmFPT or the Trust), which is listed on Bursa Securities. With a Net Asset Value (NAV) of RM192.8 million as at 31 December 2003, AmFPT is the largest property trust in Malaysia.

For the financial year ended 31 December 2003, the net rental income of the Trust was RM11.4 million compared with RM12.1 million in the previous year. The decline of approximately 6.5% was mainly due to higher operating expenses arising from major refurbishment works at AmBank Group Leadership Centre (formerly known as Wisma Kimseah). However, the impact was cushioned by higher write-back of provision for diminution in value of quoted shares. Consequently, the profit before taxation for the year was maintained at RM10.4 million similar to that recorded in the previous financial year.



AmBank Group Leadership Centre was revalued in July 2003 by an independent professional valuer on an open market value basis at RM19.0 million or approximately RM329.0 per square foot (psf), an increase of approximately 5.5% compared with the previous revaluation in July 2000 at RM18.0 million or approximately RM311.0 psf. The Securities Commission subsequently approved the revaluation in December

2003 and the revaluation surplus of RM1.0 million has been incorporated into the accounts with effect from 1 January 2004.

Bangunan AmBank Group had an occupancy rate of approximately 95.0% during the period under review. Tenancies representing approximately 40.0% were successfully renewed during the year. The occupancy in AmBank Group Leadership Centre also improved to 83.0% with approximately 45,577 sq. ft. of office space taken up during the period under review.

AmFPT declared a gross distribution of 7.0 sen per unit for the financial year ended 31 December 2003. The Trust will continue with its intensive property management practices which include measures to control the operational costs without affecting the quality of the building services to ensure that the Trust properties remain competitive in the market.



BUSINESS & RETAIL BANKING

Business Banking

The Business Banking customer segment consists of enterprises with shareholders' funds exceeding RM2.0 million, ranging from small and medium industries, to large corporations. The products and services offered by our Business Banking Operations consist mainly of working capital financing, commercial loan, trade finance facilities and cash management.

The Group's Business Banking activities are primarily undertaken by AmBank Berhad (AmBank). During the past year, selective hiring of staff, especially at the senior and mid-management levels, has been progressively effected, with new capabilities put in place to support the business initiatives and new product offerings identified. We reorganised our relationship-based marketing, and set up Regional Business Centres (RBCs) (located in Penang, Johor Bahru, Kuching and Kota Kinabalu) as well as Commercial Business Centres (CBCs) to reach out to our customers.



Apart from traditional lending activities to support existing and new customers, emphasis was also put into supporting customers' trade-based activities and promoting Islamic banking products. All these efforts are aimed at building stronger quality loan assets mix and recurring future income streams.

The Group's Asset Financing and small Business unit marketing team was reorganised into two teams, i.e vendor and industry teams with predefined business focus. The vendor team was entrusted with the responsibility to focus on strategic tie-ups with vendors/suppliers to obtain sales and business referrals, whilst, the industry team will embark on direct marketing initiatives targeting selected industries to market Industrial Hire Purchase and SMI loans.

The unit's target customer segment was further refined to focus more on extending financial support to small enterprises and business segments requiring financial assistance below RM2.0 million. Key products and services offered ranged from industrial hire purchase for acquisition of plant and machineries, term loans for the acquisition of commercial and industrial building to working capital financing.

During the period under review, the Group had actively participated in various trade fairs organised by the Government. Operations processes were also streamlined to improve turnaround time. For the coming year, the Group expects to focus more on supporting small business via extension of micro-credit scheme for small business on the back of strong demand for the scheme and country's robust economic growth.

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. For example, the ongoing strategic initiative of upgrading our brick and mortar channel into more customer friendly sales and service centres 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 improvement in our various alternative channels. We have added more self-service e-banking centres that operate 24 hours at our branches nationwide for the convenience of our customers. We are also continuously refining our internet banking channel, ambg.com.my 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, 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 RM15.0 billion, a net increase of 9.0%. We attribute this growth to our competitive pricing strategies and continued focus on service and maintaining close relationships with our valued business partners, our panel of more than 5,000 car dealers nationwide. We also implemented an automated Credit Scoring System as part of our ongoing 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' focus, and in response to the Government's call for heightened road safety awareness, we pioneered the requirement for mandatory inspection on all used cars financed by PUSPAKOM, the officially sanctioned vehicle inspection body. The objective of this move is twofold: 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 whichever vehicle being purchased is roadworthy and fit for use.

In line with our 'Customer First' focus, we also published used car prices in a supplementary issue of the New Sunday Times daily as a reference point 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 position 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 made this an attractive proposition, coupled with enhanced advertising and promotional support and the development of new sales channels.

RedHall Gallery, an innovative Mall-On-Call program was also launched and offered card members a catalogue shopping experience, already 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

In 2003, the Group's 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 had benefited from the scheme, with the participation of over 30 developers on the panel.

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 arena.

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 RM 1.3 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. Road shows 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 Sales and Service Centres (SSC) nationwide. This expanded the reach of our commercial bank, thus enabling current account products to be offered at more locations nationwide.

ISLAMIC BANKING

For the FY 2004, Group 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 gross financing of transport vehicles rose to RM4.0 billion as at 31 March 2004 as compared to RM1.7 billion recorded last year. In addition, the Group's 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.

Aggressive efforts in promoting deposits-*i* products had resulted in the growth of market share from 20.1% to 31.5%, with our deposit investment product, Afdhal Investment Account-*i*, contributing the largest proportion of 46.3% of total deposits. Our total deposits grew by almost 142.7% to RM4.8 billion as compared to RM2.0 billion recorded last year, mainly to support the financing growth.



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 AmIltikal. 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 11 episodes altogether, with the first episode featuring the 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. 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 Forex Agent at the Expo OIC 2003 in October at Putrajaya. We also participated in the OIC Business Forum and played host at the OIC Business Forum Dinner along with Malaysia South-South Association (MASSA).

On the Islamic investment banking front, AmMerchant Bank recently garnered the Top Lead Manager – No of Islamic Issues and Top Lead Manager – Value of Islamic Issues Awards in the Ratings Agency Malaysia (RAM) League Awards 2004. AmMerchant Bank was the lead manager for six (6) Islamic private debt securities (IPDS) totalling RM5.10 billion which is close to 25.0% of all IPDS rated by RAM in 2003. AmInternational, our off-shore banking subsidiary in 2002 was the sponsor of the first USD global Islamic sovereign bond offering from the government of Malaysia which was listed on the Labuan International Financial Exchange.

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

INSURANCE

In the financial year ended 31 March 2004, AmAssurance Berhad (AmAssurance) achieved a profit before tax of RM35.3 million (FY 2003: RM13.5 million).

Total combined gross premium grew further by 44.0% to RM581.9 million (FY 2003: RM403.4 million). Our General business constituted 56.0% of the total business and the remaining 44.0% was from the Life business. Total assets of the company increased by 34.0% to RM1.2 billion (FY 2003: RM903.5 million). The life insurance fund registered a growth rate of 39% to reach RM765.8 million (FY 2003: RM549.1 million).

The most dominant business sector remains the motor insurance business which accounted for 72.0% of gross premiums (FY 2003: 61.0%) and registering robust growth of 75.0% to RM233.5 million (FY 2003: RM133.6 million) despite a slowdown in motor vehicles sales. The increased business is largely attributable to product-bundling with retail hire purchase loans.

Our life insurance business has maintained its growth momentum by ending the year with a premium income growth of 38.0% to RM255.8 million (FY 2003: RM185.6 million). The life policyholders fund grew by 36.0% to RM631.9 million (FY 2003: RM463.1 million).

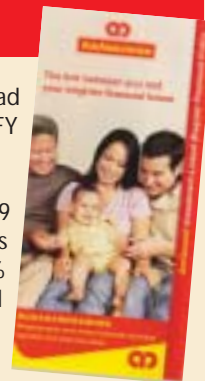
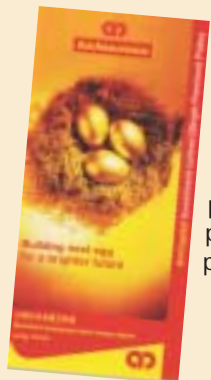
During the year, AmAssurance launched its first investment-linked products namely AmCapital and AmGrowth. AmCapital is a single premium policy while AmGrowth is a regular premium policy. The prevalent low interest rate environment has created an opportunity for

AmAssurance to offer alternative savings product to the public. Investment-link products are fast gaining popularity among the consumers as they provide the best of both worlds i.e. investment opportunity as well as insurance protection. They also allow flexibility, in that a policyholder has the option to choose the type of funds to invest in.

In order to enhance service delivery and improve persistency rate of existing business, a new Business Quality Department was established. The objective is to retain existing business by taking proactive efforts to prevent policies from lapsing. Among the successful programs initiated in the year are:

- SMS alert**
 This mobile insurance service will send notices and reminders via SMS to policyholders on policy renewals and lapse notification.
- Customer Education Program**
 All new policyholders will receive insurance educational materials periodically. This is crucial to maintain their interest and to promote their awareness of the various type of insurance protection available to meet their requirements.
- AmAuto**
 This enables motor insurance agents to issue cover notes and monitor production via Internet. It also facilitates the submission of cover note information to the Road Transport Department electronically.
- AmEsipay**
 This new service enables existing policyholders to merely make a telephone call to the Call Centre to renew their Life or Motor insurance policy. It also accepts repayment for policy loan and automatic premium loan.

Moving forward, the insurance business would continue to see story premium growth as the group continues to step up cross-selling activities and promote bancassurance business.





INFORMATION COMMUNICATION TECHNOLOGY & OPERATIONS

The Group continues to utilise Information and Communication Technologies (ICT) to build and maintain its competitive edge while placing high importance on the governance of IT. Overall capital expenditure increased to RM48.3 million in FY2004, as compared with RM42.4 million in the previous year. Operating expenditure had reduced significantly from RM140.7 million in the previous year to RM127.4 million for FY2004, denoting leaner IT operations across the Group.

The Group has developed a new IT investment framework to promote accountability, consistency and transparency in decision making and to ensure better use of capital in light of the growing importance of IT in the Group's operations.

The following were some of the major IT projects implemented during the year:

- The Investment Banking Group introduced a web-based Corporate Finance Compliance and Operations workflow system to boost operational efficiency and maintain high standards for regulatory compliance.
- Expansion of the Bank Branch Broking initiative and the new Brokerage Remisier System's IT infrastructure facilities provides timely action-oriented information and the means to keep in close touch with clients.
- The new Unit Trust system, once online, will allow unit trust clients seamless access to account information that is integrated on a single statement. With Straight-Through-Processing (STP) to accounting systems, the new system offers increased operational efficiency at the back-office, while providing customers a single integrated statement.
- Four data centres were consolidated into two centres resulting in savings of about RM180,000.00 per year in operating costs and RM900,000.00 per year in manpower. Data Centres were upgraded with state-of-the-art technologies and security measures. Network upgrades were also performed in tandem with continuous business growth.
- The electronic loan origination system (eLoan) that automates retail loan application processing for credit cards, housing loans and hire-purchase products will enable faster approval turnaround time.
- To provide faster service, customer signatures are now online, eliminating the need for signature specimen card retrieval, thus reducing customer waiting time.



- An Automated Legal Electronic Recovery Tracking (ALERT) system was implemented to aid the legal process and expedite recovery of receivables.
- A new IT initiative has allowed our motor insurance agents to issue cover notes and monitor production through the Internet, giving them the anytime, anywhere advantage. Cover note data may also be transmitted electronically to JPJ for timely processing.
- Communications with our policyholders on payment related information has now been improved through the implementation and use of Short Messaging Service (SMS), allowing them to be kept informed on payment information while on the go.

HUMAN RESOURCES

The Group recognises that our people are our most valuable resource. We have identified the following themes to provide focus to the development of a motivated and engaged workforce:

- **Perpetuating a Culture of Performance**
In order to develop a performance orientation culture amongst employees, infrastructure to drive and support the tracking and monitoring of performance at the various levels is critical. A transparent and structured performance management system that is linked to performance based rewards will assist the Group to identify and differentiate performers from those who are not.

Plans are underway to ensure acquisition and enhancement of both technical and behavioral skills within the system to perpetuate this culture. The Group is refining processes, systems and tools to facilitate this.
- **Permeating a Sales-Orientated and Customer Focused Workforce**
The Group believes that a sales orientated workforce is imperative to meet the Group's business targets and goals. Underpinned by an attractive incentive structure for rewards, employees are constantly trained to upgrade customer service standards.



- **Enhancing Preferred Attributes in Employees**

Accessibility to a future pool of effective and capable leaders is critical to ensure business continuity. Taking a long term view of leadership development whilst wanting to attract, retain and enhance the best available talent, structured training programmes have been designed for the development of employees in the organisation. Programmes for identified talent will further enhance the performance of the employees and assist them in their career paths with the Group in a collaborative manner.

Given the importance placed on learning and staff development, the Group has invested in the creation of a leadership centre to provide a conducive and dedicated environment for the training and development of employees.

- **Empowering and Motivating Employees**

Employee empowerment is a key theme in our employee development strategy. With continual emphasis on accountability and responsibility at all levels, the Group aims to continue creating challenges and opportunities for all its employees to grow and realise their potential.

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.

