

Notes to the Financial Statements (Cont'd)

37. Earnings Per Share (Sen)

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholder of the Bank less interest on ICULS and preference dividends by the number of ordinary shares in issue during the financial year.

| | 2004 | | 2003 | |
|---|---------------------|--------------------|---------------------|--------------------|
| | The Group RM'000 | The Bank RM'000 | The Group RM'000 | The Bank RM'000 |
| Net profit attributable to shareholder of the Bank after deducting interest on ICULS and preference dividends | 120,666 | 98,316 | 104,414 | 123,954 |
| Number of ordinary shares at beginning of the year ('000) | 200,000 | 200,000 | 200,000 | 200,000 |
| Basic earnings per share (Sen) | 60.3 | 49.2 | 52.2 | 62.0 |

(b) Fully diluted earnings per share

Fully diluted earnings per share is calculated by dividing the adjusted profit after taxation and minority interests for the financial year by the adjusted number of ordinary shares in issue and issuable during the financial year.

The Bank has two categories of dilutive potential ordinary shares:

- (i) Preference share capital
- (ii) Interest Bearing Irredeemable Convertible Unsecured Loan Stocks (ICULS)

| | 2004 | | 2003 | |
|---|---------------------|--------------------|---------------------|--------------------|
| | The Group RM'000 | The Bank RM'000 | The Group RM'000 | The Bank RM'000 |
| Net profit attributable to shareholder of the Bank after deducting interest on ICULS and preference dividends | 120,666 | 98,316 | 104,414 | 123,954 |
| Adjusted for: | | | | |
| Interest on ICULS, less tax | 5,198 | 5,198 | 5,184 | 5,184 |
| Preference dividend, less tax | 7,200 | 7,200 | 7,200 | 7,200 |
| Adjusted profit after taxation and minority interests | 133,064 | 110,714 | 116,798 | 136,338 |
| Number of ordinary shares in issue ('000) | 200,000 | 200,000 | 200,000 | 200,000 |
| Effect of ordinary shares issued pursuant to conversion: | | | | |
| Preference shares ('000) | 100,000 | 100,000 | 100,000 | 100,000 |
| ICULS ('000) | 30,000 | 30,000 | 30,000 | 30,000 |
| Adjusted number of ordinary shares in issue and issuable ('000) | 330,000 | 330,000 | 330,000 | 330,000 |
| Fully diluted earnings per share (Sen) | 40.3 | 33.5 | 35.4 | 41.3 |

The adjusted number of ordinary shares in issue and issuable has been arrived at based on the assumption that all the ICULS and Preference Shares issued and outstanding are converted to ordinary shares at beginning of year.

Notes to the Financial Statements (Cont'd)

38. Fiduciary Duty In Respect Of Investment Portfolio Management Services

Investment portfolio funds managed on behalf of customers as at 31 March 2004 by the Group and the Bank amounted to RM5,332,660,000 (RM4,534,906,000 as at 31 March 2003) and RM132,058,000 (RM9,362,000 as at 31 March 2003), respectively.

39. Capital Commitments

As at 31 March, 2004, the capital commitments of the Group and the Bank are as follows:

| | 2004 | | 2003 | |
|---|---------------------|--------------------|---------------------|--------------------|
| | The Group RM'000 | The Bank RM'000 | The Group RM'000 | The Bank RM'000 |
| Authorised and contracted but not provided for: | | | | |
| Uncalled portion of total subscription price in the share capital of AmTrustee Berhad | 100 | 100 | 100 | 100 |
| Purchase of office equipment, information technology equipment and solutions | 19,251 | 19,251 | 24,941 | 24,941 |
| Purchase of other investments | 4,629 | 4,629 | 8,163 | 8,163 |
| | 23,980 | 23,980 | 33,204 | 33,204 |
| Authorised but not contracted for: | | | | |
| Purchase of other investments | 20,000 | 20,000 | 20,000 | 20,000 |
| | 43,980 | 43,980 | 53,204 | 53,204 |

40. Lease Commitments

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

| | The Group and the Bank RM'000 |
|-----------------------------|----------------------------------|
| Year ending 31 March | |
| 2005 | 9,309 |
| 2006 | 5,058 |
| 2007 and thereafter | 210 |
| | 14,577 |

The lease commitments represent minimum rentals not adjusted for operating expenses which the Group and the Bank are obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.



Notes to the Financial Statements *(Cont'd)*

41. Commitments And Contingencies

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's assets.

As at 31 March 2004, the commitments and contingencies outstanding are as follows:

| | 2004 | | 2003 | |
|--|----------------------------|------------------------------------|----------------------------|------------------------------------|
| | Principal Amount RM'000 | Credit Equivalent Amount RM'000 | Principal Amount RM'000 | Credit Equivalent Amount RM'000 |
| The Group | | | | |
| Derivative Financial Instruments | | | | |
| Interest rate related contracts: | | | | |
| Interest rate futures* | 685,000 | - | 865,000 | 11,473 |
| Interest rate swaps: | | | | |
| Related companies | 636,013 | 13,425 | 580,000 | 11,848 |
| Others | 3,617,928 | 99,913 | 2,961,000 | 87,140 |
| Foreign exchange related contracts: | | | | |
| Forward exchange contracts | 209,089 | 3,364 | 313,959 | 1,683 |
| Cross currency swaps | 304,000 | 18,525 | 266,000 | 16,150 |
| Malaysian Government securities futures* | 9,000 | - | 62,800 | 305 |
| | 5,461,030 | 135,227 | 5,048,759 | 128,599 |
| Commitments | | | | |
| Irrevocable commitments to extend credit maturing: | | | | |
| within one year | 579,812 | - | 466,810 | - |
| more than one year | 153,078 | 76,539 | 155,127 | 77,564 |
| Sell and buy back agreements | 1,451,451 | 1,451,451 | 946,221 | 946,221 |
| Forward purchase commitments | 363,012 | 363,012 | 130,597 | 130,597 |
| | 2,547,353 | 1,891,002 | 1,698,755 | 1,154,382 |
| Contingent Liabilities | | | | |
| Guarantees given on behalf of customers | 694,642 | 694,642 | 665,889 | 665,889 |
| Underwriting liabilities | 327,010 | 163,505 | 326,459 | 163,230 |
| Certain transaction-related contingent items | 690,656 | 345,328 | 627,537 | 313,769 |
| | 1,712,308 | 1,203,475 | 1,619,885 | 1,142,888 |
| | 9,720,691 | 3,229,704 | 8,367,399 | 2,425,869 |

Notes to the Financial Statements (Cont'd)

| | 2004 | | 2003 | |
|--|----------------------------|------------------------------------|----------------------------|------------------------------------|
| | Principal Amount RM'000 | Credit Equivalent Amount RM'000 | Principal Amount RM'000 | Credit Equivalent Amount RM'000 |
| The Bank | | | | |
| Derivative Financial Instruments | | | | |
| Interest rate related contracts: | | | | |
| Interest rate futures* | 685,000 | - | 865,000 | 11,473 |
| Interest rate swaps: | | | | |
| Related companies | 636,013 | 13,425 | 589,609 | 13,411 |
| Others | 3,611,915 | 99,853 | 2,961,000 | 87,140 |
| Foreign exchange related contracts: | | | | |
| Forward exchange contracts | 209,089 | 3,364 | 311,759 | 1,683 |
| Cross currency swaps | 304,000 | 18,525 | 266,000 | 16,150 |
| Malaysian Government securities futures* | 9,000 | - | 62,800 | 305 |
| | 5,455,017 | 135,167 | 5,056,168 | 130,162 |
| Commitments | | | | |
| Irrevocable commitments to extend credit maturing: | | | | |
| within one year | 579,812 | - | 466,810 | - |
| more than one year | 134,078 | 67,039 | 155,127 | 77,564 |
| Sell and buy back agreements | 1,451,451 | 1,451,451 | 946,221 | 946,221 |
| Forward purchase commitments | 363,012 | 363,012 | 130,597 | 130,597 |
| | 2,528,353 | 1,881,502 | 1,698,755 | 1,154,382 |
| Contingent Liabilities | | | | |
| Guarantees given on behalf of customers | 703,792 | 703,792 | 673,382 | 673,382 |
| Underwriting liabilities | 327,010 | 163,505 | 326,459 | 163,230 |
| Certain transaction-related contingent items | 690,656 | 345,328 | 627,537 | 313,769 |
| | 1,721,458 | 1,212,625 | 1,627,378 | 1,150,381 |
| | 9,704,828 | 3,229,294 | 8,382,301 | 2,434,925 |

* Principal amount of interest rate futures and Malaysian Government securities futures (exchange-traded contracts) of same contract month have been reported on a net basis. Comparative figures were restated to conform with their presentation in the current year. Prior to the revised treatment, principal amount of interest rate futures and Malaysian Government securities futures of the same contract month sold and purchased were reported on a gross basis.

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

As required, the Bank has given a continuing guarantee to Bank Negara Malaysia on behalf of its offshore banking subsidiary in Labuan, AmInternational (L) Ltd., to meet all its liabilities and financial obligations and requirements.



42. Risk Management Policy

Risk management is about managing uncertainties such that deviations from the Group's intended objectives are kept within acceptable levels. Sustainable profitability forms the core objectives of the Group's risk management strategy.

Every risk assumed by the Group carries with it potential for gains as well as potential to erode shareholders' value. The Group's risk management policy is 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.

The management approach towards the significant risks of the Group are enumerated below.

Market Risk Management

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 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 Group to reduce its position without incurring potential loss that is beyond the sustainability of the Group.

The market risk of the Group's trading and non-trading portfolio is managed separately using value-at-risk approach to compute the market risk exposure of non-trading portfolio and trading portfolio. Value at risk is a statistical measure that estimates the potential changes in portfolio value that may occur brought about by daily changes in market rates over a specified holding period at a specified confidence level under normal market condition. For the Group's trading portfolio, the Group's value at risk measurement takes a more sophisticated form by taking into account the correlation effects of various instruments in the portfolio.

The Group controls its market risk exposure of its trading and non-trading activities primarily through a series of threshold limits. Stop loss, value at risk and position sensitivity limits are the primary means of control governing the trading activities of the Group while value at risk limits governs the non-trading positions.

To complement value at risk measurement, the Group also institute a set of scenario analysis under various potential market conditions such as shifts in currency rates, general equity prices and interest rate movements to assess the changes in portfolio value.



Notes to the Financial Statements (Cont'd)

The following table shows the interest rate sensitivity gap, by time bands, on which interest rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

| 2004 | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non- interest sensitive RM'000 | Total RM'000 | Effective interest rate % |
|--|----------------------------|-----------------------------|-----------------------------|------------------------------|----------------------------|---------------------------|---|-------------------|------------------------------------|
| The Group | | | | | | | | | |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 2,628,782 | - | - | - | - | - | 6,375 | 2,635,157 | 3.15 |
| Securities purchased under resale agreements | 2,288 | - | - | - | - | - | - | 2,288 | 2.65 |
| Deposits with financial institutions | - | 21,227 | 10,000 | 218,500 | - | - | - | 249,727 | 3.15 |
| Dealing securities | 263,344 | 292,733 | 174,294 | 126,006 | 1,482,118 | 667,536 | 144,891 | 3,150,922 | 2.99 |
| Investment securities | 98,920 | 237,965 | 507,104 | 59,190 | 1,530,563 | 371,455 | 602,143 | 3,407,340 | 4.39 |
| Loans, advances and financing: | | | | | | | | | |
| - performing | 2,593,697 | 904,798 | 170,055 | 828,486 | 265,138 | 167,038 | - | 4,929,212 | 6.40 |
| - non-performing | - | - | - | - | - | - | 345,698 | 345,698 | - |
| Other non-interest sensitive balances | - | - | - | - | - | - | 924,105 | 924,105 | - |
| TOTAL ASSETS | 5,587,031 | 1,456,723 | 861,453 | 1,232,182 | 3,277,819 | 1,206,029 | 2,023,212 | 15,644,449 | |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | | |
| Deposits from customers | 4,076,476 | 1,332,107 | 199,037 | 201,939 | 120,300 | - | - | 5,929,859 | 2.83 |
| Deposits of banks and other financial institutions | 1,719,169 | 873,616 | 593,234 | 910,208 | 688,860 | 699,166 | - | 5,484,253 | 3.32 |
| Securities sold under repurchase agreements | 1,482,086 | 2,126 | 339 | - | - | - | - | 1,484,551 | 2.67 |
| Bills and acceptances payable | 2,558 | 2,756 | 1,831 | - | - | - | - | 7,145 | - |
| Amount due to Cagamas Berhad | - | - | 43,723 | 6,218 | 103,163 | - | - | 153,104 | - |
| Term loans | - | 114,000 | - | 190,000 | - | - | - | 304,000 | 2.29 |
| Subordinated certificates of deposits | - | - | - | - | 197,418 | - | - | 197,418 | 8.00 |
| Redeemable unsecured subordinated bonds | - | - | - | - | - | 460,000 | - | 460,000 | 6.50 |
| Other non-interest sensitive balances | - | - | - | - | - | - | 93,238 | 93,238 | - |
| Total Liabilities | 7,280,289 | 2,324,605 | 838,164 | 1,308,365 | 1,109,741 | 1,159,166 | 93,238 | 14,113,568 | |
| Irredeemable Convertible | | | | | | | | | |
| Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 | 6.00 |
| Minority interests | - | - | - | - | - | - | 4,655 | 4,655 | - |
| Shareholder's funds | - | - | - | - | - | - | 1,406,226 | 1,406,226 | - |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,280,289 | 2,324,605 | 838,164 | 1,308,365 | 1,229,741 | 1,159,166 | 1,504,119 | 15,644,449 | |
| On-balance sheet interest sensitivity gap | (1,693,258) | (867,882) | 23,289 | (76,183) | 2,048,078 | 46,863 | 519,093 | - | |
| Off-balance sheet interest sensitivity gap | (1,015,814) | (30,667) | (300,342) | 47,985 | 1,052,866 | 251,489 | - | 5,517 | |
| Total interest sensitivity gap | (2,709,072) | (898,549) | (277,053) | (28,198) | 3,100,944 | 298,352 | 519,093 | 5,517 | |



Notes to the Financial Statements (Cont'd)

| 2003 | | | | | | | | | |
|--|-------------------------|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|----------------------------------|-------------------|------------------------------|
| The Group | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Total RM'000 | Effective interest rate % |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 1,288,807 | - | - | - | - | - | 25,524 | 1,314,331 | 3.16 |
| Securities purchased under resale agreements | 6,334 | 503 | - | - | - | - | - | 6,837 | 3.06 |
| Deposits with financial institutions | 68,626 | 313,630 | 19,000 | - | - | - | - | 401,256 | 3.16 |
| Dealing securities | 434,062 | 667,870 | 298,566 | 247,268 | 2,219,897 | 1,935,826 | 106,412 | 5,909,901 | 5.67 |
| Investment securities | 58,534 | 270,073 | 9,073 | - | 1,375,719 | 210,002 | 189,697 | 2,113,098 | 4.80 |
| Loans, advances and financing: | | | | | | | | | |
| - performing | 1,675,961 | 257,916 | 270,564 | 465,732 | 2,288,755 | 133,544 | - | 5,092,472 | 7.20 |
| - non-performing | - | - | - | - | - | - | 489,851 | 489,851 | - |
| Other non-interest sensitive balances | - | - | - | - | - | - | 1,056,205 | 1,056,205 | - |
| TOTAL ASSETS | 3,532,324 | 1,509,992 | 597,203 | 713,000 | 5,884,371 | 2,279,372 | 1,867,689 | 16,383,951 | |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | | |
| Deposits from customers | 3,240,263 | 1,309,827 | 420,955 | 208,988 | 122,240 | - | - | 5,302,273 | 3.16 |
| Deposits of banks and other financial institutions | 2,720,174 | 983,855 | 1,455,798 | 768,058 | 1,146,251 | 99,070 | - | 7,173,206 | 3.16 |
| Securities sold under repurchase agreements | 1,527,097 | 2,360 | 96 | 850 | - | - | - | 1,530,403 | 2.73 |
| Bills and acceptances payable | - | - | - | - | - | - | 16,822 | 16,822 | - |
| Amount due to Cagamas Berhad | - | - | - | - | - | - | 243,757 | 243,757 | - |
| Term loans | 190,000 | 190,000 | - | - | - | - | - | 380,000 | 4.64 |
| Subordinated certificates of deposits | - | - | - | - | 196,064 | - | - | 196,064 | 9.02 |
| Other non-interest sensitive balances | - | - | - | - | - | - | 109,544 | 109,544 | - |
| Total Liabilities | 7,677,534 | 2,486,042 | 1,876,849 | 977,896 | 1,464,555 | 99,070 | 370,123 | 14,952,069 | |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 | 6.00 |
| Minority interests | - | - | - | - | - | - | 4,722 | 4,722 | - |
| Shareholder's funds | - | - | - | - | - | - | 1,307,160 | 1,307,160 | - |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,677,534 | 2,486,042 | 1,876,849 | 977,896 | 1,584,555 | 99,070 | 1,682,005 | 16,383,951 | |
| On-balance sheet interest sensitivity gap | (4,145,210) | (976,050) | (1,279,646) | (264,896) | 4,299,816 | 2,180,302 | 185,684 | - | |
| Off-balance sheet interest sensitivity gap | (869,208) | (82,401) | (141,796) | 494,291 | 369,564 | 231,750 | 311,759 | 313,959 | |
| Total interest sensitivity gap | (5,014,418) | (1,058,451) | (1,421,442) | 229,395 | 4,669,380 | 2,412,052 | 497,443 | 313,959 | |

Notes to the Financial Statements (Cont'd)

| 2004 | Up to 1 | >1 to 3 | >3 to 6 | >6 to 12 | >1 to 5 | Over | Non- | | Effective |
|--|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-----------|
| The Bank | month | months | months | months | years | 5 years | interest | Total | interest |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | sensitive | RM'000 | rate |
| | | | | | | | RM'000 | | % |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 2,155,330 | - | - | - | - | - | 3,906 | 2,159,236 | 3.15 |
| Deposits with financial institutions | - | 20,000 | 10,000 | 522,500 | 76,000 | - | - | 628,500 | 3.15 |
| Dealing securities | 263,344 | 292,733 | 155,294 | 126,006 | 1,482,118 | 667,536 | 144,891 | 3,131,922 | 2.99 |
| Investment securities | - | 150,113 | 466,578 | 59,190 | 1,483,338 | 365,884 | 592,063 | 3,117,166 | 4.39 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 2,552,245 | 859,527 | 170,047 | 828,470 | 264,962 | 162,431 | - | 4,837,682 | 6.40 |
| - non-performing | - | - | - | - | - | - | 264,728 | 264,728 | - |
| Other non-interest sensitive balances | - | - | - | - | - | - | 907,933 | 907,933 | - |
| TOTAL ASSETS | 4,970,919 | 1,322,373 | 801,919 | 1,536,166 | 3,306,418 | 1,195,851 | 1,913,521 | 15,047,167 | |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | | |
| Deposits from customers | 3,640,530 | 1,220,660 | 199,037 | 201,939 | 120,299 | - | - | 5,382,465 | 2.83 |
| Deposits of banks and other financial institutions | 1,821,121 | 934,416 | 593,234 | 910,208 | 688,860 | 699,166 | - | 5,647,005 | 3.32 |
| Securities sold under repurchase agreements | 1,467,579 | 2,126 | 339 | - | - | - | - | 1,470,044 | 2.67 |
| Bills and acceptances payable | 2,558 | 2,756 | 1,831 | - | - | - | - | 7,145 | - |
| Amount due to Cagamas Berhad | - | - | 43,723 | 6,218 | 103,163 | - | - | 153,104 | - |
| Term loans | - | - | - | 190,000 | - | - | - | 190,000 | 2.29 |
| Subordinated certificates of deposits | - | - | - | - | 197,418 | - | - | 197,418 | 8.00 |
| Redeemable unsecured subordinated bonds | - | - | - | - | - | 460,000 | - | 460,000 | 6.50 |
| Other non-interest sensitive balances | - | - | - | - | - | - | 83,815 | 83,815 | - |
| Total Liabilities | 6,931,788 | 2,159,958 | 838,164 | 1,308,365 | 1,109,740 | 1,159,166 | 83,815 | 13,590,996 | |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 | 6.00 |
| Shareholder's funds | - | - | - | - | - | - | 1,336,171 | 1,336,171 | - |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 6,931,788 | 2,159,958 | 838,164 | 1,308,365 | 1,229,740 | 1,159,166 | 1,419,986 | 15,047,167 | |
| On-balance sheet interest sensitivity gap | (1,960,869) | (837,585) | (36,245) | 227,801 | 2,076,678 | 36,685 | 493,535 | - | |
| Off-balance sheet interest sensitivity gap | (1,015,814) | (36,680) | (300,342) | 47,985 | 1,052,866 | 251,489 | - | (496) | |
| Total interest sensitivity gap | (2,976,683) | (874,265) | (336,587) | 275,786 | 3,129,544 | 288,174 | 493,535 | (496) | |



Notes to the Financial Statements (Cont'd)

| 2003 | Up to 1 month | >1 to 3 months | >3 to 6 months | >6 to 12 months | >1 to 5 years | Over 5 years | Non- interest sensitive | Total | Effective interest rate |
|---|------------------|-------------------|-------------------|--------------------|------------------|------------------|-------------------------------|-------------------|-------------------------------|
| The Bank | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | % |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 1,268,433 | - | - | - | - | - | 20,633 | 1,289,066 | 3.16 |
| Deposits with financial institutions | - | 434,530 | 133,000 | - | - | - | - | 567,530 | 3.16 |
| Dealing securities | 434,062 | 667,870 | 279,566 | 247,268 | 2,219,897 | 1,935,826 | 106,365 | 5,890,854 | 5.67 |
| Investment securities | 58,534 | 232,073 | 9,073 | - | 1,327,481 | 193,660 | 180,253 | 2,001,074 | 4.80 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 1,626,158 | 218,379 | 270,554 | 465,712 | 2,288,553 | 131,793 | - | 5,001,149 | 7.20 |
| - non-performing | - | - | - | - | - | - | 385,255 | 385,255 | - |
| Other non-interest sensitive balances | - | - | - | - | - | - | 1,052,809 | 1,052,809 | - |
| TOTAL ASSETS | 3,387,187 | 1,552,852 | 692,193 | 712,980 | 5,835,931 | 2,261,279 | 1,745,315 | 16,187,737 | |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | | |
| Deposits from customers | 2,975,082 | 1,160,657 | 420,844 | 208,988 | 122,240 | - | - | 4,887,811 | 3.16 |
| Deposits of banks and other financial institutions | 2,957,013 | 953,455 | 1,529,472 | 768,058 | 1,145,896 | 99,071 | - | 7,452,965 | 3.16 |
| Securities sold under repurchase agreements | 1,527,097 | 2,360 | 96 | 850 | - | - | - | 1,530,403 | 2.73 |
| Bills and acceptances payable | - | - | - | - | - | - | 16,822 | 16,822 | - |
| Amount due to Cagamas Berhad | - | - | - | - | - | - | 243,757 | 243,757 | - |
| Term loans | 190,000 | 190,000 | - | - | - | - | - | 380,000 | 4.64 |
| Subordinated certificates of deposits | - | - | - | - | 196,064 | - | - | 196,064 | 9.02 |
| Other non-interest sensitive balances | - | - | - | - | - | - | 100,460 | 100,460 | - |
| Total Liabilities | 7,649,192 | 2,306,472 | 1,950,412 | 977,896 | 1,464,200 | 99,071 | 361,039 | 14,808,282 | |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 | 6.00 |
| Shareholder's funds | - | - | - | - | - | - | 1,259,455 | 1,259,455 | - |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,649,192 | 2,306,472 | 1,950,412 | 977,896 | 1,584,200 | 99,071 | 1,620,494 | 16,187,737 | |
| On-balance sheet interest sensitivity gap | (4,262,005) | (753,620) | (1,258,219) | (264,916) | 4,251,731 | 2,162,208 | 124,821 | - | |
| Off-balance sheet interest sensitivity gap | (871,408) | (82,401) | (141,796) | 494,291 | 369,564 | 231,750 | 311,759 | 311,759 | |
| Total interest sensitivity gap | (5,133,413) | (836,021) | (1,400,015) | 229,375 | 4,621,295 | 2,393,958 | 436,580 | 311,759 | |

Notes to the Financial Statements *(Cont'd)*

Liquidity Risk

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

The primary objective of liquidity 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 liquidity risk management objectives, which includes diversification of funding sources, customer base, and maturity period.

The ongoing liquidity risk management at the Group is based on the following key strategies:

- Management of cash-flow; an assessment of potential cash flow mismatches that may arise over a period of one-year ahead and the maintenance of adequate cash and liquefiable assets over and above the standard requirements of Bank Negara Malaysia.
- Scenario analysis; a simulation on liquidity demands of 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.

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the Group.



Notes to the Financial Statements (Cont'd)

The following table shows the maturity analysis of the Group's assets and liabilities based on contractual terms.

| 2004 | Up to 1 | >1 to 3 | >3 to 6 | >6 to 12 | >1 to 5 | Over | Non- | Total |
|--|------------------|------------------|----------------|------------------|------------------|------------------|------------------|-------------------|
| The Group | month | months | months | months | years | 5 years | specific | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | maturity | RM'000 |
| | | | | | | | RM'000 | RM'000 |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 2,628,782 | - | - | - | - | - | 6,375 | 2,635,157 |
| Securities purchased under resale agreements | 2,288 | - | - | - | - | - | - | 2,288 |
| Deposits with financial institutions | - | 21,227 | 10,000 | 218,500 | - | - | - | 249,727 |
| Dealing securities | 266,686 | 288,542 | 146,345 | 135,320 | 1,550,090 | 619,049 | 144,890 | 3,150,922 |
| Investment securities | 217,669 | 199,965 | 507,103 | 83,087 | 1,526,549 | 849,572 | 23,395 | 3,407,340 |
| Loans, advances and financing | 2,101,674 | 622,030 | 89,420 | 632,377 | 1,459,453 | 369,956 | - | 5,274,910 |
| Other assets | 16,447 | 5,499 | 52,163 | 7,233 | 136,963 | 10,391 | 148,701 | 377,397 |
| Deferred tax assets | - | - | - | - | - | - | 22,176 | 22,176 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 324,404 | 324,404 |
| Investments in associated companies | - | - | - | - | - | - | 145,960 | 145,960 |
| Property and equipment | - | - | - | - | - | - | 54,168 | 54,168 |
| TOTAL ASSETS | 5,233,546 | 1,137,263 | 805,031 | 1,076,517 | 4,673,055 | 1,848,968 | 870,069 | 15,644,449 |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | |
| Deposits from customers | 4,076,476 | 1,332,108 | 199,037 | 201,938 | 120,300 | - | - | 5,929,859 |
| Deposits of banks and other financial institutions | 1,719,169 | 873,616 | 593,234 | 910,207 | 688,860 | 699,167 | - | 5,484,253 |
| Securities sold under repurchase agreements | 1,482,086 | 2,126 | 339 | - | - | - | - | 1,484,551 |
| Bills and acceptances payable | 2,558 | 2,756 | 1,831 | - | - | - | - | 7,145 |
| Amount due to Cagamas Berhad | - | - | 43,723 | 6,219 | 103,162 | - | - | 153,104 |
| Other liabilities | 17,244 | 10,765 | 3,164 | 12,777 | 6,900 | 7,987 | 34,401 | 93,238 |
| Term loans | - | - | - | 114,000 | 190,000 | - | - | 304,000 |
| Subordinated certificates of deposits | - | - | - | - | - | 197,418 | - | 197,418 |
| Redeemable unsecured subordinated bonds | - | - | - | - | - | 460,000 | - | 460,000 |
| Total Liabilities | 7,297,533 | 2,221,371 | 841,328 | 1,245,141 | 1,109,222 | 1,364,572 | 34,401 | 14,113,568 |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 |
| Minority interests | - | - | - | - | - | - | 4,655 | 4,655 |
| Shareholder's funds | - | - | - | - | - | - | 1,406,226 | 1,406,226 |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,297,533 | 2,221,371 | 841,328 | 1,245,141 | 1,229,222 | 1,364,572 | 1,445,282 | 15,644,449 |
| Net maturity mismatch | (2,063,987) | (1,084,108) | (36,297) | (168,624) | 3,443,833 | 484,396 | (575,213) | - |

Notes to the Financial Statements (Cont'd)

| 2003 | | | | | | | | |
|--|-------------------------|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|---------------------------------|-------------------|
| The Group | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non-specific maturity RM'000 | Total RM'000 |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 1,288,807 | - | - | - | - | - | 25,524 | 1,314,331 |
| Securities purchased under resale agreements | 6,334 | 503 | - | - | - | - | - | 6,837 |
| Deposits with financial institutions | 240,556 | 95,130 | 19,000 | - | 46,570 | - | - | 401,256 |
| Dealing securities | 540,474 | 667,870 | 279,566 | 267,269 | 2,377,920 | 1,776,802 | - | 5,909,901 |
| Investment securities | 48,949 | 125,183 | - | 10,508 | 1,529,538 | 196,841 | 202,079 | 2,113,098 |
| Loans, advances and financing | 1,147,246 | 227,862 | 294,767 | 442,826 | 3,067,499 | 402,123 | - | 5,582,323 |
| Other assets | 83,744 | 9,491 | 2,654 | 133,933 | 136,098 | 29,980 | 95,834 | 491,734 |
| Deferred tax assets | - | - | - | - | - | - | 23,898 | 23,898 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 339,827 | 339,827 |
| Investments in associated companies | - | - | - | - | - | - | 147,054 | 147,054 |
| Property and equipment | - | - | - | - | - | - | 53,692 | 53,692 |
| TOTAL ASSETS | 3,356,110 | 1,126,039 | 595,987 | 854,536 | 7,157,625 | 2,405,746 | 887,908 | 16,383,951 |
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | | | | | | |
| Deposits from customers | 3,249,031 | 1,300,157 | 421,857 | 208,988 | 122,240 | - | - | 5,302,273 |
| Deposits of banks and other financial institutions | 2,730,129 | 974,150 | 1,455,902 | 768,058 | 1,145,896 | 99,071 | - | 7,173,206 |
| Securities sold under repurchase agreements | 1,527,097 | 2,360 | 96 | 850 | - | - | - | 1,530,403 |
| Bills and acceptances payable | 5,422 | 8,193 | 3,207 | - | - | - | - | 16,822 |
| Amount due to Cagamas Berhad | - | 900 | - | 133,466 | 109,391 | - | - | 243,757 |
| Other liabilities | 55,661 | 5,625 | 9,060 | 13,049 | 11,789 | 1,037 | 13,323 | 109,544 |
| Term loans | - | 190,000 | - | - | 190,000 | - | - | 380,000 |
| Subordinated certificates of deposits | - | - | - | - | - | 196,064 | - | 196,064 |
| Total Liabilities | 7,567,340 | 2,481,385 | 1,890,122 | 1,124,411 | 1,579,316 | 296,172 | 13,323 | 14,952,069 |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 |
| Minority interests | - | - | - | - | - | - | 4,722 | 4,722 |
| Shareholder's funds | - | - | - | - | - | - | 1,307,160 | 1,307,160 |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,567,340 | 2,481,385 | 1,890,122 | 1,124,411 | 1,699,316 | 296,172 | 1,325,205 | 16,383,951 |
| Net maturity mismatch | (4,211,230) | (1,355,346) | (1,294,135) | (269,875) | 5,458,309 | 2,109,574 | (437,297) | - |



Notes to the Financial Statements (Cont'd)

| 2004 | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non- specific maturity RM'000 | Total RM'000 |
|--|----------------------------|-----------------------------|-----------------------------|------------------------------|----------------------------|---------------------------|--|-------------------|
| The Bank | | | | | | | | |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 2,155,330 | - | - | - | - | - | 3,906 | 2,159,236 |
| Deposits with financial institutions | - | 20,000 | 10,000 | 522,500 | 76,000 | - | - | 628,500 |
| Dealing securities | 266,686 | 288,542 | 146,345 | 135,320 | 1,531,090 | 619,049 | 144,890 | 3,131,922 |
| Investment securities | 114,000 | 150,113 | 466,578 | 59,190 | 1,464,576 | 844,645 | 18,064 | 3,117,166 |
| Loans, advances and financing | 1,979,677 | 618,043 | 87,432 | 626,467 | 1,421,317 | 369,474 | - | 5,102,410 |
| Other assets | 9,362 | 925 | 49,956 | 7,192 | 136,963 | 10,391 | 143,313 | 358,102 |
| Deferred tax assets | - | - | - | - | - | - | 22,176 | 22,176 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 324,404 | 324,404 |
| Investments in subsidiary companies | - | - | - | - | - | - | 38,617 | 38,617 |
| Investments in associated companies | - | - | - | - | - | - | 112,598 | 112,598 |
| Property and equipment | - | - | - | - | - | - | 52,036 | 52,036 |
| TOTAL ASSETS | 4,525,055 | 1,077,623 | 760,311 | 1,350,669 | 4,629,946 | 1,843,559 | 860,004 | 15,047,167 |
| LIABILITIES AND SHAREHOLDER'S FUNDS | | | | | | | | |
| Deposits from customers | 3,640,530 | 1,220,660 | 199,037 | 201,938 | 120,300 | - | - | 5,382,465 |
| Deposits of banks and other financial institutions | 1,821,121 | 934,416 | 593,234 | 910,207 | 688,860 | 699,167 | - | 5,647,005 |
| Securities sold under repurchase agreements | 1,467,579 | 2,126 | 339 | - | - | - | - | 1,470,044 |
| Bills and acceptances payable | 2,558 | 2,756 | 1,831 | - | - | - | - | 7,145 |
| Amount due to Cagamas Berhad | - | - | 43,723 | 6,219 | 103,162 | - | - | 153,104 |
| Other liabilities | 12,106 | 10,692 | 3,116 | 12,777 | 6,900 | 7,987 | 30,237 | 83,815 |
| Term loans | - | - | - | - | 190,000 | - | - | 190,000 |
| Subordinated certificates of deposits | - | - | - | - | - | 197,418 | - | 197,418 |
| Redeemable unsecured subordinated bonds | - | - | - | - | - | 460,000 | - | 460,000 |
| Total Liabilities | 6,943,894 | 2,170,650 | 841,280 | 1,131,141 | 1,109,222 | 1,364,572 | 30,237 | 13,590,996 |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 |
| Shareholders' funds | - | - | - | - | - | - | 1,336,171 | 1,336,171 |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 6,943,894 | 2,170,650 | 841,280 | 1,131,141 | 1,229,222 | 1,364,572 | 1,366,408 | 15,047,167 |
| Net maturity mismatch | (2,418,839) | (1,093,027) | (80,969) | 219,528 | 3,400,724 | 478,987 | (506,404) | - |

Notes to the Financial Statements (Cont'd)

| 2003 | | | | | | | | |
|--|----------------------------|-----------------------------|-----------------------------|------------------------------|----------------------------|---------------------------|--|-------------------|
| The Bank | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non- specific maturity RM'000 | Total RM'000 |
| ASSETS | | | | | | | | |
| Cash and short-term funds | 1,268,433 | - | - | - | - | - | 20,633 | 1,289,066 |
| Deposits with financial institutions | - | 216,030 | 133,000 | - | 218,500 | - | - | 567,530 |
| Dealing securities | 540,427 | 667,870 | 279,566 | 267,269 | 2,358,920 | 1,776,802 | - | 5,890,854 |
| Investment securities | 41,015 | 123,790 | - | 3,324 | 1,458,664 | 190,867 | 183,414 | 2,001,074 |
| Loans, advances and financing | 1,043,528 | 190,833 | 293,621 | 427,731 | 3,028,977 | 401,714 | - | 5,386,404 |
| Other assets | 78,644 | 2,816 | 1,160 | 133,593 | 135,447 | 29,980 | 93,253 | 474,893 |
| Deferred tax assets | - | - | - | - | - | - | 23,898 | 23,898 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | - | 339,827 | 339,827 |
| Investments in subsidiary companies | - | - | - | - | - | - | 38,617 | 38,617 |
| Investments in associated companies | - | - | - | - | - | - | 123,631 | 123,631 |
| Property and equipment | - | - | - | - | - | - | 51,943 | 51,943 |
| TOTAL ASSETS | 2,972,047 | 1,201,339 | 707,347 | 831,917 | 7,200,508 | 2,399,363 | 875,216 | 16,187,737 |
| LIABILITIES AND SHAREHOLDER'S FUNDS | | | | | | | | |
| Deposits from customers | 2,983,850 | 1,150,876 | 421,857 | 208,988 | 122,240 | - | - | 4,887,811 |
| Deposits of banks and other financial institutions | 2,966,615 | 943,750 | 1,529,576 | 768,058 | 1,145,896 | 99,070 | - | 7,452,965 |
| Securities sold under repurchase agreements | 1,527,097 | 2,360 | 96 | 850 | - | - | - | 1,530,403 |
| Bills and acceptances payable | 5,422 | 8,193 | 3,207 | - | - | - | - | 16,822 |
| Amount due to Cagamas Berhad | - | 900 | - | 133,466 | 109,391 | - | - | 243,757 |
| Other liabilities | 48,393 | 8,158 | 8,805 | 12,739 | 11,788 | 1,037 | 9,540 | 100,460 |
| Term loans | - | 190,000 | - | - | 190,000 | - | - | 380,000 |
| Subordinated certificates of deposits | - | - | - | - | - | 196,064 | - | 196,064 |
| Total Liabilities | 7,531,377 | 2,304,237 | 1,963,541 | 1,124,101 | 1,579,315 | 296,171 | 9,540 | 14,808,282 |
| Irredeemable Convertible Unsecured Loan Stocks – 2002/2007 | - | - | - | - | 120,000 | - | - | 120,000 |
| Shareholders' funds | - | - | - | - | - | - | 1,259,455 | 1,259,455 |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 7,531,377 | 2,304,237 | 1,963,541 | 1,124,101 | 1,699,315 | 296,171 | 1,268,995 | 16,187,737 |
| Net maturity mismatch | (4,559,330) | (1,102,898) | (1,256,194) | (292,184) | 5,501,193 | 2,103,192 | (393,779) | - |



Notes to the Financial Statements *(Cont'd)*

Credit Risk Management

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 and guarantee activities and, to a lesser extent, pre-settlement and settlement exposures of sales and trading activities.

The primary objective of the 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.

For non-retail credits, risk measurement begins with an assessment and rating 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 translated into a rating grade, which ranges from 'AAA' (lowest risk) to 'C' (highest risk).

Credit risk is quantified based on Expected Default Frequencies and Expected Losses on default from its portfolio of loans and off-balance sheet commitments. Expected Default Frequencies are calibrated to the internal rating model while Loan Loss Estimates are based on past portfolio default experiences.

The Group's 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 the Group's total credit exposure to each economic sector is within prudent thresholds.

Operational Risk Management

Operational risk is the potential loss from a breakdown in internal process, systems, deficiencies in people and management or operational failure arising from external events. 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 risk mitigating measures and policies.

The Group 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 Group's Internal Audit team.

Legal And Regulatory Risk

The Group 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.

Regulatory risk is managed through the implementation of measures and procedures within the organization to facilitate compliance with regulations. These include a compliance monitoring and reporting process that requires identification of risk areas, prescription of controls to minimize these risks, staff training and assessments, provision of advise and disseminating of information.

Risk Management Policy On Financial Derivatives

Purpose of engaging in financial derivatives

Financial derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives are contracts that transfer risks, mainly market risks. Financial derivatives is one of the financial instruments engaged by the Group both for revenue purposes as well as to manage the Group's own market risk exposure. The Group's involvement in financial derivatives is currently focussed on interest rate derivatives and foreign exchange rate derivatives.

The principal exchange rate contracts used are forward foreign exchange contracts and cross currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate. A cross currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.



Notes to the Financial Statements (Cont'd)

The principal interest rate contracts used are interest rate futures, interest rate swaps and forward rate agreements. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a future settlement date. There is no exchange of principal. An interest rate futures is an exchange traded contract whose value is based on the difference between a specific interest rate and a reference rate on a notional deposit or fixed income security at a future settlement date. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

For revenue purposes the Group maintains trading positions in these instruments and engages in transactions with customers to satisfy their needs in managing their respective interest rate and foreign exchange rate exposures. Derivative transactions generate income for the Group from the buy-sell spreads. The Group also takes conservative exposures, within acceptable limits, to carry an inventory of these instruments in order to provide market liquidity and to earn potential gains on fluctuations in the value of these instruments.

As part of the asset and liability exposure management, the Group uses derivatives to manage the Group's market risk exposure. As the value of these financial derivatives are principally driven by interest rate and foreign exchange rate factors, the Group uses them to reduce the overall interest rate and foreign exchange rate exposures of the Group. These are performed by entering into an exposure in derivatives that produces opposite value movements vis-à-vis exposures generated by other non-derivative activities of the Group. The Group manages these risks on a portfolio basis. Hence, exposures on derivatives are aggregated or netted against similar exposures arising from other financial instruments engaged by the Group.

Fair value of financial derivatives

The estimated fair values of the Group's outstanding derivative financial instruments are as below. These values are stand-alone without taking into account their potential offsetting relationships with other non-derivatives exposures of the Group. As such, no adjustment is made in the financial statements.

| | The Group | |
|---|-------------------------------|----------------------|
| | Principal Amount RM'000 | Fair Value RM'000 |
| 2004 | | |
| Interest rate related contracts: | | |
| Interest rate futures | 685,000 | (205) |
| Interest rate swaps | 4,253,941 | 3,444 |
| Malaysian Government securities futures | 9,000 | (26) |
| Foreign exchange related contracts: | | |
| Forward exchange contracts | 209,089 | (212) |
| Cross currency swaps | 304,000 | (2,732) |
| | 5,461,030 | 269 |
| 2003 | | |
| Interest rate related contracts: | | |
| Interest rate futures | 865,000 | (1,779) |
| Interest rate swaps | 3,541,000 | (1,375) |
| Malaysian Government securities futures | 62,800 | 243 |
| Foreign exchange related contracts: | | |
| Forward exchange contracts | 313,959 | (142) |
| Cross currency swaps | 266,000 | (3,327) |
| | 5,048,759 | (6,380) |

Risk associated with financial derivatives

As derivatives are contracts that transfer risks, they expose the holder to the same types of market and credit risks as other financial instruments, and the Group manages these risks in a consistent manner under the overall risk management framework.



Notes to the Financial Statements *(Cont'd)*

Market risk of derivatives used for trading purposes

Market risk arising from the above interest rate-related and foreign exchange-related derivatives contracts measures the potential losses to the value of these contracts due to changes in market rates/prices. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions.

The contractual amounts of these contracts provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Value at risk method is used to measure the market risk from these contracts. Value at risk, is a statistical measures that estimates the potential changes in portfolio value that may occur brought about by daily changes in market rates over a 90-day period at a 99% confidence level under normal market condition.

As at 31 March 2004, value at risk of foreign exchange-related derivatives contracts used for trading purposes of the Group was RM28,650 (RM53,695 in 2003) and the Bank was RM28,650 (RM53,695 in 2003).

The value at risk of the interest rate related derivatives contracts used for trading purposes was RM2,475,127 (RM2,747,859 in 2003) and RM2,471,680 (RM2,749,346 in 2003) for the Group and the Bank, respectively.

Credit risk of derivatives

Counterparty credit risk arises from the possibility that a counterparty may be unable to meet the terms of the derivatives contracts. Unlike conventional asset instruments, the Group's financial loss is not the entire contracted principal value of the derivatives, but rather a fraction equivalent to the cost to replace the defaulted contract with another in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. The Group will only suffer a replacement cost if the contract carries a fair value gain at time of default.

As at 31 March 2004, the amounts of credit risk, measured in term of the cost to replace the profitable contracts, was RM8,126,433 (RM12,185,295 in 2003) and RM8,413,487 (RM12,883,883 in 2003) for the Group and the Bank, respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of movement in market rates and time.

43. Fair Values Of Financial Instruments

Financial instruments are contract that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as investments in subsidiary companies and taxation are excluded, as they do not fall within the scope of MASB 24, which requires the fair value information to be disclosed.



Notes to the Financial Statements (Cont'd)

The estimated fair values of the Group's and the Bank's financial instruments are as follows:

| 2004 | The Group | | The Bank | |
|--|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying Value RM'000 | Fair Value RM'000 | Carrying Value RM'000 | Fair Value RM'000 |
| Financial Assets | | | | |
| Cash and short-term funds | 2,635,157 | 2,635,157 | 2,159,236 | 2,159,236 |
| Securities purchased under resale agreements | 2,288 | 2,288 | - | - |
| Deposits with financial institutions | 249,727 | 249,727 | 628,500 | 628,500 |
| Dealing securities | 3,150,922 | 3,151,460 | 3,131,922 | 3,132,080 |
| Investment securities | 3,407,340 | 3,621,408 | 3,117,166 | 3,330,616 |
| Loans, advances and financing * | 5,355,314 | 5,427,144 | 5,180,198 | 5,248,986 |
| Amount due from Originators | 153,104 | 153,901 | 153,104 | 153,901 |
| Other financial assets | 212,520 | 212,520 | 193,225 | 193,225 |
| | 15,166,372 | 15,453,605 | 14,563,351 | 14,846,544 |
| Non-financial assets | 478,077 | | 483,816 | |
| TOTAL ASSETS | 15,644,449 | | 15,047,167 | |
| Financial Liabilities | | | | |
| Deposits from customers | 5,929,859 | 5,929,668 | 5,382,465 | 5,382,274 |
| Deposits of banks and other financial institutions | 5,484,253 | 5,399,693 | 5,647,005 | 5,382,445 |
| Securities sold under repurchase agreements | 1,484,551 | 1,484,551 | 1,470,044 | 1,470,044 |
| Bills and acceptances payable | 7,145 | 7,145 | 7,145 | 7,145 |
| Amount due to Cagamas Berhad | 153,104 | 153,901 | 153,104 | 153,901 |
| Term loans | 304,000 | 302,771 | 190,000 | 188,771 |
| Subordinated certificates of deposits | 197,418 | 243,448 | 197,418 | 243,448 |
| Redeemable unsecured subordinated bonds | 460,000 | 473,989 | 460,000 | 473,989 |
| Other financial liabilities | 91,584 | 91,584 | 83,815 | 83,815 |
| | 14,111,914 | 14,086,750 | 13,590,996 | 13,385,832 |
| Non-Financial Liabilities | | | | |
| Other non-financial liabilities | 1,654 | | - | |
| Minority interests | 4,655 | | - | |
| Shareholder's funds | 1,526,226 | | 1,456,171 | |
| | 1,532,535 | | 1,456,171 | |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 15,644,449 | | 15,047,167 | |



Notes to the Financial Statements (Cont'd)

| 2003 | The Group | | The Bank | |
|--|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying Value RM'000 | Fair Value RM'000 | Carrying Value RM'000 | Fair Value RM'000 |
| Financial Assets | | | | |
| Cash and short-term funds | 1,314,331 | 1,314,331 | 1,289,066 | 1,289,066 |
| Securities purchased under resale agreements | 6,837 | 6,837 | - | - |
| Deposits with financial institutions [^] | 401,256 | 396,136 | 567,530 | 564,123 |
| Dealing securities | 5,909,901 | 5,921,736 | 5,890,854 | 5,902,542 |
| Investment securities | 2,113,098 | 2,330,683 | 2,001,074 | 2,215,841 |
| Loans, advances and financing * | 5,668,509 | 5,714,649 | 5,468,430 | 5,518,184 |
| Amount due from Originators | 243,757 | 248,066 | 243,757 | 248,066 |
| Other financial assets | 240,199 | 240,199 | 223,358 | 223,358 |
| | 15,897,888 | 16,172,637 | 15,684,069 | 15,961,180 |
| Non-financial assets | 486,063 | | 503,668 | |
| TOTAL ASSETS | 16,383,951 | | 16,187,737 | |
| Financial Liabilities | | | | |
| Deposits from customers | 5,302,273 | 6,567,173 | 4,887,811 | 6,152,711 |
| Deposits of banks and other financial institutions | 7,173,206 | 6,688,151 | 7,452,965 | 6,972,911 |
| Securities sold under repurchase agreements | 1,530,403 | 1,524,943 | 1,530,403 | 1,530,403 |
| Bills and acceptances payable | 16,822 | 16,822 | 16,822 | 16,822 |
| Amount due to Cagamas Berhad | 243,757 | 248,066 | 243,757 | 248,066 |
| Term loans | 380,000 | 377,394 | 380,000 | 377,394 |
| Subordinated certificates of deposits | 196,064 | 226,616 | 196,064 | 226,616 |
| Other financial liabilities | 105,065 | 105,065 | 99,490 | 99,490 |
| | 14,947,590 | 15,754,230 | 14,807,312 | 15,624,413 |
| Non-Financial Liabilities | | | | |
| Other non-financial liabilities | 4,479 | | 970 | |
| Minority interests | 4,722 | | - | |
| Shareholder's funds | 1,427,160 | | 1,379,455 | |
| | 1,436,361 | | 1,380,425 | |
| TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS | 16,383,951 | | 16,187,737 | |

* The general allowance for loans, advances and financing for the Group and the Bank amounting to RM80,404,000 (RM86,186,000 in 2003) and RM77,788,000 (RM82,026,000 in 2003) respectively has been included under non-financial assets.

[^] The fair value of deposits with financial institutions is below its carrying amount as a result of an increase in Klibor rates. The Group has not reduced the carrying amount because uncertainties surrounding the circumstances may change and any changes in uncertainties could affect the resulting fair value estimates.

Notes to the Financial Statements *(Cont'd)*

The fair values of derivatives financial instruments are shown in Note 42.

The fair value of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential loss that may arise should these commitments be capitalized. The Group assesses that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant and no provision is necessary to be made.

The following methods and assumptions were used to estimate the fair value of assets and liabilities as at 31 March 2004 and 2003:

(a) Cash And Short-Term Funds

The carrying values are a reasonable estimate of the fair values because of negligible credit risk and short-term in nature or frequent repricing.

(b) Securities Purchased Under Resale Agreements And Deposits With Financial Institutions

The fair values of securities purchased under resale agreements and deposits with financial institutions with remaining maturities less than six months are estimated to approximate their carrying values. For securities purchased under resale agreements and deposits with financial institutions with maturities of more than six months, the fair value are estimated based on discounted cash flows using the prevailing Klibor rates and interest rate swap rates.

(c) Dealing And Investment Securities

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using discounted cash flow or net tangible assets techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted using prevailing Klibor rates and interest rate swap rates of similar instruments at the balance sheet date.

(d) Loans, Advances And Financing And Subordinated Term Loans (Loans And Financing)

The fair value of variable rate loans and financing are estimated to approximate their carrying values. For fixed rate loans and financing, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing Klibor rates and interest rate swap rates. In respect of non-performing loans and financing, the fair values are deemed to approximate the carrying value, net of interest/income in-suspense and specific allowance for bad and doubtful debts and financing.

(e) Deposits From Customers, Deposits Of Banks And Other Financial Institutions And Securities Sold Under Repurchase Agreements

The fair value of deposits liabilities payable on demand (current and savings deposits) or with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date. The fair value of term deposits, negotiable instrument of deposits and securities sold under repurchase agreements with remaining maturities of more than six months are estimated based on discounted cash flows using Klibor rates and interest rate swap rates.

(f) Bills And Acceptances Payables

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



Notes to the Financial Statements *(Cont'd)*

(g) Amount Due To Cagamas Berhad

The fair values for amount due to Cagamas Berhad are determined based on discounted cash flows of future instalments payments at prevailing Klibor rates and interest rate swap rates.

(h) Term Loans, Subordinated Certificates Of Deposits And Subordinated Term Loans

The fair value of borrowings with remaining maturities of less than six months are estimated to approximate their carrying values at balance sheet date. The fair value of borrowings with remaining maturities of more than six months are estimated based on discounted cash flows using Klibor rates and interest rate swap rates.

(i) Interest Rate Swaps, Futures And Forward Rate Agreements

The estimated fair value is based on the market price to enter into an offsetting contract at balance sheet date.

(j) Short Term Financial Assets And Financial Liabilities

The fair value of the other financial assets and other financial liabilities, which are considered short term in nature, are estimated to be approximately their carrying values.

As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss experience and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting value estimates.



Notes to the Financial Statements (Cont'd)

44. Net Tangible Assets Per Share (RM)

Net tangible assets per share represent the balance sheet total asset value less total liabilities, including long term loans and minority interest and goodwill expressed as an amount per ordinary share.

Net tangible assets per share are calculated as follows:

| | 2004 | | 2003 | |
|---|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | The Group RM'000/ '000 | The Bank RM'000/ '000 | The Group RM'000/ '000 | The Bank RM'000/ '000 |
| Total assets | 15,644,449 | 15,047,167 | 16,383,951 | 16,187,737 |
| Less: | | | | |
| Total liabilities | 14,113,568 | 13,590,996 | 14,952,069 | 14,808,282 |
| Minority interest | 4,655 | - | 4,722 | - |
| Unamortised premium on acquisitions | 20,957 | - | 22,231 | - |
| | 14,139,180 | 13,590,996 | 14,979,022 | 14,808,282 |
| Net tangible assets | 1,505,269 | 1,456,171 | 1,404,929 | 1,379,455 |
| Less: | | | | |
| Interest Bearing Irredeemable Convertible Unsecured Loan Stocks 2002/2007 (ICULS) | 120,000 | 120,000 | 120,000 | 120,000 |
| Preference share capital | 100,000 | 100,000 | 100,000 | 100,000 |
| Net tangible assets after deducting the nominal amounts of ICULS 2002/2007 and preference share capital | 1,285,269 | 1,236,171 | 1,184,929 | 1,159,455 |
| Issued and fully paid up ordinary shares of RM1.00 each | 200,000 | 200,000 | 200,000 | 200,000 |
| Net tangible assets per share (RM) | 7.53 | 7.28 | 7.02 | 6.90 |
| Net tangible assets per share, after deducting the nominal amounts of ICULS 2002/2007 and preference share capital (RM) | 6.43 | 6.18 | 5.92 | 5.80 |



Notes to the Financial Statements (Cont'd)

45. Segment Analysis

| | Operating Revenue RM'000 | Profit/(Loss) Before Taxation RM'000 | Assets Employed RM'000 |
|---------------------------|--------------------------------|---|------------------------------|
| 2004 | | | |
| By activity: | | | |
| Merchant banking | 808,497 | 162,228 | 15,047,167 |
| Offshore banking | 26,209 | 12,380 | 1,172,795 |
| Unit trust management | 20,148 | 9,549 | 18,704 |
| Asset management | 14,449 | 6,765 | 8,385 |
| Property trust management | 2,164 | 1,387 | 3,403 |
| Investment consultant | 511 | 109 | 825 |
| Others | 80 | 6 | 804 |
| | 872,058 | 192,424 | 16,252,083 |
| Associated: | | | |
| Insurance | - | 16,648 | - |
| Trustee | - | 208 | - |
| Stock and share-broking* | - | 1,414 | - |
| Issuing house | - | 23 | - |
| | 872,058 | 210,717 | 16,252,083 |
| Consolidation adjustments | (17,205) | (17,497) | (607,634) |
| | 854,853 | 193,220 | 15,644,449 |
| 2003 | | | |
| By activity: | | | |
| Merchant banking | 917,287 | 181,893 | 16,187,737 |
| Offshore banking | 30,780 | (14,225) | 980,756 |
| Unit trust management | 15,775 | 8,248 | 18,343 |
| Asset management | 11,300 | 5,146 | 7,298 |
| Property trust management | 1,997 | 1,256 | 3,318 |
| Investment consultant | 813 | 331 | 707 |
| Others | 770 | 10 | 1,409 |
| | 978,722 | 182,659 | 17,199,568 |
| Associated: | | | |
| Insurance | - | 6,672 | - |
| Trustee | - | 92 | - |
| Stock and share-broking* | - | (4,199) | - |
| Issuing house | - | 283 | - |
| Others | - | (35) | - |
| | 978,722 | 185,472 | 17,199,568 |
| Consolidation adjustments | (26,125) | (16,789) | (815,617) |
| | 952,597 | 168,683 | 16,383,951 |

* This represents share of results from Frasers International Pte. Ltd. and its subsidiary companies, the associated companies incorporated in Singapore.

The financial information by geographical segment is not presented as the Group's activities are principally conducted in Malaysia except for Frasers International Pte. Ltd. and its subsidiary companies, activities of which are principally conducted in Singapore. These activities in Singapore are not significant in relation to the Group's activities in Malaysia.

Notes to the Financial Statements *(Cont'd)*

46. Capital Adequacy Ratio

a. The capital adequacy ratio of the Bank as at 31 March 2004 is analysed as follows:

| | 2004 RM'000 | 2003 RM'000 |
|--|-------------------|----------------|
| Tier 1 capital | | |
| Paid-up ordinary share capital | 200,000 | 200,000 |
| Paid-up non-cumulative preference share capital | 100,000 | 100,000 |
| Share premium | 60,284 | 60,284 |
| Statutory reserve | 300,000 | 300,000 |
| Unappropriated profit at end of year, net of deferred tax assets | 653,711 | 575,273 |
| Total tier 1 capital | 1,313,995 | 1,235,557 |
| Tier 2 capital | | |
| Redeemable unsecured subordinated bonds | 460,000 | - |
| Interest bearing ICULS | 120,000 | 120,000 |
| Subordinated certificates of deposits | 197,300 | 195,950 |
| General allowance for bad and doubtful debts | 77,788 | 82,029 |
| Total | 855,088 | 397,979 |
| Less: Restriction on subordinated debt capital | 302 | - |
| Total tier 2 capital | 854,786 | 397,979 |
| Total capital funds | 2,168,781 | 1,633,536 |
| Less: Investment in subsidiary companies | 38,617 | 38,617 |
| Investment in capital of related financial institutions | 462,829 | - |
| Capital base | 1,667,335 | 1,594,919 |
| Notional risk-weighted assets | | |
| Categories | | |
| 0% | 3,997,353 | 4,692,046 |
| 10% | 467,472 | 286,703 |
| 20% | 3,775,929 | 3,436,130 |
| 50% | 102,560 | 430,952 |
| 100% | 9,492,050 | 9,922,940 |
| Total notional risk-weighted assets | 17,835,364 | 18,768,771 |
| Total risk-weighted assets | 10,345,263 | 10,854,312 |
| Capital Ratios: | | |
| Core capital ratio | 12.70% | 11.38% |
| Risk-weighted capital ratio | 16.11% | 14.69% |



47. Rating By External Rating Agencies

The Bank's sound financial health is reflected by the strong domestic credit ratings of A1/P1 from Rating Agency of Malaysia, and A/MARC-1 from Malaysian Rating Corporation Berhad. This is complemented by international ratings of BB-(Stable)/B from Standard and Poor's, BB-(Stable)/B from Capital Intelligence and BB-(Stable)/B from Fitch IBCA, Duff & Phelps. The Bank's RM460.0 million Redeemable Unsecured Subordinated Bonds have been accorded a long-term rating of A2 by Rating Agency Malaysia Berhad.

48. Significant Events

1. On 10 May 2003, the ultimate holding company, AMMB Holdings Berhad (AHB), has received the approval of Bank Negara Malaysia (BNM) to commence negotiations with EON Capital Berhad for a possible merger between the two banking groups. However, the discussions were mutually terminated on 25 June 2003.
2. On 27 February 2004 and 31 May 2004, AHB announced the following proposals:
 - (i) The Proposed (AMFB Privatisation) involves a scheme of arrangement pursuant to Section 176 of the Act between AMFB, AHB and the shareholders of AMFB other than the Company (AMFB Minority Shareholders) whereby AHB will acquire all the AMFB Minority Shares, amounting up to 189,113,911 Shares in AMFB representing up to 35.75% equity interest in AMFB, for a total purchase consideration of up to RM1,361,620,159, equivalent to RM7.20 per AMFB Minority Share (Proposed Consideration Price), to be satisfied through a combination of an issuance of Shares in AHB and cash on the following basis:-
 - (a) the amount of RM771,584,757 by way of the issuance of up to 189,113,911 New AHB Shares on the basis of one (1) New AHB Share valued at RM4.08 per New AHB Share for every one (1) existing AMFB Minority Share held; and
 - (b) the balance of RM590,035,402 in cash on the basis of RM3.12 for every one (1) existing AMFB Minority Share held.

The entitlement date on which the names of the AMFB Minority Shareholders must be entered into the Record of Depositors of AMFB in order to participate in the Proposed AMFB Privatisation will be determined and announced at a later date after receipt of all relevant approvals for the Proposed AMFB Privatisation, including the sanction of the Court for the Proposed AMFB Privatisation (Entitlement Date).

The number of New AHB Shares to be issued will depend on the actual number of AMFB Minority Shares to be acquired as at the Entitlement Date, taking into consideration the new Shares in AMFB that may be issued by AMFB pursuant to the exercise of options under AMFB's employees share option scheme (AMFB ESOS Options) prior to the Entitlement Date. As at 31 March 2004, the number of unexercised AMFB ESOS Options stood at 345,000.

Upon the scheme of arrangement becoming effective, all AMFB Minority Shareholders are bound to exchange their AMFB Shares on the basis of one (1) New AHB Share and RM3.12 in cash for every one (1) existing AMFB Minority Share held as at the Entitlement Date.

Pursuant to the Proposed AMFB Privatisation, AMFB will become a wholly-owned subsidiary company of AHB. As AMFB would then no longer meet the public shareholding spread requirements of the Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad) (Bursa Malaysia), the Bursa Malaysia could de-list AMFB's Shares from the Official List of the Bursa Malaysia as provided under Section 16.09 of the Bursa Malaysia's Listing Requirements. It is the intention of AHB to seek the approval of the Bursa Malaysia to hold AMFB's listing status in abeyance.



Notes to the Financial Statements *(Cont'd)*

- (ii) Proposed listing of AHB's Investment Banking Group, via a newly incorporated company (Newco), on the Main Board of the Bursa Malaysia.

The Proposed Listing of Newco entails the following:-

- (a) the incorporation of Newco to act as the listing vehicle/holding company, to be a wholly-owned subsidiary company of AHB initially;
 - (b) an internal reorganisation involving the transfer of AHB's entire interests in the component companies of AHB involved in the investment banking operations to Newco (Proposed Internal Reorganisation);
 - (c) an offer for sale/restricted issue of an aggregate of 40% of the enlarged issued and paid-up share capital of Newco (Proposed Offer) to be undertaken upon completion of the Proposed Internal Reorganisation to the following:-
 - (i) Shareholders of AHB (Entitled AHB Shareholders); and
 - (ii) The following persons who meet the criteria for eligibility for participation in the Proposed Offer (Eligible Employees):-
 - (a) Directors and employees of Newco and/or its Malaysian-incorporated subsidiary and associated companies;
 - (b) Directors of AHB; and
 - (c) Business associates of AHB; and
 - (d) the listing of the entire proposed issued and paid-up share capital of Newco on the Main Board of the Bursa Malaysia.
- (iii) The proposed Share Split involves the reduction of the par value of AHB's Shares from RM1.00 each to RM0.50 each by way of the subdivision of every one (1) existing Share held in AHB into two (2) new ordinary shares in AHB of RM0.50 each. Shareholders of AHB, whose names appear on the Record of Depositors at the close of business on a date to be determined and announced later upon obtaining all relevant approvals, will be entitled to the Proposed Share Split. The Proposed Share Split is expected to be undertaken after the completion of the Proposed AMFB Privatisation.

On 25 March 2004 the Securities Commission (SC) has approved AHB's application for a waiver from complying with Paragraph 5 of Guidance Note 8A of the SC Guidelines subject to a condition whereby AHB will be required to implement the proposed share split within three (3) months upon the completion of the proposed privatisation of AMFB.

The Proposed Subdivided Shares to be issued shall, upon issue and allotment, rank *pari passu* in all respects amongst themselves.

The Proposed Share Split will result in a reduction in the existing market price of AHB's shares thus making AHB's shares more affordable for shareholders and investors. The Proposed Share Split will also improve the liquidity and marketability of AHB's shares by virtue of the increase in the number of AHB's shares.

The Proposed AMFB Privatisation, Newco Listing and Share Split are subject to the approvals of SC, Minister of Finance, Bank Negara Malaysia, High Court of Malaya, shareholders of AHB and AMFB and other relevant authorities.

The Proposed AMFB Privatisation and the Proposed Listing of Newco Group are inter-conditional with each other. The Proposed Share Split is not conditional upon the Proposed AMFB Privatisation and the Proposed Listing of Newco Group.



Notes to the Financial Statements (Cont'd)

3. AHB has sought the approval of Bank Negara Malaysia (BNM) for the commencement of discussions, pursuant to Section 67 of the Insurance Act 1996, in relation to the following proposed acquisitions (the Proposed Acquisitions):-
- (a) with the Bank in relation to the Proposed Acquisition by AHB of the 47,116,000 ordinary shares of RM1.00 each in AmAssurance representing 47.12% equity interest in AmAssurance from the Bank. AHB presently has a shareholding of 18.82% in AmAssurance.
 - (b) with ABH Holdings Sdn. Bhd (ABH Holdings) in relation to the Proposed Acquisition by AmBank Berhad, the wholly owned subsidiary of AHB, of the 20,000,000 ordinary shares of RM1.00 each in AmAssurance representing 20% equity interest in AmAssurance.

ABH Holdings has interest of 34.06% in AmAssurance, in which Dato' Azlan Hashim (DAH) is a substantial shareholder. DAH is the Deputy Chairman of AHB, and brother of Tan Sri Dato' Azman Hashim, a substantial shareholder of AHB.

Pursuant to the Insurance Act, the prior approval of the Minister of Finance is required for the signing of the Sale and Purchase Agreement.

49. Prior Year's Adjustments

The Group and the Bank changed their accounting policy on the recognition of liabilities in respect of proposed dividends in compliance with Malaysian Accounting Standards Board (MASB) Standard 19, Events After Balance Sheet Date in the last financial year. In prior years, the amount of dividends that was proposed and formally approved for payment after the balance sheet date was included as a liability in the financial statements. Upon adoption of MASB 19, the Group and the Bank changed this accounting policy to recognise dividends in the financial year where the obligation to make future payments is established. As such, final dividends are included as a liability in the financial statements after approval of shareholders at the Annual General Meeting.

In addition, the Group and the Bank also changed their basis of income recognition in respect of proposed dividend receivable. In prior years, dividends proposed after the balance sheet date and formally approved for payment were recognised as income in the financial statements of the Group and of the Bank. With the adoption of MASB Standard 19, the Group and the Bank will only recognise as income, proposed dividend receivable when their rights to receive payment are established. Accordingly, final dividend receivable is only recognised as income after the approval has been given by shareholders of the investee companies at their Annual General Meeting.

During the financial year, the Group and the Bank changed their accounting policy on accounting for income taxes. Under MASB Standard 25, deferred tax liabilities are recognised for all taxable temporary differences. In prior years, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Group and the Bank have commenced recognition of deferred tax assets for all deductible temporary differences when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized. In prior years, deferred tax assets were not recognised unless the expected realisation was reasonably assured.

The accounting change has been accounted for retrospectively and the effects on prior years have been taken up as prior year's adjustments in the financial statements. The effect of the accounting change is to decrease net profit of the Group and the Bank for the financial year by RM1,187,000.



Notes to the Financial Statements *(Cont'd)*

Accordingly, the following accounts in prior years have been restated to reflect the effects of the accounting change:

| | As previously stated RM'000 | Adjustments RM'000 | As restated RM'000 |
|---|-----------------------------------|-----------------------|-----------------------|
| The Group | | | |
| As at 31 March 2002 | | | |
| Unappropriated profit at end of year | (475,225) | (49,404) | (524,629) |
| As at 31 March 2003 | | | |
| Deferred tax assets | 929 | 22,969 | 23,898 |
| Unappropriated profit at end of year | (591,474) | (22,969) | (614,443) |
| For the financial year ended 31 March 2003 | | | |
| Taxation | 42,080 | 4,835 | 46,915 |
| Ordinary dividends paid | - | 21,600 | 21,600 |
| The Bank | | | |
| As at 31 March 2002 | | | |
| Unappropriated profit at end of year | (447,444) | (42,373) | (489,817) |
| As at 31 March 2003 | | | |
| Deferred tax assets | 929 | 22,969 | 23,898 |
| Unappropriated profit at end of year | (576,202) | (22,969) | (599,171) |
| For the financial year ended 31 March 2003 | | | |
| Taxation | 38,704 | 4,835 | 43,539 |
| Ordinary dividends paid | - | 21,600 | 21,600 |



Notes to the Financial Statements *(Cont'd)*

50. Islamic Banking Business

The state of affairs as at 31 March 2004 and the results for the year ended 31 March 2004 of the Islamic Banking Business of the Group and the Bank and included in the financial statements are summarised as follows:-

BALANCE SHEET AS AT 31 MARCH 2004

| | Note | The Group and the Bank | |
|--|--------|------------------------|------------------|
| | | 2004 RM'000 | 2003 RM'000 |
| ASSETS | | | |
| Cash and short-term funds | (ii) | 407,761 | 163,717 |
| Deposit with financial institutions | (iii) | 30,000 | - |
| Dealing securities | (iv) | 58,583 | 210,921 |
| Financing activities | (v) | 588,493 | 635,056 |
| Statutory deposit with Bank Negara Malaysia | | 14,500 | 14,500 |
| Other receivables, deposits and prepayments | | 1,226 | 1,849 |
| Deferred tax assets | (vi) | 2,509 | 2,708 |
| Property and equipment | (vii) | 32 | 40 |
| TOTAL ASSETS | | 1,103,104 | 1,028,791 |
| LIABILITIES AND ISLAMIC BANKING FUNDS | | | |
| Deposits from customers | (viii) | 224,730 | 121,207 |
| Deposits of banks and other financial institutions | (ix) | 302,964 | 383,781 |
| Converted fund | (x) | 328,321 | 305,020 |
| Other liabilities | (xi) | 95,414 | 109,336 |
| Total Liabilities | | 951,429 | 919,344 |
| ISLAMIC BANKING FUNDS | | | |
| Capital funds | (xii) | 60,000 | 10,000 |
| Unappropriated profit | | 91,675 | 99,447 |
| Islamic Banking Funds | | 151,675 | 109,447 |
| TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS | | 1,103,104 | 1,028,791 |
| COMMITMENTS AND CONTINGENCIES | (xix) | 1,648,235 | 1,181,190 |

The accompanying Notes form an integral part of the Islamic Banking Business Financial Statements.

Notes to the Financial Statements (Cont'd)

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

| | Note | The Group and the Bank 2004 RM'000 | 2003 RM'000 |
|---|---------|--|----------------|
| Income derived from investment of depositors' funds and others (Allowance for)/Reversal of allowance for diminution in value of investments | (xiii) | 52,045 (35) | 58,705 60 |
| Loan and financing loss and allowances | (xiv) | (58,034) | (34,170) |
| Transfer from/(to) profit equalisation reserve | | 970 | (970) |
| Total attributable income | | (5,054) | 23,625 |
| Income attributable to the depositors | (xv) | (37,180) | (45,185) |
| Loss attributable to the Group and the Bank | | (42,234) | (21,560) |
| Income derived from Islamic Banking Funds | (xvi) | 37,311 | 31,560 |
| Total net (loss)/income | | (4,923) | 10,000 |
| Operating expenditure | (xvii) | (2,650) | (2,673) |
| (Loss)/Profit before taxation | | (7,573) | 7,327 |
| Taxation | (xviii) | (199) | (2,323) |
| (Loss)/Profit after taxation | | (7,772) | 5,004 |

The accompanying Notes form an integral part of the Islamic Banking Business Financial Statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2004

| The Group and the Bank | Note | Capital Funds RM'000 | Distributable Unappropriated Profit RM'000 | Total RM'000 |
|----------------------------|-------|----------------------------|---|-----------------|
| As at 1 April 2002 | | | | |
| As previously stated | | 10,000 | 91,725 | 101,725 |
| Prior year's adjustments | (xxv) | - | 2,718 | 2,718 |
| As restated | | 10,000 | 94,443 | 104,443 |
| Profit for the year | | - | 5,004 | 5,004 |
| As at 31 March 2003 | | 10,000 | 99,447 | 109,447 |
| As at 1 April 2003 | | | | |
| As previously stated | | 10,000 | 96,739 | 106,739 |
| Prior year's adjustments | (xxv) | - | 2,708 | 2,708 |
| As restated | | 10,000 | 99,447 | 109,447 |
| Increase during the year | | 50,000 | - | 50,000 |
| Loss for the year | | - | (7,772) | (7,772) |
| As at 31 March 2004 | | 60,000 | 91,675 | 151,675 |

The accompanying Notes form an integral part of the Islamic Banking Business Financial Statements.



Notes to the Financial Statements *(Cont'd)*

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

| | The Group and the Bank | |
|--|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | (7,573) | 7,327 |
| Add/(Less) adjustments for: | | |
| Allowance/(Reversal of allowance) for diminution in value of investments | 35 | (60) |
| Reversal of general allowance for bad and doubtful financing | (709) | (36) |
| Specific allowance for bad and doubtful financing | 58,743 | 34,206 |
| Net income suspended | 3,950 | 933 |
| Depreciation of property and equipment | 20 | 98 |
| Transfer (from)/to profit equalisation reserve | (970) | 970 |
| Operating Profit Before Working Capital Changes | 53,496 | 43,438 |
| Decrease/(Increase) In Operating Assets | | |
| Deposits with financial institutions | (30,000) | 30,000 |
| Dealing securities | 152,303 | (127,096) |
| Financing activities | (15,421) | (32,775) |
| Other receivables, deposits and prepayments | 623 | (30) |
| (Decrease)/Increase In Operating Liabilities | | |
| Deposits from customers | 103,523 | (209,709) |
| Deposits of banks and other financial institutions | (80,817) | 66,524 |
| Converted fund | 23,301 | (400) |
| Other liabilities | (12,952) | 14,812 |
| Net Cash Generated From/(Used In) Operating Activities | 194,056 | (215,236) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of investment securities - net | - | 26,180 |
| Purchase of property and equipment | (12) | (138) |
| Net Cash (Used In)/From Investing Activities | (12) | 26,042 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from increase in capital funds | 50,000 | - |
| Net Cash From Investing Activities | 50,000 | - |
| Net Increase/(Decrease) In Cash And Cash Equivalents | 244,044 | (189,194) |
| Cash And Cash Equivalents At Beginning Of Year | 163,717 | 352,911 |
| Cash And Cash Equivalents At End Of Year | 407,761 | 163,717 |

The accompanying Notes form an integral part of the Islamic Banking Business Financial Statements.

Notes to the Financial Statements (Cont'd)

Notes To The Islamic Banking Business Financial Statements

(i) Islamic Banking Business

Disclosure of Shariah Advisor

The Bank's Islamic banking activities are subject to conformity with Shariah requirements and confirmation by the Shariah Advisor, Professor Madya Dato' Hj Md. Hashim bin Yahya, Dato' Sheikh Ghazali bin Hj Abdul Rahman and Professor Dr Mohd Daud Bakar. The role and authority of the Shariah Advisor are as follows:

- a. Advise and provide guidance on all matters pertaining to Shariah principles including product development, marketing and implementation activities.
- b. Assist in the setting up of business and operational procedures with respect to compliance with Shariah principles.

Zakat Obligations

The Bank does not pay zakat on behalf of the shareholder or depositors.

(ii) Cash And Short-Term Funds

| | The Group and the Bank | |
|---|------------------------|----------------|
| | 2004 RM'000 | 2003 RM'000 |
| Cash and bank balances | 61 | 417 |
| Money on call and deposits maturing within one month: | | |
| Other licensed banks | 387,700 | 100,000 |
| Licensed finance companies: | | |
| Related | - | 43,300 |
| Others | 20,000 | 20,000 |
| | 407,761 | 163,717 |
| | | |
| (iii) Deposits With Financial Institutions | | |
| Other financial institutions | 30,000 | - |



Notes to the Financial Statements (Cont'd)

(iv) Dealing Securities

| | The Group and the Bank | |
|--|------------------------|---------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Money Market Securities: | | |
| Cagamas bonds | 53,500 | 53,500 |
| Bank Negara Malaysia bills | - | 37,257 |
| Negotiable Islamic debt certificates | - | 13,655 |
| Malaysian Government Investment Certificates | 927 | 7,298 |
| | 54,427 | 111,710 |
| Shares Quoted In Malaysia | - | 8 |
| Unquoted Private Debt Securities of Companies Incorporated In Malaysia: | | |
| Islamic corporate bonds | 3,704 | 78,383 |
| Islamic corporate notes | 487 | 20,820 |
| | 4,191 | 99,203 |
| | 58,618 | 210,921 |
| Allowance for diminution in value of investments | (35) | - |
| Total/Net | 58,583 | 210,921 |
| Market Value: | | |
| Money Market Securities: | | |
| Cagamas bonds | 53,500 | 53,560 |
| Bank Negara Malaysia bills | - | 37,331 |
| Negotiable Islamic debt certificates | - | 13,759 |
| Malaysian Government Investment Certificates | 932 | 7,344 |
| Shares Quoted In Malaysia | - | 14 |
| Unquoted Private Debt Securities of Companies Incorporated In Malaysia: | | |
| Islamic corporate bonds | 3,664 | 78,808 |
| Islamic corporate notes | 487 | 20,847 |

Notes to the Financial Statements (Cont'd)

(v) Financing Activities

| | The Group and the Bank | |
|---|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Term financing | 615,134 | 648,409 |
| Less: | | |
| General allowance for bad and doubtful financing | 8,962 | 9,671 |
| Specific allowance for bad and doubtful financing | 11,452 | 1,204 |
| Income-in-suspense | 6,227 | 2,478 |
| | 26,641 | 13,353 |
| Net financing | 588,493 | 635,056 |
| Financing analysed by concepts are as follows:- | | |
| Bai Bithaman Ajil | 546,944 | 574,171 |
| Ijarah | 32,042 | 32,037 |
| Murabahah | 19,136 | - |
| Wujud | 17,012 | 17,180 |
| Istina | - | 1,269 |
| Mudharabah | - | 19,131 |
| Musyarakah | - | 4,621 |
| | 615,134 | 648,409 |
| The maturity structure of financing are as follows:- | | |
| Maturing within one year | 516,166 | 56,494 |
| One year to three years | 2,365 | 492,368 |
| Three to five years | 72,641 | 32,844 |
| Over five years | 23,962 | 66,703 |
| | 615,134 | 648,409 |
| Financing analysed by their economic purposes are as follows: | | |
| Property investment holding | 325,314 | 338,772 |
| Agriculture | 198,035 | 204,857 |
| Transport, storage and communication | 28,962 | 35,023 |
| Construction | 23,962 | 21,942 |
| Manufacturing | 20,373 | 19,479 |
| Real estate | 9,552 | 10,791 |
| Purchase of securities | - | 8,652 |
| Purchase of non-residential landed property | 8,477 | 8,434 |
| General commerce | 459 | 459 |
| | 615,134 | 648,409 |
| Financing analysed by type of customers are as follows: | | |
| Business enterprises | 284,241 | 298,805 |
| Small and medium size industries | 330,893 | 349,604 |
| | 615,134 | 648,409 |



Notes to the Financial Statements (Cont'd)

Movements in non-performing financing are as follows:-

| | The Group and the Bank | |
|--|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Gross | | |
| Balance at beginning of year | 31,475 | 49,647 |
| Non-performing during the year | 24,039 | 993 |
| Debt equity conversion | - | (13,398) |
| Amount written off | (4,232) | (5,224) |
| Recoveries | (18) | (543) |
| Balance at end of year | 51,264 | 31,475 |
| Less: | | |
| Specific allowance | 11,452 | 1,204 |
| Income-in-suspense | 6,227 | 2,478 |
| | 17,679 | 3,682 |
| Non-performing financing - net | 33,585 | 27,793 |
| Ratio of non-performing financing to total financing - Net | 5.62% | 4.31% |

Movements in allowances for bad and doubtful financing and income-in-suspense accounts are as follows:

| | The Group and the Bank | |
|---|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| General Allowance | | |
| Balance at beginning of year | 9,671 | 9,707 |
| Reversal of allowance during the year | (709) | (36) |
| Balance at end of year | 8,962 | 9,671 |
| % of total loans less specific allowance and income-in-suspense | 1.50% | 1.50% |

Notes to the Financial Statements (Cont'd)

| | The Group and the Bank | |
|--|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Specific Allowance | | |
| Balance at beginning of year | 1,204 | 5,638 |
| Allowance made during the year | 58,743 | 34,206 |
| Reclassifications | 248 | - |
| Amount written off | (48,743) | (38,532) |
| Debt equity conversion | - | (108) |
| Balance at end of year | 11,452 | 1,204 |
| Income-in-suspense | | |
| Balance at beginning of year | 2,478 | 4,340 |
| Income suspended during the year | 3,951 | 993 |
| Amount written back in respect of recoveries | (1) | (60) |
| Net charge to income statement | 3,950 | 933 |
| Debt equity conversion | - | (1,898) |
| Amount written off | (201) | (897) |
| Balance at end of year | 6,227 | 2,478 |
| (vi) Deferred Tax Assets | | |
| Balance at beginning of year | 2,708 | - |
| As previously reported | - | - |
| Prior year's adjustments | - | 2,718 |
| As restated | - | 2,718 |
| Net transfer from income statements (Note xviii) | (199) | (10) |
| Balance at end of year | 2,509 | 2,708 |

The deferred tax assets is in respect of general allowance for bad and doubtful financing.



Notes to the Financial Statements *(Cont'd)*

(vii) Property And Equipment

| The Group and the Bank | Leasehold improvement RM'000 | Computer hardware and software RM'000 | Office equipment, furniture and fitting RM'000 | Total RM'000 |
|---|------------------------------------|--|--|-----------------|
| COST | | | | |
| At beginning of year | - | 42 | 96 | 138 |
| Addition | 3 | - | 9 | 12 |
| Write-off | - | (2) | (1) | (3) |
| At end of year | 3 | 40 | 104 | 147 |
| ACCUMULATED DEPRECIATION | | | | |
| At beginning of year | - | 29 | 69 | 98 |
| Addition | 1 | 10 | 9 | 20 |
| Write-off | - | (2) | (1) | (3) |
| At end of year | 1 | 37 | 77 | 115 |
| NET BOOK VALUE | | | | |
| As at 31 March 2004 | 2 | 3 | 27 | 32 |
| As at 31 March 2003 | - | 13 | 27 | 40 |
| Depreciation charge for the year ended 31 March 2003 | - | 29 | 69 | 98 |

Notes to the Financial Statements *(Cont'd)*

(viii) Deposits From Customers

| | The Group and the Bank | |
|---------------------------------------|------------------------|----------------|
| | 2004 RM'000 | 2003 RM'000 |
| Mudarabah Fund | | |
| Mudarabah Special Investment deposits | 119,730 | 113,220 |
| Non-Mudarabah Fund | | |
| Negotiable Islamic debt certificates | 105,000 | 7,987 |
| | 224,730 | 121,207 |

The maturity structure of term/investment deposits is as follows:

| | | |
|-------------------------|----------------|---------|
| Due within six months | 205,987 | 111,207 |
| Six months to one year | 18,743 | 8,000 |
| One year to three years | - | 2,000 |
| | 224,730 | 121,207 |

The deposits are sourced from the following types of customers:

| | | |
|----------------------|----------------|---------|
| Business enterprises | 154,892 | 86,736 |
| Others | 69,838 | 34,471 |
| | 224,730 | 121,207 |

(ix) Deposits Of Banks And Other Financial Institutions

| | | |
|------------------------------|----------------|---------|
| Mudarabah Fund | | |
| Licensed banks | 25,576 | 38,599 |
| Other financial institutions | 197,388 | 195,182 |
| Non-Mudarabah Fund | | |
| Licensed banks | 20,000 | 40,000 |
| Other financial institutions | 60,000 | 110,000 |
| | 302,964 | 383,781 |

(x) Converted Fund

This represent funds transferred from Non Islamic Banking business to Islamic Banking Business for funding purposes at commercial terms.



Notes to the Financial Statements *(Cont'd)*

(xi) Other Liabilities

| | The Group and the Bank | |
|-----------------------------|-------------------------------|----------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Other payables and accruals | 95,414 | 106,053 |
| Taxation and zakat payable | - | 2,313 |
| Profit equalisation reserve | - | 970 |
| | 95,414 | 109,336 |

The movements in profit equalisation reserve are as follows:

| | | |
|------------------------------|----------------|---------|
| Balance at beginning of year | 970 | - |
| Provision during the year | 3,025 | 3,114 |
| Amount written back | (3,995) | (2,144) |
| Balance at end of year | - | 970 |

(xii) Capital Funds

| | The Group and the Bank | |
|------------------------------|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Allocated: | | |
| Balance at beginning of year | 10,000 | 10,000 |
| Increase during the year | 50,000 | - |
| Balance at end of year | 60,000 | 10,000 |
| Utilised: | | |
| Balance at beginning of year | 10,000 | 10,000 |
| Increase during the year | 50,000 | - |
| Balance at end of year | 60,000 | 10,000 |

Notes to the Financial Statements *(Cont'd)*

(xiii) Income Derived From Investment Of Depositors' Funds And Others

| | The Group and the Bank | |
|---|------------------------|----------------|
| | 2004 RM'000 | 2003 RM'000 |
| Income derived from investment of: | | |
| (i) general investment deposits | 27,908 | 29,561 |
| (ii) specific investment deposits | 15,510 | 16,767 |
| (iii) others | 8,627 | 12,377 |
| | 52,045 | 58,705 |
| (i) Income derived from investment of general investment deposits | | |
| Finance income and hibah: | | |
| Financing activities | 24,919 | 25,638 |
| Dealing securities | 2,531 | 1,236 |
| Investment securities | - | 270 |
| Money at call and deposits with financial institutions | 3,685 | 3,111 |
| | 31,135 | 30,255 |
| Income-in-suspense | (3,227) | (694) |
| | 27,908 | 29,561 |
| (ii) Income derived from investment of specific investment deposits | | |
| Finance income and hibah: | | |
| Financing activities | 15,510 | 16,767 |
| (iii) Income derived from investment of other deposits | | |
| Finance income and hibah: | | |
| Financing activities | 4,389 | 8,132 |
| Dealing securities | 2,020 | 1,201 |
| Investment securities | - | 263 |
| Money at call and deposits with financial institutions | 2,941 | 3,020 |
| | 9,350 | 12,616 |
| Income-in-suspense | (723) | (239) |
| | 8,627 | 12,377 |



Notes to the Financial Statements *(Cont'd)*

(xiv) Loan And Financing Loss And Allowances

| | The Group and the Bank | |
|---|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| (Reversal of allowance)/Allowance for bad and doubtful financing: | | |
| - general allowance | (709) | (36) |
| - specific allowance (net) | 58,743 | 34,206 |
| | 58,034 | 34,170 |

(xv) Income Attributable To Depositors

| | | |
|---|---------------|--------|
| Deposits from customers | | |
| - Mudarabah Fund | 9,755 | 11,248 |
| - Non-Mudarabah Fund | 3,500 | 7,217 |
| Deposits and placements of banks and other financial institutions | | |
| - Mudarabah Fund | 2,214 | 2,828 |
| - Non-Mudarabah Fund | 1,942 | 200 |
| Converted fund | 19,769 | 23,692 |
| | 37,180 | 45,185 |

(xvi) Income Derived From Islamic Banking Funds

| | | |
|--|---------------|--------|
| Finance income and hibah: | | |
| Financing activities | 7,155 | 5,868 |
| Dealing securities | 721 | 283 |
| Investment securities | - | 62 |
| Money at call and deposits with financial institutions | 1,051 | 712 |
| | 8,927 | 6,925 |
| Net gain from sale of dealing securities | 22,380 | 21,769 |
| Net gain from sale of investment securities | 293 | 414 |
| Fee and commission income | | |
| Guarantee fees | 526 | 554 |
| Other fee income | 5,184 | 1,897 |
| | 5,710 | 2,451 |
| Other income | 1 | 1 |
| Total | 37,311 | 31,560 |

Notes to the Financial Statements (Cont'd)

(xvii) Operating Expenditure

| | The Group and the Bank | |
|--------------------------------------|------------------------|--------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Personnel costs | 1,170 | 1,006 |
| Establishment costs | 77 | 95 |
| Marketing and communication expenses | 231 | 115 |
| Administration and general expenses | 1,172 | 1,457 |
| | 2,650 | 2,673 |

(xviii) Taxation

| | | |
|---|------------|--------------|
| Estimated current tax payable | - | 2,313 |
| Transfer from deferred tax assets (Note vi) | 199 | 10 |
| Total | 199 | 2,323 |

(xix) Commitments And Contingencies

In the normal course of business, the Islamic Banking Business of the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's assets.

| | 2004 | | 2003 | |
|---|----------------------------|------------------------------------|----------------------------|------------------------------------|
| | Principal Amount RM'000 | Credit Equivalent Amount RM'000 | Principal Amount RM'000 | Credit Equivalent Amount RM'000 |
| The Group and the Bank | | | | |
| Commitments | | | | |
| Irrevocable commitments to extend credit maturing within one year | - | - | 2,470 | - |
| Sell and buy back agreements | 1,451,451 | 1,451,451 | 946,221 | 946,221 |
| | 1,451,451 | 1,451,451 | 948,691 | 946,221 |
| Contingent Liabilities | | | | |
| Islamic revolving underwriting facilities | 121,400 | 60,700 | 135,500 | 67,750 |
| Certain transaction-related contingent items | 3,100 | 1,550 | 13,060 | 6,530 |
| Al-Kafalah guarantees | 72,284 | 72,284 | 83,939 | 83,939 |
| | 196,784 | 134,534 | 232,499 | 158,219 |
| | 1,648,235 | 1,585,985 | 1,181,190 | 1,104,440 |

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



Notes to the Financial Statements (Cont'd)

(xx) Yield/Profit Rate Risk

The following table shows the effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

| 2004 | Up to 1 month | >1 to 3 months | >3 to 6 months | >6 to 12 months | >1 to 5 years | Over 5 years | Non- yield/profit sensitive | Total | Effective profit rate |
|--|------------------|-------------------|-------------------|--------------------|------------------|-----------------|-----------------------------------|------------------|-----------------------------|
| The Group and the Bank | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | % |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 407,700 | - | - | - | - | - | 61 | 407,761 | 2.70 |
| Deposits with financial institutions | - | 20,000 | 10,000 | - | - | - | - | 30,000 | 2.96 |
| Dealing securities | - | 851 | 100 | 486 | 56,900 | 246 | - | 58,583 | 3.97 |
| Financing activities | | | | | | | | | |
| - performing | 374,546 | 18,892 | 2,607 | 86,088 | 62,761 | 18,976 | - | 563,870 | 6.93 |
| - non-performing* | - | - | - | - | - | - | 24,623 | 24,623 | - |
| Other non-profit sensitive balances | - | - | - | - | - | - | 18,267 | 18,267 | - |
| TOTAL ASSETS | 782,246 | 39,743 | 12,707 | 86,574 | 119,661 | 19,222 | 42,951 | 1,103,104 | |
| LIABILITIES AND ISLAMIC BANKING FUNDS | | | | | | | | | |
| Deposits from customers | 148,601 | 28,598 | 28,787 | 18,744 | - | - | - | 224,730 | 2.68 |
| Deposits of banks and other financial institutions | 193,830 | 108,243 | 465 | 426 | - | - | - | 302,964 | 4.50 |
| Other non-profit sensitive balances | - | - | - | - | - | - | 423,735 | 423,735 | - |
| Total Liabilities | 342,431 | 136,841 | 29,252 | 19,170 | - | - | 423,735 | 951,429 | |
| Islamic Banking Funds | - | - | - | - | - | - | 151,675 | 151,675 | |
| TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS | 342,431 | 136,841 | 29,252 | 19,170 | - | - | 575,410 | 1,103,104 | |
| On-balance sheet profit sensitivity gap | 439,815 | (97,098) | (16,545) | 67,404 | 119,661 | 19,222 | (532,459) | - | |
| Off-balance sheet profit sensitivity gap | (755,944) | (311,481) | (182,294) | 108,127 | 895,103 | 246,489 | - | - | |
| Total profit sensitivity gap | (316,129) | (408,579) | (198,839) | 175,531 | 1,014,764 | 265,711 | (532,459) | - | |

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing outstanding.

Notes to the Financial Statements (Cont'd)

| 2003 | | | | | | | | | |
|--|----------------------------|-----------------------------|-----------------------------|------------------------------|----------------------------|---------------------------|---|------------------|----------------------------------|
| The Group and the Bank | Up to 1 month RM'000 | >1 to 3 months RM'000 | >3 to 6 months RM'000 | >6 to 12 months RM'000 | >1 to 5 years RM'000 | Over 5 years RM'000 | Non- yield/profit sensitive RM'000 | Total RM'000 | Effective profit rate % |
| ASSETS | | | | | | | | | |
| Cash and short-term funds | 163,300 | - | - | - | - | - | 417 | 163,717 | 2.68 |
| Dealing securities | 3,986 | 48,707 | 14,200 | 10,708 | 96,846 | 36,467 | 7 | 210,921 | 2.89 |
| Financing activities | | | | | | | | | |
| - performing | 2,491 | 111,456 | 20,912 | 61,498 | 381,454 | 39,123 | - | 616,934 | 8.80 |
| - non-performing* | - | - | - | - | - | - | 18,122 | 18,122 | - |
| Other non-profit sensitive balances | - | - | - | - | - | - | 19,097 | 19,097 | - |
| TOTAL ASSETS | 169,777 | 160,163 | 35,112 | 72,206 | 478,300 | 75,590 | 37,643 | 1,028,791 | |
| LIABILITIES AND ISLAMIC BANKING FUNDS | | | | | | | | | |
| Deposits from customers | 105,919 | 4,344 | 944 | 8,000 | 2,000 | - | - | 121,207 | 2.63 |
| Deposits of banks and other financial institutions | 120,874 | 90,515 | 410 | 19,378 | 152,604 | - | - | 383,781 | 5.30 |
| Other non-profit sensitive balances | - | - | - | - | - | - | 414,356 | 414,356 | - |
| Total Liabilities | 226,793 | 94,859 | 1,354 | 27,378 | 154,604 | - | 414,356 | 919,344 | |
| Islamic Banking Funds | - | - | - | - | - | - | 109,447 | 109,447 | |
| TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS | 226,793 | 94,859 | 1,354 | 27,378 | 154,604 | - | 523,803 | 1,028,791 | |
| On-balance sheet profit sensitivity gap | (57,016) | 65,304 | 33,758 | 44,828 | 323,696 | 75,590 | (486,160) | - | |
| Off-balance sheet profit sensitivity gap | (532,810) | (197,244) | (78,296) | 139,291 | 503,854 | 165,205 | - | - | |
| Total profit sensitivity gap | (589,826) | (131,940) | (44,538) | 184,119 | 827,550 | 240,795 | (486,160) | - | |

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing financing outstanding.



Notes to the Financial Statements (Cont'd)

(xxii) Fair Value Of Islamic Banking Business Financial Instruments

The estimated fair values of the Group and the Bank's Islamic Banking Business financial instruments are as follows:

| | 2004 | | 2003 | |
|--|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying Value RM'000 | Fair Value RM'000 | Carrying Value RM'000 | Fair Value RM'000 |
| The Group and the Bank | | | | |
| Financial Assets | | | | |
| Cash and short-term funds | 407,761 | 407,761 | 163,717 | 163,717 |
| Deposits with financial institutions | 30,000 | 30,000 | - | - |
| Dealing securities | 58,583 | 58,583 | 210,921 | 213,241 |
| Financing activities* | 597,455 | 600,189 | 644,727 | 653,861 |
| Other financial assets | 1,226 | 1,226 | 1,849 | 1,849 |
| | 1,095,025 | 1,097,759 | 1,021,214 | 1,032,668 |
| Non-financial assets | 8,079 | | 7,577 | |
| TOTAL ASSETS | 1,103,104 | | 1,028,791 | |
| Financial Liabilities | | | | |
| Deposits from customers | 224,730 | 224,652 | 121,207 | 121,216 |
| Deposits of banks and other financial institutions | 302,964 | 302,964 | 383,781 | 383,781 |
| Converted fund | 328,321 | 340,697 | 305,020 | 320,978 |
| Other financial liabilities | 95,414 | 95,414 | 106,053 | 106,053 |
| | 951,429 | 963,727 | 916,061 | 932,028 |
| Non-Financial Liabilities | | | | |
| Other non-financial liabilities | - | | 3,283 | |
| Islamic Banking Funds | 151,675 | | 109,447 | |
| | 151,675 | | 112,730 | |
| TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS | 1,103,104 | | 1,028,791 | |

* The general allowance for the Group and the Bank amounting to RM8,962,000 (RM9,671,000 in 2003) has been included under non-financial assets.

Notes to the Financial Statements (Cont'd)

(xxiii) Net Income From Islamic Banking Business

For consolidation with the conventional operations, net income from Islamic Banking Business comprises the following items:

| | The Group and the Bank | |
|--|-------------------------------|---------------|
| | 2004 | 2003 |
| | RM'000 | RM'000 |
| Income derived from investment of depositors' fund | 52,045 | 58,705 |
| Less: Income attributable to depositors | (37,180) | (45,185) |
| Income attributable to the Group and the Bank | 14,865 | 13,520 |
| Income derived from Islamic Banking Funds | 37,311 | 31,560 |
| | 52,176 | 45,080 |

(xxiv) Capital Adequacy Ratio

The capital adequacy ratio of the Islamic Banking Business as at 31 March 2004 is analysed as follows:

| | 2004 | 2003 |
|--|------------------|---------------|
| | RM'000 | RM'000 |
| Tier 1 capital | | |
| Islamic Banking Funds | 60,000 | 10,000 |
| Unappropriated profit at end of year, net of deferred tax assets | 89,166 | 99,447 |
| Total tier 1 capital | 149,166 | 109,447 |
| Tier 2 capital | | |
| General allowance for bad and doubtful financing | 8,962 | 9,671 |
| Total tier 2 capital | 8,962 | 9,671 |
| Capital base | 158,128 | 119,118 |
| Notional risk-weighted assets | | |
| Categories | | |
| 0% | 241,838 | 288,928 |
| 10% | 54,336 | 54,304 |
| 20% | 1,057,530 | 597,868 |
| 50% | 57,084 | 68,739 |
| 100% | 1,284,752 | 1,130,354 |
| Total notional risk-weighted assets | 2,695,540 | 2,140,193 |
| Total risk-weighted assets | 1,530,234 | 1,289,728 |
| Capital Ratios: | | |
| Core capital ratio | 9.75% | 8.49% |
| Risk-weighted capital ratio | 10.33% | 9.24% |



Notes to the Financial Statements *(Cont'd)*

(xxv) Prior Year's Adjustments

The prior year's adjustments relate to the change in accounting policy on adoption of MASB Standard 25, Income Taxes as described in Note 49 to the financial statements.

The accounting change has been accounted for retrospectively and the effects on prior years have been taken up as prior year's adjustments in the financial statements. The effect of the accounting change is to decrease net profit of the Group and the Bank for the financial year by approximately RM199,000.

Accordingly, the following accounts in prior years have been restated to reflect the effects of the accounting change:

| | As previously stated RM'000 | Adjustments RM'000 | As restated RM'000 |
|---|-----------------------------------|-----------------------|-----------------------|
| The Group and the Bank | | | |
| As at 31 March 2002 | | | |
| Unappropriated profit at end of year | (91,725) | (2,718) | (94,443) |
| As at 31 March 2003 | | | |
| Deferred tax assets | - | 2,708 | 2,708 |
| Unappropriated profit at end of year | (96,739) | (2,708) | (99,447) |
| For the financial year ended 31 March 2003 | | | |
| Taxation | 2,313 | 10 | 2,323 |

(xxvi) Comparative Figures

The comparative figures were extended to comply with the additional disclosures requirements of the MASB Standard i-1 and MASB Standard 25 that are applicable for the financial year ended 31 March 2004.

The following comparative figures which have been restated as a result of the adoption of the MASB Standard 25, which are as follows:

| | As previously stated RM'000 | As restated RM'000 |
|---|-----------------------------------|-----------------------|
| The Group and the Bank | | |
| As at 31 March 2002 | | |
| Unappropriated profit at end of year | (91,725) | (94,443) |
| As at 31 March 2003 | | |
| Deferred tax assets | - | 2,708 |
| Unappropriated profit at end of year | (96,739) | (99,447) |
| For the financial year ended 31 March 2003 | | |
| Taxation | 2,313 | 2,323 |

Statement by Directors

The directors of **AmMerchant Bank Berhad**, state that, in their opinion, the accompanying balance sheets and statements of income, changes in equity and cash flows are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 March 2004 and of the results and the cash flows of the Group and the Bank for the year ended on that date.

Signed on behalf of the Board in accordance with a resolution of the directors,



TAN SRI DATO' AZMAN HASHIM



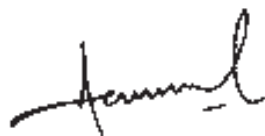
CHEAH TEK KUANG

Kuala Lumpur,
31 May 2004

Statutory Declaration

I, **ARUNASALAM MUTHUSAMY**, being the Officer primarily responsible for the financial management of **AmMerchant Bank Berhad**, do solemnly and sincerely declare that the accompanying balance sheets and statements of income, changes in equity and cash flows are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed **ARUNASALAM MUTHUSAMY**
at KUALA LUMPUR this 31st day of May, 2004.



Before me,



COMMISSIONER FOR OATHS

Lodged on behalf by:

Address: 22nd Floor, Bangunan AmBank Group, No 55, Jalan Raja Chulan, 50200 Kuala Lumpur.

Telephone Number: 03-20782633/644/655

